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**Dream (TSX:DRM) is an award-winning Canadian real estate company with approximately \$15.0 billion of assets under management in North America and Europe.**

Dream is one of Canada's leading real estate companies with approximately \$15.0 billion of assets under management in North America and Europe. The scope of the business includes asset management and management services for four Toronto Stock Exchange ("TSX") listed trusts and institutional partnerships, condominium and mixed-use development, investments in and management of Canadian renewable energy infrastructure and commercial property ownership, and residential land development, housing and multi-family development. Dream has an established track record for being innovative and for its ability to source, structure and execute on compelling investment opportunities.

# Letter to Shareholders

We are very pleased that the diversification of our asset base over the last few years has enabled us to introduce a regular quarterly dividend commencing in the first quarter of 2019, supported by the growth of our recurring income generating assets. One of our primary objectives over the last few years has been to remain focused on building a safer and more valuable company. In doing so, we have grown our pre-tax recurring income to \$82 million in 2018, which exceeds our corporate general & administrative expenses and interest expense by nearly double. Over the last few years, our asset management business has become more valuable through increased and diversified fee streams. We have increased the quality of our land by owning significantly more in the best locations in downtown Toronto which is the driver of the Canadian economy. Arapahoe Basin has benefited financially from our capital investments, its location in the centre of the best ski market in North America and the growth in population and GDP of the Denver area which has made it a premier quality ski area. Finally, we have received many approvals in Western Canada which increases the value of our lands, most notably the recent approval of our Providence community in Calgary. Altogether, we have a much higher quality business than we did five years ago.

Our investments in the Greater Toronto Area, either through direct equity investments or indirectly through our ownership in Dream Office REIT and Dream Alternatives, offer incredible development opportunities. As of December 31, 2018, we have approximately 10,000 residential and purpose-built rental units and 1.6 million square feet of retail/commercial space either under construction or in our development pipeline on incredibly valuable sites across the GTA, which is significantly higher than our historic levels. This includes our Port Credit development, the West Don Lands development, Riverside Square and various phases at the Canary District and Distillery District in downtown Toronto. We are committed to building the best communities which will translate into increased value for shareholders over the long-term. As we build rental and commercial properties within these communities, our recurring income sources will also increase.

As of December 31, 2018, Dream owned over \$457 million in the Dream Publicly Listed Funds, inclusive of units in Dream Office REIT, Dream Alternatives and Dream Global, which accounted for over 60% of Dream's market capitalization and generated over \$20 million of distributions this year.

Although the environments in which our land and housing divisions operate experienced softer market conditions throughout 2018, Dream continued to generate strong earnings due to the strength of our other business lines. Given the diversification of our business, we expect income driven by Western Canada to represent a smaller proportion of our earnings relative to historical results. For context, net margin from Western Canada operations in 2018 accounted for approximately 34% of total net margin for the Company, compared to 70% in 2013. This year, we advanced a number of important approvals on our Western Canada lands, which make our lands more valuable now and over the long term.

Since going public in 2013, our book equity value per share has increased by a compound annual growth rate of 18% which is quite positive considering the decline of activity in Western Canada and the increased competition.

We will continue to improve our positioning and quality of our earnings by adding more valuable income properties, grow our recurring income through changes at A-Basin, our asset management contracts, developments for sale and our development fee business as well as continually improving our active management of our assets and developments.

We thank you for your continued support and interest in our business.

Sincerely,



Michael J. Cooper  
President & Chief Responsible Officer

February 26, 2019





Distillery District  
Toronto, ON



Dream Unlimited

# At-a-Glance

**\$15.0 Billion**

IN ASSETS UNDER MANAGEMENT  
AS AT DECEMBER 31, 2018

**~\$27 Billion**

OF REAL ESTATE & RENEWABLE  
POWER TRANSACTIONS COMPLETED

**~11,800**

CONDOMINIUM AND PURPOSE-BUILT  
RENTAL UNITS UNDER CONSTRUCTION OR  
IN OUR DEVELOPMENT PIPELINE

**\$457.5 Million**

OF EQUITY HELD IN DREAM PUBLICLY  
LISTED FUNDS

## Financial Highlights Dream Standalone<sup>(1)</sup>

	Dec. 31, 2018	Dec. 31, 2017
Revenue	\$294,071	\$356,964
Earnings before income taxes	\$109,334	\$115,576
Earnings per period	\$83,093	\$82,839
Basic earnings per share <sup>(2)</sup>	\$0.76	\$0.76
<b>Total equity (excluding non controlling interests)<sup>(3)</sup></b>	<b>\$1,001,317</b>	<b>\$919,394</b>

(1) Dream standalone represents the standalone results of Dream, excluding the impact of Dream Alternatives' equity accounted/consolidated results. Refer to the "Non-IFRS Measures" section of our MD&A for further details.

(2) Basic earnings per share is computed by dividing Dream's earnings attributable to owners of the parent by the weighted average number of Dream Subordinate Voting Shares and Dream Class B shares outstanding during the period and has been adjusted to include the non-controlling interest relating to Sweet Dream Corp.

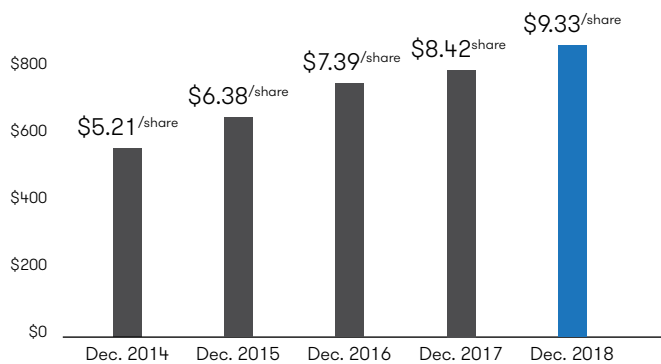
(3) Total equity (excluding non-controlling interests) excludes \$43.9 million of non-controlling interest as at December 31, 2018 (\$38.1 million as at December 31, 2017) and includes the Company's investment in Dream Alternatives as at December 31, 2018 of \$72.7 million (\$48.3 million as at December 31, 2017). For further details refer to the "Segmented Assets and Liabilities" section of our MD&A.



Riverside Square  
Toronto, ON

### Total equity per share\*

(\$ in millions)



**18%**  
CAGR IN TOTAL  
EQUITY TO 2018

\*Total equity per share is calculated based on total shareholder's equity, including SDC's non-controlling interest for years prior to December 31, 2018.

Note: We issued \$55.0M of equity in 2014



## Our Values

Integrity

Teamwork

Dealing with stakeholders

Social responsibility

Opportunities

Fun

These values provide the foundation for our corporate culture – acting as a strong platform on which to build sustainability into Dream's DNA.

## Building Better Communities

Sustainability is ingrained in how we run our business both internally and externally. It fits naturally with Dream's purpose to Build Better Communities and with our values.

### **Building better communities**

guides how we think, live and work. In doing this, we strive to make positive impacts on the natural environment and the communities in which we operate, work and live.

## Canary District

Canary District is an award-winning, sustainable, master-planned community in Toronto's east end. Canary was built to Leadership in Energy and Environmental Design (LEED) Gold standards and designed on the principles of green living with generous public spaces, and high walkability.

Canary District  
Toronto, ON





# Sustainability

## Focus on sustainability

Our sustainability strategy guides us in how we run our business and how we manage our environmental and social obligations, including managing our brand, business risks and operating costs. We strive to integrate sustainability at both the corporate and property/development levels focusing on internal and external initiatives to benefit all stakeholders. We believe that a long-term sustainable approach is imperative to create value.

As property owners, operators and developers, we are well positioned to implement sustainability as a core pillar of our guiding philosophy. This can be demonstrated through our reputation for building communities that are leaders in sustainable design and our focus on improving the communities in which we live and work.

Zibi in Ottawa/Gatineau, Port Credit West Village in Mississauga, the Canary District and the West Don Lands in Toronto are all examples of communities that have integrated sustainability into every aspect of their design. For example, Zibi is being built to be one of the most sustainable communities in the country.

Our Arapahoe Basin ski resort in Colorado is a leader in sustainability, taking

their responsibility as a steward of an exceptional natural environment seriously and embracing multiple sustainability initiatives.

In Western Canada we are incorporating best practices for sustainability into our master-planned communities. We are using technology and working with environmental consultants to reduce the environmental impact of our communities and integrate natural wetlands and habitats into our design.

As a company, we also support the communities in which we live and work through our charitable partnerships and commitments. In 2018, Dream donated close to \$1 million to charities. In addition, our employees also prepared and donated over 1,800 shoeboxes to The Shoebox Project for Women's Shelters and over 400 gifts through our Tree of Dreams.

Whether building new communities, investing in renewable energy, or operating our existing buildings, we strive to be a leader in sustainability. We will continue to implement strategies to promote the highest standards of sustainability throughout our organization. We have highlighted a few examples over the next few pages.





Arapahoe Basin Ski Resort  
Colorado





## Arapahoe Basin - a leader in sustainability

### Arapahoe Basin: Summit Solar Array

In the fall of 2017 we installed a new renewable energy project at the top of the mountain at our Arapahoe Basin ski resort in Colorado. The 8.25 kW PHQ (Patrol Headquarters) Solar Array consists of 30 roof-mounted panels that, in the time they've been operational, have produced more energy than the building uses. The panels have fared well despite the extreme conditions encountered at the top of the mountain, with winds regularly approaching 100 MPH and heavy snow loading a constant issue. Also, at an elevation of 12,456 feet, this solar array is the second highest solar project in the United States and the highest renewable energy project at any ski area world-wide (as far as we can tell).

### Strategic Sustainability Plan: 7 Goals in 7 Years

Last spring the Arapahoe senior leadership team worked with the Brendle Group, a sustainability consulting group located in Fort Collins, CO, to identify a strategic sustainability plan for Arapahoe as a whole. The plan took into consideration current utility usage, continued improvements to the power grid and fuel supply, and future plans for growth to identify seven sustainability goals to be achieved in seven years, by 2025. These goals address all aspects of the business from waste reduction, to renewable electricity, to ecosystem stewardship and transportation – cumulating in the primary goal of becoming completely carbon neutral by 2025.



## Leader in building sustainable communities

### Zibi

Zibi, located in Ottawa and Gatineau, is envisioned as one of the most environmentally conscious and sustainability-focused development projects in Canada's history. Under the guidance of the One Planet Action Plan, a holistic ten-principle sustainability framework, Zibi will make it easy for residents, visitors and workers to lead low impact and healthy lifestyles all while living in comfort and style on the waterfront in the heart of the National Capital Region.

This past year was a momentous year at Zibi; we completed construction on our first phase of infrastructure including the decontamination of soil, and the installation of all civil services. We completed our first residential building "O" and welcomed residents into their new homes in time for the holidays. This provided the first opportunity for our One Planet Ambassador, an individual who is responsible for promoting and inspiring sustainable lifestyles within the community, to begin rolling out programming. We are also building the first phase of our District Energy system, which is a vital step toward zero-carbon heating and cooling at Zibi.

Sustainability is also engrained in our construction practices. This past year, we've had the opportunity to meet with many of our trade partners to educate them on the One Planet Action Plan.


Momentum is only increasing as we prepare to welcome more residents and commercial tenants to our community. O will submit for LEED Platinum later this spring as a further third-party verification of Zibi's green building commitments. We will also continue to strengthen our construction practices, setting the bar high for corporate responsibility in the region. Finally, we will continue to work with our Algonquin Anishinabe partners who are providing invaluable direction on the design of our public realms and green spaces which will allow Zibi to continue to be a leader in social sustainability in the region.











## West Don Lands - affordable housing built to LEED Gold standards

Dream and Dream Alternatives, together, have a 33.3% ownership interest in the West Don Lands development located in Toronto's east end. West Don Lands will be a vibrant community that will offer purpose-built rental apartments that include a 30% affordable housing component in support of the Province's Fair Housing Plan.

With a vacancy rate of less than 1% and some of the highest rental rates in the country, we believe that Toronto is in need of rental options. West Don Lands will feature 1,500 units, in a family friendly community that incorporates sustainability into its core. It will be built to achieve Leadership in Energy and Environmental Design (LEED) Gold certification.

West Don Lands will be a complete community where residents can raise families, live, work, play, and shop. In addition, residents can take advantage of the many neighbourhood amenities in the adjacent Canary and Distillery Districts, notably the 82,000 square foot Cooper Koo YMCA and 18-acre Corktown Common park.

Having successfully co-developed over 3,000 units in Toronto's downtown east end, including the award-winning LEED Gold Canary District and historic Distillery District, Dream has a vested interest and deep commitment to the area and the West Don Lands development.

We look forward to completing the West Don Lands development to meet the growing rental needs of our city while meeting Dream's return objectives.



# Sustainability Highlights

## Environmental



Dream's **West Don Lands** community will offer purpose-built rentals that include affordable options



**Zibi is 1 of 10 endorsed** One Planet communities in the world based on 10 sustainable principles



Canary District is a sustainable **LEED GOLD** village and received the ULI Global Award for Excellence as part of the West Donlands development



Dream's ski hill, **Arapahoe Basin**, is a leader in sustainability, having recently completed a sustainability plan focusing on attaining 7 sustainability related goals in 7 years



**239 MW** of renewable capacity (enough to power 50,000 Canadian homes for a year) has been installed by Dream and its joint venture partners



Dream's **Elan** community in Edmonton is working with an environmental consultant to create an enhanced storm water management system

## Governance



**50%** of Dream Unlimited Board members are women



**75%** of Dream Unlimited Board members are independent



Embedded elements of sustainability in Board mandates

## Social\*



**~1,800+** shoeboxes were donated to The Shoebox Project for Women's Shelters by Dream



**Close to \$1 million** was donated to charities and communities



**~\$325,000** in tuition and professional development fees was reimbursed to employees



**420 gifts** were donated to seniors through the Tree of Dreams



**National sponsor** of The Shoebox Project for Womens Shelters and partner with Women's College Hospital

Highlights are as at December 31, 2018

\*Social highlights are based on all Dream entities combined



Since Dream became the National Sponsor for The Shoebox Project for Women in 2014, Dream and our employees have donated over **5,000 shoeboxes** to women in shelters.





**The Shoebox Project for Women, supported by Dream, collects and distributes gift-filled shoeboxes for women impacted by homelessness in communities across Canada and the U.S. Each thoughtfully created and decorated shoebox is filled with items that can enhance self-esteem and reduce feelings of isolation for women in need.**

# Tax Contribution\*

The Company is subject to a range of federal, provincial, municipal and other local taxes, fees, charges and levies. The following chart summarizes amounts paid by the Company in the normal course of operations.

We highlight our contribution because we see this as an important measure of our specific financial contribution to the overall Canadian economy.

	2018	2017
<b>1. Income Taxes**</b>	\$ 15,237,000	\$ 29,151,000
<b>2. Property Related Taxes</b> Taxes paid on leased and owned property, school taxes, provincial/municipal land transfer tax or property registration taxes paid on the purchase of real property	7,527,000	8,853,000
<b>3. Development &amp; Other Charges</b> Development charges/fees paid, building permits, levies and the cost of municipal services installed on lands related primarily to the Company's land and housing business in Western Canada	62,528,000	74,531,000
<b>4. People Taxes</b> Company's share of various payroll taxes including government pension, employment insurance, government health costs and workers' compensation	3,189,000	2,870,000
<b>Total</b>	<b>\$ 88,481,000</b>	<b>\$ 115,405,000</b>

\*Represents Dream on a standalone basis

\*\*The amount reported in 2018 includes payments of \$1.4 million made by the Company in February 2019 for 2018 income taxes payable (The amount reported in 2017 includes payments of \$25.3 million made by the Company in February 2018 for 2017 income taxes payable).



A modern office interior featuring a large, white, cylindrical pillar in the center. To the right, a curved staircase with a white railing and dark steps is visible. The floor is made of light-colored, rectangular tiles. In the background, there are large windows and a desk area with a computer monitor and keyboard. The lighting is bright and even.

## Alate Partners, using technology to rethink real estate

Dream along with Dream Office REIT, entered into a strategic partnership with Relay Ventures to create Alate Partners to invest in technology companies that are rethinking how real estate is designed, built, and managed. In addition to capital, Alate provides entrepreneurs with unique access to real estate expertise, customers, and partners that can help accelerate their growth.

To us, real estate is about more than physical buildings—it's about the people who live, work, shop, and play in them. By working with creative and visionary companies, we can leverage software and hardware solutions to enhance the sustainability of our buildings and make our homes and workplaces more personalized, efficient, and sustainable, from reducing energy use and waste consumption in buildings and on job sites to creating healthy and inviting workplaces that inspire employees and enhance productivity.

By embracing emerging technologies and new approaches to how we build and manage real estate, we can reduce our environmental impact and improve the quality of life in our communities.

**alate**  
**partners**





Zibi  
Ottawa, ON / Gatineau, QC



An aerial photograph of a city waterfront. In the foreground, there is a lush green park with a paved walkway where several people are walking. A river flows through the middle ground, with a bridge crossing it. In the background, a city skyline is visible, featuring a prominent building with a tall, pointed spire. The sky is clear and blue.

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## Management's Discussion and Analysis

The Management's Discussion and Analysis ("MD&A") is intended to assist readers in understanding Dream Unlimited Corp. (the "Company" or "Dream"), its business environment, strategies, performance and risk factors. This MD&A should be read in conjunction with the audited consolidated financial statements ("consolidated financial statements") of Dream, including the notes thereto, as at and for the years ended December 31, 2018 and December 31, 2017, which can be found in the Company's annual filings on the System for Electronic Document Analysis and Retrieval ("SEDAR") (www.sedar.com). The financial statements underlying this MD&A, including 2017 comparative information, have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain disclosures included herein are non-IFRS measures. Refer to the "Non-IFRS Measures" section of this MD&A for further details.

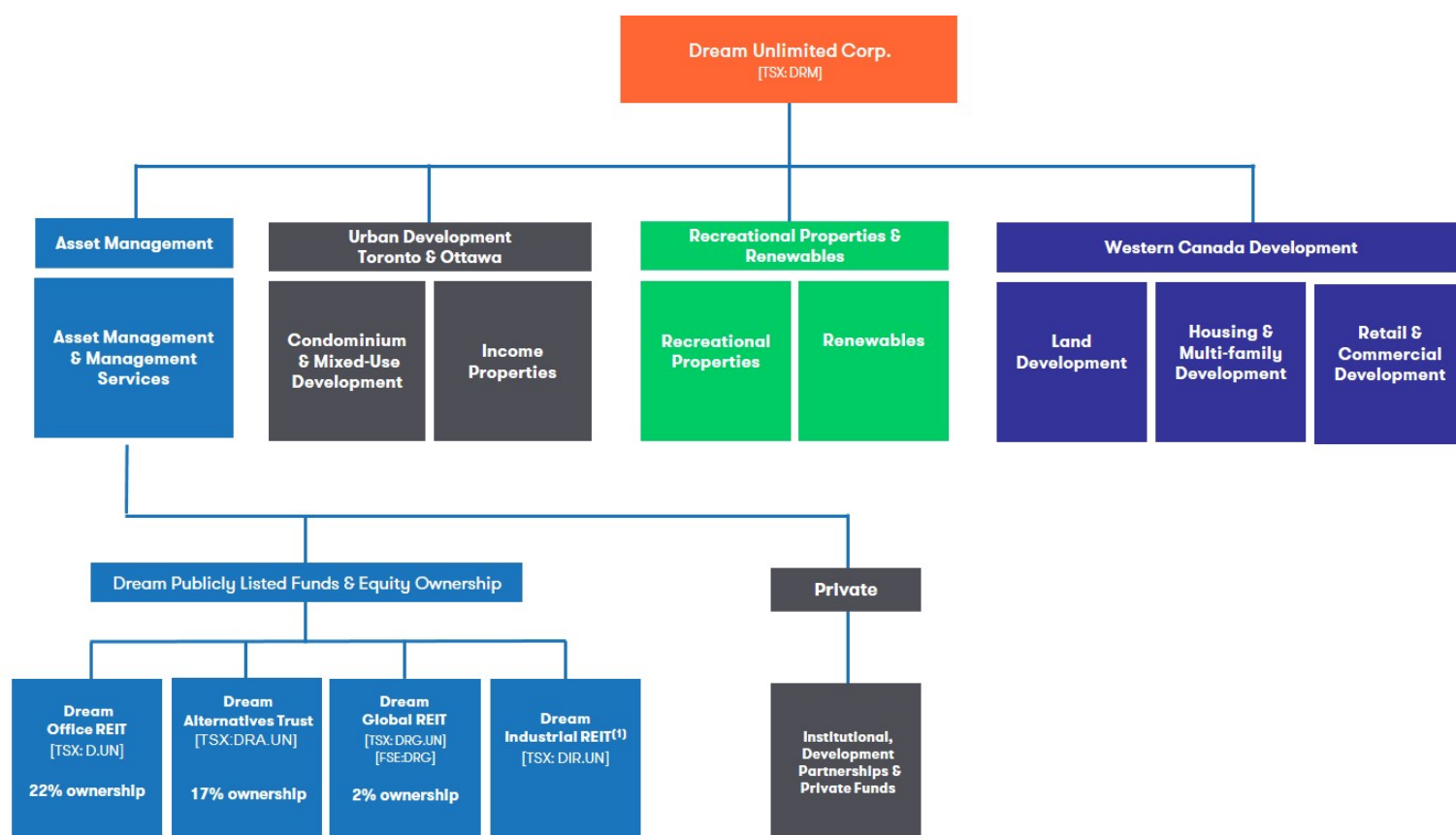
All dollar amounts in tables within this MD&A are in thousands of Canadian dollars, unless otherwise specified. Unless otherwise specified, all references to "we", "us", "our" or similar terms refer to Dream and its subsidiaries. This MD&A is dated as of, and reflects all material events up to, February 26, 2019.

## Business Overview

Dream is one of Canada's leading real estate companies with approximately \$15.0 billion of assets under management in North America and Europe. The scope of the business includes asset management and management services for four Toronto Stock Exchange ("TSX") listed trusts and institutional partnerships, condominium and mixed-use development, investments in and management of Canadian renewable energy infrastructure and commercial property ownership, and residential land development, housing and multi-family development. Dream has an established track record for being innovative and for its ability to source, structure and execute on compelling investment opportunities.

From the outset, we have successfully identified and executed on opportunities for the benefit of the business and shareholders, including the creation of Dream Asset Management Corporation ("DAM", formerly Dundee Realty Corporation) in 1996 as a public company, its subsequent privatization in 2003, the creation of Dream Office REIT (formerly Dundee REIT) in 2003, the establishment of our asset management business, and the creation of Dream Global REIT (formerly Dundee International REIT), Dream Industrial REIT (formerly Dundee Industrial REIT) and Dream Hard Asset Alternatives Trust ("Dream Alternatives" or "DAT") in 2011, 2012 and 2014, respectively.

Effective January 1, 2018, Dream has consolidated the results of Dream Alternatives and has also reported its results as a standalone segment herein.



<sup>(1)</sup>As of December 31, 2018, Dream Office REIT held a 23% interest in Dream Industrial REIT.



## Summary of Achievements – Fourth Quarter and Year Ended 2018

### Asset Management, Management Services and Investments in Dream Publicly Listed Funds

As at December 31, 2018, fee-earning assets under management across the Dream Publicly Listed Funds (Dream Global REIT, Dream Industrial REIT, Dream Alternatives and excluding Dream Office REIT, which is not subject to an asset management agreement) were approximately \$6.7 billion, up from \$6.2 billion as at December 31, 2017. Fee earning assets under management across private institutional partnerships, development partnerships and/or funds were \$1.6 billion, relatively consistent with the prior year. Total fee-earning assets under management were approximately \$8.4 billion at December 31, 2018.

In the three and twelve months ended December 31, 2018, the asset management division generated net margin of \$10.9 million and \$33.3 million, respectively, compared to \$7.0 million and \$36.2 million in the comparative periods. Fluctuations year-over-year were driven primarily by transactional activity or the achievement of development milestones in the period. Our asset management segment is a key source of recurring income for our business. For further details, please see the "Sources of Recurring Income" section of this MD&A.

In 2018, Dream acquired 3.3 million units in Dream Office REIT for \$76.5 million and approximately 2.5 million units in Dream Alternatives for \$12.2 million. Subject to market conditions and our investment strategy, the Company intends to further invest in Dream Office REIT and Dream Alternatives on an opportunistic basis as both vehicles refine their portfolios and focus on core Toronto assets, which is aligned with Dream's expanding real estate and development footprint across downtown Toronto and the Greater Toronto Area ("GTA").

As at December 31, 2018, the total fair value of units held in the Dream Publicly Listed Funds (including Dream Office REIT) was \$457.5 million, representing 60% of the Company's total market capitalization. Within this total, Dream had \$323.6 million at fair value invested in Dream Office REIT (a 22% interest or 24% interest inclusive of units held through Dream's Chief Responsible Officer ("CRO")) and \$75.7 million at fair value invested in Dream Alternatives (a 17% interest).

### Urban Development - Toronto & Ottawa

At December 31, 2018, Dream's condominium projects consisted of 1,631 condominium units (691 units at Dream's share) in various stages of pre-construction or active construction. Approximately 99% of these projects (including Riverside Square and Canary Block Commons that will commence occupancy in 2019) were either sold or pre-sold as of February 25, 2019. In addition to these projects, we have 10,200 condominium or multi-family rental units and 3.3 million square feet ("sf") of retail/commercial space (4,600 units and 2.5 million sf at Dream's share) in our development pipeline. Our pipeline includes: the West Don Lands, future phases of Zibi, the Distillery District, Canary District - Block 13, Port Credit and the Frank Gehry-designed Mirvish King West development. For further details on our project pipeline, refer to the "Urban Development Pipeline and Results of Pre-sale Activity" section of this MD&A.

In the three months ended December 31, 2018, Zibi, our 34-acre waterfront development along the Ottawa River in Gatineau, Quebec and Ottawa, Ontario progressed with the commencement of occupancy at the project's first condominium building "O", comprising 70 units, which are 83% sold. In addition to O, land servicing on both the Ontario and Quebec lands is well underway and construction has started on the project's next residential building, Kanaal, comprising 71 units, along with 105,000 sf of commercial space.

Construction for Phase 1 of Riverside Square is progressing steadily, with first occupancies expected to commence in the second quarter of 2019. Riverside Square is a 5-acre, two-phase, mixed-use development located in Toronto's downtown east side on the south side of Queen Street East and immediately east of the Don Valley Parkway. Dream has a 32.5% interest in the project and its residual partners include Streetcar Developments and an automotive group. The first phase of the project consists of 688 residential condominium units, a state-of-the-art multi-level auto-plex and approximately 20,000 sf of retail gross floor area ("GFA"). The second phase is planned to consist of approximately 36,000 sf of multi-tenant commercial space with a proposed grocery-anchored component together with 224 condominium units.

In the three months ended December 31, 2018, fair value changes on our Urban Development investment properties were \$12.0 million, an increase of \$7.4 million relative to the comparative period driven by fair value gains at the Distillery District, which was attributable to increases in net operating income. The Distillery District is comprised of 395,000 sf of gross leasable area ("GLA") and is located in downtown Toronto, adjacent to our Canary District and West Don Lands developments.

### Western Canada Development

In the year ended December 31, 2018, our land and housing division generated a combined \$159.4 million of revenue and \$23.8 million of net margin, comprised of 767 lot sales, 20.1 acre sales and 215 housing occupancies (December 31, 2017 - \$225.6 million of revenue and \$51.1 million of net margin, comprised of 913 lot sales, 33.5 acre sales and 300 housing occupancies). The decrease in revenue and net margin, relative to the comparative period was driven by the specific sales mix and lower volumes achieved in 2018.

With continued challenging market conditions in Western Canada and increased pressures from government policies, we are closely monitoring customer demand, pricing trends and inventory supply across the division. As of today, assuming no material change in market conditions, we expect our earnings from the land and housing divisions to increase again come 2020, as we commence earning income from land sales in Providence, our most valuable land position in Western Canada. For further details on this segment refer to the "Western Canada Development" section of the MD&A.



In the year ended December 31, 2018, net operating income increased to \$6.0 million from \$4.5 million in the prior year due to increased rental income generated from our retail properties under development, partially offset by the impact of asset dispositions in 2018.

We are currently developing and planning 526,200 sf of retail and commercial space across our Western Canada communities, of which 396,200 sf are under development.

### Strong Liquidity Position & Normal Course Issuer Bid ("NCIB") Activity

As at December 31, 2018, we had up to \$179.1 million of undrawn credit availability on Dream's operating line and margin facility, compared to \$166.6 million as at September 30, 2018 and \$123.1 million as at December 31, 2017. Subsequent to December 31, 2018, we amended our operating line and non-revolving term facility, extending the maturity dates to January 31, 2021 and February 28, 2022, respectively. The Company is focused on maintaining a conservative debt position and has ample excess liquidity even before considering unencumbered or under-levered assets.

As at December 31, 2018, our debt to total asset ratio was 33.3%, compared to 33.5% as at September 30, 2018 and 32.4% as at December 31, 2017 (34.9% as at December 31, 2018, compared to 35.2% as at September 30, 2018 and 33.2% as at December 31, 2017, on a Dream standalone basis).

In the three and twelve months ended December 31, 2018, the Company purchased for cancellation 0.8 million Class A Subordinate Voting Shares for \$5.6 million and 1.9 million Class A Subordinate Voting Shares for \$16.0 million, respectively, under its NCIB.

Subsequent to December 31, 2018, as part of our long-term strategy to maximize shareholder value, the Company's dividend policy was approved. In 2019, the Company will pay an annual dividend of \$0.10 per Class A Subordinate Voting Share and Class B Common Shares, payable quarterly.

Completed approximately  
**\$27 billion**  
of real estate and  
renewable power transactions

Approximately  
**\$8.4 billion**  
of fee earning assets under  
management and  
**\$15.0 billion**  
of total assets  
under management

Approximately  
**18% CAGR**  
in book value per share on a  
Dream standalone basis  
since our first reporting period as a  
public company in 2013



## Our Operating Segments and Strategy

We expect that our growth in profitability and total equity per share will be driven primarily by opportunities within our existing operating segments, as detailed below.

Segment	Key assets/contracts	Description/strategy
Asset management, management services and investments in Dream Publicly Listed Funds	<p>Asset management and advisory services agreements</p> <p>\$8.4 billion in fee earning assets under management</p> <p>\$457.5 million of equity held in units of the Dream Publicly Listed Funds at fair value</p>	<p>We provide asset management and management services to the Dream Publicly Listed Funds and on behalf of various institutional partnerships/third-party real estate and development assets.</p> <p>We expect fees generated from the Dream Publicly Listed Funds (excluding Dream Office REIT, which is not subject to an external management contract) to increase over time, as we manage each company's portfolio and pursue various growth strategies for each Fund. We also expect that development and other management fees will continue to increase in future years. In addition, asset management fees are generated from Dream Alternatives which are eliminated on consolidation but included in Dream standalone results.</p> <p>As at December 31, 2018, Dream held approximately \$323.6 million or 14.5 million units in Dream Office REIT (approximately 22% of units outstanding of Dream Office REIT). Subject to market conditions and our investment strategy, we intend to further invest in Dream Office REIT on an opportunistic basis as the REIT focuses on core Toronto assets.</p> <p>As at December 31, 2018, Dream's investment in Dream Global REIT (inclusive of deferred trust units) totaled \$58.1 million. Refer below under "Dream Alternatives" for our strategy regarding our investment in Dream Alternatives.</p>
Urban development - Toronto and Ottawa	<p>Over 10,300 condominium units, 1,500 purpose-built rental units and approximately 3.5 million sf of retail and commercial development</p>	<p>Our core development business consists of predominantly large scale developments in Toronto and Ottawa.</p> <p>We expect our profitability to increase as we commence developing these sites in phases.</p>
Renewables and recreational properties	<p>20% equity interest in Firelight Infrastructure and 3 operational recreational properties, including Arapahoe Basin ski hill</p>	<p>Renewables are a key source of recurring income to Dream's business.</p> <p>Recreational properties have historically been a growing source of income through active operational and asset management of Arapahoe Basin ski hill in Colorado. Income generated from renewables and recreational properties is stable and not considered to be correlated with Dream's other core business lines.</p>
Western Canada development	<p>Approximately 10,000 acres comprising 9 master-planned communities with over 80,000 lots and multi-family units and 1.4 million commercial sf</p>	<p>Dream actively develops land in the cities of Saskatoon, Regina, Calgary and Edmonton, converting unentitled raw land to the stage where homes and commercial properties can ultimately be constructed on the land by Dream and other third parties as part of master-planned communities. We expect to increase our profitability by increasing the amount of development on our own lands by bringing new communities online such as Providence in Calgary.</p> <p>We have expanded our operations over recent years to include the development of our owned lands by (i) building homes in Saskatoon, Regina and Calgary; and (ii) developing income producing retail and commercial properties within our master-planned communities.</p> <p>We continue to assess land and housing market conditions in Saskatchewan and Alberta, including absorption rates, inventory levels and pricing trends. With our land bank, market share, liquidity position and extensive experience as a developer, we are able to closely monitor and have the flexibility to increase or decrease our inventory levels to adjust to market conditions in any year.</p>
Dream Alternatives (TSX: DRA.UN)	<p>Diversified portfolio of real estate development, real estate lending, real estate and renewable power with net asset value ("NAV") over \$635 million</p> <p>17% of units owned in Dream Alternatives or \$75.7 million at fair value</p>	<p>Subject to market conditions, we intend to further invest in acquiring the units of Dream Alternatives on an opportunistic basis in the public market as Dream Alternatives' strategy continues to focus on core Toronto assets.</p> <p>Approximately \$139 million or 22% of Dream Alternatives' NAV is comprised of co-owned development investments with Dream and are accordingly common to the Urban Development segment discussed above.</p>

These are only some of the levers through which we expect to generate higher profitability within our Company. Our management team is strong and experienced. Dream has a proven track record of creating value. We believe that as a public company, we benefit from increased profile awareness, which will lead to even more opportunities for profitability and growth in the periods ahead.

We intend to continue growing our business by seeking out new opportunities where we can use our experience, expertise, relationships and capital to achieve attractive risk-adjusted returns. Historically, we have sought new areas of investment that look attractive. Traditionally, we invest small amounts of capital and, as we develop expertise in an industry we find attractive, we invest more capital. We will actively seek other opportunities to grow our business by employing our expertise and capital to create high returns and, where appropriate, increase our returns by co-investing with others.

In connection with the acquisition of control of Dream Alternatives on January 1, 2018, we have changed our presentation of information for financial reporting and management decision making. Our management team views Dream Alternatives as a separate segment managed on a fair value basis. As a result, management reviews financial information and operational results of Dream on a Dream standalone basis (as defined in the "Non-IFRS Measures" section of this MD&A).

## Key Financial Information and Performance Indicators

### Selected Financial Information – Consolidated Dream

<i>(in thousands of dollars, except per share and outstanding share amounts)</i>	For the three months ended December 31,		For the year ended December 31,	
	2018	2017	2018	2017
Revenue	\$ 153,955	\$ 144,586	\$ 339,873	\$ 356,964
Gross margin	\$ 57,905	\$ 63,357	\$ 134,782	\$ 144,016
Gross margin (%) <sup>(1)</sup>	37.6%	43.8%	39.7%	40.3%
Net margin	\$ 46,414	\$ 50,000	\$ 87,668	\$ 98,235
Net margin (%) <sup>(2)</sup>	30.1%	34.6%	25.8%	27.5%
Earnings before income taxes	\$ 70,660	\$ 68,191	\$ 213,492	\$ 115,576
Earnings for the period	\$ 56,622	\$ 50,268	\$ 192,053	\$ 82,839
Basic earnings per share <sup>(3)</sup>	\$ 0.52	\$ 0.46	\$ 1.76	\$ 0.81
Diluted earnings per share <sup>(3)</sup>	\$ 0.50	\$ 0.45	\$ 1.71	\$ 0.79
Weighted average number of shares outstanding, basic	107,679,021	109,230,724	108,450,962	98,452,162
Total issued and outstanding shares	107,331,005	109,235,622	107,331,005	109,235,622
<b>Total earnings for the period attributable to:</b>				
Shareholders <sup>(4)</sup>	\$ 55,742	\$ 50,672	\$ 190,948	\$ 79,645

	December 31, 2018	December 31, 2017
Total assets	\$ 2,751,566	\$ 1,904,007
Total liabilities	\$ 1,631,986	\$ 946,523
Total equity	\$ 1,119,580	\$ 957,484

<sup>(1)</sup> Gross margin % (a non-IFRS measure) represents gross margin as a percentage of revenue. For additional details, refer to the "Non-IFRS Measures" section of this MD&A.

<sup>(2)</sup> Net margin % (a non-IFRS measure) represents net margin as a percentage of revenue. For additional details, refer to the "Non-IFRS Measures" section of this MD&A.

<sup>(3)</sup> See Note 38 of the Company's consolidated financial statements for the year ended December 31, 2018 for further details on the calculation of basic and diluted earnings per share.

<sup>(4)</sup> Total earnings attributable to shareholders excludes the portion allocated to non-controlling interests.

The Company evaluates its Western Canada land and housing and urban development results using net margin, and net operating income for investment properties within each segment as well as recreational properties. The asset management segment is evaluated using net margin. Stated as a percentage to evaluate operational efficiency, these margins are used as fundamental business considerations for updating budgets, forecasts and strategic planning.

### Overview of Consolidated Results

In the year ended December 31, 2018, the Company was deemed to have acquired control of Dream Alternatives based on the increase in the Company's exposure to variable returns resulting from increased ownership through units held in Dream Alternatives and from new real estate joint venture agreements. As a result, the Company has consolidated Dream Alternatives' financial results effective January 1, 2018. Refer to the "Dream Alternatives" section of this MD&A for a discussion of Dream Alternatives' results.

Revenue for the three months ended December 31, 2018, increased by \$9.4 million relative to the prior year, primarily due to condominium occupancies, and increased contributions from Dream Alternatives upon consolidation, partially offset by decreased contribution from our land and housing development business in Western Canada as a result of lower sales volumes. In the three months ended December 31, 2018, on a consolidated basis, the Company recognized earnings of \$56.6 million, an increase of \$6.4 million from the prior year. The increase in earnings on a consolidated basis was primarily driven by the increased contribution from the consolidation of Dream Alternatives results, which included fair value adjustments on the Dream Alternatives trust units of \$25.9 million, partially offset by decreased earnings from our land and housing business in Western Canada.

For similar reasons, in the year ended December 31, 2018, on a consolidated basis, the Company generated revenue of \$339.9 million, a decrease of \$17.1 million from the prior year. Net earnings for the year ended December 31, 2018 increased by \$109.2 million relative to the prior year.



## Reconciliation of Basic Earnings per Share

A reconciliation of basic earnings per share between Dream's consolidated results and Dream standalone<sup>(1)</sup> results (as discussed in the "Selected Financial Information - Dream Standalone" section of this MD&A) is included below:

<i>(in thousands of dollars, except per share amounts)</i>	For the three months ended December 31, 2018				For the year ended December 31, 2018			
		Per unit	Total		Per unit	Total		Total
Dream Consolidated basic earnings per share	\$	0.52	\$ 55,742	\$	1.76	\$ 190,948		
Dream Alternatives income attributable to shareholders		(0.07)	(6,753)		(0.12)	(13,160)		
Gain on acquisition of Dream Alternatives		—	—		(1.08)	(117,437)		
Adjustments related to Dream Alternatives trust units <sup>(2)</sup>		(0.24)	(25,918)		0.18	19,680		
Other consolidation adjustments		0.05	4,972		0.02	2,017		
<b>Dream standalone basic earnings per share</b>	<b>\$</b>	<b>0.26</b>	<b>\$ 28,043</b>	<b>\$</b>	<b>0.76</b>	<b>\$ 82,048</b>		

	For the three months ended December 31, 2017				For the year ended December 31, 2017			
		Per unit	Total		Per unit	Total		Total
Dream Consolidated basic earnings per share	\$	0.46	\$ 50,672	\$	0.81	\$ 79,645		
Share of earnings from equity accounted investment in Dream Alternatives		(0.01)	(1,592)		0.01	1,021		
Other consolidation adjustments <sup>(3)</sup>		—	—		(0.06)	3,598		
<b>Dream standalone basic earnings per share</b>	<b>\$</b>	<b>0.45</b>	<b>\$ 49,080</b>	<b>\$</b>	<b>0.76</b>	<b>\$ 84,264</b>		

<sup>(1)</sup> Dream standalone represents the standalone results of Dream, excluding the impact of Dream Alternatives' equity accounted/consolidated results. For a further description of the Dream standalone results, refer to the "Non-IFRS Measures" section of this MD&A.

<sup>(2)</sup> In accordance with the Company's accounting policy described in Note 3 to the consolidated financial statements for the year ended December 31, 2018, Dream accounted for the 83% interest in Dream Alternatives trust units held by other unitholders as a financial liability measured at fair value through profit and loss. Accordingly, we expect adjustments related to Dream Alternatives trust units to vary period to period, based on fluctuations in the listed market price and changes in the outstanding number of trust units at period end. Refer to Note 24 of the consolidated financial statements for the year ended December 31, 2018 for a continuity of the liability related to the Dream Alternatives trust units.

<sup>(3)</sup> Other consolidation adjustments for the year ended December 31, 2017 includes the weighted average number of shares and share of income attributable to Sweet Dream Corp. For further details refer to the "Shareholders' Equity" section of this MD&A.

## Timing of Income Recognition and Impact of Seasonality

The Company's housing and condominium operations recognize revenue at the time of occupancy and, as a result, revenues and direct costs vary depending on the number of units occupied in a particular reporting period. The Company's land operations recognize revenue generally when a 15% deposit has been received from the third-party purchaser, ultimate collection of the full purchase price is reasonably assured and certain other development milestones are substantially met. Revenue from land is deferred until occupancy by a third-party customer, when the land is sold as part of a home constructed by our housing division. Certain marketing expenses for condominiums are incurred prior to the occupancy of these units and accordingly are not tied to the number of units occupied in a particular period as they are expensed as incurred. Prior to 2018, commissions (which are a material component of marketing expenses) were expensed as incurred. Effective January 1, 2018, commissions are capitalized as contract assets, and expensed when condominium revenue is recognized. Refer to Note 3 in the consolidated financial statements for the year ended December 31, 2018 for further details.

Based on our geographic location, most of our development activity in Western Canada takes place between April and October due to weather constraints, while sales orders vary depending on the rate at which builders work through inventory, which is affected by weather and market conditions. Traditionally, our highest sales volume quarter for our land and housing divisions has been the fourth quarter, while our lowest has been the first quarter.

As a result of the above, the Company's results can vary significantly from quarter to quarter. Due to the seasonal nature of wind and solar assets within the renewable power segment, we expect higher returns on our investment in Firelight in the spring and summer months, compared to the fall and winter, although the annual income level is recurring in nature. Refer to the "Supplemental Segmented Information" section of this MD&A for further details.

## Growth in Asset Management Services

Fees generated within our asset management operations relating to the Dream Publicly Listed Funds (excluding Dream Office REIT, which is no longer party to an asset management agreement) are generally contractual in nature. It is important to note that fees earned on acquisition and disposition activity in a period are not recurring in nature and accordingly will impact related margins. Fees related to development activities and partnerships included within this segment can fluctuate depending on the number of active projects and on Dream meeting certain milestones as the development manager.

## Quarterly Business Trends - Consolidated Dream

A summary of revenue, earnings (loss) and basic and diluted earnings (loss) per share for the previous eight quarters is presented below.

<i>(in thousands of dollars, except per share amounts)</i>	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017
Revenue	\$ 153,955	\$ 64,497	\$ 61,600	\$ 59,821	\$ 144,586	\$ 115,305	\$ 45,425	\$ 51,648
Earnings (loss) for the period	56,622	15,279	(26,906)	147,058	50,268	19,132	2,001	11,438
Basic earnings (loss) per share	0.52	0.14	(0.25)	1.35	0.46	0.18	0.02	0.10
Diluted earnings (loss) per share	0.50	0.14	(0.25)	1.30	0.45	0.17	0.02	0.10

## Selected Financial Information – Dream Standalone<sup>(1)</sup>

Based on how we operate our business and evaluate our economic ownership of Dream Alternatives, we believe reviewing Dream's standalone results excluding Dream Alternatives is more relevant information for a user to understand the value and performance of Dream's assets. Accordingly, unless otherwise noted, all segment discussions hereafter are presented on this basis. Refer to the "Reconciliation of Basic Earnings per Share", "Segmented Assets and Liabilities" and "Segmented Statement of Earnings" sections in this MD&A for a reconciliation of Dream standalone to the consolidated financial statements as at December 31, 2018.

<i>(in thousands of dollars, except per share and outstanding share amounts)</i>	For the three months ended December 31,		For the year ended December 31,	
	2018	2017	2018	2017
Revenue	\$ 143,756	\$ 144,586	\$ 294,071	\$ 356,964
Gross margin	\$ 54,150	\$ 63,357	\$ 113,013	\$ 144,016
Gross margin (%) <sup>(2)</sup>	37.7%	43.8%	38.4%	40.3%
Net margin	\$ 42,659	\$ 50,000	\$ 65,899	\$ 98,235
Net margin (%) <sup>(2)</sup>	29.7%	34.6%	22.4%	27.5%
Earnings before income taxes	\$ 40,881	\$ 66,599	\$ 109,334	\$ 116,597
Earnings for the period	\$ 29,908	\$ 48,676	\$ 83,093	\$ 83,860
Basic earnings per share <sup>(3)</sup>	\$ 0.26	\$ 0.45	\$ 0.76	\$ 0.76
Diluted earnings per share	\$ 0.25	\$ 0.44	\$ 0.75	\$ 0.75
Weighted average number of shares outstanding <sup>(4)</sup>	107,679,021	109,230,724	109,230,724	110,460,880
Total issued and outstanding shares	107,331,005	109,235,622	107,331,005	109,235,622
<b>Total earnings for the period attributable to:</b>				
Shareholders	\$ 28,043	\$ 49,080	\$ 82,048	\$ 84,264
			<b>December 31, 2018</b>	<b>December 31, 2017</b>
Total assets			\$ 2,056,028	\$ 1,904,007
Total liabilities			\$ 1,010,776	\$ 946,523
Total equity (excluding non-controlling interest) <sup>(5)</sup>			\$ 1,001,317	\$ 919,394
Total equity per share			\$ 9.33	\$ 8.42

<sup>(1)</sup> Dream standalone represents the standalone results of Dream, excluding the impact of Dream Alternatives' equity accounted/consolidated results. Refer to the "Non-IFRS Measures" section of this MD&A for further details. Total assets as of December 31, 2018 and December 31, 2017 includes approximately \$72.7 million and \$48.3 million, respectively, relating to the Company's investment in Dream Alternatives.

<sup>(2)</sup> Gross margin (%) and net margin (%) are non-IFRS measures. Refer to the "Non-IFRS Measures" section of this MD&A for further details.

<sup>(3)</sup> Basic earnings per share is computed by dividing Dream's earnings attributable to owners of the parent by the weighted average number of Dream Subordinate Voting Shares and Dream Class B common shares in the capital of Dream ("Class B Shares") outstanding during the period and has been adjusted to include the non-controlling interest relating to Sweet Dream Corp.

<sup>(4)</sup> Weighted average number of shares for the year ended December 31, 2017 has been adjusted to include the non-controlling interest relating to Sweet Dream Corp. For further details refer to the "Shareholders' Equity" section of this MD&A.

<sup>(5)</sup> Total equity (excluding non-controlling interests) excludes \$43.9 million of non-controlling interest as at December 31, 2018 (\$38.1 million as at December 31, 2017) and includes the Company's investment in Dream Alternatives as at December 31, 2018 of \$72.7 million (\$48.3 million as at December 31, 2017). For further details refer to the "Segmented Assets and Liabilities" section of this MD&A.



## Sources of Recurring Income

Historically, a large proportion of our pre-tax income was driven by our Western Canada development business. We anticipate that the proportion of income driven by Western Canada will decrease over time due to the increased diversification of our business and growth in recurring income generating assets. Our Urban Development - Toronto and Ottawa segment is a source of recurring income, although it is subject to more volatility from period to period. Income generated from our condominium projects is based on the number of units available for occupancy. In addition to this business, the Company has several non-development business lines, which it considers to be sources of stable recurring annual income. Below is a summary of income from the Company's significant assets generating recurring income and their applicable fair value or carrying value, as at and for the years ended December 31, 2018 and 2017. The Company views recurring income on a Dream standalone basis as a source of funds to meet ongoing interest and fixed operating costs of the business.

Asset	Balance sheet measure	Pre-tax income measure <sup>(1)</sup>	IFRS asset value at December 31, 2018	IFRS asset value at December 31, 2017	2018 pre-tax income	2017 pre-tax income
<b>Asset management, management services and investments in Dream Publicly Listed Funds:</b>						
Asset management contracts and arrangements <sup>(2)</sup>	Book value of intangible asset	Net margin	\$ 43,000	\$ 43,000	\$ 33,313	\$ 36,185
Direct equity investments in Dream Publicly Listed Funds <sup>(3)</sup>	Fair value of equity holdings	Total distributions	457,492	367,304	20,424	17,305
<b>Urban development:</b>						
Urban development income properties <sup>(4)</sup>	Fair value of investment property	Net operating income	121,707	146,293	6,974	6,820
<b>Renewables and recreational properties:</b>						
Recreational properties	Book value of recreational property	Net operating income	49,241	40,617	10,100	10,278
Firelight Infrastructure <sup>(5)</sup>	Net equity accounted investment	Net earnings	38,475	40,517	5,213	5,055
<b>Western Canada:</b>						
Western Canada investment properties <sup>(4)</sup>	Fair value of investment property	Net operating income	56,248	95,684	5,985	4,476
<b>Total assets and recurring income</b>			<b>\$ 766,163</b>	<b>\$ 733,415</b>	<b>\$ 82,009</b>	<b>\$ 80,119</b>
<b>Total general and administrative expenses and interest expense, Dream standalone</b>					<b>\$ 44,478</b>	<b>\$ 35,018</b>
<b>Total debt outstanding<sup>(4)</sup></b>			<b>\$ 188,235</b>	<b>\$ 183,805</b>		

<sup>(1)</sup> Refer to the "Non-IFRS Measures" section of this MD&A for definitions of non-IFRS measures, including net operating income.

<sup>(2)</sup> Excludes fees earned from Dream Office REIT, which is no longer party to an asset management agreement. Balances include fees earned from the asset management contract with Dream Alternatives, which is included in Dream standalone results, but eliminated in the consolidated results.

<sup>(3)</sup> Refer to the "Investments in Dream Publicly Listed Funds" section of this MD&A for further information on the IFRS accounting treatment of these equity investments.

<sup>(4)</sup> The IFRS asset value and total debt outstanding exclude balances related to certain properties classified as assets held for sale. Pre-tax net operating income is inclusive of amounts attributable to assets held for sale.

<sup>(5)</sup> The Company's investment in Firelight is held through equity accounted investments and accordingly the IFRS value represents the Company's proportionate share of net assets.

## Real Estate Inventory and Properties

A summary of changes in our real estate inventory on a Dream standalone basis in the year ended December 31, 2018 is included below.

Balance sheet measure	Condominium inventory		Investment properties	Recreational properties	Land held for development <sup>(1)</sup>	Land under development <sup>(1)</sup>	Housing inventory	Total
	Cost	Fair value		Cost	Cost	Cost	Cost	
Balance, December 31, 2017	\$ 171,513	\$ 241,977	\$ 40,617	\$ 419,583	\$ 155,315	\$ 59,619	\$ 1,088,624	
Acquisitions	694	3,381	—	960	—	—	5,035	
Development/additions	85,817	7,040	9,557	10,483	76,278	23,992	213,167	
Sales/units occupied	(18,403)	—	—	—	(62,955)	(44,533)	(125,891)	
Transfers	—	(47,491)	—	(1,566)	(22,202)	17,527	(53,732)	
Dispositions	—	(48,000)	—	—	—	—	(48,000)	
Fair value changes of investment properties	—	20,902	—	—	—	—	20,902	
Amortization and other adjustments	—	146	(933)	—	—	—	(787)	
<b>Balance, December 31, 2018</b>	<b>\$ 239,621</b>	<b>\$ 177,955</b>	<b>\$ 49,241</b>	<b>\$ 429,460</b>	<b>\$ 146,436</b>	<b>\$ 56,605</b>	<b>\$ 1,099,318</b>	
Project-specific debt, December 31, 2018	\$ 146,736	\$ 79,251	\$ 15,644	\$ —	\$ 2,894	\$ 38,357	\$ 282,882	

<sup>(1)</sup> The Company's land inventory development is primarily funded through our corporate debt facilities.

## Segmented Key Operating Metrics

The purpose of the following tables is to highlight the operating performance of our major segments, some of which are held through both direct ownership and equity accounted investments. For further details, refer to the individual segment operating results of this MD&A.

(in thousands of dollars, except units and per share amounts)	For the three months ended December 31,		For the year ended December 31,	
	2018	2017	2018	2017
<b>ASSET MANAGEMENT &amp; INVESTMENTS IN DREAM PUBLICLY LISTED FUNDS<sup>(1)</sup></b>				
Total fee-earning assets under management <sup>(2)</sup>	\$ 8,356,000	\$ 7,896,000	\$ 8,356,000	\$ 7,896,000
Fees earned on Dream Publicly Listed Funds	\$ 10,614	\$ 8,547	\$ 37,683	\$ 36,341
Development and other asset management fees	\$ 2,973	\$ 1,552	\$ 6,351	\$ 9,482
Total asset management revenue	\$ 13,587	\$ 10,099	\$ 44,034	\$ 45,823
Net margin	\$ 10,856	\$ 6,965	\$ 33,313	\$ 36,185
Net margin (%) <sup>(2)</sup>	79.9%	69.0%	75.7%	79.0%
Fair value of units held in Dream Publicly Listed Funds	\$ 457,492	\$ 367,304	\$ 457,492	\$ 367,304
Distributions received from Dream Publicly Listed Funds	\$ 5,487	\$ 3,508	\$ 20,424	\$ 17,305
Income from investments in Dream Publicly Listed Funds - Dream Global REIT	\$ 959	\$ 696	\$ 3,388	\$ 2,554
Income from investments in Dream Publicly Listed Funds - Dream Office REIT <sup>(3)</sup>	n/a	n/a	n/a	\$ 7,550
Share of earnings from equity accounted investments - Dream Office REIT <sup>(3)</sup>	\$ 11,690	\$ 13,727	\$ 32,402	\$ 13,727
<b>URBAN DEVELOPMENT - TORONTO &amp; OTTAWA</b>				
<b>CONDOMINIUM &amp; MIXED-USE DEVELOPMENT</b>				
Revenue attributable to Dream - directly owned	\$ 19,742	\$ 10,971	\$ 23,567	\$ 26,066
Net margin	\$ 1,040	\$ (386)	\$ (3,971)	\$ (1,112)
Net margin (%) <sup>(2)</sup>	5.3%	n/a	n/a	n/a
<b>INCOME PROPERTIES</b>				
Revenue	\$ 2,813	\$ 3,656	\$ 12,259	\$ 12,553
Net operating income <sup>(2)</sup>	\$ 1,557	\$ 1,944	\$ 6,974	\$ 6,820
Net margin	\$ 1,272	\$ 1,628	\$ 5,694	\$ 5,715
Net margin (%) <sup>(2)</sup>	45.2%	44.5%	46.4%	45.5%
<b>RENEWABLES AND RECREATIONAL PROPERTIES</b>				
<b>RECREATIONAL PROPERTIES</b>				
Revenue	\$ 11,601	\$ 11,016	\$ 45,889	\$ 40,283
Net operating income <sup>(2)</sup>	\$ 1,561	\$ 1,988	\$ 10,100	\$ 10,278
Net margin	\$ 338	\$ 979	\$ 5,644	\$ 6,447
Net margin (%) <sup>(2)</sup>	2.9%	8.9%	12.3%	16.0%
<b>RENEWABLES</b>				
Share of earnings (losses) from equity accounted investments - Firelight Infrastructure	\$ (875)	\$ (717)	\$ 5,213	\$ 5,055
<b>WESTERN CANADA DEVELOPMENT</b>				
<b>LAND DEVELOPMENT</b>				
Land revenue <sup>(4)</sup>	\$ 81,963	\$ 74,290	\$ 107,458	\$ 146,955
Net margin <sup>(4)</sup>	\$ 30,253	\$ 36,042	\$ 29,679	\$ 48,582
Net margin (%) <sup>(2)</sup>	36.9%	48.5%	27.6%	33.1%
Lots sold	561	393	767	913
Acres sold	17.7	26.5	20.1	33.5
<b>HOUSING DEVELOPMENT</b>				
Housing units occupied	47	137	215	300
Revenue	\$ 11,795	\$ 32,100	\$ 51,898	\$ 78,610
Net margin	\$ (1,574)	\$ 4,245	\$ (5,903)	\$ 2,529
Net margin (%) <sup>(2)</sup>	n/a	13.2%	n/a	3.2%
<b>INCOME PRODUCING AND DEVELOPMENT PROPERTIES</b>				
Revenue	\$ 2,255	\$ 2,454	\$ 8,966	\$ 6,674
Net operating income <sup>(2)</sup>	\$ 1,484	\$ 1,533	\$ 5,985	\$ 4,476
Net margin	\$ 474	\$ 527	\$ 1,443	\$ (111)
Net margin (%) <sup>(2)</sup>	21.0%	21.5%	16.1%	n/a
<b>DREAM ALTERNATIVES</b>				
Share of earnings (losses) from equity accounted investments - Dream Alternatives <sup>(5)</sup>	n/a	\$ 1,592	n/a	\$ (1,021)
Net income <sup>(5)</sup>	\$ 6,995	n/a	\$ 13,902	n/a

<sup>(1)</sup> Results include total fee-earning assets under management, fees earned from the asset management contract, distributions, and fair value of units attributable to Dream Alternatives.

<sup>(2)</sup> Net margin (%), net operating income and fee-earning assets under management are non-IFRS measures. Refer to the "Non-IFRS Measures" section of this MD&A for further details.

<sup>(3)</sup> Effective October 1, 2017, the Company's investment in Dream Office REIT was recorded in equity accounted investments. Prior to this, the investment was recorded in other financial assets with distributions recognized in investment income, net of amounts considered to be a return of capital.

<sup>(4)</sup> Results include housing land sales to external customers, which are recognized in the land division results.

<sup>(5)</sup> Effective January 1, 2018, the Company's investment in Dream Alternatives was consolidated within Dream's financial statements and accordingly, equity accounted earnings are no longer recorded.



## Segmented Information

In order to present segmented information in a manner consistent with management's view of the Company, certain adjustments have been made to present these balances on a segmented basis and to align Dream Alternatives' statement presentation with that of Dream.

Dream standalone represents Dream's results, excluding the consolidated impact of Dream Alternatives. It includes 12.1 million units in Dream Alternatives presented in Other Financial Assets as at December 31, 2018 with a carrying value of \$72.7 million, which is eliminated upon consolidation. Refer to footnote 2 below for further details.

## Segmented Assets and Liabilities

December 31, 2018

	Asset management	Urban development - Toronto & Ottawa	Renewables and recreational properties	Western Canada development	Corporate and other	Dream standalone	Dream Alternatives	Consolidation and fair value adjustments	Consolidated Dream
<b>Assets</b>									
Cash and cash equivalents	\$ 138	\$ 9,583	\$ 3,129	\$ 3,047	\$ 1,547	\$ 17,444	\$ 46,730	\$ 119	\$ 64,293
Accounts receivable	8,329	31,846	4,546	120,567	12,646	177,934	2,821	(3,341) <sup>(1)</sup>	177,414
Other financial assets	58,123	—	—	—	103,019	161,142	122,908	(71,699) <sup>(2)</sup>	212,351
Lending portfolio	—	—	—	—	—	—	144,095	—	144,095
Housing inventory	—	—	—	56,605	—	56,605	—	—	56,605
Condominium inventory	—	233,974	—	5,647	—	239,621	—	—	239,621
Land inventory	—	1,742	843	573,311	—	575,896	—	—	575,896
Investment properties	—	121,707	—	56,248	—	177,955	224,921	9,895 <sup>(3)</sup>	412,771
Recreational properties	—	—	49,241	—	—	49,241	—	—	49,241
Renewable power assets	—	—	—	—	—	—	132,251	11,037 <sup>(4)</sup>	143,288
Equity accounted investments	342,415	46,153	41,793	5,624	—	435,985	132,528	(18,753) <sup>(4)</sup>	549,760
Capital and other operating assets	114	18,705	3,942	6,101	6,180	35,042	5,023	3	40,068
Intangible asset	43,000	—	—	—	—	43,000	—	(43,000) <sup>(4)</sup>	—
Goodwill	—	13,576	—	—	—	13,576	—	—	13,576
Assets held for sale	—	8,308	—	64,279	—	72,587	—	—	72,587
<b>Total assets</b>	<b>\$ 452,119</b>	<b>\$ 485,594</b>	<b>\$ 103,494</b>	<b>\$ 891,429</b>	<b>\$ 123,392</b>	<b>\$ 2,056,028</b>	<b>\$ 811,277</b>	<b>\$ (115,739)</b>	<b>\$ 2,751,566</b>
<b>Liabilities</b>									
Accounts payable and other liabilities	\$ 13,662	\$ 24,851	\$ 10,974	\$ 30,208	\$ 19,321	\$ 99,016	\$ 25,888	\$ 1,938 <sup>(1)</sup> <sub>(3)</sub>	\$ 126,842
Income and other taxes payable	—	—	—	—	51,236	51,236	(1,707)	—	49,529
Provision for real estate development costs	—	3,338	—	30,515	—	33,853	—	—	33,853
Customer deposits	—	31,647	597	1,867	—	34,111	—	—	34,111
Project-specific debt	—	183,309	15,644	116,247	—	315,200	195,492	3,888 <sup>(4)</sup>	514,580
Corporate debt facilities	—	—	—	—	373,026	373,026	—	—	373,026
Preference shares, series 1	—	—	—	—	28,672	28,672	—	—	28,672
Dream Alternatives trust units	—	—	—	—	—	—	—	377,234 <sup>(5)</sup>	377,234
Deferred income taxes	—	—	—	—	75,662	75,662	(323)	18,800 <sup>(6)</sup>	94,139
<b>Total liabilities</b>	<b>\$ 13,662</b>	<b>\$ 243,145</b>	<b>\$ 27,215</b>	<b>\$ 178,837</b>	<b>\$ 547,917</b>	<b>\$ 1,010,776</b>	<b>\$ 219,350</b>	<b>\$ 401,860</b>	<b>\$ 1,631,986</b>
Non-controlling interest	—	43,935	—	—	—	43,935	1,669	(29,275) <sup>(7)</sup>	16,329
<b>Total shareholders' equity</b>	<b>\$ 438,457</b>	<b>\$ 198,514</b>	<b>\$ 76,279</b>	<b>\$ 712,592</b>	<b>\$ (424,525)</b>	<b>\$ 1,001,317</b>	<b>\$ 590,258</b>	<b>\$ (488,324)</b>	<b>\$ 1,103,251</b>

<sup>(1)</sup> Adjustment primarily relates to the elimination of intercompany receivables and payables between Dream and Dream Alternatives.

<sup>(2)</sup> Adjustment primarily relates to the elimination of Dream Alternatives' units presented in the Dream standalone balance, net of amounts considered to be a return of capital on distributions.

<sup>(3)</sup> Adjustment primarily relates to the gross up of Dream Alternatives' interests of a co-owned investment in Toronto (refer to Note 12 of the consolidated financial statements for the year ended December 31, 2018 for further details).

<sup>(4)</sup> Adjustment primarily relates to fair value and other consolidation adjustments on January 1, 2018 relating to the acquisition of control of Dream Alternatives. Refer to Note 5 of the consolidated financial statements for the year ended December 31, 2018 for further details.

<sup>(5)</sup> Refer to the "Overview of Consolidated Results" section of this MD&A and Note 24 of the consolidated financial statements for the year ended December 31, 2018 for details on the IFRS treatment of the Dream Alternatives trust units.

<sup>(6)</sup> Adjustment primarily relates to the differences between the net assets of Dream Alternatives and the tax basis of Dream's investment in Dream Alternatives.

<sup>(7)</sup> Adjustment relates to the reduction in the Company's non-controlling interest in Zibi upon consolidation of Dream Alternatives.

	Asset management	Urban development - Toronto & Ottawa	Renewables and recreational properties	Western Canada development	Corporate and other	Dream standalone	Dream Alternatives <sup>(1)</sup>	Consolidation and fair value adjustments	Consolidated Dream
<b>Assets</b>									
Cash and cash equivalents	\$ —	\$ 9,411	\$ 3,178	\$ 10,529	\$ 2,290	\$ 25,408	\$ —	\$ —	\$ 25,408
Accounts receivable	6,933	39,590	5,058	118,350	27,536	197,467	—	—	197,467
Other financial assets	57,635	—	—	—	21,408	79,043	—	—	79,043
Housing inventory	—	—	—	59,619	—	59,619	—	—	59,619
Condominium inventory	—	165,866	—	5,647	—	171,513	—	—	171,513
Land inventory	—	1,619	717	572,562	—	574,898	—	—	574,898
Investment properties	—	146,293	—	95,684	—	241,977	—	—	241,977
Recreational properties	—	—	40,617	—	—	40,617	—	—	40,617
Equity accounted investments	247,274	56,444	44,509	6,109	—	354,336	48,336	—	402,672
Capital and other operating assets	—	9,055	3,536	5,668	1,840	20,099	—	—	20,099
Intangible asset	43,000	—	—	—	—	43,000	—	—	43,000
Goodwill	—	13,576	—	—	—	13,576	—	—	13,576
Assets held for sale	—	9,076	—	25,042	—	34,118	—	—	34,118
<b>Total assets</b>	<b>\$ 354,842</b>	<b>\$ 450,930</b>	<b>\$ 97,615</b>	<b>\$ 899,210</b>	<b>\$ 53,074</b>	<b>\$ 1,855,671</b>	<b>\$ 48,336</b>	<b>\$ —</b>	<b>\$ 1,904,007</b>
<b>Liabilities</b>									
Accounts payable and other liabilities	\$ 13,558	\$ 40,206	\$ 8,377	\$ 33,088	\$ 23,736	\$ 118,965	\$ —	\$ —	\$ 118,965
Income and other taxes payable	—	—	—	—	77,143	77,143	—	—	77,143
Provision for real estate development costs	—	2,926	—	31,830	—	34,756	—	—	34,756
Customer deposits	—	32,249	518	6,254	—	39,021	—	—	39,021
Project-specific debt	—	157,947	17,137	105,143	—	280,227	—	—	280,227
Corporate debt facilities	—	—	—	—	308,024	308,024	—	—	308,024
Preference shares, series 1	—	—	—	—	28,668	28,668	—	—	28,668
Deferred income taxes	—	—	—	—	59,719	59,719	—	—	59,719
<b>Total liabilities</b>	<b>\$ 13,558</b>	<b>\$ 233,328</b>	<b>\$ 26,032</b>	<b>\$ 176,315</b>	<b>\$ 497,290</b>	<b>\$ 946,523</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 946,523</b>
Non-controlling interest	—	38,090	—	—	—	38,090	—	—	38,090
<b>Total shareholders' equity</b>	<b>\$ 341,284</b>	<b>\$ 179,512</b>	<b>\$ 71,583</b>	<b>\$ 722,895</b>	<b>\$ (444,216)</b>	<b>\$ 871,058</b>	<b>\$ 48,336</b>	<b>\$ —</b>	<b>\$ 919,394</b>

<sup>(1)</sup> The Company's investment in Dream Alternatives was consolidated effective January 1, 2018. As at December 31, 2017, the investment was accounted for using the equity method and has been segregated from Dream standalone results for comparability purposes.



## Segmented Statement of Earnings

For the three months ended December 31, 2018

	Asset management	Urban development - Toronto & Ottawa	Renewables and recreational properties	Western Canada development	Corporate and other	Dream standalone <sup>(1)</sup>	Dream Alternatives	Consolidation adjustments	Consolidated Dream
Revenues	\$ 13,587	\$ 22,555	\$ 11,601	\$ 96,013	\$ —	\$ 143,756	\$ 13,194	\$ (2,995) <sup>(2)</sup>	\$ 153,955
Direct operating costs	—	(17,310)	(10,040)	(59,525)	—	(86,875)	(6,002)	(341)	(93,218)
Asset management expenses	(2,731)	—	—	—	—	(2,731)	—	(101)	(2,832)
Gross margin	10,856	5,245	1,561	36,488	—	54,150	7,192	(3,437)	57,905
Selling, marketing and other operating costs	—	(2,933)	(1,223)	(7,335)	—	(11,491)	—	—	(11,491)
Net margin	10,856	2,312	338	29,153	—	42,659	7,192	(3,437)	46,414
Fair value changes in investment properties	—	11,994	—	(3,209)	—	8,785	505	(47)	9,243
Investment and other income	379	990	27	655	720	2,771	610	25	3,406
Share of earnings from equity accounted investments	9,335	632	(893)	91	—	9,165	1,315	(1,138) <sup>(3)</sup>	9,342
Net segment earnings (loss)	\$ 20,570	\$ 15,928	\$ (528)	\$ 26,690	\$ 720	\$ 63,380	\$ 9,622	\$ (4,597)	\$ 68,405
General and administrative expenses					(3,232)	(3,232)	(3,962)	2,728 <sup>(2)</sup>	(4,466)
Fair value changes in financial instruments <sup>(5)</sup>					(11,237)	(11,237)	2,208	—	(9,029)
Interest expense					(8,030)	(8,030)	(2,190)	52	(10,168)
Adjustments related to Dream Alternatives trust units					—	—	—	25,918 <sup>(4)</sup>	25,918
Income tax expense					(10,973)	(10,973)	1,317	(4,382)	(14,038)
Net earnings (loss) <sup>(6)</sup>	\$ 20,570	\$ 15,928	\$ (528)	\$ 26,690	\$ (32,752)	\$ 29,908	\$ 6,995	\$ 19,719	\$ 56,622

For the three months ended December 31, 2017

	Asset management	Urban development - Toronto & Ottawa	Renewables and recreational properties	Western Canada development	Corporate and other	Dream standalone <sup>(1)</sup>	Dream Alternatives	Consolidation adjustments	Consolidated Dream
Revenues	\$ 10,099	\$ 14,627	\$ 11,016	\$ 108,844	\$ —	\$ 144,586	\$ —	\$ —	\$ 144,586
Direct operating costs	—	(10,284)	(9,028)	(58,783)	—	(78,095)	—	—	(78,095)
Asset management expenses	(3,134)	—	—	—	—	(3,134)	—	—	(3,134)
Gross margin	6,965	4,343	1,988	50,061	—	63,357	—	—	63,357
Selling, marketing and other operating costs	—	(3,101)	(1,009)	(9,247)	—	(13,357)	—	—	(13,357)
Net margin	6,965	1,242	979	40,814	—	50,000	—	—	50,000
Fair value changes in investment properties	—	4,586	—	393	—	4,979	—	—	4,979
Investment and other income	420	14,020	—	459	(5,940)	8,959	—	—	8,959
Share of earnings from equity accounted investments	13,773	(719)	(734)	—	—	12,320	1,592	—	13,912
Net segment earnings (loss)	\$ 21,158	\$ 19,129	\$ 245	\$ 41,666	\$ (5,940)	\$ 76,258	\$ 1,592	\$ —	\$ 77,850
General and administrative expenses					(3,432)	(3,432)	—	—	(3,432)
Fair value changes in financial instruments					(29)	(29)	—	—	(29)
Interest expense					(6,198)	(6,198)	—	—	(6,198)
Income tax expense					(17,923)	(17,923)	—	—	(17,923)
Net earnings (loss) <sup>(6)</sup>	\$ 21,158	\$ 19,129	\$ 245	\$ 41,666	\$ (33,522)	\$ 48,676	\$ 1,592	\$ —	\$ 50,268

<sup>(1)</sup> Dream standalone does not include any net earnings impact relating to the Company's investment in Dream Alternatives. Refer to the "Dream Alternatives" section of this MD&A for further details.

<sup>(2)</sup> Adjustment relates primarily to asset management fees and cost recoveries charged to Dream Alternatives that are eliminated on consolidation.

<sup>(3)</sup> Adjustment relates primarily to the elimination of Dream Alternatives' share of earnings from Zibi which are fully consolidated in the Dream standalone results.

<sup>(4)</sup> Refer to the "Overview of Consolidated Results" section of this MD&A and Note 24 of the consolidated financial statements for the year ended December 31, 2018 for details on the IFRS treatment of the Dream Alternatives trust units.

<sup>(5)</sup> Refer to Note 36 of the consolidated financial statements for the year ended December 31, 2018 for details on fair value changes in financial instruments.

<sup>(6)</sup> Includes earnings attributable to non-controlling interest.

## For the year ended December 31, 2018

	Asset management	Urban development - Toronto & Ottawa	Renewables and recreational properties	Western Canada development	Corporate and other	Dream standalone <sup>(1)</sup>	Dream Alternatives	Consolidation adjustments	Consolidated Dream
Revenues	\$ 44,034	\$ 35,826	\$ 45,889	\$ 168,322	\$ —	\$ 294,071	\$ 57,596	\$ (11,794) <sup>(2)</sup>	\$ 339,873
Direct operating costs	—	(23,633)	(35,789)	(110,915)	—	(170,337)	(22,672)	(918)	(193,927)
Asset management expenses	(10,721)	—	—	—	—	(10,721)	—	(443)	(11,164)
Gross margin	33,313	12,193	10,100	57,407	—	113,013	34,924	(13,155)	134,782
Selling, marketing and other operating costs	—	(10,470)	(4,456)	(32,188)	—	(47,114)	—	—	(47,114)
Net margin	33,313	1,723	5,644	25,219	—	65,899	34,924	(13,155)	87,668
Fair value changes in investment properties	—	19,271	—	(1,767)	—	17,504	(2,195)	(47)	15,262
Investment and other income	1,292	3,154	237	1,530	3,108	9,321	3,313	68	12,702
Net gain on acquisition of Dream Alternatives	12,555	—	—	—	—	12,555	—	117,437 <sup>(2)</sup>	129,992
Gain on disposition of assets	—	9,422	—	—	—	9,422	—	—	9,422
Share of earnings from equity accounted investments	30,198	(253)	5,164	(484)	—	34,625	813	1,591 <sup>(3)</sup>	37,029
Net segment earnings	\$ 77,358	\$ 33,317	\$ 11,045	\$ 24,498	\$ 3,108	\$ 149,326	\$ 36,855	\$ 105,894	\$ 292,075
General and administrative expenses	—	—	—	—	(15,277)	(15,277)	(15,411)	10,293 <sup>(2)</sup>	(20,395)
Fair value changes in financial instruments	—	—	—	—	4,486	4,486	2,106	(7,169) <sup>(4)</sup>	(577)
Interest expense	—	—	—	—	(29,201)	(29,201)	(8,964)	234	(37,931)
Adjustments related to Dream Alternatives trust units	—	—	—	—	—	—	—	(19,680) <sup>(5)</sup>	(19,680)
Income tax expense	—	—	—	—	(26,241)	(26,241)	(684)	5,486	(21,439)
Net earnings (loss) <sup>(6)</sup>	\$ 77,358	\$ 33,317	\$ 11,045	\$ 24,498	\$ (63,125)	\$ 83,093	\$ 13,902	\$ 95,058	\$ 192,053

## For the year ended December 31, 2017

	Asset management	Urban development - Toronto & Ottawa	Renewables and recreational properties	Western Canada development	Corporate and other	Dream standalone <sup>(1)</sup>	Dream Alternatives	Consolidation adjustments	Consolidated Dream
Revenues	\$ 45,823	\$ 38,619	\$ 40,283	\$ 232,239	\$ —	\$ 356,964	\$ —	\$ —	\$ 356,964
Direct operating costs	—	(26,124)	(30,005)	(147,181)	—	(203,310)	—	—	(203,310)
Asset management expenses	(9,638)	—	—	—	—	(9,638)	—	—	(9,638)
Gross margin	36,185	12,495	10,278	85,058	—	144,016	—	—	144,016
Selling, marketing and other operating costs	—	(7,892)	(3,831)	(34,058)	—	(45,781)	—	—	(45,781)
Net margin	36,185	4,603	6,447	51,000	—	98,235	—	—	98,235
Fair value changes in investment properties	—	3,672	—	10,473	—	14,145	—	—	14,145
Investment and other income	1,386	14,960	—	1,732	3,546	21,624	—	—	21,624
Share of earnings from equity accounted investments	13,926	(915)	5,088	—	—	18,099	(1,021)	—	17,078
Net segment earnings (loss)	\$ 51,497	\$ 22,320	\$ 11,535	\$ 63,205	\$ 3,546	\$ 152,103	\$ (1,021)	\$ —	\$ 151,082
General and administrative expenses	—	—	—	—	(13,419)	(13,419)	—	—	(13,419)
Fair value changes in financial instruments	—	—	—	—	(488)	(488)	—	—	(488)
Interest expense	—	—	—	—	(21,599)	(21,599)	—	—	(21,599)
Income tax expense	—	—	—	—	(32,737)	(32,737)	—	—	(32,737)
Net earnings (loss) <sup>(6)</sup>	\$ 51,497	\$ 22,320	\$ 11,535	\$ 63,205	\$ (64,697)	\$ 83,860	\$ (1,021)	\$ —	\$ 82,839

<sup>(1)</sup> Adjustment relates primarily to asset management fees and cost recoveries charged to Dream Alternatives that are eliminated on consolidation.

<sup>(2)</sup> Dream standalone does not include any net earnings impact relating to the Company's investment in Dream Alternatives except for the \$12.6 million deemed gain on disposal of the Company's equity accounted investment in the year ended December 31, 2018. Refer to the "Dream Alternatives" section of this MD&A for further details.

<sup>(3)</sup> Adjustment relates primarily to equity accounted earnings attributable to Dream Alternatives' investment in Dream Office REIT, offset by the elimination of Dream Alternatives' share of earnings from Zibi which are fully consolidated in the Dream standalone results.

<sup>(4)</sup> Adjustment relates to elimination of fair value changes on Dream Alternatives' units held in Dream Office REIT (which are equity accounted for on a consolidated basis) and fair value losses on certain participating mortgages in the current period.

<sup>(5)</sup> Refer to the "Overview of Consolidated Results" section of this MD&A and Note 24 of the consolidated financial statements for the year ended December 31, 2018 for details on the IFRS treatment of the Dream Alternatives trust units.

<sup>(6)</sup> Includes earnings attributable to non-controlling interest.



## Asset Management, Management Services and Investments in Dream Publicly Listed Funds

As the asset manager or management service provider of four Dream Publicly Listed Funds and numerous development partnerships, we are on the front line and well-positioned to observe, in real time, the impact of economic trends on the drivers of demand for real property, such as demand for space, urbanization trends and employment levels in each of the markets in which we operate. We also provide asset management services to various institutional partnerships and our renewable power business. The majority of our asset management fees in 2018 were derived from our asset management contracts with the Dream Publicly Listed Funds, excluding Dream Office REIT, which is no longer subject to an asset management contract.

Our asset management and management services team consists of real estate and energy/infrastructure professionals with backgrounds in architecture, urban planning, engineering, development and redevelopment, construction, finance, accounting and law. The team brings experience from a range of major organizations in Canada; is actively involved with internal training opportunities; and has expertise in capital markets, structured finance, real estate investments, renewable power and management across a broad spectrum of property types in diverse geographic markets. We carry out our own research and analysis, financial modelling, due diligence and financial planning, and have completed approximately \$27 billion of commercial real estate and renewable power transactions over the past 22 years.

We made a strategic decision to increase our ownership position in both Dream Office REIT and Dream Alternatives in 2017 and 2018, as both businesses have been transformed and are focusing on owning core assets primarily in downtown Toronto and the GTA, both through dispositions of assets outside of these markets and new investments. As of December 31, 2018, we own approximately \$457.5 million of equity at fair value across the Dream Publicly Listed Funds (including Dream Office REIT) and anticipate, over time, that our ownership will continue to increase on an opportunistic basis.

As at December 31, 2018, Dream managed assets with a total value of approximately \$15.0 billion (December 31, 2017 – \$13.9 billion), including fee earning assets under management of approximately \$8.4 billion (December 31, 2017 - \$7.9 billion).

### Breakdown of Fees Earned

The following table summarizes the breakdown of fees earned from Dream Publicly Listed Funds (excluding Dream Office REIT, which is no longer party to an asset management contract with Dream) and from third-party arrangements. Results include total fee-earning assets under management and fees earned from the asset management contract with Dream Alternatives, which are eliminated from the consolidated financial results.

	For the three months ended December 31,		For the year ended December 31,	
	2018	2017	2018	2017
Fee-earning assets under management – Dream Publicly Listed Funds <sup>(1)</sup>	\$ 6,747,000	\$ 6,217,000	\$ 6,747,000	\$ 6,217,000
Fee-earning assets under management – third party partnerships <sup>(1)</sup>	1,609,000	1,679,000	1,609,000	1,679,000
<b>Total fee-earning assets under management</b>	<b>\$ 8,356,000</b>	<b>\$ 7,896,000</b>	<b>\$ 8,356,000</b>	<b>\$ 7,896,000</b>
Total fees earned from asset management agreements with Dream Publicly Listed Funds	\$ 10,614	\$ 8,547	\$ 37,683	\$ 36,341
Development and other asset management fees from third-party arrangements	2,973	1,552	6,351	9,482
<b>Total revenue</b>	<b>\$ 13,587</b>	<b>\$ 10,099</b>	<b>\$ 44,034</b>	<b>\$ 45,823</b>

<sup>(1)</sup> Refer to the "Non-IFRS Measures" section of this MD&A for the definition of fee-earning assets under management.

In the three and twelve months ended December 31, 2018, fees earned from asset management agreements with the Dream Publicly Listed Funds (excluding Dream Office REIT) were \$10.6 million and \$37.7 million, respectively, up by \$2.1 million and \$1.3 million from the prior year. The increase in fees earned in the three months ended December 31, 2018 was primarily a result of transactional activity, along with growth in fee earning assets under management. Base asset management fees from asset management agreements are a stable source of recurring income for the Company, whereas fees earned on transactional activity in a period may not be recurring in nature and will fluctuate from period to period.

In the three and twelve months ended December 31, 2018, fees earned from development and other management arrangements with third parties was \$3.0 million and \$6.4 million, respectively, compared to \$1.6 million and \$9.5 million in the comparative periods. The changes in fees earned relative to prior periods were the results of milestones achieved on differing projects. We anticipate fees from third-party arrangements to fluctuate period over period, as they are dependent on the varying terms of each arrangement and the timing of development, sales, construction and/or financing milestones.

### Results of Operations – Asset Management and Management Services

	For the three months ended December 31,		For the year ended December 31,	
	2018	2017	2018	2017
Revenue	\$ 13,587	\$ 10,099	\$ 44,034	\$ 45,823
Asset management and advisory services expenses	(2,731)	(3,134)	(10,721)	(9,638)
Net margin	10,856	6,965	33,313	36,185
Net margin (%)	79.9%	69.0%	75.7%	79.0%

In the three months ended December 31, 2018, net margin increased by \$3.9 million from the prior year primarily due to the timing in recognition of fees earned from the Dream Publicly Listed Funds (excluding Dream Office REIT) and from third party arrangements. In the year ended December 31, 2018, net margin decreased by \$2.9 million from the prior year due to an overall decrease in acquisition activity, development and other management fees from third-party arrangements and increased transactional support costs, partially offset by growth in fee-earning assets under management.

### Investments in Dream Publicly Listed Funds

As at December 31, 2018, the Company held \$457.5 million in the Dream Publicly Listed Funds, up from \$367.3 million at December 31, 2017. Although for accounting purposes the treatment of these investments may differ, management believes the equity value and distributions generated from holding these investments are important disclosures to include herein.

Dream Global REIT is an unincorporated, open-ended real estate investment trust that provides investors with the opportunity to invest in commercial real estate exclusively outside of Canada. Dream Global REIT units held by the Company are presented within Other Financial Assets on the Company's statement of financial position and held at fair value through profit and loss. Distribution income earned on these units is recognized in investment income, net of the portion considered to be a return of capital.

Dream Office REIT is an unincorporated, open-ended real estate investment trust. It is focused on owning, leasing and managing well-located, high-quality central business district and suburban office properties. Effective October 1, 2017, the Company's investment in Dream Office REIT was recorded in Equity Accounted Investments.

Effective January 1, 2018, the Company's investment in Dream Alternatives was consolidated within Dream's financial statements and accordingly, the investment and any distribution income is eliminated. Refer to Note 5 of the consolidated financial statements for the year ended December 31, 2018 for further details.

Details of the Company's investments in Dream Publicly Listed Funds are presented below.

<b>As at December 31, 2018</b>									
<i>(in thousands of dollars, except unit and per unit amounts)</i>	Annual distribution per unit	Current annual pre-tax cash flow distributions <sup>(1)</sup>	Total distributions received	Units	Ownership %	Market price	Fair value		
<i>Included within Other Financial Assets</i>									
Dream Global REIT	\$ 0.80	\$ 2,506	\$ 2,460	3,132,727	2%	\$ 11.90	\$ 37,279		
Dream Global REIT, deferred trust units	n/a	n/a	n/a	2,081,517	n/a	n/a	\$ 20,844		
<i>Included within Equity Accounted Investments</i>									
Dream Office REIT	\$ 1.00	\$ 9,285	\$ 8,113	9,284,938	22%	\$ 22.29	\$ 206,961		
Dream Office REIT LP B	\$ 1.00	\$ 5,234	\$ 5,234	5,233,823	22%	\$ 22.29	\$ 116,662		
<i>Consolidated</i>									
Dream Alternatives	\$ 0.40	\$ 4,855	\$ 4,617	12,138,723	17%	\$ 6.24	\$ 75,746		
		\$ 21,880	\$ 20,424				\$ 457,492		

<sup>(1)</sup> Annualized pre-tax cash flows are based on the respective distribution rates and units held as at December 31, 2018.

Refer to Note 36 of the Company's consolidated financial statements for the year ended December 31, 2018 for details on the fair value measurement approach and the vesting schedule for the Dream Global REIT deferred trust units.

In the twelve months ended December 31, 2018, investment income earned on distributions from the investments in Dream Publicly Listed Funds decreased by \$6.7 million relative to the comparative periods, primarily due to the reclassification of the Company's investment in Dream Office REIT to equity accounted investments in the fourth quarter of 2017. Prior to this, the investment was recorded in other financial assets with distributions recognized in investment income, net of amounts considered a return of capital. Total distributions received from the Dream Publicly Listed Funds in the twelve months ended December 31, 2018 were \$20.4 million, \$3.1 million higher than prior year due to our increased equity ownership position.

### Share of Earnings from Equity Accounted Investment - Dream Office REIT

As at December 31, 2018, Dream held approximately \$323.6 million or 14.5 million units in Dream Office REIT (approximately 22% of units outstanding of Dream Office REIT).

In the three months ended December 31, 2018, net income was generated from net rental income, fair value adjustments on investment properties and financial instruments and income from Dream Industrial REIT, partially offset by interest expense and general and administrative expenses.

In the year ended December 31, 2018, net income was generated from net rental income, fair value adjustments on investment properties and income from Dream Industrial REIT, partially offset by interest expense, general and administrative expenses and fair value adjustments on financial instruments.



## Urban Development - Toronto & Ottawa

We are continuously looking for unique investment opportunities that will further grow our development business in Toronto. We also believe there is potential for significant growth within Dream Alternatives and Dream Office REIT's core Toronto development portfolios. We anticipate that over time, our ownership in both entities will continue to increase on an opportunistic basis. Significant investments we have acquired on a 25/75% basis with Dream Alternatives include the Frank Gehry development, the Lakeshore East development, Port Credit and West Don Lands, in which Dream will act as co-developer alongside its partners for each of these sites. The following discussion excludes Dream Alternatives' investment in the aforementioned developments.

### Significant Pipeline Projects

#### Riverside Square

Riverside Square is a 5-acre, two-phase, mixed-use development located in Toronto's downtown east end on the south side of Queen Street East and immediately east of the Don Valley Parkway. Dream has a 32.5% interest in the project and its residual partners include Streetcar Developments and an automotive group. The first phase of the project consists of 688 residential condominium units, a state-of-the-art multi-level auto-plex and approximately 20,000 sf of retail GFA. The second phase is planned to consist of approximately 36,000 sf of multi-tenant commercial space with a proposed grocery-anchored component together with 224 condominium units. Construction for Phase 1 is progressing steadily, with first occupancies expected by mid-2019.

#### Canary District - Stage 2

Our Stage 2 lands in the Canary District, developed in 50/50% partnership with Kilmer, comprise Canary Block Condominiums, Canary Commons Condominiums and a future residential block currently referred to as "Block 13". We expect to develop over 1,000 condominium units and 30,000 sf of retail on the Stage 2 lands, which is in addition to the completed 810 condominium units and 30,000 sf of retail in Stage 1, which initially served as the Pan Am Athletes' Village in 2015. In addition to retail amenities, the Canary District includes the 18-acre Corktown Common Park and the 82,000 sf Cooper-Koo YMCA. Canary Block Condominiums is currently under construction with initial occupancies expected to commence in late 2019.

#### Zibi

Zibi is a 34-acre mixed-use waterfront development along the Ottawa River in Gatineau, Quebec and Ottawa, Ontario. The project is a multi-phase development that includes over 4 million sf of density consisting of over 1,800 residential units and over 2 million sf of commercial space. In the three months ended December 31, 2018, we commenced occupancy at the project's first condominium building, "O", comprising 70 units, which are 83% sold. In addition to O, land servicing on both the Ontario and Quebec lands is well underway and construction has started on the project's next residential building, Kanaal, comprising 71 units, of which 87% are pre-sold as of February 25, 2019.

#### Frank Gehry Development

The Frank Gehry development is located at the intersection of King Street West and Duncan Street in downtown Toronto and managed by Dream and Great Gulf Corporation. This landmark site is slated to be redeveloped to include two residential towers, each in excess of 80 storeys, and over 80,000 sf of multi-level luxury retail opportunities, including a potential hotel component and an art gallery. The development is currently in the planning stage.

#### Port Credit

Port Credit is a 72-acre waterfront property for development in Mississauga's Port Credit area. The partnership is working with the Port Credit residents and stakeholders on a plan to transform the site into a complete, vibrant and diverse waterfront community. The site is expected to be redeveloped into a large master-planned residential/mixed-use community. Highlights of the draft master plan proposal include approximately 3,000 residential units and 400,000 sf of retail and commercial space. The proposal is subject to various approvals, and initial vertical construction is anticipated to begin in 2020. Remediation work on the site is currently underway.

#### West Don Lands

West Don Lands is a residential rental apartment community in Toronto's downtown east end. The partnership entered into 99-year land leases with Infrastructure Ontario for land parcels that will be developed into approximately 1,500 rental units including an affordable component, as well as ancillary retail and potential office space. The first fully-zoned block slated for development features approximately 750 rental units and 10,000 sf of retail space, and construction is expected to commence in 2019.

### Urban Development Pipeline and Results of Pre-sale Activity

The results of our sales or pre-sales activity for urban development projects that are in the marketing, development or construction phases is summarized below. We currently have 1,631 units in inventory, or held through equity accounted investments as at December 31, 2018 (691 units at Dream's share) that have achieved a market launch. Approximately 99% of these projects (including Riverside Square and Canary Block Commons, which are expected to commence occupancy in 2019) were either sold or pre-sold as of December 31, 2018. In addition to these projects, we have an additional 10,200 condominium or multi-family units and 3.3 million sf of retail/commercial space (4,600 units and 2.5 million sf at Dream's share) in our development pipeline. Refer to the tables on the following page for a listing of our major projects within the Toronto and Ottawa/Gatineau areas, on a Dream standalone basis. Inventory may be developed as condominium units or purpose-built rental as supported by market demand, targeted studies, and return objectives.

High-rise condominium development typically does not commence until a substantial number of units have been pre-sold, thereby meeting requirements to secure construction financing. A few months after substantial completion and customer occupancy of the building, the developer obtains all necessary approvals and the building is registered, purchasers pay the balance of the purchase price and title is transferred.

## Direct ownership

Project	Location	Status <sup>(1)</sup>	Dream's standalone ownership %	Dream's consolidated ownership % <sup>(2)</sup>	Inventory value <sup>(3)</sup>	Total units	Commercial and retail GFA (sf)	First occupancy <sup>(4)</sup>	% Units sold or pre-sold as at February 25, 2019 <sup>(4)</sup>	Average selling price per pre-sold unit
<b>Projects currently in inventory:</b>										
Riverside Square - Phases 1 and 2	Toronto	Under construction	32.5%	32.5%	\$ 73,319	912	210,000	2019	99%	\$385,000
BT Towns	Toronto	Under construction	50.0%	50.0%	8,809	60	—	2019	98%	696,000
Zibi - Kanaal <sup>(5)</sup>	Ottawa	Under construction	40.0%	80.0%	5,939	71	8,500	2019	87%	508,000
<b>Pipeline projects:</b>										
Riverside Square - future phases	Toronto	Pre-construction	25.0%	25.0%	4,149	250	26,000			
Distillery District	Toronto	Pre-construction	50.0%	50.0%	13,202	450	300,000			
Zibi - future blocks <sup>(5)</sup>	Gatineau/ Ottawa	Pre-construction	40.0%	80.0%	122,406	1,700	2,000,000			
<b>Other projects</b>					11,797	200	—			
<b>Total</b>					<b>\$ 239,621</b>	<b>3,643</b>	<b>2,544,500</b>			
<b>Total related debt outstanding as at December 31, 2018 (Dream's standalone share)<sup>(6)</sup></b>					<b>\$ 136,936</b>					
<b>Total related debt facilities as at December 31, 2018 (Dream's standalone share)</b>					<b>\$ 217,339</b>					

## Equity accounted investments

Project	Location	Status <sup>(1)</sup>	Dream's equity ownership %	Dream's managed ownership <sup>(2)</sup>	Net assets of investment <sup>(3)</sup>	Total units	Commercial and retail GFA (sf)	First occupancy <sup>(4)</sup>	% Units pre-sold as at February 25, 2019 <sup>(4)</sup>	Average selling price per pre-sold unit
<b>Projects currently in inventory:</b>										
Canary Block Condominiums	Toronto	Under construction	50.0%	50.0%	\$ 3,289	187	7,000	2019	100%	\$470,000
Canary Commons Condominiums	Toronto	Under construction	50.0%	50.0%	1,051	401	15,000	2021	100%	626,000
<b>Pipeline projects:</b>										
Canary District - Block 13	Toronto	Pre-construction	50.0%	50.0%	5,644	470	8,000			
Frank Gehry	Toronto	Pre-construction	6.25%	25.0%	7,130	1,500	260,000			
Lakeshore East	Toronto	Pre-construction	12.5%	50.0%	4,192	1,100	32,000			
Port Credit	Mississauga	Pre-construction	7.75%	31.0%	10,617	3,000	400,000			
West Don Lands	Toronto	Pre-construction	8.33%	33.0%	512	1,500	275,000			
<b>Other projects</b>					7,498	—	—			
<b>Total</b>					<b>\$ 39,933</b>	<b>8,158</b>	<b>997,000</b>			
<b>Total related debt outstanding as at December 31, 2018 (Dream's standalone share)<sup>(7)</sup></b>					<b>\$ 47,710</b>					
<b>Total related debt facilities as at December 31, 2018 (Dream's standalone share)</b>					<b>\$ 67,174</b>					

<sup>(1)</sup> Pre-construction encompasses projects in the planning and pre-construction phases.

<sup>(2)</sup> Dream's consolidated/managed ownership includes ownership interest of Dream Alternatives, where applicable.

<sup>(3)</sup> Inventory value or net asset of investment relates to the Company's proportionate share in the asset or project on a Dream standalone basis, with the exception of Zibi, which is fully consolidated.

<sup>(4)</sup> Revenue recognition for condominium inventory occurs at the time of unit occupancy. Refer to Note 3 of the consolidated financial statements for details on the Company's revenue recognition policies. The percentage of units sold or pre-sold pertains only to units that have been brought to market and are available for sale.

<sup>(5)</sup> The carrying value of Zibi inventory is at 100% as the project is consolidated for financial statement purposes. Refer to Note 28 of the consolidated financial statements for the year ended December 31, 2018 for details on the non-controlling interest related to Zibi.

<sup>(6)</sup> Total facilities include construction loans of \$116.6 million and mortgages and term debt on land of \$20.3 million used to fund future pre-development or construction costs.

<sup>(7)</sup> Total facilities include construction loans of \$7.0 million and mortgages and term debt on land of \$40.7 million used to fund future pre-development or construction costs.

Total units and project GFA are project-level estimates as of December 31, 2018 and are subject to change pending various development approvals.



## Results of Operations – Condominium and Mixed-Use

A summary of the results of operations for the condominium and mixed-use division is presented below.

Attributable to Dream	For the three months ended December 31, 2018			For the three months ended December 31, 2017		
	Directly owned <sup>(1)</sup>	Equity accounted investments	Total	Directly owned	Equity accounted investments	Total
Revenue	\$ 19,742	\$ —	\$ 19,742	\$ 10,971	\$ 2	\$ 10,973
Gross margin	\$ 3,688	\$ —	\$ 3,688	\$ 2,399	\$ 75	\$ 2,474
Gross margin (%) <sup>(2)</sup>	18.7%	n/a	18.7%	21.9%	n/a	22.5%
Net margin	\$ 1,040	\$ (60)	\$ 980	\$ (386)	\$ (1,430)	\$ (1,816)
Net margin (%) <sup>(2)</sup>	5.3%	n/a	5.0%	n/a	n/a	n/a
Condominium occupancy units (project-level)	52	—	52	42	—	42
Condominium occupancy units (Dream's share)	52	—	52	21	—	21
Per unit <sup>(3)</sup>	\$ 343,000	\$ —	\$ 343,000	\$ 475,000	\$ —	\$ 475,000
Per square foot	\$ 447	\$ —	\$ 447	\$ 540	\$ —	\$ 540

<sup>(1)</sup> Results for the three months ended December 31, 2018 include 100% of the results of Zibi as the project is consolidated for financial statement purposes.

<sup>(2)</sup> Refer to the "Non-IFRS Measures" section of this MD&A for definitions of non-IFRS measures, including gross margin % and net margin %.

<sup>(3)</sup> Average selling price per unit is based on prices excluding non-unit sources of ancillary revenue, such as recoveries and upgrades.

Attributable to Dream	For the year ended December 31, 2018			For the year ended December 31, 2017		
	Directly owned <sup>(1)</sup>	Equity accounted investments	Total	Directly owned	Equity accounted investments	Total
Revenue	\$ 23,567	\$ 39	\$ 23,606	\$ 26,066	\$ 461	\$ 26,527
Gross margin	\$ 5,219	\$ 4	\$ 5,223	\$ 5,675	\$ 223	\$ 5,898
Gross margin (%) <sup>(2)</sup>	22.1%	n/a	22.1%	21.8%	48.4%	22.2%
Net margin	\$ (3,971)	\$ (788)	\$ (4,759)	\$ (1,112)	\$ (3,519)	\$ (4,631)
Net margin (%) <sup>(2)</sup>	n/a	n/a	n/a	n/a	n/a	n/a
Condominium occupancy units (project-level)	60	—	60	99	2	101
Condominium occupancy units (Dream's share)	56	—	56	50	1	51
Per unit <sup>(3)</sup>	\$ 373,000	\$ —	\$ 373,000	\$ 474,000	\$ 426,000	\$ 473,000
Per square foot	\$ 460	\$ —	\$ 460	\$ 540	\$ 550	\$ 531

<sup>(1)</sup> Results for the year ended December 31, 2018 include 100% of the results of Zibi as the project is consolidated for financial statement purposes.

<sup>(2)</sup> Average selling price per unit is based on prices excluding non-unit sources of ancillary revenue, such as recoveries and upgrades.

In the three and twelve months ended December 31, 2018, revenue from our condominium and mixed-use division was driven by occupancies at O, our first 70-unit residential building at our Zibi development. In the comparative period, the Southwood, our 107-unit development in downtown Toronto's east end had occupancies. Accordingly, condominium results are not comparable to the prior period as different projects were available for occupancy.

In the three and twelve months ended December 31, 2018, our condominium and mixed-use division realized net margin of \$1.0 million and a loss of \$4.8 million, respectively, due to fixed and other operating costs of the division and limited inventory available for occupancy, consistent with expectations.

### Developments held through direct ownership

In the year December 31, 2018, Dream incurred \$85.8 million in development costs, primarily related to our Riverside Square and Zibi developments.

### Developments held through equity accounted investments

In the year ended December 31, 2018, \$14.7 million in development costs were incurred, primarily relating to Stage 2 of the Canary District.

Other projects held through equity accounted investments, such as Lakeshore East, Port Credit and the Frank Gehry development, incurred minimal costs as the projects are largely in the planning/pre-development phases.

### Urban Development - Income Properties

Our urban development income properties include interests in commercial and retail properties comprising over 554,000 sf of GLA, including the Distillery District, and through jointly controlled entities.

In the year ended December 31, 2018, Dream acquired an 8.3% leasehold interest in a retail shopping centre and residential mixed-use development investment opportunity located at 100 Steeles Ave. West in Toronto ("100 Steeles"). Dream Alternatives also holds a 25% interest in the 100 Steeles investment. The investment is currently an income producing retail property with approximately one million sf of residential and commercial mixed-use density with redevelopment potential in future years.

In the year ended December 31, 2018, the Company received a Notice of Expropriation and Notice of Possession from the City of Toronto for its 73-acre commercial site in Toronto (the "Obico Property"), a property within the Urban Development segment, and accordingly, ownership of the property was deemed to be passed to the City of Toronto on the date of the expropriation registration with possession transferring to the City of Toronto on February 1, 2019. The Company received an offer of compensation from the City of Toronto in the amount of \$48.0 million in respect of its interest in the Obico Property, pursuant to Section 25 of the *Expropriations Act* (Ontario). The Company has accepted the consideration and repaid the outstanding first mortgage obligation of \$21.9 million, but has the right to claim additional compensation as provided for in the *Expropriations Act* (Ontario). Based on the consideration offered, the Company has recorded a corresponding realized fair value gain of \$7.6 million for the year ended December 31, 2018. The Company intends to pursue a higher amount of compensation under the *Expropriations Act* (Ontario) in respect of the expropriation of the Obico Property. At the point of final settlement, for which both timing and outcome are uncertain, the Company may record an additional gain in the statement of earnings.

	For the three months ended December 31,		For the year ended December 31,	
	2018	2017	2018	2017
Revenue	\$ 2,813	\$ 3,656	\$ 12,259	\$ 12,553
Net operating income <sup>(1)</sup>	1,557	1,944	6,974	6,820
Net operating income (%)	55.4%	53.2%	56.9%	54.3%
Net margin	\$ 1,272	\$ 1,628	\$ 5,694	\$ 5,715
Net margin (%) <sup>(1)</sup>	45.2%	44.5%	46.4%	45.5%
Fair value changes in investment properties <sup>(2)</sup>	\$ 11,994	\$ 4,586	\$ 19,271	\$ 3,672

<sup>(1)</sup> Refer to the "Non-IFRS Measures" section of this MD&A for the definition of net operating income and net margin %.

<sup>(2)</sup> Fair value changes in investment properties for the year ended December 31, 2018 includes a realized fair value gain on the Obico Property of \$7.6 million.

In the three months ended December 31, 2018, revenue and net operating income decreased by \$0.8 million and \$0.4 million, respectively, due to the expropriation of Obico in the third quarter of 2018. In the year ended December 31, 2018, revenue and net operating income remained relatively consistent with the comparative period.

In the three months ended December 31, 2018, fair value changes in investment properties was \$12.0 million, an increase of \$7.4 million relative to the comparative period driven by fair value gains on the Distillery District. The fair value increase was primarily due to increases in net operating income and was supported by an external appraisal at year-end. In 2018, \$19.3 million in fair value gains have been recognized on investment properties in Toronto primarily due to the aforementioned gains on the Distillery District and our Obico Property.

## Renewables and Recreational Properties

Our recreational properties include a ski area in Colorado, a golf course in Saskatoon and a 50% interest in The Broadview Hotel, located in a neighbourhood just east of downtown Toronto. Dream also has an investment in Firelight, which has funded \$271.7 million, net of return of capital, for renewable energy projects (of which Dream's portion is \$54.3 million, including letters of credit of \$7.0 million), as at December 31, 2018.

### Recreational Properties

A summary by property is provided below.

	Direct ownership %	December 31, 2018	December 31, 2017
Arapahoe Basin ski hill (Colorado)	100%	\$ 32,103	\$ 22,884
The Broadview Hotel (Ontario)	50%	14,554	14,933
Willows Golf Course (Saskatchewan)	100%	2,584	2,800
<b>Total recreational properties</b>		<b>\$ 49,241</b>	<b>\$ 40,617</b>
<b>Total related debt</b>		<b>\$ 15,644</b>	<b>\$ 17,137</b>

The carrying value of recreational properties increased by \$8.6 million from December 31, 2017 to December 31, 2018, mainly due to a capital expansion project at Arapahoe Basin. In the three months ended December 31, 2018, the Company completed the Beavers expansion project at Arapahoe Basin which is expected to increase volume by 50,000 skier visits, or approximately 10% annually, and has increased our skiable terrain by approximately 468 acres. The grand opening of the Beavers chairlift on November 26, 2018 opened the Beavers terrain to lift-served skiing almost a full month ahead of schedule.

Dream has a 50% ownership interest in The Broadview Hotel, located in Toronto's downtown east side in close proximity to the Canary District, the Distillery District and Riverside Square. The hotel has maintained its iconic 126-year-old facade while offering extensive dining options, over 4,000 sf of event space and 58 hotel rooms. In its first full year of operations, The Broadview Hotel generated positive net operating income and the Company expects that the hotel will contribute more meaningfully to the Company's recurring income in future periods.

	Ownership interest	Current status <sup>(1)</sup>	Last season opening date	Last season closing date
Arapahoe Basin ski hill (Colorado)	100%	Open	19-Oct-18	3-June-18
The Broadview Hotel (Ontario)	50%	Open	27-Jul-17	n/a
Willows Golf Course (Saskatchewan)	100%	Closed	28-Apr-18	21-Oct-18

<sup>(1)</sup> As of February 25, 2019.



The operating results of recreational properties are summarized below.

	For the three months ended December 31,		For the year ended December 31,	
	2018	2017	2018	2017
Revenue	\$ 11,601	\$ 11,016	\$ 45,889	\$ 40,283
Net operating income <sup>(1)</sup>	1,561	1,988	10,100	10,278
Net margin	338	979	5,644	6,447
Net margin (%) <sup>(1)</sup>	2.9%	8.9%	12.3%	16.0%

<sup>(1)</sup> Refer to the "Non-IFRS Measures" section of this MD&A for the definition of net operating income and net margin %.

In the three and twelve months ended December 31, 2018, revenue increased by \$0.6 million and \$5.6 million, respectively, relative to the prior year due to favourable conditions at Arapahoe Basin and the Broadview Hotel being fully operational for all of 2018. Results are not directly comparable to prior year as The Broadview Hotel opened to the public in July 2017.

Net operating income decreased by \$0.4 million and \$0.2 million in the three and twelve months ended December 31, 2018, respectively, due to increased maintenance costs at Arapahoe Basin in connection with the aforementioned expansion program, as well as increased compensation costs throughout the year. This decrease was partially offset by income generated from The Broadview Hotel.

Included in net margin for the three and twelve months ended December 31, 2018 was depreciation expense of \$1.1 million and \$3.9 million, respectively (three and twelve months ended December 31, 2017 - \$0.9 million and \$3.1 million).

### Renewables - Firelight

For the three and twelve months ended December 31, 2018, Firelight generated losses of \$0.9 million and earnings of \$5.2 million, respectively (three and twelve months ended December 31, 2017 – losses of \$0.7 million and earnings of \$5.1 million, respectively). Earnings were relatively consistent with the comparative period as weather conditions did not fluctuate significantly period over period. Typically, earnings for Firelight are higher in the second and third quarters of a fiscal year due to the seasonal nature of wind and solar renewable power assets.

### Western Canada Development

Dream's Western Canada development team focuses on land development, housing and multi-family construction, and the development of income producing retail and commercial properties within our master-planned communities.

We currently own and have under contract approximately 10,000 acres of land in Western Canada, of which over 9,200 acres are in 9 large master-planned communities at various stages of approval. We estimate that, when approved, these master-planned communities will supply lots for the next 30 to 40 years.

Dream actively develops land in Alberta (Calgary and Edmonton) and Saskatchewan (Saskatoon and Regina). Land development involves the conversion of raw land to the stage where homes and commercial buildings may be constructed on the land. This process begins with the purchase or control of raw land, generally known as land held for development, and is followed by the entitlement and development of the land. Once the process of converting raw or undeveloped land for end use has begun, that portion of the land that we conduct activity on is generally known as land under development.

Building on owned land delays the recognition of revenue, as the land sale is not recognized until the property is occupied by a third-party purchaser. In comparison, when selling land to a third party, revenue is generally recognized on receipt of a 15% deposit from the land buyer and when there is substantial completion of the underground servicing work. Due to the economic conditions in Western Canada, we may not make new investments in undeveloped land at the same rate as in past years unless management considers the lands to be strategic to existing land positions already owned by the Company. Nevertheless, we expect that we will generate profits from building on our owned land in the future.

We currently have housing operations in Alberta (Calgary) and Saskatchewan (Saskatoon and Regina). Residential homebuilding involves the construction of single family houses and multi-family buildings, such as townhouses. Each dwelling is generally referred to as a "unit". A planned community typically includes a number of "lots" on which single family units will be situated, as identified in the neighbourhood plan. Construction time for a residential home depends on a number of factors, including the availability of labour, materials and supplies, the weather, and the type and size of home.

Our Retail and Commercial Development division currently focuses on the development of new format and/or grocery-anchored unenclosed retail centres and business parks within our communities in Western Canada. New format retail centres are large aggregations of dominant retailers grouped together at high traffic and easily accessible locations. These unenclosed campus-style centres are generally anchored by supermarkets and may include entertainment (movie theatres and restaurants) and other needs-based retail components. Our retail developments are branded under the "Dream Centres" banner. Business parks provide opportunities for employment to service the surrounding communities. They vary in size, form and character, often containing a combination of office, light industrial and/or institutional style uses. Business parks are geared to corporate headquarter facilities and businesses involving combinations of research, sales and service, light manufacturing, warehousing and administration. The Retail and Commercial Development division traditionally manages a project through the entire development cycle, including planning, pre-development, leasing, construction and post-development. As at December 31, 2018, the Retail and Commercial Development division had 38.4 acres or 396,200 sf in various stages of active development.

## Results of Operations

In the three and twelve months ended December 31, 2018, we earned net margin of \$29.2 million and \$25.2 million, respectively, from our Western Canada development segment. Operational results for the segment were lower than prior year due to the specific sales mix and volumes achieved in 2018.

With continued challenging market conditions in Western Canada and increased pressures from government policies, we are closely monitoring customer demand, pricing trends and inventory supply across the division. As of the date of this MD&A, assuming no material change in market conditions, we expect our earnings from this division to increase again come 2020, as we commence earning income from land sales in Providence, our most valuable land position in Western Canada. However, we expect the proportion of income driven by Western Canada to decrease over time due to the increased diversification of our business and growth in recurring income generating assets. Our recurring business, including asset management and income properties, supports all the costs of our operating platform as contributions from our development segments may be limited in periods. Refer to the "Sources of Recurring Income" section of this MD&A for further details on our recurring income and assets.

## Selected Key Operating Metrics - Western Canada

(in thousands of dollars, except for average selling prices and acre, lot, unit and sf statistics)	For the three months ended December 31,		For the year ended December 31,	
	2018	2017	2018	2017
<b>LAND DEVELOPMENT</b>				
<b>Revenue</b>				
Alberta	\$ 17,537	\$ 15,023	\$ 27,526	\$ 43,402
Saskatchewan	64,426	59,267	79,932	103,553
<b>Total</b>	<b>\$ 81,963</b>	<b>\$ 74,290</b>	<b>\$ 107,458</b>	<b>\$ 146,955</b>
<b>Net margin</b>				
Alberta	\$ 5,545	\$ 7,932	\$ 5,296	\$ 12,401
Saskatchewan	24,708	28,110	24,383	36,181
<b>Total</b>	<b>\$ 30,253</b>	<b>\$ 36,042</b>	<b>\$ 29,679</b>	<b>\$ 48,582</b>
Net margin (%) <sup>(1)</sup>	36.9%	48.5%	27.6%	33.1%
Lots sold	561	393	767	913
Average selling price per lot	\$ 123,000	\$ 126,000	\$ 121,000	\$ 128,000
Acres sold	17.7	26.5	20.1	33.5
Average selling price per acre	\$ 739,000	\$ 937,000	\$ 729,000	\$ 886,000
<b>HOUSING DEVELOPMENT</b>				
Revenue	\$ 11,795	\$ 32,100	\$ 51,898	\$ 78,610
Net margin	\$ (1,574)	\$ 4,245	\$ (5,903)	\$ 2,529
Housing units sold	47	137	215	300
Average housing unit selling price <sup>(2)</sup>	\$ 333,000	\$ 292,000	\$ 329,000	\$ 335,000
Average selling price per sf <sup>(2)</sup>	\$ 220	\$ 257	\$ 239	\$ 259
<b>INCOME PRODUCING AND DEVELOPMENT PROPERTIES</b>				
Revenue	\$ 2,255	\$ 2,454	\$ 8,966	\$ 6,674
Net operating income <sup>(1)</sup>	\$ 1,484	\$ 1,533	\$ 5,985	\$ 4,476
Net margin	\$ 474	\$ 527	\$ 1,443	\$ (111)
Net margin (%) <sup>(1)</sup>	21.0%	21.5%	16.1%	n/a
Fair value changes in investment properties	\$ (3,209)	\$ 393	\$ (1,767)	\$ 10,473
Number of commercial properties <sup>(3)</sup>	5	7	5	7
Total commercial area (sf) <sup>(3)</sup> - income producing & development	396,200	547,600	396,200	547,600
Total commercial area in planning stages (sf)	130,000	208,900	130,000	208,900

<sup>(1)</sup> Net operating income and net margin % are non-IFRS measures. Refer to "Non-IFRS Measures" section of this MD&A for a reconciliation between net operating income and net margin.

<sup>(2)</sup> Average housing unit selling price is gross of land sales to external customers, which are in the land results above.

<sup>(3)</sup> Excludes all metrics related to properties classified as held for sale as of period end.

## Results of Operations – Land

In the three months ended December 31, 2018, revenue increased by \$7.7 million relative to the prior year due to an increase in land lot sales volumes. Results for the three months ended December 31, 2018 and 2017 include \$5.4 million and \$10.5 million, respectively, of favourable cost recoveries and contingencies released, primarily related to development phases that are complete or near completion. In the three months ended December 31, 2018, net margin decreased by \$5.8 million relative to the prior year due to the product mix sold.

In the year ended December 31, 2018, revenue decreased by \$39.5 million relative to the prior year due to fewer lot and acre sales achieved and lower average selling prices. Results for the years ended December 31, 2018 and 2017 include \$7.5 million and \$10.5 million, respectively, of favourable cost recoveries and contingencies released. In the year ended December 31, 2018, net margin decreased by \$18.9 million relative to the prior year due to the lower level of sales activity relative to our fixed operating costs. Refer to the "Western Canada Development - Results of Operations" section of this MD&A for details on market outlook.



## Land Portfolio

As at December 31, 2018, our land portfolio, including land held for development and land under development, consisted of 9,401 acres and 772 lots in various stages of development. This represents 9,515 acre equivalents. Dream also has commitments to purchase an additional 312 acres, for a total of 9,827 acres. Land held for development and land under development is carried at historical cost. Management believes that the market values of these lands are significantly in excess of their carrying values.

(in thousands of dollars, except lots and acres)

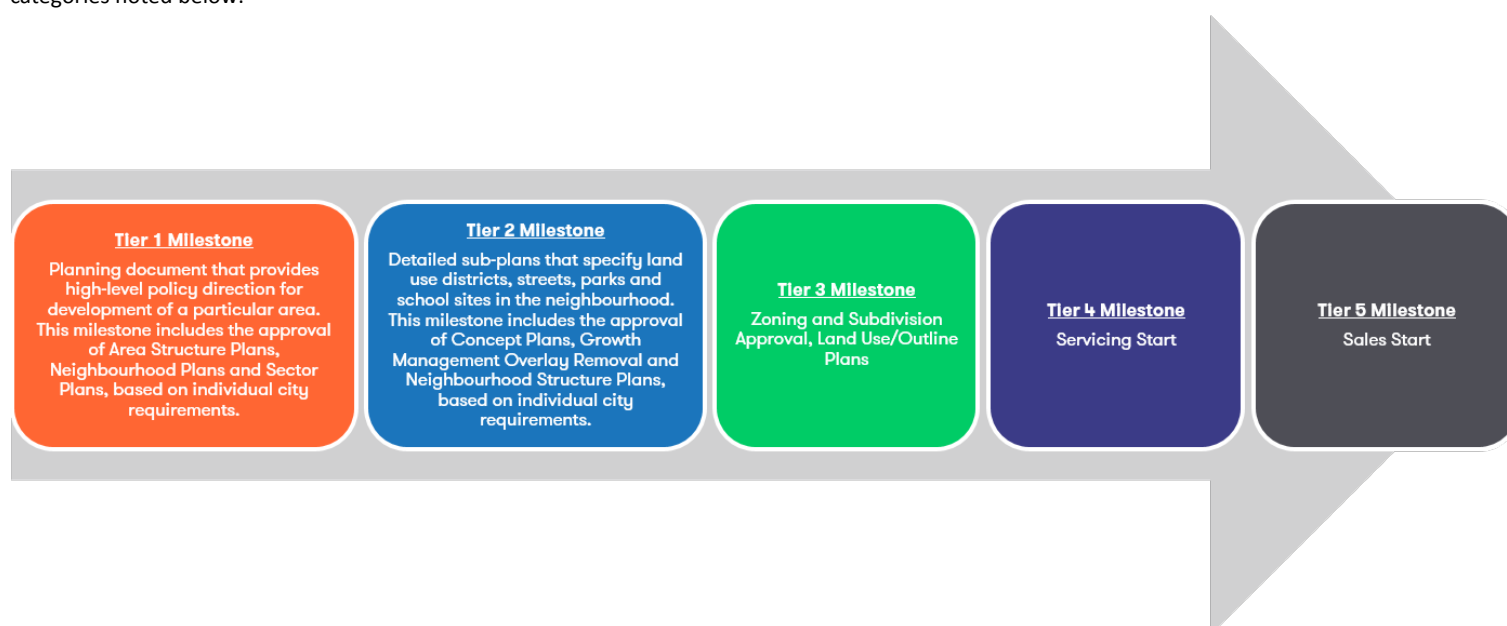
December 31, 2018

	Land held for development			Land under development				Total
	Cost	Acres	Cost per acre	Cost	Acres	Lots	Cost per acre	
Saskatoon	\$ 85,986	3,072	\$ 28	\$ 61,386	90	270	\$ 455	\$ 147,372
Regina	148,014	2,937	50	43,341	56	321	442	191,355
Calgary	153,637	2,316	66	25,656	52	77	388	179,293
Edmonton	40,978	862	48	14,320	2	104	977	55,298
Other <sup>(1)</sup>	845	—	n/a	1,733	14	—	124	2,578
<b>Total inventory</b>	<b>\$ 429,460</b>	<b>9,187</b>	<b>\$ 47</b>	<b>\$ 146,436</b>	<b>214</b>	<b>772</b>	<b>\$ 447</b>	<b>\$ 575,896</b>
<b>Land under commitment</b>	<b>\$ 4,855</b>	<b>312</b>	<b>\$ 16</b>					<b>\$ 4,855</b>

<sup>(1)</sup> Other land held for development relates to a single lot held in the U.S.

## Land Approval Pipeline

The land approval process varies slightly in each city we operate in; however, the key land development milestones can be broadly classified in the categories noted below:



A summary of our land inventory and key milestones is included below.

City	Neighbourhood	Upcoming milestone	Gross acres	Anticipated sales start <sup>(1)</sup>
<b>Active developments</b>				
Saskatoon	Brighton (Holmwood)	Tier 5 ongoing	345	n/a
Regina	Eastbrook	Tier 5 ongoing	278	n/a
Regina	Harbour Landing	Tier 5 ongoing	31	n/a
Calgary	Vista Crossing	Tier 5 ongoing	128	n/a
Calgary	High River	Tier 5 ongoing	133	n/a
Edmonton	Meadows	Tier 5 ongoing	144	n/a
Various	Various	Tier 5 ongoing	169	n/a
			1,228	
<b>Current pipeline</b>				
Saskatoon	Holmwood Suburban Centre	Tier 2 approval	1,050	2022
Saskatoon	The Willows	Tier 2 approval	80	2019
Saskatoon	Elk Point	Tier 2 approval	150	2024
Regina	Harbour Landing West	Tier 1 approval	940	2023
Regina	Coopertown	Tier 3 approval	1,050	2022
Calgary	Providence East	Tier 3 approval	650	2020
Calgary	Glacier Ridge South	Tier 2 approval	320	2021
Edmonton	Elan	Tier 2 approval	371	2020
			4,611	
<b>Future developments</b>			3,600	
Other land holdings			76	
Land under commitment			312	
			9,827	

<sup>(1)</sup> Anticipated sales starts are subject to change and based on current information available to management.

We have an extensive land bank and have obtained key approvals on our Providence East lands (Calgary) and Coopertown (Regina) lands in 2018.

### Results of Operations – Housing

In the three months ended December 31, 2018, our housing division generated revenue of \$11.8 million from 47 housing occupancies and incurred negative net margin of \$1.6 million (\$32.1 million of revenue from 137 housing occupancies and net margin of \$4.2 million in the comparative period). In the year ended December 31, 2018, our housing division generated revenue of \$51.9 million from 215 housing occupancies and incurred a net loss of \$5.9 million (\$78.6 million in revenue from 300 housing occupancies and net margin of \$2.5 million in the comparative period). Results for the three and twelve months ended December 31, 2017, benefitted from the successful completion and turnover of two affordable housing projects in Harbour Landing to the Saskatchewan Housing Corporation. Excluding these projects, revenue and net margin for housing occupancies would have been more comparable year over year.

The housing division incurred negative net margin in the year ended December 31, 2018 due to the volume of housing occupancies relative to the fixed and other operating costs of the division. Refer to the "Western Canada Development - Results of Operations" section of this MD&A for our general market commentary.

### Western Canada - Income Producing and Development Properties

In the three months ended December 31, 2018, revenue and net operating income were relatively consistent relative to the comparative period.

In the year ended December 31, 2018, revenue and net operating income increased by \$2.3 million and \$1.5 million, respectively, from the comparative period due to increased rental income generated from our retail properties under development, partially offset by the impact of an asset disposition in 2018.

In the year ended December 31, 2018, fair value losses on investment properties in Western Canada were \$1.8 million, largely due to fair value losses on certain properties classified as held for sale, offset by gains on the Harbour Landing Commercial Campus in Regina. In the year ended December 31, 2018, Dream achieved first tenant occupancies within the first commercial development project - the first phase of the Commercial Campus, which includes approximately 41,100 sf of small-bay flex commercial and industrial space across three buildings.



A summary of our active retail and commercial developments is included below.

Project	Ownership %	Location	Type	Major tenant	Fair value as at December 31, 2018	Acres	Total sf	Committed leases % <sup>(1)</sup> as of February 25, 2019	Weighted average lease term	First occupancy date
Shops of South Kensington	100%	Saskatoon	Retail	Save-On-Foods	\$ 28,599	6.5	72,100	89%	15.4	2017
Brighton Marketplace	50%	Saskatoon	Retail	Save-On-Foods	21,790	21.5	231,000	79%	15.2	2018
Montrose	100%	High River	Retail	Anytime Fitness	8,661	2.8	24,500	84%	11.0	2017
Harbour Landing	100%	Regina	Commercial	n/a	9,510	3.3	41,100	30%	9.1	2018
Hampton Heights <sup>(2)</sup>	100%	Saskatoon	Retail	n/a	n/a	4.3	27,500	31%	13.3	2019
Total income producing properties <sup>(3)</sup>					\$ 68,560	38.4	396,200	72%	14.7	

<sup>(1)</sup> Committed leases represents the GLA under an agreement to lease between a tenant and the Company as at December 31, 2018.

<sup>(2)</sup> Hampton Heights is classified as land under development (held at cost) as at December 31, 2018.

<sup>(3)</sup> Balance excludes assets held for sale.

As at December 31, 2018, the Company held \$64.3 million as assets held for sale in Western Canada. In aggregate, these properties represent 120,000 sf of GLA, are 95% leased with a weighted average lease term of 9.0 years and have reached stabilization.

## Dream Alternatives

Dream Alternatives is an open-ended trust focused on hard asset alternative investments comprising real estate development, real estate lending, real estate, and renewable power.

Dream owned 12.1 million units of Dream Alternatives as at December 31, 2018 (17% of units outstanding), which were acquired through purchases on the open market or through Dream Alternatives' distribution reinvestment plan. The Company intends to increase its ownership in Dream Alternatives over time on an opportunistic basis. Dream is the asset manager of Dream Alternatives and also has several co-owned development investments with Dream Alternatives, which are detailed in the "Urban Development Pipeline and Results of Pre-sale Activity" section of this MD&A.

## Acquisition of Control

On January 1, 2018, under IFRS, the Company was deemed to have acquired control of Dream Alternatives based on the increase in the Company's exposure to variable returns resulting from increased ownership through units held in Dream Alternatives and from new real estate joint venture agreements. The Company re-measured its existing 13% equity interest in Dream Alternatives to its fair value of \$60.9 million at the acquisition date. As a result of the remeasurement, the Company recorded a non-cash gain of \$12.6 million.

The acquisition of control also resulted in a non-cash net bargain purchase gain of \$117.4 million in the first quarter of 2018. This amount represented the difference between the fair value of net assets of Dream Alternatives of \$246.4 million based on public disclosures, relative to the implied financial consideration for the transaction of \$60.9 million. As part of the acquisition of control, the Company also derecognized the intangible asset of \$43.0 million related to the right to manage Dream Alternatives and eliminated amounts receivable from Dream Alternatives of \$23.1 million, which were both treated as deductions in calculating the gain.

The net gain on the acquisition of control of Dream Alternatives was calculated as follows:

Net assets acquired	\$ 246,383
Less: Consideration	(60,891)
Bargain purchase gain	185,492
Derecognition of intangible asset	(43,000)
Elimination of amounts receivable from Dream Alternatives	(23,107)
Adjustment for non-controlling interests in Dream Alternatives	(1,948)
Net bargain purchase gain	117,437
Non-cash gain on deemed disposal of previously held equity accounted investment	12,555
Net gain on acquisition of Dream Alternatives	\$ 129,992

As at December 31, 2018, the liability associated with Dream Alternatives units held by other unitholders had a fair value of \$377.2 million. In accordance with the Company's accounting policy detailed in Note 3 of the consolidated financial statements for the year ended December 31, 2018, the Company accounted for the 83% interest in Dream Alternatives trust units held by third parties as a financial liability measured at fair value through profit and loss (January 1, 2018 - 87%). Refer to the "Reconciliation of Basic Earnings per Share" section of this MD&A for further details on the measurement of this liability.

## Portfolio Summary - Dream Alternatives

The table below provides a summary of the Dream Alternatives portfolio as at December 31, 2018, including net asset value. This table excludes the impact of any consolidation adjustments included in the "Segmented Assets and Liabilities" and "Segmented Statement of Earnings" sections of this MD&A.

With Dream Alternatives' focus on development investments that will generate higher growth and cash flow over a period of time, growth in NAV per unit of Dream Alternatives is considered to be a useful metric of value creation. The determination of NAV incorporates a market value<sup>(3)</sup> adjustment (see definition in the "Non-IFRS Measures" section of this MD&A) to equity accounted investments and the renewable power portfolio to take into consideration the change in risk profile as a result of various factors including progression to completion or becoming operational.

As at December 31, 2018, \$139.4 million of Dream Alternatives' net asset value, or 22%, represents development projects that are co-owned with Dream.

Details of Dream Alternatives' net asset value is as follows:

Investment	Accounting treatment <sup>(1)</sup>	Asset value	Debt	Total equity <sup>(2)</sup>	NAV of DAT <sup>(3)</sup>	NAV per unit
Other financial assets and equity accounted investments	Fair value, equity accounted	\$ 251,137	n/a	\$ 254,804	\$ 294,674	\$ 4.06
Lending portfolio	Amortized cost <sup>(4)</sup>	144,095	n/a	142,220	142,220	1.96
Investment properties	Fair value	224,310	122,214	101,962	101,962	1.40
Renewable power	Amortized cost	130,615	73,278	64,184	74,711	1.03
Cash and other Dream Alternatives consolidated working capital, including tax				27,088	21,083	0.29
Total unitholders' equity/NAV of Dream Alternatives				\$ 590,258	\$ 634,650	
Total unitholders' equity per unit /NAV per unit of Dream Alternatives				\$ 8.13	\$ 8.74	

<sup>(1)</sup> Equity accounted investments are recognized initially at cost and subsequently adjusted for Dream Alternatives' share of the profit or loss.

<sup>(2)</sup> Included in total unitholders equity is working capital that is presented separately from its asset in the consolidated statement of financial position of Dream Alternatives.

<sup>(3)</sup> For the definition of the non-IFRS measure market value and total unitholders' equity per unit, please refer to the "Non-IFRS Measures" section of this MD&A.

<sup>(4)</sup> Includes a loan investment of \$16.6 million, as at December 31, 2018, classified as fair value through profit or loss.

## Announcement of Strategic Plan

Subsequent to year-end, Dream Alternatives announced a strategic plan to address Dream Alternatives' unit price performance and gap to its NAV. Since taking over asset management in 2014, approximately \$450 million of equity has been successfully repatriated in Dream Alternatives (over 60% of the original equity), which has subsequently been invested into irreplaceable development assets alongside exceptional partners. The strategic goal for Dream Alternatives over the next three years will be to achieve a balance between reducing the number of units outstanding and maintaining a strong balance sheet to meet and exceed Dream Alternatives' covenants supporting ongoing capital requirements for development activities, while narrowing the gap between the trading price and NAV of the Dream Alternatives trust units. Dream Alternatives is targeting to deploy up to \$100 million towards its unit buyback program (representing approximately 21% of current market capitalization) with proceeds of asset sales over the next three years. Dream Alternatives also announced the suspension of its distribution reinvestment and unit purchase plan ("DRIP"). As of December 31, 2018, all of the Company's units held in Dream Alternatives were enrolled in the DRIP.

## Financial Overview

For the year ended December 31, 2018, Dream Alternatives reported net income of \$13.9 million compared with a net loss of \$9.5 million in the prior year. The year over year financial results benefited from the transformational growth the Trust has achieved, with the prior year impacted by losses associated with the disposal of approximately \$338.5 million of Dream Alternatives' non-core legacy assets throughout 2017.

For the three months ended December 31, 2018, Dream Alternatives reported net income of \$7.0 million down from \$16.4 million in the same period in the prior year. The year over year variance was primarily due to Dream Alternatives recording net fair value gains in income properties of \$0.5 million during the fourth quarter of 2018 compared to \$11.0 million in the same period in the prior year.

During the year ended December 31, 2018, Dream Alternatives invested approximately \$93.1 million of capital, including transaction costs, into its development investments either through successful acquisitions or funding towards its existing projects. Over the course of the year the development projects have progressed steadily towards various milestones and/or completion. In addition to investing into its existing development portfolios, Dream Alternatives entered into significant development and re-development opportunities including acquiring: a 10% interest in the 1,500 room Hard Rock Hotel / Virgin Hotel Las Vegas and a 25% interest in the West Don Lands purpose-built rental development. Refer to the "Urban Development - Toronto & Ottawa" section of this MD&A for further details on development projects co-owned with Dream.

As at December 31, 2018, the Axis Condominiums project had been "topped off", signifying it has reached its ultimate height but is still under construction. The project remains on schedule with first occupancy slated for the fall of 2019, accelerated from an initial timing of 2020, and includes completion of the lobby and amenities. The project is 100% sold. Upon completion the internal rate of return ("IRR") on Axis Condominiums is expected to be well in excess of 50% on Dream Alternatives' initial investment of \$5.4 million, including transaction costs. For the definition of IRR, please refer to the "Non-IFRS Measures" section of this MD&A.

Subsequent to December 31, 2018, the Hard Rock signed a franchise agreement with Hilton Hotels & Resorts ("Hilton") to join the Curio Collection following the redevelopment/conversion of the property to the Virgin Hotel Las Vegas in 2020, as well as participate in Hilton's award winning guest loyalty program, Hilton Honors. Curio Collection by Hilton is an upscale, global portfolio of more than 65 one-of-a-kind hotels and resorts across the world. As a result of the

agreement, the property will be on the Hilton booking system upon its re-opening as a Virgin Hotel and will have access to a large distribution channel through the Hilton platform, where there has historically been significant unmet room demand - estimated to be 900,000 unmet Las Vegas rooms per year.

NAV per unit of \$8.74 as at December 31, 2018 increased by 0.6% compared with \$8.69 as at September 30, 2018. The increase was as a result of the following: the redemption of the Trust's investment in Hotel Pur thereby receiving total distributions of \$4.9 million, which included return of capital plus a 9% preferred return; a \$2.0 million fair value gain on its investment in Hard Rock related to foreign exchange; and market value gains of \$7.1 million related to both its Axis Condominiums and Lakeshore East developments. The market value gain on the Axis Condominiums development was attributed to the project being closer to completion. The market value gain on the Lakeshore East development was a result of continued favourable market trends and comparable market transactions, as supported by independent third-party appraisals. Please refer to the "Non-IFRS Measures" section of the MD&A for a reconciliation between NAV of Dream Alternatives and reconciliation to Dream Alternatives' total unitholders' equity.

For further details on Dream Alternatives, refer to the Dream Alternatives consolidated financial statements and Management's Discussion & Analysis for the year ended December 31, 2018 filed on SEDAR.

## Other Items - Consolidated Dream

### Other Financial Assets

Other financial assets consisted of the following:

	December 31, 2018	December 31, 2017
Marketable securities - Dream Global REIT	\$ 58,123	\$ 57,635
Participating mortgages	64,764	—
Investment holdings	73,085	7,054
Loans receivable	11,894	13,289
Other instruments	4,485	1,065
	<b>\$ 212,351</b>	<b>\$ 79,043</b>

### Marketable Securities

Marketable securities relate to the Company's investments in Dream Global REIT. Refer to the "Investments in Dream Publicly Listed Funds" section of this MD&A for further information on these investments.

### Participating Mortgages

Participating mortgages are related to two long-term development loans secured by real property comprising two residential assets under development (Empire Lakeshore and Empire Brampton). Refer to Note 36 of the consolidated financial statements for the year ended December 31, 2018 for the valuation methodology used to determine the fair value of the participating mortgages.

### Investment Holdings

As at December 31, 2018, investment holdings include one hospitality asset and retail assets (Hard Rock and Bayfield LP) and certain co-owned commercial assets.

### Loans Receivable

Loans receivable are amounts owing to Dream pertaining to specific development partnerships in Toronto.

### Accounts Receivable

As at December 31, 2018, the carrying value of accounts receivable was \$177.4 million compared to \$197.5 million as at December 31, 2017. The decrease in accounts receivable from the prior year was primarily due to the closing of certain completed urban development projects and the elimination of amounts receivable from Dream Alternatives upon consolidation. Approximately 86% (December 31, 2017 – 78%) of accounts receivable represents amounts receivable under contracted sales of land under development or under housing and condominium sales contracts. Accounts receivable may fluctuate from period to period, reflecting the cyclical nature of the completion and closing of large-scale real estate projects.

### General and Administrative Expenses

In the three and twelve months ended December 31, 2018, general and administrative expenses were \$4.5 million and \$20.4 million, respectively. The increase of \$1.0 million and \$7.0 million from the prior year was largely due to the consolidation of Dream Alternatives and certain one-time costs.



## Interest Expense

In the three and twelve months ended December 31, 2018, interest expense was \$10.2 million and \$37.9 million, respectively, compared to \$6.2 million and \$21.6 million in the prior year. The increase of \$4.0 million and \$16.3 million from the prior year was primarily due to the consolidation of Dream Alternatives and increased borrowings on our corporate facilities and projects under development. Interest expense consisted of the following:

	For the three months ended December 31,		For the year ended December 31,	
	2018	2017	2018	2017
Interest on project-specific debt	\$ 7,409	\$ 3,005	\$ 22,723	\$ 10,407
Interest on corporate debt facilities	5,122	3,528	17,393	11,945
Dividends on Preference shares, series 1	502	502	2,008	2,008
Amortization of deferred financing costs and accretion of effective interest	512	366	1,696	1,264
Project-specific interest capitalized to real estate development projects	(3,377)	(1,203)	(5,889)	(4,025)
<b>Total</b>	<b>\$ 10,168</b>	<b>\$ 6,198</b>	<b>\$ 37,931</b>	<b>\$ 21,599</b>

## Investment and Other Income

Refer to the "Investments in Dream Publicly Listed Funds" section of this MD&A for further information on investment income from Dream Publicly Listed Funds.

In the three months ended December 31, 2018, investment and other income was \$3.4 million, down from \$9.0 million in the comparative period. Results for the three months ended December 31, 2017 included a non-cash gain of \$13.3 million relating to the remeasurement of the Company's previously held equity interest in Zibi to fair value, as well as aggregate fair value losses of \$6.5 million reclassified to net income upon accounting changes. Excluding these items, investment and other income increased by \$1.3 million from the comparative period, primarily due to other income earned by Dream Alternatives in the current period and income generated by the Obico Property between the expropriation date and possession date.

In the year ended December 31, 2018, investment and other income was \$12.7 million, a decrease of \$2.1 million from the prior year after adjusting for the aforementioned items. This decrease was attributable to Dream no longer recording investment income from its investment in Dream Office REIT, offset by other income earned by Dream Alternatives in the current period. Effective October 1, 2017, the Company reclassified its investment in Dream Office REIT to equity accounted investments and as a result no longer records investment income from monthly distributions received from Dream Office REIT. Instead, these amounts are accounted for as a reduction in the Company's equity accounted investment and the Company records its proportionate share of net income from Dream Office REIT.

## Gain on Disposition of Assets

In the year ended December 31, 2018, the Company disposed of its interest in a property located in downtown Toronto for total consideration of \$10.2 million (at Dream's share), at an implied sales price of \$150 per sf based on the approved residential density. The resulting gain on disposal of \$9.4 million was recognized in the consolidated financial statements for the year ended December 31, 2018.

## Income Tax Expense

The Company's effective income tax rate was 10.0% for the year ended December 31, 2018 (year ended December 31, 2017 – 28.3%). The effective income tax rate for the year ended December 31, 2018 is lower than the statutory combined federal and provincial tax rate of 26.7% mainly due to the non-taxable portion of gains related to the acquisition of control of Dream Alternatives.

We are subject to income taxes in Canada, both federally and provincially, and the United States. Significant judgments and estimates are required in the determination of the Company's tax balances. Our income tax expense and deferred tax liabilities reflect management's best estimate of current and future taxes to be paid. The Company is subject to tax audits from various government and regulatory agencies on an ongoing basis. As a result, from time to time, taxing authorities may disagree with the interpretation and application of tax laws taken by the Company in its tax filings.

## Liquidity and Capital Resources

Our capital consists of project-specific debt, corporate debt facilities, preference shares and shareholders' equity. Our objective in managing capital is to ensure adequate operating funds are available to fund development costs; to cover leasing costs, overhead and capital expenditures for investment and recreational properties; to provide for resources needed to acquire new properties and invest in new ventures at reasonable interest costs; and to generate a target rate of return on investments. Other than the amendments to the Dream operating line and non-revolving term facility described below, there were no material changes in future contractual obligations since December 31, 2018.

A summary of selected information as at December 31, 2018 and December 31, 2017 is presented below.

	December 31, 2018			December 31, 2017		
	Less than 12 months	Greater than 12 months	Total	Less than 12 months	Greater than 12 months	Total
Cash and cash equivalents	\$ 64,293	\$ —	\$ 64,293	\$ 25,408	\$ —	\$ 25,408
Accounts receivable	146,461	30,953	177,414	175,373	22,094	197,467
Other financial assets	8,111	204,240	212,351	7,714	71,329	79,043
Accounts payable and accrued liabilities	107,426	19,416	126,842	108,179	10,786	118,965
Provision for real estate development costs	33,853	—	33,853	34,756	—	34,756
Project-specific debt	152,253	362,327	514,580	133,847	146,380	280,227
Corporate debt facilities <sup>(1)</sup>	148,943	224,083	373,026	214,799	93,225	308,024
Debt to total assets ratio <sup>(2)</sup>			33.3%			32.4%

<sup>(1)</sup> Included in current corporate debt facilities is \$48.9 million relating to the Dream operating line. This facility was amended subsequent to December 31, 2018, extending the maturity date to January 31, 2021.

<sup>(2)</sup> Refer to the "Non-IFRS Measures" section of this MD&A for the definition of debt to total assets ratio.

As at December 31, 2018, there were adequate resources to address the Company's short-term liquidity requirements. Certain financial instruments that are callable or due on demand are presented as due within 12 months, which is inconsistent with the repayment timing expected by management. The most significant of these instruments are the Company's \$100.0 million margin facility, which is secured by certain marketable securities and due on demand, and the \$49.0 million drawn on the Company's operating line, which was amended subsequent to year-end to extend the maturity date to January 31, 2021. Due to the nature of our development business, in addition to the above resources, the Company expects to fund a portion of our current liabilities through sales of housing, condominium and land inventories, which cannot be classified and accordingly are not presented above. Management continuously reviews the timing of expected debt repayments and actively pursues refinancing opportunities as they arise. In addition, as at December 31, 2018, we had up to \$179.1 million of undrawn credit availability on Dream's operating line and margin facility.

### Significant Sources and Uses of Cash

	For the three months ended December 31,		For the year ended December 31,	
	2018	2017	2018	2017
Net cash flows provided by (used in) operating activities	\$ (20,842)	\$ 55,798	\$ (97,142)	\$ 114,570
Net cash flows provided by (used in) investing activities	58,274	(57,524)	93,703	(81,504)
Net cash flows provided by (used in) financing activities	(37,152)	1,988	42,324	(31,090)
Change in cash and cash equivalents	\$ 280	\$ 262	\$ 38,885	\$ 1,976

In the three and twelve months ended December 31, 2018, the Company had cash outflows from operating activities of \$20.8 million and \$97.1 million, respectively, primarily due to development spend for land and condominium inventory, offset by land sales activity in the fourth quarter of 2018.

In the year ended December 31, 2018, there were cash flows from investing activities of \$58.3 million and \$93.7 million, respectively, mainly related to cash acquired through the business combination of Dream Alternatives and proceeds on the disposition of assets, offset by acquisitions and additions to investment properties.

For the three months ended December 31, 2018, the Company had net cash outflows from financing activities of \$37.2 million primarily due to repayments of mortgages and term debt facilities as well as shares purchased under the normal course issuer bid.

For the year ended December 31, 2018, the Company had net cash flows from financing activities of \$42.3 million primarily due to advances on corporate and project-level debt facilities, partially offset by repayments and activity under the Company's normal course issuer bid in the period.

For more information, refer to the statement of cash flows in the consolidated financial statements for the year ended December 31, 2018.

### Cash Requirements

The nature of the real estate business is such that we require capital to fund non-discretionary expenditures with respect to existing assets, as well as to fund growth through acquisitions and developments. As at December 31, 2018, we had \$64.3 million, or \$17.4 million on a Dream standalone basis, in cash and cash equivalents (December 31, 2017 – \$25.4 million). Our intention is to meet short-term liquidity requirements through cash from operating activities, working capital reserves and operating debt facilities. In addition, we anticipate that cash from operations and recurring income will continue to provide the cash necessary to fund operating expenses and debt service requirements.

## Contractual Obligations

Our liquidity is impacted by contractual debt commitments and other expenditures required to satisfy our financial liabilities as follows:

	2019	2020	2021	2022	2023	2024 and thereafter	Total
<b>Financial liabilities<sup>(1)</sup></b>							
Accounts payable and accrued liabilities <sup>(2)</sup>	\$ 99,251	\$ 6,786	\$ —	\$ —	\$ —	\$ 6,851	112,888
Project-specific debt <sup>(3),(4)</sup>	154,248	85,984	78,511	80,730	6,089	108,870	514,432
Corporate debt facilities <sup>(3),(4)</sup>	149,000	—	225,000	—	—	—	374,000
Preference shares, series 1	28,681	—	—	—	—	—	28,681
	\$ 431,180	\$ 92,770	\$ 303,511	\$ 80,730	\$ 6,089	\$ 115,721	\$ 1,030,001
<b>Commitments</b>							
Leases and other commitments	\$ 5,650	\$ 8,769	\$ 3,301	\$ 2,568	\$ 1,938	\$ 15,421	37,647
Land and other purchase agreements	3,223	—	—	—	—	—	3,223
	\$ 440,053	\$ 101,539	\$ 306,812	\$ 83,298	\$ 8,027	\$ 131,142	\$ 1,070,871

<sup>(1)</sup> This table excludes customer deposits of \$37.2 million, as the timing of the related obligation is not determinable.

<sup>(2)</sup> Amounts exclude deferred revenues and Dream Alternatives' deferred unit incentive plan, which are not considered financial instruments, and a lease obligation, which is included in the commitments section of this table.

<sup>(3)</sup> The amounts presented are shown consistent with the contractual terms of repayment, which may be due on demand.

<sup>(4)</sup> Amounts exclude deferred financing costs of \$0.6 million within project-specific debt and \$1.0 million within corporate debt facilities.

## Debt and Preference Shares

As at December 31, 2018, total debt was \$916.3 million (December 31, 2017 – \$616.9 million), which included \$28.7 million of Preference shares, series 1 (December 31, 2017 – \$28.7 million). A breakdown of project-specific debt, corporate debt facilities and Preference shares, series 1, is detailed in the table below.

### Project-Specific Debt

<i>(in thousands of Canadian dollars)</i>	Construction loans - Western Canada	Construction loans - Urban development - Toronto & Ottawa	Mortgages and term debt - Dream	Mortgages and term debt - Dream Alternatives	Total
Balance, January 1, 2018	\$ 98,706	\$ 64,697	\$ 116,824	\$ —	280,227
Borrowings	62,642	73,090	69,489	—	205,221
Repayments	(99,927)	(21,260)	(51,378)	(4,664)	(177,229)
Assumed through business combination (Note 5)	—	—	—	203,967	203,967
Interest and other	—	38	2,279	77	2,394
Balance, December 31, 2018	\$ 61,421	\$ 116,565	\$ 137,214	\$ 199,380	\$ 514,580
Weighted average interest rates	4.05%	4.63%	4.45%	3.79%	4.20%

### Corporate Debt Facilities

<i>(in thousands of Canadian dollars)</i>	Operating line - Dream <sup>(1)</sup>	Non-revolving term facility <sup>(2)</sup>	Margin facility	Operating line - Dream Alternatives	Preference shares, series 1	Total
Balance, January 1, 2018	\$ 93,225	\$ 174,799	\$ 40,000	\$ —	\$ 28,668	\$ 336,692
Borrowings	212,000	50,000	75,000	35,000	—	372,000
Repayments	(257,000)	—	(15,000)	(35,000)	—	(307,000)
Interest and other	718	(716)	—	—	4	6
Balance, December 31, 2018	\$ 48,943	\$ 224,083	\$ 100,000	\$ —	\$ 28,672	\$ 401,698
Weighted average interest rates	4.48%	4.36%	4.35%	n/a	7.00%	4.56%
Total real estate debt (project-specific and corporate debt)						\$ 916,278

<sup>(1)</sup> Net of unamortized financing costs of \$0.1 million as at December 31, 2018 (December 31, 2017 – \$0.8 million).

<sup>(2)</sup> Net of unamortized financing costs of \$0.9 million as at December 31, 2018 (December 31, 2017 – \$0.2 million).

As at December 31, 2018, \$216.9 million (December 31, 2017 – \$61.6 million) of aggregate development loans and term debt (excluding unamortized financing costs and Preference shares, series 1) were subject to a fixed, weighted average interest rate of 4.30% (December 31, 2017 – 4.73%) and will mature between 2019 and 2025. A further \$670.8 million (December 31, 2017 – \$526.6 million) of real estate debt was subject to a weighted average variable interest rate of 4.29% (December 31, 2017 – 3.70%) and will mature between 2019 and 2023. Included within real estate debt is \$132.6 million of variable debt that the Company has hedged through fixed interest rate swaps.



### **Operating Line - Dream**

The Company has established a revolving term credit facility (the "operating line") available up to a formula-based maximum not to exceed \$290.0 million with a syndicate of Canadian financial institutions, maturing on January 21, 2019. As at December 31, 2018, maximum funds available under this facility were \$273.5 million, as determined by the formula-based maximum calculation, with \$55.4 million of letters of credit issued against the facility. The operating line bears interest, at the Company's option, at a rate per annum equal to either the bank's prime lending rate plus 1.25% or at the bank's then prevailing bankers' acceptance rate plus 2.50%. The operating line is secured by a general security agreement and a first charge against various real estate assets in Western Canada. Interest expense relating to the operating line for the three and twelve months ended December 31, 2018 was \$1.0 million and \$4.3 million (three and twelve months ended December 31, 2017 – \$1.5 million and \$5.1 million).

At December 31, 2018, \$49.0 million was drawn under the Company's operating line. The Company had \$55.4 million of outstanding letters of credit, leaving an undrawn credit capacity of up to \$169.1 million.

Subsequent to December 31, 2018, the Company amended its operating line, extending the maturity date to January 31, 2021 and revising certain covenants of DAM.

### **Non-Revolving Term Facility**

In the year ended December 31, 2018, the Company amended its \$175.0 million non-revolving term facility with a syndicate of Canadian financial institutions, increasing the borrowing capacity on the facility to \$225.0 million and extending the maturity date to February 28, 2021. The non-revolving term facility bears interest, at the Company's option, at a rate per annum equal to either the bank's prime lending rate plus 1.50% or at the bank's then prevailing bankers' acceptance rate plus 2.75%. The facility is secured by a general security agreement and a first charge against various real estate assets and other financial assets of the Company.

In the year ended December 31, 2018, the Company entered into an interest rate swap to effectively exchange the variable interest rate on \$125.0 million of the \$225.0 million non-revolving term facility for a fixed rate of 5.20% per annum through the use of forward-purchase contracts that mature on February 28, 2021.

Subsequent to December 31, 2018, the Company amended its non-revolving term facility, extending the maturity date to February 28, 2022 and revising certain covenants of DAM.

### **Margin Facility**

In the year ended December 31, 2017, the Company entered into a \$40.0 million revolving margin facility. The loan is due on demand and bears interest, at the Company's option, at a rate per annum equal to either the bank's prime lending rate plus 1.25% or the bank's then prevailing bankers' acceptance rate plus 2.50%. In the year ended December 31, 2018, the Company amended its margin facility to allow borrowings up to a maximum of \$110.0 million by pledging additional security. As at December 31, 2018, \$100.0 million was drawn on the facility, leaving an undrawn credit capacity of \$10.0 million as of December 31, 2018.

### **Operating Line - Dream Alternatives**

Dream Alternatives has a revolving term credit facility (the "Dream Alternatives operating line") available up to a formula-based maximum not to exceed \$50.0 million, with a Canadian financial institution maturing on July 31, 2019. As at December 31, 2018, funds available under this facility were \$39.4 million, as determined by a formula-based maximum calculation. The Dream Alternatives operating line bears interest, at the Company's option, at a rate per annum equal to either the bank's prime lending rate plus 1.0% or at the bank's then prevailing bankers' acceptance rate plus 2.0%. The Dream Alternatives operating line is secured by a general security agreement over certain Dream Alternatives subsidiaries.

As at December 31, 2018, no funds were drawn on the revolving credit facility and funds available under this facility were \$38.0 million, net of \$1.4 million of letters of credit issued against the facility.

### **Preference Shares, Series 1**

The Preference shares, series 1, may be redeemed, at the option of Dream, at any time, at a price of \$7.16 per share. The Preference shares, series 1, are redeemable by the holders at any time, at \$7.16 per share.

As at February 25, 2019, there were 4,005,729 Preference shares, series 1, issued and outstanding.

### **Shareholders' Equity**

Dream is authorized to issue an unlimited number of Dream Class A subordinate voting shares (the "Subordinate Voting Shares") and an unlimited number of Dream Class B common shares ("Class B Shares"). As at December 31, 2018, there were 104,215,841 Subordinate Voting Shares and 3,115,164 Class B Shares outstanding (December 31, 2017 - 106,120,323 Subordinate Voting Shares and 3,115,299 Class B Shares).

Subsequent to December 31, 2018, as part of our long-term strategy to maximize shareholder value, the Company's dividend policy was approved. In 2019, the Company will pay an annual dividend of \$0.10 per Subordinate Voting Share and Class B Share, payable quarterly. The first dividends will be paid on March 29, 2019 to shareholders of record on March 15, 2019.

### **Normal Course Issuer Bid**

In the three and twelve months ended December 31, 2018, 0.8 million Subordinate Voting Shares were purchased for cancellation by the Company for \$5.6 million at an average price of \$7.26 and 1.9 million were purchased for cancellation by the Company for \$16.0 million at an average price of \$8.31, respectively, under the Company's NCIB (year ended December 31, 2017 – 3.2 million Subordinate Voting Shares for \$22.2 million at an average price of \$6.84).

Under Dream's current NCIB, which commenced on September 20, 2018, Dream has the ability to purchase for cancellation up to a maximum number of 7.1 million Subordinate Voting Shares through the facilities of the TSX at prevailing market prices and in accordance with the rules and policies of the TSX. The actual number of Subordinate Voting Shares that may be purchased and the timing of any such purchases as determined by Dream, are subject to a maximum daily purchase limitation of 15,925 shares, except where purchases are made in accordance with block purchase exemptions under applicable TSX rules.

In connection with the renewal of the NCIB, the Company established an automatic securities purchase plan (the "Plan") with its designated broker to facilitate the purchase of Subordinate Voting Shares under the NCIB at times when the Company would ordinarily not be permitted to purchase its Subordinate Voting Shares due to regulatory restrictions or self-imposed blackout periods. Purchases will be made by the Company's broker based upon the parameters prescribed by the TSX and the terms of the parties' written agreement. Outside of such restricted or blackout periods, the Subordinate Voting Shares may also be purchased in accordance with management's discretion. The Plan was pre-cleared by the TSX and will terminate on September 19, 2019.

Subsequent to December 31, 2018, 0.2 million Subordinate Voting Shares were purchased for cancellation by the Company for \$1.5 million. As at February 25, 2019, there were 103,994,241 Subordinate Voting Shares and 3,115,164 Class B Shares issued and outstanding.

### **Transactions with Non-Controlling Interest**

Prior to May 2017, SDC, an entity wholly owned by the President and CRO of DAM and Dream, owned a non-controlling interest in DAM. In May 2017, DAM received an exchange notice from SDC pursuant to the Exchange Agreement dated May 30, 2013 among Dream, DAM and SDC, exercising SDC's right to receive 31,533,682 newly issued Subordinate Voting Shares of Dream, representing approximately 30% of the post-issuance outstanding Subordinate Voting Shares, in consideration for the transfer of 261.52 non-voting common shares and Class C voting preference shares of DAM, representing approximately 30% of the outstanding non-voting common shares and Class C voting preference shares. Upon completion of the exchange, Dream owned 100% of the outstanding non-voting common shares and Class C voting preference shares of DAM, thus simplifying the corporate structure. Including the Subordinate Voting Shares of Dream and Class B Shares held or controlled directly or indirectly, the President and CRO owned an approximate 34% economic interest and 83% voting interest in the Company as at December 31, 2018.

### **Off Balance Sheet Arrangements**

We conduct our real estate activities from time to time through joint arrangements with third-party partners. As at December 31, 2018, we were contingently liable for the obligations of the other owners of the unincorporated joint operations and unincorporated joint ventures in the amount of \$15.6 million (December 31, 2017 – \$17.0 million). We have available to us other venturers' shares of assets to satisfy the obligations, if any, that may arise.

### **Commitments and Contingencies**

Dream and its operating subsidiaries may become liable under guarantees that are issued in the normal course of business and with respect to litigation and claims that arise from time to time. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the consolidated financial statements of Dream.

As part of our various agreements to purchase land, we have remaining commitments totalling \$3.2 million as at December 31, 2018 (December 31, 2017 – \$1.1 million), which will become payable in future periods upon the satisfaction of certain conditions pursuant to such agreements.

Levies relating to signed municipal agreements received by Dream as at December 31, 2018 may result in future obligations totalling \$1.3 million (December 31, 2017 – \$2.2 million).

The Company is contingently liable for letters of credit and surety bonds that have been provided to support land developments, equity accounted investments and other activities in the amount of \$91.7 million (December 31, 2017 – \$87.9 million). The Company is also contingently liable for bonds that have been provided to support certain urban development condominium partnerships that expire at the end of a specified warranty period.

Additionally, the Company may be required to fund future capital calls relating to its investments in joint arrangements, associates and other investment holdings, in line with the development progression of these projects and dependent on the achievement of certain milestones. Management expects to fund any such capital requirements through cash flows from operations, capital recycling and undrawn credit available on an as needed basis.

Management is aware of a legal matter relating to a development project and intends to vigorously defend the matter. A statement of claim was originally filed by the plaintiff against the Company and others in 2013, and the Company and the other defendants successfully brought a motion to strike the claim in December 2014. In April 2016, the Company was served with an amended statement of claim. Management continues to believe that this amended claim is without merit and that this action will not have a material adverse effect on the financial condition, results of operations or cash flows of the Company. A reasonable estimate of the possible loss or range of loss cannot be made at this time. We are contingently liable with respect to other litigation and claims that may arise from time to time. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on our consolidated financial statements.

## Dream Alternatives

During the year ended December 31, 2018, the Company, through a subsidiary of Dream Alternatives, continued to provide a guarantee for up to \$45.0 million pursuant to the requirements of a senior construction loan associated with the Empire Lakeshore residential project. The guarantee will be in place for the term of the construction loan and will proportionately scale down as the construction loan is repaid as unit closings begin to occur. Guarantees of the other underlying development project loan amounts of third parties are \$7.5 million. As at December 31, 2018, the Company is contingently liable under guarantees that are issued on certain debt assumed by purchasers of income properties up to an amount of \$44.2 million.

A subsidiary of Dream Alternatives is contingently liable for letters of credit in the amount of \$1.4 million that have been provided to support third party performance. The Company may also be contingently liable for certain obligations of joint venture partners. However, the Company would have available to it the other joint venture partners' share of assets to satisfy any obligations that may arise.

## Transactions with Related Parties

The Company has agreements for services and transactions with related parties, which are outlined in Note 41 of our consolidated financial statements for the year ended December 31, 2018.

## Critical Accounting Estimates

A detailed summary of the significant judgments and estimates made by management in the preparation and analysis of our financial results is included in Note 4 of our consolidated financial statements for the year ended December 31, 2018. The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent assets and liabilities. Critical accounting estimates represent estimates made by management that are, by their very nature, uncertain. We evaluate our estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that we believe are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amount of revenues and expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The following discusses the most significant accounting judgments, estimates and assumptions that the Company has made in the preparation of its consolidated financial statements.

## Joint Arrangements and Associates

The Company holds investments in various assets, and its ownership interest in these investments is established through diverse structures. Significant judgment is applied in assessing whether the investment structure results in control, joint control or significant influence over the operations of the investment, or whether the Company's investment is passive in nature. The assessment of whether the Company exerts control, joint control or significant influence over an investment will determine the accounting treatment for the investment. In making this assessment, the Company considers its ownership interest in the investment as well as its decision-making authority with regard to the operating, financing and investing activities of the investment as specified in the contractual terms of the arrangement. The Company also considers any agreements with the investee that expose the Company to variable returns from its involvement with the investee. Joint arrangements that involve the establishment of a separate entity in which each venture has an interest are set up as joint ventures, whereas investments in associates are those investments over which the Company has significant influence but no control.

## Business Combinations and Goodwill

The Company uses significant judgment to conclude whether an acquired set of activities and assets is a business, and such judgment can lead to significantly different accounting results. If an acquired set of activities and assets does not meet the definition of a business, the transaction is accounted for as an asset acquisition.

There are many differences in accounting for a business combination versus an asset acquisition, including the recognition of goodwill and deferred tax amounts, the initial measurement of assets and accounting for transaction costs. These differences not only affect the accounting as at the acquisition date, but will also affect future depreciation and possible impairment analysis. Accordingly, the conclusion as to whether a business has been acquired can have a significant effect on the Company's reported financial position and results of operations.

Significant judgment is required in applying the acquisition method of accounting for business combinations and, specifically, in identifying and determining the fair value of assets and liabilities acquired, including intangible assets and residual goodwill, if any.

The Company's goodwill balance is allocated to the particular cash generating unit ("CGU") to which it relates (herein referred to as the "goodwill CGU"). The recoverable amount of the Company's goodwill CGU is determined based on the fair value less costs of disposal approach. Refer to Note 17 of the consolidated financial statements for the year ended December 31, 2018 for further details.

## Consolidation

In determining if an entity is a subsidiary of the Company, the Company makes significant judgments about whether it has power and control over such an entity. In addition to voting rights, the Company considers the contractual rights and obligations arising from other arrangements, and other relevant factors relating to an entity in determining if the Company has the power and ability to affect returns from an investee. The contractual rights and obligations considered by the Company include, among others, the approvals and decision-making process over significant operating, financing and investing activities, the responsibilities and scope of decision-making power of the Company, the termination provisions of applicable agreements, the types and determination of fees paid to the Company and the significance, if any, of any investment made by the Company. The Company reviews its prior conclusions when facts and circumstances change.



## Net Realizable Value

Land, including land under development and land held for development, as well as housing and condominium inventory, are stated at the lower of cost and net realizable value. In calculating net realizable value, management must estimate the selling price of these assets based on prevailing market prices at the dates of the consolidated statements of financial position, discounted for the time value of money, if material, less estimated costs of completion and estimated selling costs. If estimates are significantly different from actual results, the carrying amounts of these assets may be overstated or understated on the consolidated statements of financial position and, accordingly, earnings in a particular period may be overstated or understated.

## Provisions

Provisions are recorded by the Company when it has determined it has a present obligation, whether legal or constructive, and it is probable that an outflow of resources will be required to settle the obligation, provided a reliable estimate can be made of the amount of the obligation. Management must use judgment in assessing the magnitude and timing of the potential economic exposure and the likelihood of a future event occurring. Actual results may differ significantly from those estimates. The consolidated financial statements include a significant provision for costs to complete land, housing and condominium projects. The stage of completion of any development project, and the remaining costs to be incurred, are determined by management, considering relevant available information at each reporting date. In making such determination, management makes significant judgments about milestones, actual work performed and the estimates of costs to complete the work.

## Fair Value of Investment Holdings and Participating Mortgages

Critical judgments are made in determining the fair value of investment holdings and participating mortgages. The fair values of these investments are reviewed regularly by the Company with reference to the applicable local market conditions and in discussion with the development's construction management company. The Company makes judgments with respect to the completion dates of the developments, and the leasing and management cost assumptions for the buildings and/or unit sales in order to determine the Company's interest and participating income. Generally, the investment holdings and participating mortgages are valued using a number of approaches that typically include a discounted cash flow analysis, direct capitalization approach and direct comparison approach. The discounted cash flow model is calculated based on future interest and participating profit payments as determined by the Company and project managers' estimates of unit sales proceeds and/or net operating income of the development properties. With the direct capitalization rate method, the fair value is determined by applying a capitalization rate to stabilized net operating income. Each investment is subject to an appraisal by an independent valuator at least once every three years, if not earlier.

Critical judgments are made in respect of the fair values of co-owned commercial assets. Assumptions related to the estimates of fair values of these investment holdings include discount rates that reflect current market uncertainties, capitalization rates and recent investment holding transaction prices, if any. If there is any change in these assumptions or regional, national or international economic conditions, the fair value of investment holdings may change materially.

## Fair Value of Investment Properties

Critical judgments are made in respect of the fair values of investment properties and the investment properties held in equity accounted investments. Assumptions relating to the estimates of fair values of investment properties include the receipt of contractual rents, expected future market rents, renewal rates, maintenance requirements, discount rates that reflect current market uncertainties, capitalization rates and current and recent investment property transaction prices, if any. If there is any change in these assumptions or regional, national or international economic conditions, the fair value of investment properties may change materially.

On a rotational basis, the Company engages independent, professionally qualified appraisers who are experienced, nationally recognized and qualified in the professional valuation of real estate in their respective geographic areas. Judgment is applied in determining the extent and frequency of independent appraisals. A select number of properties are valued by an independent appraiser on a rotational basis at least once every three years. For properties subject to an independent valuation report, management verifies all major inputs to the valuation and reviews the results with the independent appraisers.

## Fair Value of Development Investment Properties

Fair value measurement of an investment property under development is applied only if the fair value is considered to be reliably measurable. Under specific circumstances, investment properties under development may be carried at cost until their fair value becomes reliably measurable. It may sometimes be difficult to determine reliably the fair value of investment properties under development. In order to evaluate whether the fair value of an investment property under development can be determined reliably, management considers various factors, including the terms of the construction contract, the stage of completion, the location, type and quality of the property, expected completion dates, current market rents for similar properties, the level of reliability of cash inflows after completion, the development risks specific to the property, past experience with similar constructions, status of approvals and/or permits, estimated costs to complete and market conditions.

## Impairment of Non-Financial Assets

Recreational properties, renewable power assets, capital assets and intangible assets with finite lives are tested for impairment whenever events or changes in circumstances indicate the carrying amounts may not be recoverable. Intangible assets with indefinite lives are tested at least annually. Management uses judgment in performing this impairment test. Imprecision in any of the assumptions and estimates used could affect the valuation of these assets and the assessment of performance.

IAS 36, "Impairment of Assets", requires management to use judgment in determining the recoverable amount of assets tested for impairment. Judgment is involved in estimating the fair value less the cost to sell or value-in-use of the CGUs, including estimates of growth rates, discount rates and terminal rates. The values assigned to these key assumptions reflect past experience and are consistent with external sources of information.

## Income Taxes

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations, often involving multiple jurisdictions. Judgment is required in determining whether deferred income tax assets should be recognized on the consolidated statements of financial position. Deferred income tax assets are recognized to the extent the Company believes it is probable that the assets can be recovered. Furthermore, deferred income tax balances are recorded using enacted or substantively enacted future income tax rates. Changes in enacted income tax rates are not within the control of management. However, any such changes in income tax rates may result in actual income tax amounts that may differ significantly from estimates recorded in deferred tax balances.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

## Fair Value and Impairment of Financial Instruments

Certain financial instruments are recorded in the Company's consolidated statements of financial position at values that are representative of or approximate fair value. The fair value of a financial instrument that is traded in active markets at each reporting date is determined by reference to its quoted market price or dealer price quotations. The fair value of co-owned commercial assets is based on the fair value of the Company's proportionate net assets of the underlying investment.

IFRS 9 requires management to use judgment in determining if the Company's financial assets are impaired. The Company's financial assets are subject to the expected credit loss model whereby the Company estimates on a forward looking basis possible default scenarios and establishes a provision matrix that considers various factors including industry and sector performance, economic and technological changes and other external market indicators.

The fair value of certain other financial instruments is determined using valuation techniques. By their nature, these valuation techniques require the use of assumptions. Changes in the underlying assumptions could materially impact the determination of the fair value of a financial instrument. Imprecision in determining fair value using valuation techniques may affect the amount of earnings recorded in a particular period.

The Company classifies the fair value of its financial instruments according to the following hierarchy, which is based on the amount of observable inputs used to value the instrument:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

## Fair Value of Hedging Instruments and Effectiveness

Critical judgments are made in respect of assumptions used to estimate the fair value of hedging instruments and to assess the effectiveness of the hedging arrangement. The basis of valuation and assessment of effectiveness for the Company's derivatives is set out in Notes 21 and 22 of the Company's consolidated financial statements; however, the fair values reported may differ from how they are ultimately recognized if there is volatility in interest rates between the valuation date and settlement date.

## Transfer of Inventory to Development Investment Properties

Raw land is usually unentitled property without the regulatory approvals that allow the construction of residential, industrial, commercial and mixed-use developments. When development plans are formulated, the Company may decide that specific land holdings will be developed into investment properties. Once appropriate evidence of a change in use is established, the land is transferred to investment properties. This also applies to multi-family rental properties, which are transferred to investment properties from condominium inventory.

## Internal Control over Financial Reporting

As at the December 31, 2018 financial year-end, the President and Chief Responsible Officer and the Chief Financial Officer (the "Certifying Officers"), along with the assistance of senior management, have evaluated the design and effectiveness of the Company's disclosure controls and procedures ("DC&P"), as defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" ("NI 52-109"). Based on that evaluation, the Certifying Officers have concluded that, as at December 31, 2018, the DC&P are adequate and effective in order to provide reasonable assurance that material information has been accumulated and communicated to management, to allow timely decisions of required disclosures by the Company and its consolidated subsidiary entities, within the required time periods.

The Company's internal control over financial reporting ("ICFR") (as defined by NI 52-109) is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Using the framework established in "2013 Committee of Sponsoring Organizations (COSO) Internal Control Framework", published by the Committee of Sponsoring Organizations of the Treadway Commission, the Certifying Officers, together with other members of management, have evaluated the design and operation of the Company's ICFR. Based on that evaluation, the Certifying Officers have concluded that the Company's ICFR was effective as at December 31, 2018.

There were no changes in the Company's ICFR in the year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## Accounting Standards Adopted During the Period

The Company has adopted the following new or revised standards, including any consequential amendments thereto, for the period effective January 1, 2018. Changes in accounting policies adopted by the Company were made in accordance with the applicable transitional provisions as provided in those standards and amendments. As required by IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", the nature and the effect of these changes are disclosed below and in Note 46 of the Company's consolidated financial statements.

### IFRS 2, "Share-Based Payments" ("IFRS 2")

IFRS 2 clarifies how to account for certain types of share-based payment transactions. It was amended to address: (i) certain issues related to the accounting for cash settled awards; and (ii) the accounting for equity settled awards that include a "net settlement" feature in respect of employee withholding taxes. The amendments to IFRS 2 are effective for years beginning on or after January 1, 2018. The adoption of the amendments to IFRS 2 did not have a material impact on the Company's consolidated financial statements.

### IFRS 7, "Financial Instruments – Disclosure" ("IFRS 7")

IFRS 7 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments and the nature and extent of risks arising from financial instruments to which an entity is exposed and how the entity manages those risks. It was amended to: (i) add guidance on whether an arrangement to service a financial asset that has been transferred constitutes continuing involvement; and (ii) clarify that the additional disclosure required by the amendments to IFRS 7 is not specifically required for interim periods, unless required by IAS 34. The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2018. Expanded disclosures required by IFRS 7 are included in Note 36 of the Company's consolidated financial statements.

### IFRS 9, "Financial Instruments" ("IFRS 9")

IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities where the final version of IFRS 9 was issued in July 2014 and includes: (i) a third measurement category for financial assets (fair value through other comprehensive income ("OCI")); (ii) a single, forward-looking "expected loss" impairment model; (iii) a substantially reformed approach to hedge accounting; and (iv) a mandatory effective date of annual periods beginning on or after January 1, 2018. The impact of changes due to the adoption of IFRS 9 is included in Note 46 of the Company's consolidated financial statements for the year ended December 31, 2018.

### IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15")

IFRS 15 specifies how and when revenue should be recognized, in addition to requiring more informative and relevant disclosures. The IFRS 15 revenue recognition model requires management to exercise significant judgment and make estimates that affect revenue recognition. This standard supersedes IAS 18, "Revenue", IAS 11, "Construction Contracts", and a number of revenue related interpretations. IFRS 15 must be applied for periods beginning on or after January 1, 2018, with early application permitted. Expanded disclosures required by IFRS 15 are included in Note 29 and the impact of changes due to the adoption of IFRS 15 is included in Note 46 of the Company's consolidated financial statements for the year ended December 31, 2018.

### IAS 40, "Investment Property" ("IAS 40")

IAS 40 clarifies the principles for transfers into, or out of, investment property when there has been a change in use. The Company has applied the amendments prospectively in accordance with the transitional provisions. The Company has assessed the impact of the amendment on the classification of existing property at January 1, 2018 and has concluded that no reclassifications are required and the timing of subsequent transfers is not expected to change on adoption of the amendment. As such, there is no impact to the consolidated financial statements on application of the amendment.

## Future Accounting Standards

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements that are likely to have an impact on the Company are listed below.

### IFRS 3, "Business Combinations" ("IFRS 3")

IFRS 3 clarifies that when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interest in the assets and liabilities of the joint operation at fair value. The amendments to IFRS 3 are effective for annual periods beginning on or after January 1, 2019, with early application permitted. These amendments will apply to the Company's future business combinations.

### IFRS 16, "Leases" ("IFRS 16")

IFRS 16 sets out the principles for the recognition, measurement and disclosure of leases. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right-of-use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value. Under IFRS 16, lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15. The Company has not early adopted IFRS 16. The Company is in the process of completing its in-depth assessment of IFRS 16 and the impact to the Company's consolidated financial statements. The Company's preliminary assessment has identified certain leases



within Western Canada and Dream Alternatives' renewable power portfolio that will be impacted by the implementation of IFRS 16, which would result in those leases with terms more than 12 months to be included on-balance sheet by recognizing a "right-of-use" asset and its related lease liability at the commencement of the lease. The impact to the Company's consolidated financial statements will be approximately \$17.8 million in right of use assets and lease liabilities as at January 1, 2019.

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

IFRIC 23 clarifies the application of the recognition and measurement requirements in IAS 12, "Income Taxes" ("IAS 12"), for situations where there is uncertainty over income tax treatments. IFRIC 23 specifically addresses whether an entity considers income tax treatments separately; assumptions that an entity makes regarding the examination of tax treatments by taxation authorities; how an entity determines taxable income or loss, tax bases, unused tax losses or credits, and tax rates; and how an entity considers changes in facts and circumstances. IFRIC 23 does not apply to taxes or levies outside the scope of IAS 12. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. The Company does not expect a significant impact to the consolidated financial statements.

## **Financial Instruments**

A detailed discussion of our strategy and risk management in respect of financial instruments is provided in Note 36 of the consolidated financial statements for the year ended December 31, 2018.

## **Risk Factors**

We are exposed to various risks and uncertainties, many of which are beyond our control and could have an impact on our business, financial condition, operating results and prospects. Shareholders should consider those risks and uncertainties when assessing our outlook in terms of investment potential. For a discussion of the risks and uncertainties identified by the Company, please refer to the consolidated financial statements and our most recent Annual Information Form filed on SEDAR ([www.sedar.com](http://www.sedar.com)).

### **Ownership of Real Estate**

#### **Development Risk**

The development industry is cyclical in nature and is significantly affected by changes in general and local economic and industry conditions, such as employment levels, availability of financing for homebuyers, government regulations, interest rates, consumer confidence, levels of new and existing homes for sale, demographic trends, housing demand and competition from other real estate companies.

An oversupply of alternatives to new homes and condominium units, such as resale properties, including properties held for sale by investors and speculators, foreclosed homes and rental properties, may reduce the Company's ability to sell new homes and condominium units and may depress prices and reduce margins from the sale of new homes and condominium units. Depending on market conditions, the Company may not be able, or may not wish, to develop its land holdings. Development of land holdings and properties that are to be constructed are subject to a variety of risks, not all of which are within the Company's control. Such risks include lack of funding, variability in development costs and unforeseeable delays.

Real estate assets, particularly raw land, are relatively illiquid in down markets. Such illiquidity tends to limit the Company's ability to vary its real estate portfolio promptly in response to changing economic or investment conditions. If there are significant adverse changes in economic or real estate market conditions, the Company may have to sell properties at a loss or hold undeveloped land or developed properties in inventory longer than planned. Inventory carrying costs can be significant and may result in losses in a poorly performing project or market.

#### **Delays and Cost Over-runs**

Delays and cost over-runs may occur in completing the construction of development projects, prospective projects and future projects that may be undertaken. A number of factors that could cause such delays or cost over-runs include, but are not limited to, permitting delays, changing engineering and design requirements, the performance of contractors, labour disruptions, adverse weather conditions and the availability of financing.

#### **Supply of Materials and Services**

The construction industry has from time to time experienced significant difficulties in the supply of materials and services, including with respect to shortages of skilled and experienced contractors and tradespeople, labour disputes, shortages of building materials, unforeseen environmental and engineering problems, and increases in the cost of certain materials. If any of these difficulties should occur, we may experience delays and increased costs in the construction of homes and condominiums.

#### **Competition**

The residential home and condominium building industry is highly competitive. Residential home and condominium builders compete for buyers, desirable properties, building materials, labour and capital. We compete with other local, regional and national homebuilders. Any improvement in the cost structure or service of these competitors will increase the competition we face. We also compete with sellers of existing homes, housing speculators and investors in rental housing. Competitive conditions in the homebuilding industry could result in: difficulty in acquiring desirable land at acceptable prices, increased selling incentives, lower sales volumes and prices, lower profit margins, impairments in the value of our inventory and other assets, increased construction costs and delays in construction.

Our ability to successfully expand asset management activities in the future is dependent on our reputation with clients. We believe that our track record, the expertise of our asset management team and the performance of the assets currently under management will enable us to continue to develop productive

relationships with these companies and to grow the assets under management. However, if we are not successful in doing so, our business and results of operations may be adversely affected.

#### **Joint Venture Risks**

Real estate investments are often made as joint ventures or partnerships with third parties. These structures involve certain additional risks, including the possibility that the co-venturers/partners may, at any time, have economic or business interests inconsistent with ours, the risk that such co-venturers/partners could experience financial difficulties that could result in additional financial demands on us to maintain and operate such properties or repay debt in respect of such properties, and the need to obtain the co-venturers'/partners' consents with respect to certain major decisions in respect of such properties. We attempt to mitigate these risks by performing due diligence procedures on potential partners and contractual arrangements, and by closely monitoring and supervising the joint venture or partnership.

#### **Geographic Concentration**

Our land development and housing operations are concentrated in Saskatchewan and Alberta. Some or both of these regions could be affected by severe weather; natural disasters; shortages in the availability or increased costs of obtaining land, equipment, labour or building supplies; changes to the population growth rates and therefore the demand for homes in these regions; and changes in the regulatory and fiscal environment. Due to the concentrated nature of our expected land development and housing operations, negative factors affecting one or a number of these geographic regions at the same time could result in a greater impact on our financial condition or results of operations than they might have on other companies that have a more diversified portfolio of operations.

Given the prominence of the oil and gas industry in Alberta and Saskatchewan, the economies of these provinces can be significantly impacted by the price of oil. Similarly, because of our substantial land and housing development operations in Alberta and Saskatchewan, any substantial decline in the price of oil could also adversely affect the Company's operating results. We continuously evaluate the economic health of the markets in which we operate through various means to ensure that we have identified and, where possible, mitigated risks to the Company, including the potential impacts of changes in the price of oil. Additionally, the land development process is longer term in nature, which, to some extent, mitigates the impacts of short-term fluctuations in the health of the economies in which we operate. As of December 31, 2018, the Company had not identified any material adverse effect on our business as a result of the current softening of oil prices.

Our Saskatchewan and Alberta operations have historically focused on the Company's land and housing businesses, as well as a golf course reported under our recreational properties. The Company has also recognized the potential of our substantial land holdings in these markets for retail and multi-family residential development opportunities, and we expect to continue to increase the activity for these types of developments in the future. Our retail developments utilize the Company's existing land inventory to develop assets that will derive cash flows over a longer term.

Similarly, a substantial portion of the projects of our Urban Development segment are located in and around the GTA and we have invested significantly in this region through both our Urban Development segment and our investment to Dream Office REIT, whose portfolio is concentrated in Toronto. Accordingly, any negative fluctuation in Toronto market fundamentals could result in a greater impact on our financial condition or results of operations than they might have on other companies that have a more diversified portfolio of operations.

#### **Risks Related to Master-Planned Communities**

Before a master-planned community generates any revenues, material expenditures are incurred to acquire land, obtain development approvals and construct significant portions of project infrastructure, amenities, model homes and sales facilities. It generally takes several periods for a master-planned community development to achieve cumulative positive cash flow. If we are unable to develop and market our master-planned communities successfully and generate positive cash flows from these operations in a timely manner, this may have a material adverse effect on our business and results of operations.

#### **Home Warranty and Construction Defect Claims**

As a homebuilder, we are subject to construction defect and home warranty claims arising in the ordinary course of our business. These claims are common in the homebuilding industry and can be costly. Where we act as the general contractor, we will be responsible for the performance of the entire contract, including work assigned to subcontractors. Claims may be asserted against us for construction defects, personal injury or property damage caused by the subcontractors, and if successful these claims give rise to liability. Where we hire a general contractor, if there are unforeseen events such as the bankruptcy of, or an uninsured or under-insured loss claimed against our general contractor, we will sometimes become responsible for the losses or other obligations of the general contractor. The costs of insuring against construction defect and product liability claims are high, and the amount of coverage offered by insurance companies may be limited. There can be no assurance that this coverage will not be further restricted and become more costly. If we are not able to obtain adequate insurance against these claims in the future, our business and results of operations may be adversely affected.

#### **Seasonality**

The nature of our land development and housing business is inherently seasonal as it depends on sales of specific projects dictated by the marketplace and the availability of buyers as well as weather-related delays. We have historically experienced, and we expect that we will continue to experience, variability in our results on a quarterly basis. We generally have more homes under construction, close more home sales and have greater revenues and operating income from our housing business in the second quarter of our fiscal period. Therefore, although new home contracts are obtained throughout the period, a significant portion of our home closings occur in the second fiscal quarter. Our revenues from our land and housing development business therefore may fluctuate significantly on a quarterly basis, and we must maintain sufficient liquidity to meet short-term operating requirements.

#### **Real Estate Ownership**

An investment in real estate is relatively illiquid. Such illiquidity tends to limit our ability to vary our commercial property portfolio promptly in response to changing economic or investment conditions. In recessionary times, it may be difficult to dispose of certain types of real estate. The costs of holding real estate

are considerable, and during an economic recession we may be faced with ongoing expenditures with a declining prospect of incoming receipts. In such circumstances, it may be necessary to dispose of properties at lower prices in order to generate sufficient cash for operations.

Certain significant expenditures (e.g., property taxes, maintenance costs, mortgage payments, insurance costs and related charges) must be made regardless of whether or not a property is producing sufficient income to pay such expenses. In order to retain desirable rentable space and to generate adequate revenue over the long term, properties must be maintained or, in some cases, improved to meet market demand. Maintaining a rental property in accordance with market standards can entail significant costs, which may not be able to be passed on to tenants. Numerous factors, including the age of the relevant building structure, the material and substances used at the time of construction, or currently unknown building code violations, could result in substantial unbudgeted costs for refurbishment or modernization. Any failure by us to ensure appropriate maintenance and refurbishment work is undertaken could materially adversely affect the rental income that we earn from such properties; for example, such a failure could entitle tenants to withhold or reduce rental payments or even terminate existing leases. Any such event could have an adverse effect on our cash flows, financial condition and results of operations.

#### **Rollover of Leases**

Revenue properties generate income through rent received from tenants. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced for a number of reasons. Furthermore, the terms of any subsequent lease may be less favourable than those of the existing lease. Our cash flows and financial position could be adversely affected if tenants were to become unable to meet their obligations under their leases or if a significant amount of available space in our revenue properties could not be leased on economically favourable lease terms. In the event of default by a tenant, we may experience delays or limitations in enforcing our rights as lessor and incur substantial costs in protecting our investment. In addition, at any time, a tenant may seek the protection of bankruptcy, insolvency or similar laws, which could result in the rejection and termination of the lease of the tenant and, thereby, cause a reduction in the cash flows available to us.

#### **Market Conditions**

Revenue properties are subject to economic and other factors affecting the real estate markets in the geographic areas where we own and manage properties. These factors include government policies, demographics and employment patterns, the affordability of rental properties, competitive leasing rates and long term interest and inflation rates. These factors may differ from those affecting the real estate markets in other regions. If real estate conditions in areas where these properties are located decline relative to real estate conditions in other regions, our cash flows and financial condition may be more adversely affected than those of companies that have more geographically diversified portfolios of properties.

#### **Residential Rental Business Risk**

The Company expects to be increasingly involved in mixed-use development projects that include residential rentals. Purchaser demand for residential rentals is cyclical and is affected by changes in general market and economic conditions, such as consumer confidence, employment levels, availability of financing for home buyers, interest rates, demographic trends, housing supply and housing demand. As a landlord in its properties that include rental apartments, the Company is subject to the risks inherent in the multi-unit residential rental business, including, but not limited to, fluctuations in occupancy levels, individual credit risk, heightened reputation risk, tenant privacy concerns, potential changes to rent control regulations, increases in operating costs including the costs of utilities and the imposition of new taxes or increased property taxes.

#### **Regulatory Risks**

The real estate development process is subject to a variety of laws and regulations. In particular, governmental authorities regulate such matters as zoning and permitted land uses, levels of density and building standards. We will have to continue to obtain approvals from various governmental authorities and comply with local, provincial and federal laws, including laws and regulations concerning the protection of the environment in connection with such development projects. Obtaining such approvals and complying with such laws and regulations may result in delays which may cause us to incur additional costs that impact the profitability of a development project, or may restrict development activity altogether with respect to a particular project.

#### **Environmental Risks**

As an owner of real estate property, we are subject to various federal, provincial and state laws relating to environmental matters. Such laws provide that we could be liable for the costs of removal and remediation of certain hazardous, toxic substances released on or in our properties or disposed of at other locations, as well as potentially significant penalties. We have insurance and other policies and procedures in place to review and monitor environmental exposure, which we believe mitigates these risks to an acceptable level. Some of the properties in which we have an interest currently have or have had occupants that use hazardous substances or create waste. Such uses can potentially create environmental liabilities. A few issues have been identified through site assessments, including the need to remediate or otherwise address certain contaminations. These issues are being carefully managed with the involvement of professional consultants. Where circumstances warrant, designated substance surveys and/or environmental assessments are conducted. Although environmental assessments provide some assurance, we may become liable for undetected pollution or other environmental hazards on our properties against which we cannot insure, or against which we may elect not to insure where premium costs are disproportionate to our perception of relative risk. We do not currently anticipate material expenditures in respect of any required remediation.

#### **Asset Management Risks**

Our ability to successfully expand our asset management activities is dependent on a number of factors, including certain factors that are outside our control. In the event that the asset base of our funds were to decline, our management fees could decline as well. In addition, we could experience losses on our investments of our own capital in our funds as a result of poor performance by our funds. Termination of an asset management agreement in accordance with its terms by any of our funds would also result in a decline in our management fees.

Our ability to successfully expand asset management activities in the future is dependent on our reputation with clients. We believe that our track record, the expertise of our asset management team and the performance of the assets currently under management will enable us to continue to develop productive



relationships with these companies and to grow the assets under management. However, if we are not successful in doing so, our business and results of operations may be adversely affected.

Our revenues from the advisory services division are dependent on agreements with a few key clients. Although we have long-term, stable management contracts with clients that may only be terminated in limited circumstances, any such termination could have a material adverse effect on our revenue from management fees.

## **Lending Portfolio and Investment Holdings**

### **Default Risk**

If a borrower under a loan defaults under any terms of the loan, we may have the ability to exercise our enforcement remedies in respect of the loan. Exercising enforcement remedies is a process that requires a significant amount of time to complete, which could adversely impact our cash flow. In addition, as a result of potential declines in real estate values, there is no assurance that we will be able to recover all or substantially all of the outstanding principal and interest owed to us in respect of such loans by exercising our enforcement remedies. Our inability to recover all or substantially all of the principal and interest owed to us in respect of such loans could materially adversely affect us.

There can be no assurance that any of the loans comprising our borrowers' portfolio can or will be renewed at the same interest rates and terms, or in the same amounts as are currently in effect. The lenders, the borrowers or both may elect to not renew any loan. If loans are renewed, the principal balance, the interest rates and the other terms and conditions will be subject to negotiation between the lenders and the borrowers at the time of renewal.

In addition, the composition of our lending portfolio may vary widely from time to time and may be concentrated by type of security, industry or geography, resulting in it being less diversified at some times than at other times. A lack of diversification may result in exposure to economic downturns or other events that have an adverse and disproportionate effect on particular types of securities, industries or geographies.

### **Credit Risk**

There is a risk that a borrower or issuer of an investment security will not make a payment on debt or that an originating lender will not make its payment on a loan participation interest purchased by us or that an issuer or an investment security or an originating lender retaining the original loan in which it grants participations may suffer adverse changes in financial condition, lowering the credit quality of its security or participation and increasing the volatility of the security or participation price. Such changes in the credit quality of a security or participation can affect its liquidity and make it more difficult to sell if we wish to do so. In addition, with respect to loans made or held by us, a change in the financial condition of a borrower could have a negative financial impact on us.

While we intend to diversify our investments to ensure that we do not have excessive concentration in any single borrower or counterparty, or related group of borrowers or counterparties, the Company currently holds various lending instruments and investments with the same counterparty or related counterparties within its lending portfolio and development and investment holdings portfolio. A change in the financial condition of a single borrower or counterparty or related group of borrowers or counterparties to which the Company has concentrated exposure could significantly and adversely affect the overall performance of the Company.

## **Renewable Power**

### **Contract Performance**

The renewable power operations are highly dependent upon parties to certain agreements fulfilling their contractual obligations, including counterparties to power purchase agreements ("PPAs") or Feed in Tariff contracts and other key suppliers. An inability or failure of any such party to meet its contractual commitments may adversely affect our financial condition, results of operations and cash flow, as it may not be possible to replace the agreement with an agreement on equivalent terms and conditions. The ability of our facilities to generate the maximum amount of power that can be sold to purchasers of electricity under PPAs is an important determinant of the revenues of our renewable power business. If one of these facilities delivers less than the required quantity of electricity in a given contract period, penalty payments may be payable to the relevant purchaser. The payment of any such penalties could adversely affect the revenues and profitability of our renewable power business.

### **Changes in Technology**

There are other alternative technologies that can produce renewable power, such as fuel cells and micro-turbines. Research and development activities are ongoing to seek improvements in such alternative technologies, and their cost of producing electricity is gradually declining. It is possible that advances will further reduce the cost of alternative methods of power generation. If this were to happen, the competitive advantage of our projects may be impaired and our business, financial condition, results of operations and cash flow could be materially adversely affected.

### **Assessment of Wind Resource and Associated Wind Energy**

The strength and consistency of the wind resource at any project site may vary from the anticipated wind resource. Weather patterns could change, or the historical data could prove to be an inaccurate reflection of the strength and consistency of the wind in the future. The conclusions of wind studies and energy production estimates are based on a particular methodology and a set of assumptions about the existence of certain conditions, and the assumption that these conditions will continue in the future. The assumptions and factors are inherently uncertain and may result in actual energy production being different from estimates. A decline in wind conditions at our wind energy facilities could materially adversely affect revenues and cash flows from such facilities.

### **Transmission Capacity and Curtailment**

Electrical distribution grid systems have finite capacity to accommodate additional electricity that is supplied to the system. In order for projects to be developed, they need to be connected to the distribution grid system in a location where there is sufficient capacity to handle the additional electricity produced by the project. In most cases, the distribution grid system can be upgraded in order to accommodate such increased capacity; however, we are generally required

to cover all or a portion of costs and expenses in connection with any construction and/or upgrades that are required, which impacts the financial viability of such projects. There is also a potential risk associated with transmission curtailment measures being contemplated by the Ontario transmission system operator. These measures could be imposed in the future on renewable energy generators in Ontario. The curtailments may reduce the amount of annual revenue generated by our projects below the forecasted financial models, thus reducing the expected investment return from these projects.

### **Regulatory Regime, Political Environment and Permits**

The development and operation of renewable power projects is subject to extensive regulation by various government agencies at the municipal, provincial and federal levels. As legal requirements frequently change and are subject to interpretation and discretion, we are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations. Any new law or regulation could require additional expenditure to achieve or maintain compliance or could adversely affect the ability to generate and deliver energy. In addition, delays may occur in obtaining necessary government approvals required for future power projects. We hold permits and licences from various regulatory authorities for the construction and operation of our renewable power facilities. These licences and permits are critical to the operation of the renewable power business. It may not be possible to renew, maintain or obtain all necessary licences, permits and governmental approvals required for the continued operation or further development of projects, which could adversely impact our business, results of operations and cash flow. The profitability of any wind project will be in part dependent upon the continuation of a favourable regulatory climate with respect to the continuing operations, future growth and development of the independent power industry. Government regulations and incentives currently have a favourable impact on the building of wind power facilities. Should the current governmental regulations or incentive programs be modified, our business, operating results, financial condition or prospects may be adversely affected.

## **Financial and Liquidity Risk**

### **Financing Risk**

We will require access to capital to ensure properties are maintained, as well as to fund our growth strategy and significant capital expenditures. There is no assurance that capital will be available when needed or on favourable terms. Our access to third-party financing will be subject to a number of factors, including general market conditions, the market's perception of our growth potential, our then current and expected future earnings and our cash flows. Upon the expiry of the term of the financing of any particular property, refinancing may not be available or may not be available on reasonable terms.

### **Ability to Obtain Performance, Payment, Completion and Surety Bonds and Letters of Credit**

We may often be required to provide performance, payment, completion and surety bonds or letters of credit to secure the completion of our construction contracts, development agreements and other arrangements. We have obtained facilities to provide the required volume of performance, payment, completion and surety bonds and letters of credit for our expected growth in the medium term; however, unexpected growth may require additional facilities. Our ability to obtain further performance, payment, completion and surety bonds and letters of credit primarily depends on our perceived creditworthiness, capitalization, working capital, past performance and claims record, management expertise and certain external factors, including the capacity of the performance bond markets. If our future claims record or our providers' requirements or policies are different, if we cannot obtain the necessary consent from lenders to renew or amend our existing facilities, or if the market's capacity to provide performance and completion bonds is not sufficient, we could be unable to obtain further performance, payment, completion and surety bonds or letters of credit when required, which could have a material adverse effect on our business, financial condition and results of operations.

## **Other Applicable Risks**

### **Adverse Weather Conditions and Natural Disasters**

Adverse weather conditions and natural disasters such as hurricanes, tornadoes, earthquakes, droughts, floods, fires, extreme cold, snow and other natural occurrences could have a significant effect on our ability to develop land. These adverse weather conditions and natural disasters could cause delays and increase costs in the construction of new homes and the development of new communities. If insurance is unavailable to us or is unavailable on acceptable terms, or if the insurance is not adequate to cover business interruption or losses resulting from adverse weather or natural disasters, our business and results of operations could be adversely affected. In addition, damage to new homes caused by adverse weather or a natural disaster could cause our insurance costs to increase.

Adverse weather conditions and natural disasters could also limit the ability to generate or sell power. In certain cases, some events may not excuse us from performing obligations pursuant to agreements with third parties, and we may be liable for damages or suffer further losses as a result. In addition, many of our power generation assets are located in remote areas, which makes access for repair of damage difficult.

### **Uninsured Losses**

The Company carries comprehensive general liability, environmental, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risks (including, but not limited to, environmental contamination or catastrophic events such as war or acts of terrorism) which are either uninsurable, in whole or in part, or not insurable on an economically viable basis. Should an uninsured or underinsured loss occur, the Company could lose its investment in, and anticipated profits and cash flows from, one or more of its properties, and the Company would continue to be obliged to repay any recourse mortgage indebtedness on such properties.

### **Key Personnel**

The Company's executive and other senior officers have a significant role in our success and oversee the execution of our strategy. Our ability to retain our management team or attract suitable replacements should any members of the management group leave is dependent on, among other things, the competitive nature of the employment market. The Company has experienced departures of key professionals in the past and may do so in the future, and we cannot predict the impact that any such departures will have on its ability to achieve its objectives. The loss of services from key members of the management team or a limitation in their availability could adversely impact our financial condition and cash flow. We rely on the services of key personnel on our executive team, including our President and CRO, Executive Vice President and Chief Financial Officer, Chief Development Officer, Chief Investment Officer, President of

Asset Management, and the Company's directors. The loss of their services could have an adverse effect on the Company. We mitigate key personnel risk through succession planning, but do not maintain key personnel insurance.

#### **Changes in Law**

We are subject to laws and regulations governing the ownership and leasing of real property, (including the expropriation thereof), employment standards, environmental matters, taxes and other matters. It is possible that future changes in such laws or regulations or changes in their application, enforcement or regulatory interpretation could result in changes in the legal requirements affecting commercial properties (including with retroactive effect). Any changes in the laws to which we are subject or in the political environment in the jurisdictions where the commercial properties in which we have an interest are operated could adversely affect us and the revenues we are able to generate from our investments.

#### **Tax Risk**

We are subject to tax audits from various government and regulatory agencies on an ongoing basis. As a result, from time to time, taxing authorities may disagree with the interpretation and application of Canadian tax laws taken by the Company in its tax filings, which could lead to reassessments. These reassessments could have a material impact on the Company in future periods.

#### **Cyber Security Risk**

Cyber security has become an increasing area of focus for issuers and businesses in Canada and globally, as reliance on digital technologies to conduct business operations has grown significantly. Cyber attacks against organizations are increasing in sophistication and can include but are not limited to intrusions into operating systems, theft of personal or other sensitive data and/or cause disruptions to business operations. Such cyber attacks could compromise the Company's confidential information as well as that of the Company's employees, customers and third parties with whom the Company interacts and may result in negative consequences, including remediation costs, loss of revenue, additional regulatory scrutiny, litigation and reputational damage.

### **Forward-Looking Information**

Certain information in this MD&A may constitute "forward-looking information" within the meaning of applicable securities legislation, including but not limited to statements relating to our objectives and strategies to achieve those objectives; our beliefs, plans, estimates, projections and intentions, and similar statements concerning anticipated future events, future growth, results of operations, performance, business prospects and opportunities, acquisitions or divestitures, tenant base, future maintenance and development plans and costs, capital investments, financing, the availability of financing sources, income taxes, vacancy and leasing assumptions, litigation and the real estate industry in general; as well as specific statements in respect of development plans and proposals for future retail and condominium and mixed-use projects and future stages of current retail and condominium and mixed-use projects, including projected sizes, density, uses and tenants; development timelines and anticipated returns or yields on current and future retail and condominium and mixed-use projects, including timing of construction, marketing, leasing, completion, occupancies and closings; anticipated current and future unit sales and occupancies of our condominium and mixed-use projects; our pipeline of retail, commercial, condominium and mixed-use developments projects; development plans and timelines of current and future land and housing projects, including projected sizes, density and uses; anticipated current and future lot and acre sales and housing unit occupancies in our land and housing divisions and the timing of margin contributions from such sales; expected market values of our lands as well as our land backlog; projected population and density in our housing developments; our ability to increase development on our owned lands and the anticipated returns therefrom; future land acquisitions and financings and the timing thereof; anticipated development approvals and timing thereof; the recovery of the Saskatoon, Regina and Calgary markets; our plans with respect to the expropriation of the Obico Property; expected contribution of our investment and recreational properties to recurring income in future periods; our expansion plans for recreational properties and the anticipated effect on revenue; future performance of the land development, housing development, condominium and mixed-use development and retail and commercial developments divisions; timing of achieving milestones in our retail, commercial, residential, condominium and mixed-use developments projects; expected sources, amounts, and timing of financings for our projects; our anticipated ownership levels of proposed investments, including investments in units of Dream Office REIT and Dream Alternatives and the other Dream Publicly Listed Funds; the expected level of growth within Dream Office REIT's and Dream Alternatives' core Toronto development portfolios; the future NAV and NAV per unit of Dream Alternatives; future equity investments in Dream Alternatives' lending and development and investment holdings portfolios; the development plans and proposals for Dream Alternatives' current and future projects, including projected sizes, timelines, density, uses and tenants; expected cash flows, economic returns and funded equity of projects in future periods; anticipated levels of development, asset management and other management fees in future periods; our expectations of future income, earnings and net margin of our land and housing divisions; our overall financial performance, profitability, leverage and liquidity for future periods and years; and our expectations regarding timing and payment of the Company's first dividend on the Subordinate Voting Shares and Class B Common Shares. The forward-looking information in this MD&A is presented for the purpose of providing disclosure of the current expectations of our future events or results, having regard to current plans, objectives and proposals, and such information may not be appropriate for other purposes. Forward-looking information may also include information regarding our respective future plans or objectives and other information that is not composed of historical fact. Forward-looking information is predictive in nature and depends upon or refers to future events or conditions; as such, this MD&A uses words such as "may", "would", "could", "should", "will", "likely", "expect", "anticipate", "believe", "intend", "plan", "forecast", "project", "estimate", and similar expressions suggesting future outcomes or events to identify forward-looking information.

Any such forward-looking information is based on information currently available to us, and is based on assumptions and analyses made by us in light of our respective experiences and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances, including but not limited to: that no unforeseen changes in the legislative and operating framework for the respective businesses will occur; that we will meet our future objectives and priorities; that we will have access to adequate capital to fund our future projects and plans; that our future projects and plans will proceed as anticipated; and that future market and economic conditions will occur as expected.

However, whether actual results and developments will conform with the expectations and predictions contained in the forward-looking information is subject to a number of risks and uncertainties, many of which are beyond our control, and the effects of which can be difficult to predict. Factors that could cause



actual results or events to differ materially from those described in the forward-looking information include, but are not limited to: adverse changes in general economic and market conditions; our inability to raise additional capital; our inability to execute strategic plans and meet financial obligations; and risks associated with our anticipated real estate operations and investment holdings in general, including environmental risks, market risks, and risks associated with inflation, changes in interest rates and other financial exposures. For a further description of these and other factors that could cause actual results to differ materially from the forward-looking information contained, or incorporated by reference in this MD&A, see the "Risk Factors" section of this MD&A.

In evaluating any forward-looking information contained, or incorporated by reference, in this MD&A, we caution readers not to place undue reliance on any such forward-looking information. Any forward-looking information speaks only as of the date on which it was made. Unless otherwise required by applicable securities laws, we do not intend, nor do we undertake any obligation, to update or revise any forward-looking information contained, or incorporated by reference, in this MD&A to reflect subsequent information, events, results, circumstances or otherwise, except as required by law.

## Supplemental Segmented Information - Consolidated Dream

### Revenue by Geographic Region

The Company's revenue segmented by geographic region, net of eliminations, is as follows:

	For the three months ended December 31,				For the year ended December 31,				
	2018		2017		2018		2017		
Western Canada									
<i>Alberta</i>	\$	21,714	14.1%	\$ 18,384	12.7%	\$ 44,788	13.2%	\$ 57,338	16.0%
<i>British Columbia</i>		964	0.6%	—	—%	4,021	1.2%	—	—%
<i>Saskatchewan</i>		74,877	48.6%	90,764	62.8%	128,666	37.9%	179,128	50.2%
	\$	97,555	63.3%	\$ 109,148	75.5%	\$ 177,475	52.3%	\$ 236,466	66.2%
Ontario		32,872	21.4%	16,436	11.3%	86,255	25.4%	41,795	11.7%
Quebec		1,234	0.8%	—	—%	1,234	0.3%	—	—%
Eastern Canada		1,565	1.0%	—	—%	5,943	1.7%	—	—%
<b>Canada</b>		133,226	86.5%	125,584	86.8%	270,907	79.7%	278,261	77.9%
<b>United Kingdom</b>		798	0.5%	—	—%	2,696	0.8%	—	—%
<b>United States</b>		9,490	6.2%	8,903	6.2%	34,469	10.1%	32,880	9.3%
<b>Non-segmented (asset management)</b>		10,441	6.8%	10,099	7.0%	31,801	9.4%	45,823	12.8%
<b>Total</b>	\$	153,955	100.0%	\$ 144,586	100.0%	\$ 339,873	100.0%	\$ 356,964	100.0%

### Net Margin by Geographic Region

The Company's net margin segmented by geographic region is as follows:

	For the three months ended December 31,				For the year ended December 31,				
	2018		2017		2018		2017		
Western Canada									
<i>Alberta</i>	\$	6,801	14.6%	\$ 7,630	15.3%	\$ 5,332	6.1%	\$ 11,444	11.6%
<i>British Columbia</i>		964	2.1%	—	—%	4,021	4.6%	—	—%
<i>Saskatchewan</i>		22,040	47.5%	32,499	65.0%	20,176	23.0%	38,486	39.2%
	\$	29,805	64.2%	\$ 40,129	80.3%	\$ 29,529	33.7%	\$ 49,930	50.8%
Ontario		2,392	5.1%	1,439	2.9%	27,918	31.8%	4,623	4.7%
Quebec		1,234	2.7%	—	—%	1,234	1.4%	—	—%
Eastern Canada		3,434	7.4%	—	—%	3,491	4.0%	—	—%
<b>Canada</b>		36,865	79.4%	41,568	83.2%	62,172	70.9%	54,553	55.5%
<b>United Kingdom</b>		(2,441)	(5.3%)	—	—%	(81)	(0.1%)	—	—%
<b>United States</b>		581	1.3%	1,467	2.9%	4,941	5.7%	7,497	7.7%
<b>Non-segmented (asset management)</b>		11,409	24.6%	6,965	13.9%	20,636	23.5%	36,185	36.8%
<b>Total</b>	\$	46,414	100.0%	\$ 50,000	100.0%	\$ 87,668	100.0%	\$ 98,235	100.0%

## Contribution of Quarterly Margin and Income by Major Business Segment/Investment

<i>(in thousands of dollars)</i>	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017
Asset management <sup>(1)</sup>	\$ 10,856	\$ 8,320	\$ 7,021	\$ 7,116	\$ 6,965	\$ 12,756	\$ 7,116	\$ 9,348
Urban development - Toronto and Ottawa	2,312	(450)	(557)	418	1,244	2,810	467	(127)
Renewables and recreational properties <sup>(2)</sup>	338	(3,006)	1,974	6,338	979	(2,460)	2,297	5,631
Western Canada development	29,153	843	(2,232)	(2,545)	40,812	13,838	(3,498)	57
Dream Alternatives	7,192	9,740	9,777	8,215	—	—	—	—
Consolidation adjustments	(3,437)	(3,203)	(2,762)	(3,753)	—	—	—	—
<b>Total net margin</b>	<b>\$ 46,414</b>	<b>\$ 12,244</b>	<b>\$ 13,221</b>	<b>\$ 15,789</b>	<b>\$ 50,000</b>	<b>\$ 26,944</b>	<b>\$ 6,382</b>	<b>\$ 14,909</b>
<b>Income (loss) amounts included below net margin</b>								
Firelight Infrastructure Partners LP (Energy and Infrastructure) <sup>(3)</sup>	(875)	2,924	3,373	(209)	(717)	3,308	2,425	39
Share of earnings from Dream Office REIT <sup>(4)</sup>	9,361	8,508	7,104	7,429	13,727	—	—	—
Other share of earnings (losses) from equity accounted investments	856	353	(973)	(822)	902	3	(1,243)	(1,366)
<b>Total share of earnings (losses) from equity accounted investments</b>	<b>\$ 9,342</b>	<b>\$ 11,785</b>	<b>\$ 9,504</b>	<b>\$ 6,398</b>	<b>\$ 13,912</b>	<b>\$ 3,311</b>	<b>\$ 1,182</b>	<b>\$ (1,327)</b>
Investment income earned from Dream Publicly Listed Funds	\$ 959	\$ 884	\$ 842	\$ 703	\$ 696	\$ 2,116	\$ 3,697	\$ 3,595

<sup>(1)</sup> Included in net margin for asset management and management services for the three months ended March 31, 2017 and December 31, 2016 were fees earned from development arrangements, which will fluctuate period over period. Included in net margin for asset management and management services for the three months ended September 30, 2017 were transactional-related fees earned from Dream Publicly Listed Funds, which will fluctuate period over period. Net margin for asset management is gross of consolidation adjustments to eliminate margin earned on the Company's asset management contract with Dream Alternatives.

<sup>(2)</sup> The decline in net margin in the September quarter-end periods is due to the seasonal closure of the Arapahoe Basin ski resort, which generally closes operations from July to September.

<sup>(3)</sup> The decline in net earnings in the March and December quarter-end periods is primarily due to the seasonality of the renewable energy projects. Results may fluctuate period to period based on weather. For additional details, refer to the "Renewable and Recreational Properties" section of this MD&A.

<sup>(4)</sup> In the three months ended December 31, 2017, the Company reclassified its investment in Dream Office REIT from an available-for-sale investment to an equity accounted investment. Accordingly, in the period, distribution income from Dream Office REIT was no longer included within investment income.

## Selected Annual Information

<i>(in thousands of dollars, except per share amounts)</i>	Year ended December 31,		
	2018	2017	2016
Revenue	\$ 339,873	\$ 356,964	\$ 340,167
Earnings before income taxes	213,492	115,576	135,624
Earnings for the year	192,053	82,839	95,364
Earnings for the year attributable to shareholders	190,948	79,645	67,638
Basic earnings per share	1.76	0.81	0.85
Diluted earnings per share	1.71	0.79	0.83
Total assets	2,751,566	1,904,007	1,612,314
Total liabilities	1,631,986	946,523	780,803
Total equity	1,119,580	957,484	831,511
Total equity per share <sup>(1)</sup>	10.43	8.77	7.39

<sup>(1)</sup> Total equity per share includes non-controlling interest relating to SDC for 2016 and 2017.

## Non-IFRS Measures

In addition to using financial measures determined in accordance with IFRS, we believe that important measures of operating performance include certain financial measures that are not defined under IFRS and, as such, may not be comparable to similar measures used by other companies. Throughout this MD&A, there are references to certain non-IFRS measures, including those described below, which management believes are relevant in assessing the economics of the business of Dream. While these performance measures are not defined by IFRS, do not have a standardized meaning and may not be comparable with similar measures presented by other companies, we believe that they are informative and provide further insight as supplementary measures of earnings for the period and cash flows.

"Assets under management ("AUM")" is the respective carrying value of total assets managed by the Company on behalf of its clients, investors or partners under asset management agreements and/or management services agreements. Assets under management is a measure of success against the competition and consists of growth or decline due to asset appreciation, changes in fair market value, acquisitions and dispositions, operations gains and losses, and inflows and outflows of capital.

**"Debt to total asset ratio"** is an important measure of financial liquidity and is calculated as total debt (being the sum of project-specific debt, corporate debt facilities and Preference shares, series 1), as a percentage of total assets per the consolidated financial statements. A reconciliation of the debt to total asset ratio can be found below.

	Consolidated Dream		Dream standalone	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Project-specific debt	\$ 514,580	\$ 280,227	\$ 315,200	\$ 280,227
Corporate debt facilities	373,026	308,024	373,026	308,024
Preference shares, series 1	28,672	28,668	28,672	28,668
Total debt	916,278	616,919	716,898	616,919
Total assets	2,751,566	1,904,007	2,056,028	1,855,671
Debt to total asset ratio (%)	<b>33.3%</b>	32.4%	<b>34.9%</b>	33.2%

**"Dream standalone"** represents the results of Dream, excluding the impact of Dream Alternatives' equity accounted investment (prior to January 1, 2018) and consolidated results (January 1, 2018 onward). Metrics calculated on a Dream standalone basis are used by management in evaluating the overall performance and managing risk of the Company. Refer to the "Reconciliation of Basic Earnings per Share", "Segmented Assets and Liabilities" and "Segmented Statement of Earnings" sections of this MD&A for a reconciliation of Dream excluding Dream Alternatives results to the consolidated financial statements.

**"Fee-earning assets under management"** represents assets under management that are managed under contractual arrangements that entitle the Company to earn asset management revenues.

**"Gross margin %"** is an important measure of operating earnings in each business segment of Dream and represents gross margin as a percentage of revenue.

**"Internal rate of return ("IRR")"** for Dream Alternatives' residential development projects is calculated based on the estimated net pre-tax cash flow expected to be generated from each project considering real estate development revenues, expenditures, construction timeline and sale dates. This non-IFRS measure is an important measure on evaluating the performance of the Company's investments, however, it is not defined by IFRS, does not have a standard meaning and may not be comparable with similar measures presented by other issuers.

**"Market value"** is an important measure of growth for Dream Alternatives, representing mark-to-market adjustments on the segment's renewable power and equity accounted investments portfolio for the purposes of calculating NAV of DAT.

**"Net asset value ("NAV") per unit of Dream Alternatives"** represents the net asset value attributable to unitholders of Dream Alternatives divided by the number of units outstanding at the end of the period. This non-IFRS measure is an important measure used by the Company in evaluating Dream Alternatives' performance as it is an indicator of the intrinsic value of Dream Alternatives; however, it is not defined by IFRS, does not have a standardized meaning and may not be comparable with similar measures presented by other issuers. A reconciliation of NAV to total unitholders' equity can be found below.

	December 31, 2018						
	Other financial assets and equity accounted investments <sup>(2)</sup>	Lending portfolio	Investment properties	Renewable power <sup>(3)</sup>	Cash, working capital and other <sup>(1)</sup>	Total	
Total unitholders' equity <sup>(4)</sup>	\$ 254,804	\$ 142,220	\$ 101,962	\$ 64,184	\$ 27,088	\$	590,258
Market value adjustment to equity accounted investments	39,870	—	—	—	—	—	39,870
Market value adjustment to renewable power assets <sup>(2)</sup>	—	—	—	10,527	—	—	10,527
Deferred income taxes adjustment	—	—	—	—	(6,005)	—	(6,005)
NAV of Dream Alternatives	\$ 294,674	\$ 142,220	\$ 101,962	\$ 74,711	\$ 21,083	\$	634,650
NAV per unit of Dream Alternatives	\$ 4.06	\$ 1.96	\$ 1.40	\$ 1.03	\$ 0.29	\$	8.74

<sup>(1)</sup> Cash, working capital and other includes Dream Alternatives and other cash and net working capital balances.

<sup>(2)</sup> For additional details on Dream Alternatives' equity accounted investments market value adjustment, refer to the "Portfolio Summary - Dream Alternatives" section of this MD&A.

<sup>(3)</sup> For additional details on Dream Alternatives' renewable power assets market value adjustment, refer to the "Portfolio Summary - Dream Alternatives" section of this MD&A.

<sup>(4)</sup> Dream Alternatives' unitholders' equity is eliminated upon consolidation.

**"Net asset value ("NAV") of Dream Alternatives"** a non-IFRS measure, represents total unitholders' equity per the Dream Alternatives segment, adjusted for fair value adjustments for both renewable power projects and equity accounted investments (including applicable deferred income tax adjustment) and the unamortized balance of the mortgages payable premiums. The mortgages payable premiums represent the current unamortized balance of fair value adjustments recorded for these instruments at Dream Alternatives' listing date. Since Dream Alternatives intends to repay the mortgages at maturity, this historical fair value adjustment is removed for the calculation of the NAV. A fair value adjustment for renewable power projects developed by Dream Alternatives is reflected once they become operational and long-term financing is arranged as well as reflecting recent market information that would indicate a change in the renewable power portfolio fair value (subject to appraisals). A fair value adjustment for equity accounted investments is included to address the reduction in risk profile as each project progresses towards completion and/or reflect information from recent market transactions that indicate a change in the equity investment fair value (subject to appraisals). Dream Alternatives believes that incorporating a fair value adjustment is a more useful measure to value the renewable power portfolio and equity accounted investments that would not ordinarily be captured within IFRS and Dream Alternatives' condensed consolidated financial statements. The fair value adjustments account for the applicable deferred income taxes considering the timing of their realization and,



if appropriate, will be incorporated into the determination of the NAV of Dream Alternatives. Excluded from the NAV of Dream Alternatives calculation are any fair value adjustments with respect to liabilities as well as commitments/contracts that are not otherwise recorded as liabilities on Dream Alternatives' balance sheet. Dream Alternatives has not appraised the lending portfolio, as Dream Alternatives intends to hold the investments in the lending portfolio until maturity and its term to maturity is within one year; as such, this portfolio is considered fairly liquid and fair value approximates amortized cost. This non-IFRS measure is an important measure used by the Company in evaluating Dream Alternatives' performance as it is an indicator of the intrinsic value of Dream Alternatives; however, it is not defined by IFRS, does not have a standardized meaning and may not be comparable with similar measures presented by other issuers. A reconciliation of NAV to total unitholders' equity can be found on the prior page.

**"Net margin %"** is an important measure of operating earnings in each business segment of Dream and represents net margin as a percentage of revenue. This non-IFRS measure is an important measure on evaluating the Company's performance, however, it is not defined by IFRS, does not have a standard meaning and may not be comparable with similar measures presented by other issuers.

**"Net Operating Income"** represents revenue less direct operating costs. Net operating income less general, administrative and overhead expenses, and amortization, is equal to net margin as per Note 43 of the consolidated financial statements. Net operating income for the investment and recreational properties divisions for the years ended December 31, 2018 and 2017 is calculated as follows:

<b>For the three months ended December 31, 2018</b>				
	Urban development - investment properties		Western Canada - investment properties	Recreational properties
Revenue	\$ 2,813	\$	2,255	\$ 11,601
Less: Direct operating costs	1,256		771	10,040
Less: Selling, marketing and other indirect costs	285		1,010	1,223
Net margin	\$ 1,272	\$	474	\$ 338
Add: Depreciation	—		—	1,101
Add: General and administrative expenses	285		1,010	122
<b>Net operating income</b>	<b>\$ 1,557</b>	<b>\$</b>	<b>1,484</b>	<b>\$ 1,561</b>

<b>For the three months ended December 31, 2017</b>				
	Urban development - investment properties		Western Canada - investment properties	Recreational properties
Revenue	\$ 3,656	\$	2,454	\$ 11,016
Less: Direct operating costs	1,712		921	9,028
Less: Selling, marketing and other indirect costs	316		1,006	1,009
Net margin	\$ 1,628	\$	527	\$ 979
Add: Depreciation	—		—	888
Add: General and administrative expenses	316		1,006	121
Net operating income	\$ 1,944	\$	1,533	\$ 1,988

<b>For the year ended December 31, 2018</b>				
	Urban development - investment properties		Western Canada - investment properties	Recreational properties
Revenue	\$ 12,259	\$	8,966	\$ 45,889
Less: Direct operating costs	5,285		2,981	35,789
Less: Selling, marketing and other indirect costs	1,280		4,542	4,456
Net margin	\$ 5,694	\$	1,443	\$ 5,644
Add: Depreciation	—		—	3,891
Add: General and administrative expenses	1,280		4,542	565
<b>Net operating income</b>	<b>\$ 6,974</b>	<b>\$</b>	<b>5,985</b>	<b>\$ 10,100</b>

For the year ended December 31, 2017

	Urban development - investment properties	Western Canada - investment properties	Recreational properties
Revenue	\$ 12,553	\$ 6,674	\$ 40,283
Less: Direct operating costs	5,733	2,198	30,005
Less: Selling, marketing and other indirect costs	1,105	4,587	3,831
Net margin	\$ 5,715	\$ (111)	\$ 6,447
Add: Depreciation	—	—	3,059
Add: General and administrative expenses	1,105	4,587	772
Net operating income	\$ 6,820	\$ 4,476	\$ 10,278

"**Total Unitholders' equity per unit**" represents the total unitholders' equity of Dream Alternatives divided by the number of Dream Alternatives trust units outstanding at the end of the period.

## Additional Information

Additional information relating to Dream, including the Company's annual information form and consolidated financial statements and accompanying notes, are available on SEDAR at [www.sedar.com](http://www.sedar.com). The Subordinate Voting Shares trade on the TSX under the symbol "**DRM**", and the Dream Preference shares, series 1, trade under the symbol "**DRM.PR.A**".

## Management's responsibility for consolidated financial statements

The accompanying consolidated financial statements, the notes thereto and management's discussion and analysis contained in this Annual Report have been prepared by, and are the responsibility of, the management of Dream Unlimited Corp. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, using management's best estimates and judgments when appropriate.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Board of Directors carries out these responsibilities primarily through an Audit Committee, which is composed entirely of independent directors. The Audit Committee meets with management as well as the external auditor to satisfy itself that management is properly discharging its financial responsibilities and to review its consolidated financial statements and the report of the auditor. The Audit Committee reports its findings to the Board of Directors, which approves the consolidated financial statements.

PricewaterhouseCoopers LLP, the independent auditor, has audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards. The auditor has full and unrestricted access to the Audit Committee, with or without management present.

***"Michael J. Cooper"***

Michael J. Cooper

President and Chief Responsible Officer

***"Pauline Alimchandani"***

Pauline Alimchandani

EVP and Chief Financial Officer

Toronto, Ontario

February 26, 2019



## Independent auditor's report

To the Shareholders of Dream Unlimited Corp.

### Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Dream Unlimited Corp. and its subsidiaries, (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

### What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of earnings for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

### Independence

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

### Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

### Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Frank Magliocco.

**(Signed) "PricewaterhouseCoopers LLP"**

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario  
February 26, 2019

## Consolidated Statements of Financial Position

As at December 31, 2018 and 2017

<i>(in thousands of Canadian dollars)</i>	Note	2018		2017	
<b>Assets</b>					
Cash and cash equivalents	42	\$	64,293	\$	25,408
Accounts receivable	6		177,414		197,467
Other financial assets	7		212,351		79,043
Lending portfolio	8		144,095		—
Housing inventory	9		56,605		59,619
Condominium inventory	10		239,621		171,513
Land inventory	11		575,896		574,898
Investment properties	12		412,771		241,977
Recreational properties	13		49,241		40,617
Renewable power assets	14		143,288		—
Equity accounted investments	15		549,760		402,672
Capital and other operating assets	16		40,068		20,099
Intangible asset	5		—		43,000
Goodwill	17		13,576		13,576
Assets held for sale	18		72,587		34,118
<b>Total assets</b>		\$	<b>2,751,566</b>	\$	<b>1,904,007</b>
<b>Liabilities</b>					
Accounts payable and other liabilities	19	\$	126,842	\$	118,965
Income and other taxes payable			49,529		77,143
Provision for real estate development costs	20		33,853		34,756
Customer deposits			34,111		39,021
Project-specific debt	21		514,580		280,227
Corporate debt facilities	22		373,026		308,024
Preference shares, series 1	23		28,672		28,668
Dream Alternatives trust units	24		377,234		—
Deferred income taxes	25		94,139		59,719
<b>Total liabilities</b>		\$	<b>1,631,986</b>	\$	<b>946,523</b>
<b>Shareholders' equity</b>					
Share capital	26		1,209,819		1,225,651
Reorganization adjustment			(944,577)		(944,577)
Contributed surplus	37		8,049		5,341
Retained earnings			818,581		601,098
Accumulated other comprehensive income	27		11,379		31,881
<b>Total shareholders' equity</b>			<b>1,103,251</b>		<b>919,394</b>
Non-controlling interest	28		16,329		38,090
<b>Total equity</b>			<b>1,119,580</b>		<b>957,484</b>
<b>Total liabilities and equity</b>		\$	<b>2,751,566</b>	\$	<b>1,904,007</b>

See accompanying notes to the consolidated financial statements.

**Commitments and contingencies** (Note 40)

**Subsequent events** (Note 47)

On behalf of the Board of Directors of Dream Unlimited Corp.:

**"Michael J. Cooper"**

Michael J. Cooper  
Director

**"Joanne Ferstman"**

Joanne Ferstman  
Chair



## Consolidated Statements of Earnings

For the years ended December 31, 2018 and 2017

<i>(in thousands of Canadian dollars, except for per share amounts)</i>	Note	2018	2017
Revenues	29	\$ 339,873	\$ 356,964
Direct operating costs	30	(193,927)	(203,310)
Asset management and advisory services expenses	31	(11,164)	(9,638)
Gross margin		134,782	144,016
Selling, marketing and other operating costs	32	(47,114)	(45,781)
Net margin		87,668	98,235
Other income (expenses):			
General and administrative expenses	33	(20,395)	(13,419)
Fair value changes in investment properties	12, 18	15,262	14,145
Share of earnings from equity accounted investments	15	37,029	17,078
Investment and other income	34	12,702	21,624
Gain on disposition of assets	18	9,422	—
Interest expense	35	(37,931)	(21,599)
Net gain on acquisition of Dream Alternatives	5	129,992	—
Adjustments related to Dream Alternatives trust units	24	(19,680)	—
Fair value changes in financial instruments		(577)	(488)
<b>Earnings before income taxes</b>		<b>213,492</b>	<b>115,576</b>
Income tax expense	25	(21,439)	(32,737)
<b>Earnings for the year</b>		<b>\$ 192,053</b>	<b>\$ 82,839</b>
<b>Total earnings for the year attributable to:</b>			
Shareholders		\$ 190,948	\$ 79,645
Non-controlling interest	28	1,105	3,194
<b>Earnings for the year</b>		<b>\$ 192,053</b>	<b>\$ 82,839</b>
Basic earnings per share	38	\$ 1.76	\$ 0.81
Diluted earnings per share	38	\$ 1.71	\$ 0.79

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

(in thousands of Canadian dollars)	Note	2018	2017
<b>Earnings for the year</b>		<b>\$ 192,053</b>	<b>\$ 82,839</b>
<b>Other comprehensive income</b>			
Reversal of losses on interest rate hedge reclassified to net income, net of tax		99	—
Unrealized (loss) gain on interest rate hedge, net of tax		(983)	280
Unrealized gain on financial assets designated as available for sale, net of tax		—	26,689
Unrealized gain (loss) from foreign currency translation (reclassified to earnings on partial or full disposal of foreign operation)		3,210	(2,026)
Losses reclassified to net income upon transfer to equity accounted investments, net of tax		—	5,612
Reversal of losses reclassified to net income upon consolidation of Dream Alternatives		68	—
Share of other comprehensive income (loss) from equity accounted investments		802	(581)
<b>Total other comprehensive income</b>	27	<b>3,196</b>	<b>29,974</b>
<b>Other comprehensive income</b>		<b>\$ 195,249</b>	<b>\$ 112,813</b>
<b>Total comprehensive income for the year attributable to:</b>			
Shareholders		\$ 194,144	\$ 108,590
Non-controlling interest	28	1,105	4,223
<b>Comprehensive income</b>		<b>\$ 195,249</b>	<b>\$ 112,813</b>

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

<i>(in thousands of Canadian dollars)</i>	Dream share capital (Note 26)	Contributed surplus	Reorganization adjustment	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity	Non-controlling interest	Total equity
Balance, January 1, 2018	\$ 1,225,651	\$ 5,341	\$ (944,577)	\$ 601,098	\$ 31,881	\$ 919,394	\$ 38,090	\$ 957,484
Impact of changes in accounting policies (Note 46)	—	—	—	34,144	(23,698)	10,446	—	10,446
Adjusted balance, January 1, 2018	1,225,651	5,341	(944,577)	635,242	8,183	929,840	38,090	967,930
Earnings for the year	—	—	—	190,948	—	190,948	1,105	192,053
Other comprehensive income for the year (Note 27)	—	—	—	—	3,196	3,196	—	3,196
Share repurchase under normal course issuer bid (Note 26)	(16,026)	—	—	—	—	(16,026)	—	(16,026)
Share-based compensation (Note 37)	194	2,708	—	—	—	2,902	—	2,902
Distributions to non-controlling interests (Note 28)	—	—	—	—	—	—	(1,021)	(1,021)
Contributions from non-controlling interests (Note 28)	—	—	—	—	—	—	1,600	1,600
Non-controlling interest related to business combination (Notes 5 and 28)	—	—	—	—	—	—	1,948	1,948
Change in interest in subsidiary (Note 28)	—	—	—	(7,609)	—	(7,609)	(25,393)	(33,002)
Balance, December 31, 2018	\$ 1,209,819	\$ 8,049	\$ (944,577)	\$ 818,581	\$ 11,379	\$ 1,103,251	\$ 16,329	\$ 1,119,580

<i>(in thousands of Canadian dollars)</i>	Dream share capital (Note 26)	Contributed surplus	Reorganization adjustment	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity	Non-controlling interest	Total equity
Balance, January 1, 2017	\$ 1,009,838	\$ 3,719	\$ (944,577)	\$ 550,843	\$ (1,350)	\$ 618,473	\$ 213,038	\$ 831,511
Earnings for the year	—	—	—	79,645	—	79,645	3,194	82,839
Other comprehensive income for the year (Note 27)	—	—	—	—	28,945	28,945	1,029	29,974
Dividends declared (Note 26)	—	—	—	—	—	—	(5,005)	(5,005)
Share repurchase under normal course issuer bid (Note 26)	(22,206)	—	—	—	—	(22,206)	—	(22,206)
Share-based compensation (Note 37)	255	1,622	—	—	—	1,877	—	1,877
Non-controlling interest related to business combination	—	—	—	—	—	—	38,494	38,494
Change in interest in subsidiary (Note 28)	237,764	—	—	(29,390)	4,286	212,660	(212,660)	—
Balance, December 31, 2017	\$ 1,225,651	\$ 5,341	\$ (944,577)	\$ 601,098	\$ 31,881	\$ 919,394	\$ 38,090	\$ 957,484

See accompanying notes to the consolidated financial statements.



## Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

<i>(in thousands of Canadian dollars)</i>	Note	2018	2017
<b>Operating activities</b>			
Earnings for the year		\$ 192,053	\$ 82,839
Adjustments for non-cash items:			
Depreciation and amortization		13,057	4,149
Fair value changes in investment properties	12, 18	(15,262)	(14,145)
Share of earnings from equity accounted investments	15	(37,029)	(17,078)
Deferred income tax expense (recovery)	25	9,132	(1,154)
Deemed gain on disposition of equity accounted investment in Zibi		—	(13,302)
Losses reclassified to earnings upon transfer to equity accounted investments		—	6,481
Other adjustments	42	(8,266)	(2,842)
Gain on disposition of assets		(9,422)	—
Net gain on acquisition of Dream Alternatives	5	(129,992)	—
Changes in non-cash working capital	42	(48,622)	16,170
Acquisition of housing inventory	9	—	(1,908)
Acquisition of condominium inventory	10	(694)	(7,462)
Development of housing inventory, net of sales	9	20,541	7,560
Development of condominium inventory, net of sales	10	(67,414)	(14,673)
Advances for construction loan, net of repayments	21	14,545	73,139
Acquisition of land inventory	11	(960)	(7,951)
Fair value adjustment on Dream Alternatives trust units	24	(5,003)	—
Development of land inventory, net of sales	11	(23,806)	4,747
<b>Net cash flows (used in) provided by operating activities</b>		<b>(97,142)</b>	<b>114,570</b>
<b>Investing activities</b>			
Acquisitions and additions to investment properties and assets held for sale	12, 18	(22,937)	(13,997)
Additions to recreational properties and renewable power assets	13, 14	(10,128)	(11,159)
Investments in equity accounted investments		(17,005)	(68,474)
Contributions to equity accounted investments		(25,594)	(21,937)
Distributions from equity accounted investments		42,728	33,212
Acquisition of financial assets and other assets, net of distributions		(7,393)	3,675
Proceeds on disposition of assets		71,508	—
Cash acquired in business combination	5	60,927	1,091
Loan receivable advances, net of repayments		2,135	(3,915)
Acquisition of investment holdings and marketable securities, net of disposals		(24,368)	—
Lending portfolio repayments, net of advances		23,830	—
<b>Net cash flows provided by (used in) investing activities</b>		<b>93,703</b>	<b>(81,504)</b>
<b>Financing activities</b>			
Borrowings from mortgages and term debt facilities	21	69,489	24,928
Repayments of mortgages and term debt facilities	21	(56,042)	(56,807)
Advances from operating line, net of repayments	22	(45,000)	(12,000)
Advances from margin facility, net of repayments	22	60,000	40,000
Borrowings pursuant to non-revolving term facility	22	50,000	—
Distributions to non-controlling interest	28	(1,021)	—
Dream Alternatives trust units repurchased from other unitholders	24	(20,676)	—
Contributions from non-controlling interest	28	1,600	—
Dividends paid to non-controlling interest	26	—	(5,005)
Shares repurchased under normal course issuer bid	26	(16,026)	(22,206)
<b>Net cash flows provided by (used in) financing activities</b>		<b>42,324</b>	<b>(31,090)</b>
Change in cash and cash equivalents		38,885	1,976
Cash and cash equivalents, beginning of year		25,408	23,432
<b>Cash and cash equivalents, end of year</b>	42	<b>\$ 64,293</b>	<b>\$ 25,408</b>

See accompanying notes to the consolidated financial statements.

# Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

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## 1. Business and structure

Dream Unlimited Corp. ("Dream" or "the Company"), through its wholly owned subsidiary, Dream Asset Management Corporation ("DAM"), is one of Canada's leading real estate companies with assets under management in North America and Europe. The scope of the business includes asset management and management services for four Toronto Stock Exchange ("TSX") listed trusts and institutional partnerships, condominium and mixed-use development, investments in and management of Canadian renewable energy infrastructure and commercial property ownership, and residential land development, housing and multi-family development.

On January 1, 2018, the Company acquired control of Dream Hard Asset Alternatives Trust ("Dream Alternatives") based on the increase in the Company's exposure to variable returns resulting from increased ownership through units held in Dream Alternatives and from new real estate joint venture agreements. In the year ended December 31, 2017, the Company accounted for its investment in Dream Alternatives as an equity accounted investment. Refer to Note 5 for a description of this transaction.

Refer to Note 28 for a description of equity transactions with non-controlling interests in the year ended December 31, 2018.

The principal office and centre of administration of the Company is 30 Adelaide Street East, Suite 301, State Street Financial Centre, Toronto, Ontario, M5C 3H1. The Company is listed on the TSX and is domiciled in Canada.

## 2. Basis of preparation

The consolidated financial statements are prepared in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

All dollar amounts discussed herein are in thousands of Canadian dollars, unless otherwise stated.

The consolidated financial statements for the year ended December 31, 2018 were approved by the Board of Directors for issue on February 26, 2019, after which date they may be amended only with the Board of Directors' approval.

## 3. Summary of significant accounting policies

The significant accounting policies adopted by the Company in the preparation of its consolidated financial statements are set out below. The Company has consistently applied these accounting policies throughout all years presented in the consolidated financial statements, except for new standards adopted during the year ended December 31, 2018 and related accounting policies as described below.

### Basis of Measurement

The consolidated financial statements have been prepared under the historical cost convention, except for investment properties, other financial assets and financial instruments classified as fair value through profit or loss, which are measured at fair value as determined at each reporting date.

### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions have been eliminated in the consolidated financial statements.

Subsidiaries are those entities the Company controls through the power to govern the financial and operating policies of the entity and by having exposure or rights, to variable returns from its involvement with the entity. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are subsequently deconsolidated on the date control ceases.

### Goodwill

Goodwill arises on the acquisition of businesses and represents the excess of the consideration transferred over and above the Company's interest in the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the measurement of the non-controlling interest in the acquiree.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("CGUs") or groups of CGUs that are expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which goodwill is allocated represents the lowest level within the Company at which the goodwill is monitored for internal management purposes. Goodwill is monitored by the Company at an operating segment level. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount of the CGU, which is the higher of value-in-use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

# Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

## Segmented Reporting

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the President and Chief Responsible Officer of the Company.

## Joint Arrangements and Associates

### Investments in Joint Arrangements

A joint arrangement is a contractual arrangement, pursuant to which the Company and other parties undertake an economic activity that is subject to joint control, whereby the strategic financial and operating policy decisions relating to the activities of the joint arrangement require the unanimous consent of the parties sharing control. Joint arrangements are of two types: joint ventures and joint operations.

### Investments in Joint Ventures

Joint ventures involve the establishment of a separate entity in which each co-venturer has an interest in the net assets of the arrangement and are accounted for using the equity method of accounting, whereby the Company recognizes its share of earnings or losses and of other comprehensive income ("OCI") of the equity accounted investment in its own earnings or OCI, as applicable. Dilution gains and losses arising from changes in the Company's interest in equity accounted investments are recognized in earnings. If the Company's investment is reduced to zero, additional losses are not provided for, and a liability is not recognized, unless the Company has incurred legal or constructive obligations or made payments on behalf of the equity accounted investment.

The Company's investments in joint ventures are as follows:

Name of joint venture and location	Nature of business	Ownership interest	
		2018	2017
Bear Valley Mountain Resort LLC, California	Ski facilities	50%	50%
Corktown Commercial Inc., Toronto	Investment properties	50%	50%
Distillery Restaurants LP, Toronto	Restaurant	50%	50%
Dream CMCC Funds I and II, Toronto	Mixed-use development	9% - 40%	9% - 40%
Dundee Kilmer Developments Limited, Toronto	Condominiums	50%	50%
Dundee Kilmer Developments LP, Toronto	Condominiums	50%	50%
Firelight Infrastructure Partners LP, Toronto	Renewable energy	20%	20%
Firelight Infrastructure Partners Management LP, Toronto	Renewable energy	50%	50%
S/D Commercial Corporation, Toronto	Investment properties	50%	50%
Westland Properties Ltd., Western Canada	Land	78%	78%
Dream VHP Limited Partnership, Toronto	Mixed-use development	25%	25%
Dream Wilson Brighton Development LP, Western Canada	Mixed-use development	50%	50%
GulfDream LP, Toronto	Mixed-use development	50%	12.5%
Port Credit West Village Partners LP, Toronto	Mixed-use development	31%	7.75%
GG Duncan LP, Toronto	Mixed-use development	25%	6.25%
Dream WDL LP, Toronto	Residential rental	33.33%	n/a
Zibi Community Utility LP, Ottawa	Utilities	40%	n/a

### Investments in Joint Operations

Where the Company undertakes its activities as a joint operation through a direct interest in the joint operation's assets and a direct obligation for the joint operation's liabilities, rather than through the establishment of a separate entity, the Company's proportionate share of the joint operation's assets, liabilities, revenues, expenses and cash flow is recognized in the consolidated financial statements and classified according to their nature.

The following table summarizes joint operations in which the Company participates and for which it recognizes its proportionate interest in the underlying assets, liabilities, revenues, expenses and cash flows:

Name of joint operation and location	Nature of business	Ownership interest	
		2018	2017
Distillery District, Toronto	Historical heritage district	50%	50%
Millswoods Robertson, Edmonton	Land	70%	70%
Streetcar, Toronto	Condominiums	25% - 50%	25% - 50%
Thornhill Woods, Toronto	Land and housing	30% - 32%	30% - 32%

### Investments in Associates

Investments in associates comprise those investments over which the Company has significant influence but not control. Generally, the Company is considered to exert significant influence when it holds more than a 20% interest in an entity. However, determining significant influence is a matter of judgment and specific circumstances and, from time to time, the Company may hold an interest of more than 20% in an entity without exerting significant influence.



## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

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Conversely, the Company may hold an interest of less than 20% and exert significant influence through representation on the Board of Directors, direction of management or through contractual agreements. The Company accounts for its investments in associates using the equity method of accounting.

### Impairment of Equity Accounted Investments

The Company assesses, at each reporting date, whether there is objective evidence that its interest in an equity accounted investment is impaired. If impaired, the carrying value of the Company's share of the underlying assets of the equity accounted investment is written down to its estimated recoverable amount, with any difference charged to earnings.

### Business Combinations

The Company uses the acquisition method to account for business combinations. The consideration transferred for the acquisition is measured as the aggregate of the fair values of assets transferred, liabilities incurred or assumed, and any equity instruments of the Company issued in exchange for control of the acquiree. Acquisition costs are recorded as an expense in earnings as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, "Business Combinations" ("IFRS 3"), are recognized at their fair values at the acquisition date.

The interest of non-controlling shareholders in the acquiree, if any, is initially measured at the non-controlling shareholders' share of the net assets of the acquiree, or the fair value of the non-controlling interest, as applicable. To the extent the fair value of consideration paid exceeds the fair value of the net identifiable tangible and intangible assets acquired, the excess is recorded as goodwill. If the consideration transferred is less than the fair value of net identifiable tangible and intangible assets, the excess is recognized in earnings.

Where a business combination is achieved in stages, previously held interests in the acquired entity are remeasured to fair value at the acquisition date, which is the date control is obtained, and the resulting gain or loss, if any, is recognized in earnings. Amounts arising from interests in the acquiree prior to the date of acquisition of control that have previously been recognized in OCI are reclassified to earnings. Changes in the Company's ownership interest of a subsidiary that do not result in a loss of control are accounted for as equity transactions and are recorded as a component of equity.

### Foreign Currency Translation

#### Functional and Presentation Currency

The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

#### Functional Currency of Subsidiaries and Equity Accounted Investments

The monetary assets and liabilities on the financial statements of consolidated subsidiaries and equity accounted investments that have a functional currency that is different from that of the Company are translated into Canadian dollars using the exchange rate at year-end for items included in the consolidated statements of earnings and OCI, and the rates in effect at the dates of the consolidated statements of financial position for assets and liabilities. All resulting changes are recognized in OCI as foreign currency translation adjustments.

If the Company's interest in the foreign operations of a subsidiary or an equity accounted investment is diluted, but the foreign operations remain a subsidiary or an equity accounted investment, a pro rata portion of the cumulative translation adjustment related to those foreign operations is reallocated between controlling and non-controlling interests, in the case of a subsidiary, or is recognized as a dilution gain or loss in the case of an equity accounted investment. When the Company disposes of its entire interest in the foreign operations, or when it loses control, joint control or significant influence, the cumulative translation adjustment included in accumulated other comprehensive income ("AOCI") related to the foreign operations is recognized in the consolidated statements of earnings on a pro rata basis.

#### Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in currencies other than an entity's functional currency at each year-end date are recognized in the consolidated statements of earnings, except when deferred in OCI as qualifying cash flow hedges and qualifying net investment hedges.

### Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, other financial assets, lending portfolio, financial instruments within accounts payable and other liabilities, customer deposits, project-specific debt, corporate debt facilities, Dream Alternatives trust units, and Preference shares, series 1, including related redemption and retraction options that have been separately recognized and deposits and restricted cash that have been included in the consolidated financial statements within capital and other operating assets.

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are no longer recognized when the rights to receive cash flows from the assets have expired or are assigned and the Company has transferred substantially all risks and rewards of ownership in respect of an asset to a third party. Financial assets are recognized at settlement date less any related transaction costs. Financial liabilities are no longer recognized when the related obligation expires, or is discharged or cancelled.

Classification of financial instruments in the Company's consolidated financial statements depends on the purpose for which the financial instruments were acquired or incurred. Management determines the classification of financial instruments at initial recognition.

## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

The following table shows the original measurement categories under IAS 39 as at December 31, 2017 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and liabilities as at January 1, 2018:

	Note	Classification and measurement		Carrying amount	
		IAS 39	IFRS 9	IAS 39	IFRS 9
<b>Financial assets<sup>(1)</sup></b>					
Cash and cash equivalents		Loans and receivables; amortized cost	Amortized cost	\$ 25,408	\$ 25,408
Accounts receivable	6	Loans and receivables; amortized cost	Amortized cost	197,467	197,467
Marketable securities	7	Available-for-sale ("AFS"); fair value through other comprehensive income ("FVOCI")	Fair value through profit or loss ("FVTPL")	57,635	57,635
Loans receivable	7	Loans and receivables; amortized cost	Amortized cost	13,289	13,289
Investment holdings	7	AFS; amortized cost	FVTPL	7,054	13,572
Other instruments:					
Redemption option on Preference shares, series 1	7	FVTPL	FVTPL	280	280
Interest rate swap - project-specific debt	7	Held to maturity ("HTM"); FVTPL	FVTPL	128	128
Interest rate swap - corporate debt facilities	7	HTM; FVOCI	FVOCI	657	657
Capital and other operating assets:					
Deposits	16	Loans and receivables; amortized cost	Amortized cost	935	935
Restricted cash	16	Loans and receivables; amortized cost	Amortized cost	6,332	6,332
<b>Financial liabilities<sup>(1)</sup></b>					
Financial instruments in accounts payable and other liabilities	19	HTM; amortized cost	Amortized cost	\$ 115,341	\$ 115,341
Customer deposits		HTM; amortized cost	Amortized cost	39,021	39,021
Project-specific debt	21	HTM; amortized cost	Amortized cost	280,227	280,227
Corporate debt facilities	22	HTM; amortized cost	Amortized cost	308,024	308,024
Preference shares, series 1	23	HTM; amortized cost	Amortized cost	28,668	28,668

<sup>(1)</sup> Excludes certain financial instruments that were recognized in the consolidated statements of financial position on acquisition of Dream Alternatives on January 1, 2018 (Note 5).

### Fair Value Through Profit or Loss

Financial instruments in this category are initially and subsequently recognized at fair value. Gains and losses arising from changes in fair value are presented within earnings in the consolidated statements of earnings in the period in which they arise, unless they are derivative instruments that have been designated as hedges.

### Financial Liabilities at Amortized Cost

Financial liabilities classified at amortized cost are initially measured at the amount required to be paid, less, when material, a discount to reduce the liabilities to fair value. Subsequently, these financial liabilities are measured at amortized cost using the effective interest method.

### Financial Liabilities at Fair Value through Profit or Loss

Certain financial liabilities are designated as FVTPL as they are managed and evaluated on a fair value basis. These financial liabilities are initially and subsequently measured at fair value. Gains and losses arising from changes in fair value are recorded within earnings in the consolidated statements of earnings in the period in which they arise, with the exception of changes in the liability's credit risk, which are recorded in OCI in the period in which they arise.

### Hedging Instruments and Activities

At the inception of a hedging transaction, the Company documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are hedges of a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction is recognized in OCI. The gain or loss relating to the ineffective portion, if any, is recognized immediately in the consolidated statements of earnings.

The realized gain or loss recognized on settlement of a hedging instrument designated as a cash flow hedge will be reclassified to earnings over the same basis as the cash flows received from the hedged item. When a hedging instrument no longer meets the criteria for hedge accounting, any cumulative gains or losses existing in OCI at that time are recognized in earnings immediately.

# Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

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## Impairment of Financial Assets

The Company applies an appropriate impairment model approach for financial assets depending on the category of financial assets or liabilities. The three impairment models applicable under IFRS 9 include the general approach, the simplified approach and the credit-adjusted approach. The Company uses the simplified approach, which recognizes expected credit losses (“ECLs”) based on lifetime ECLs for accounts receivable and the general approach for loans receivable. The general approach uses the ECLs estimated at the 12-month ECL unless the credit risk has increased significantly relative to the credit risk at the date of initial recognition.

## Investment Holdings and Participating Mortgages

Investment holdings and participating mortgages include limited partnership interests, a hospitality asset, and mortgage receivables secured against residential development properties and include participation rights in the profits of the underlying development. At initial recognition, the Company measures a financial asset at its fair value, plus any related transaction costs. Subsequent measurement depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows. Investment holdings and participating mortgages are classified as FVTPL as their contractual cash flows do not represent solely payments of principal and interest. Income earned and the changes in fair value are recorded in the consolidated statements of earnings as revenue.

## Lending Portfolio

The lending portfolio is primarily comprised of fixed-interest-rate and interest-only mortgage and loan investments that the Company intends on holding until maturity. They are recognized initially at fair value, plus any directly attributable transaction costs. The Company classifies all loan investments that give rise to specified payments of principal and interest as amortized cost. All other loan investments are classified as FVTPL. For those loan investments classified as amortized cost, subsequent to initial recognition, the lending portfolio investments are measured at amortized cost using the effective interest rate method, less any provision for impairment, if applicable. A provision for impairment on the lending portfolio is established based on the general approach ECL model. Under the general approach ECL model, the Company estimates possible default scenarios for the next 12 months on its lending portfolio investments. The Company established a provision matrix that considers various factors including the borrower’s credit risk, term to maturity, status of the underlying project and market risk. The results of the general approach ECL model are used to reduce the carrying amount of the financial asset through an allowance account, and the changes in the measurement of the allowance account are recognized in the consolidated statements of earnings. If a significant increase in credit risk occurs on a loan investment, an estimate of default is considered over the entire remaining life of the assets. In circumstances when an entity acquires a loan investment that is credit impaired at the date of initial recognition the credit adjusted approach will be applied. The credit adjusted approach results in expected credit losses calculated considering an estimate of default over the life of the asset.

The Company recognizes interest, lender fees and other income from the lending portfolio in the consolidated statements of earnings using the effective interest rate method for the general or simplified approach regardless if evidence of impairment exists. If the credit adjusted method approach is used then a credit adjusted effective interest rate is used in calculating the applicable interest, lender fees and other income. Interest and other income includes the Company’s share of any fees received, as well as the effect of any premium or discount received on the mortgage. The effective interest rate method discounts the future cash payments and receipts through the expected life of the lending portfolio mortgage or loan to its carrying amount before any allowance for expected credit losses. Under the general and simplified approach, if no evidence of impairment exists interest income is calculated on the carrying amount at the beginning of the period before any allowance for expected credit loss, otherwise interest income is calculated after an allowance for expected credit loss.

## Real Estate Inventory

### Housing and Condominiums

Housing and condominium inventory, which may, from time to time, include commercial property, is acquired or constructed for sale in the ordinary course of business and is held as inventory and measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, based on prevailing market prices at each reporting date and discounted for the time value of money, if material, less estimated costs of completion and estimated selling costs.

### Land

Land inventory includes land held for development and land under development and is measured at the lower of cost and net realizable value.

### Capitalized Costs

Capitalized costs include all expenditures incurred in connection with the acquisition of property, direct development and construction costs, certain borrowing costs and property taxes.

### Provision for Real Estate Development Costs

The provision for real estate development costs reflects management’s estimate of costs to complete for land, housing and condominium projects for which revenue has been recognized. These amounts have not been discounted, as the majority of the costs are expected to be expended within approximately one year.

## Investment Properties

Investment properties include properties held to earn rental income or for capital appreciation, or both. Investment properties are measured initially at cost, which includes all expenditures incurred in connection with the acquisition of property, direct development and construction costs, borrowing costs and property taxes. Subsequent to initial recognition, investment properties are measured at their fair value at each reporting date. Gains or losses arising from changes in fair value are recorded in earnings in the period in which they arise.

# Notes to the Consolidated Financial Statements

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## Development Investment Properties

Once appropriate evidence of a change in use of land held or under development is established, the land is transferred from inventory to investment properties. At that time, the land is recognized at fair value in accordance with the Company's accounting policy for investment properties, and any gain or loss is reflected in fair value changes in investment properties within the consolidated statements of earnings, in the period the transfer occurs. The gain or loss recorded represents the difference between the fair value of the transferred property and the accumulated costs of development.

The fair value of development investment properties is determined by management on a property-by-property basis using a discounted cash flow valuation methodology. Within the discounted cash flows, the significant unobservable inputs include: forecasted net operating income based on the location, type and quality of the property, supported by the terms of actual or anticipated future leasing, current market rents for similar properties, adjusted for market allowances; discount rates based on market terms at the valuation date, adjusted for property-specific risks; estimated costs to complete based on internal budgets, terms of construction contracts and market conditions; expected completion dates; development and leasing risks specific to the property; and the status of approvals and/or permits.

## Recreational Properties

Recreational properties are owner-occupied properties used in the production or supply of goods or services. Recreational properties are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Costs of recreational properties include all expenditures incurred in connection with the acquisition of the property, direct development and construction costs, borrowing costs and property taxes. The Company uses the straight-line method of depreciation for recreational properties, including major expansions and renovations. The estimated useful life of the properties is between two and forty years.

## Renewable Power Assets

Renewable power assets are measured at cost less accumulated depreciation and impairment charges, if any. Cost includes expenditures that are directly attributable to the acquisition and construction of the asset including interest costs paid or accrued during construction. The Company uses the straight-line method of depreciation for renewable power assets including major replacements. The estimated useful life of the assets is between 20 and 25 years.

## Real Estate Borrowing Costs

Real estate borrowing costs include interest and other costs incurred in connection with the borrowing of funds for operations. Borrowing costs directly attributable to the acquisition, development or construction of qualifying real estate assets that necessarily take a substantial period of time to prepare for their intended use or sale are capitalized as part of the cost of the respective real estate asset. For real estate construction and development projects, the Company considers a substantial period of time to be a period longer than one year to complete. All other borrowing costs are expensed in the period in which they occur.

Borrowing costs that are directly attributable to investment properties under development or to the development of condominiums and commercial properties are capitalized. Borrowing costs related to land or housing developments are recognized in earnings as incurred. Where borrowing costs are specific to a qualifying asset, the amount is directly capitalized to that asset. Otherwise, borrowing costs are aggregated and pro-rated to qualifying assets using the Company's weighted average cost of borrowing. Borrowing costs are capitalized during periods of active development and construction, starting from the commencement of the development work until the date on which all of the activities necessary to prepare the real estate asset for its intended use or sale are complete. Thereafter, borrowing costs are charged to earnings.

## Capital and Other Operating Assets

Capital assets are recorded at cost, net of accumulated depreciation and impairment, if any, and are depreciated on a straight-line basis. Annual depreciation rates estimated by management have a range of two to twenty years. The Company reviews the depreciation method, residual values and estimates of the useful life of its capital assets at least annually. On sale or retirement, a capital asset and its related accumulated depreciation are removed from the consolidated financial statements and any related gain or loss is reflected in earnings.

Other operating assets consist primarily of prepaid amounts, which are generally amortized to earnings over the expected service period; deposits made in connection with potential future land acquisitions, which are subsequently allocated to specific land inventory on completion of the acquisition; and restricted cash amounts, which comprise cash-securing letters of credit provided to various government agencies to support development activities, certain customer deposits and amounts held as security against accounts receivable.

## Impairment of Non-financial Assets

Non-financial assets are assessed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. An impairment loss, if any, is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount of an asset is the greater of an asset's fair value, less costs to sell, and its value in use. For the purposes of assessing impairment, assets are grouped at the CGU level. If their carrying value is assessed as not recoverable, an impairment loss is recognized.

An assessment is made, at each reporting date, as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount and, if appropriate, reverses all or part of the impairment. If the impairment is reversed, the carrying amount of the asset is increased to the newly estimated recoverable amount. This increased carrying amount may not exceed the carrying amount that would have resulted after taking into account depreciation if no impairment loss had been recognized in prior periods. The amount of any impairment reversal is recorded immediately in earnings for the period.



# Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

## Assets Held for Sale

Assets and liabilities (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. Investment properties continue to be measured at fair value and the remainder of the disposal group is stated at the lower of the carrying amount and fair value less costs to sell.

## Dream Alternatives Trust Units

The Company holds an effective 17% interest in Dream Alternatives as at December 31, 2018 through ownership of 12,138,723 trust units (December 31, 2017 - 13% interest through ownership of 9,619,390 trust units). The remaining 60,454,099 trust units outstanding are held by other unitholders and have been recognized on the consolidated statements of financial position to reflect the residual 83% interest held by other parties as at December 31, 2018. The units are redeemable at the option of the holder and, therefore, are considered a puttable instrument in accordance with IAS 32, "Financial Instruments - Presentation" ("IAS 32"), and must be presented as a financial liability. The holder has the option to redeem units, generally at any time, at a redemption price per unit equal to the lesser of 90% of the 20-day weighted average closing price prior to the redemption date or 100% of the closing market price on the redemption date.

The Company manages the Dream Alternatives units on a fair value basis. As a financial liability measured at fair value through profit or loss, the Company recorded the Dream Alternatives trust units at fair value on acquisition of control. Subsequent to initial recognition, the liability is remeasured to fair value each period based on the Dream Alternatives trust unit's closing trading price. Fair value changes are recorded within adjustments related to Dream Alternatives trust units in the consolidated statements of earnings in the period in which they arise. Distributions on Dream Alternatives trust units not held by the Company are recognized in the period in which they are approved and are recorded as an expense within adjustments related to Dream Alternatives trust units in the consolidated statements of earnings. Refer to Note 24 for additional details.

## Revenue Recognition

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control over a product or service to a customer. The Company capitalizes all commissions paid to an intermediary as a cost to obtain a contract when they are expected to be recovered. These costs are amortized consistently with the pattern of recognition for the related revenue. The following is a description of principal activities from which the Company generates its revenues, including the nature of revenues, timing of satisfaction of performance obligations and significant payment terms.

Product and services	Nature, timing of satisfaction of performance obligations
Land	Revenue relating to sales of land is recognized when control over the property has been transferred to the customer - typically when the customer can begin construction on the property. Until this criterion is met, any proceeds received are accounted for as customer deposits. Revenue is measured based on the transaction price agreed to under the contract and is typically recognized upon receipt of 15% of the transaction price.
Condominiums and housing projects	Revenue relating to sales of condominiums and housing projects is recognized when control of the property has been transferred to the customer - typically when the customer occupies the property. Until these criteria are met, any proceeds received are accounted for as customer deposits. Revenue is measured based on the transaction price agreed to under the contract.
Other revenue from investment properties (excluding base rent)	Other revenue from investment properties includes recoveries of operating expenses including percentage participation rents, lease cancellation fees, parking income and other incidental income. The Company recognizes revenue as the related services are performed. The unsatisfied performance obligation resulting from other investment property revenue has a variable consideration that is constrained by the underlying performance of the property.
Recreational properties	Amounts received for the sale of annual season passes to recreational properties are deferred and amortized on a straight-line basis over the term of the season. Other amounts received from the use of recreational properties are recognized as revenue when earned.
Real estate asset management and advisory services	Revenue from real estate asset management and advisory services is calculated based on a fee that is a formula specific to each advisory client and may include fee revenue calculated as a percentage of the capital managed, capital expenditures incurred, the purchase price of properties acquired and the value of financing transactions completed. These fees are recognized on an accrual basis over the period during which the related service is rendered. Asset management and advisory services fee arrangements may also provide the Company with an incentive fee when the investment performance of the underlying assets exceeds established benchmarks. Incentive fees and other revenues are recognized in earnings when it is highly probable there will not be a significant reversal of revenue.
Renewable power	Revenue from renewable power assets is recognized based on the amount of energy generated at the contracted rates and is recognized when the energy produced is received by the client and the performance obligation is satisfied. Several power-generating sites are eligible for additional payments under government programs designed to provide additional fees based on the supply of renewable energy. These amounts are related to energy generated and are based on the megawatt hours ("MWh") of electricity supplied. These amounts are recorded as revenue in the period in which the energy produced is received by the client. Amounts are determined based on a fixed amount per MWh generated, depending on the location of where the energy is produced. The unsatisfied performance obligation resulting from contracted rates has a variable consideration that is constrained by the MWh of energy produced.

# Notes to the Consolidated Financial Statements

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## Rental Income

The Company uses the straight-line method of rental revenue recognition on investment properties whereby any contractual free-rent periods and rent increases over the term of a lease are recognized in earnings evenly over the lease term. Initial direct leasing costs incurred in negotiating and arranging tenant leases are added to the carrying amount of the investment properties and are amortized over the term of the lease. Lease incentives, which include costs incurred to make leasehold improvements to tenants' space and cash allowances provided to tenants, are added to the carrying amount of investment properties and are amortized on a straight-line basis over the term of the lease as a reduction in revenue from investment properties.

## Lending Portfolio Interest and Fees Income

Mortgage interest and fees revenues are recognized in the consolidated statements of earnings using the effective interest method. Mortgage interest and fees revenues include the discount or premium incurred by the Company at the time the mortgages were acquired, if any. The effective interest method derives the interest rate that discounts the estimated future cash payments and receipts over the expected life of the mortgages to its carrying amount. When calculating the effective interest rate, future cash flows are estimated considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all fees and transaction costs paid or received, including the incremental revenues and costs that are directly attributable to the acquisition or issuance of the mortgage.

## Direct Operating Costs

Inventory costs associated with land held for development or land under development, including the estimated costs to complete the development of the asset, are allocated to direct operating costs on a per lot basis, pro-rated based on the street frontage of each lot. Inventory costs associated with the development of condominiums are allocated to direct operating costs on a per unit basis, pro-rated based on the sales value of the unit relative to the sales value of all units in a condominium project. Direct operating costs associated with the construction of housing inventory and commercial property are specific to each project.

Direct operating costs related to specific investment or recreational properties include property management costs and operating expenses, as well as management and administrative expenses, and are recorded on an accrual basis.

## Income Taxes

The Company follows the balance sheet liability method to provide for income taxes on all transactions recorded in its consolidated financial statements. The balance sheet liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred income tax assets and liabilities are determined for each temporary difference and for unused tax losses and unused tax credits, as applicable, at rates expected to be in effect when the asset is realized or the liability is settled.

The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the substantive enactment date. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Due to uncertainties in the estimation process, particularly with respect to changes in facts and circumstances in future reporting periods (carry forward period assumptions), it is reasonably possible that actual results could differ from the estimates used in the Company's historical analysis. If the Company's results of operations are less than projected and there is insufficient objectively verifiable evidence to support the likely realization of its deferred tax assets, adjustments would be required to reduce or eliminate its deferred tax assets.

## Non-controlling Interest

The non-controlling interest represents equity interests of subsidiaries owned by other shareholders. The share of net assets, net retained earnings and accumulated other comprehensive income of these subsidiaries attributable to a non-controlling interest is presented as a component of equity.

## Preference Shares, Series 1

The Preference shares, series 1, are classified and accounted for as a financial liability, as they are convertible at the sole discretion of the Company into a variable number of Dream's Class A Subordinate Voting Shares ("Subordinate Voting Shares") or are otherwise retractable at the option of the holder, at or after a particular date, for a fixed amount per share (Note 23).

The redemption and retraction option features of the Preference shares, series 1, meet the definition of embedded derivatives requiring separate recognition, as the economic risks and characteristics of the redemption and retraction options are not closely related to those of the Preference shares, series 1. Accordingly, the embedded redemption and retraction options have been bifurcated from the Preference shares, series 1, and have been recognized as derivative financial instruments included with other financial assets and accounts payable and other liabilities, respectively, with a corresponding increase or decrease in the initial carrying value of the Preference shares, series 1.

## Earnings per Share

Basic earnings per share is computed by dividing Dream's earnings attributable to owners of the parent by the weighted average number of Subordinate Voting Shares and Dream Class B common shares ("Class B Shares") outstanding during the year. Diluted earnings per share, where applicable, is calculated by adjusting the weighted average number of shares outstanding for dilutive instruments by applying the treasury stock method.

# Notes to the Consolidated Financial Statements

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## Share-based Compensation

### Stock Option Plan

Management issues share-based compensation to certain employees in the form of stock options that vest evenly over a three to five-year period. The fair value of the options on the grant date is determined using an option pricing model. The estimated fair value of options on the grant date is recognized as compensation expense on a graded vesting basis over the period in which the employee services are rendered.

### Performance Share Unit Plan

Management issues share-based compensation to certain employees in the form of performance share units ("PSUs") that are subject to either time vesting only, or time and performance vesting. PSUs subject to performance vesting provide the holder with a minimum of 0 and a maximum of 1.5 Subordinate Voting Shares based on the achievement of predetermined Company performance goals. In lieu of receiving Subordinate Voting Shares on vesting, PSU holders may request a cash payment equal to the five-day trailing weighted average share price of the Company's Subordinate Voting Shares on the vesting date or settlement date, when applicable; however, the form of payment on vesting is ultimately the decision of the Company. The fair value of the PSUs on the grant date is determined using an option pricing model. The estimated fair value of the PSUs on the grant date is recognized as compensation expense on a straight-line basis over the period in which the employee services are rendered.

### Deferred Share Incentive Plan

The Company has a deferred share incentive plan that provides for the grant of deferred share units ("DSUs") and income deferred share units to eligible directors, senior management and their service providers. Grants to directors, officers and employees are recognized as compensation expense and are included in general and administrative expenses in the period in which they are granted. During the holding period, which is between the grant date and the vesting date, DSUs earn dividends declared by the Company in the form of additional fractional DSUs. On settlement of DSUs and earned fractional DSUs, the amount recognized in contributed surplus for the grant is reclassified to share capital.

## Adoption of Recent Accounting Pronouncements

The Company has adopted the following new or revised standards, including any consequential amendments thereto, for the period effective January 1, 2018. Changes in accounting policies adopted by the Company were made in accordance with the applicable transitional provisions as provided in those standards and amendments. As required by IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", the nature and the effect of these changes are disclosed above and in Note 46.

### *IFRS 2, "Share-based Payments" ("IFRS 2")*

IFRS 2 clarifies how to account for certain types of share-based payment transactions. It was amended to address: (i) certain issues related to the accounting for cash settled awards; and (ii) the accounting for equity settled awards that include a "net settlement" feature in respect of employee withholding taxes. The amendments to IFRS 2 are effective for years beginning on or after January 1, 2018. The adoption of the amendments to IFRS 2 did not have a material impact on the Company's consolidated financial statements.

### *IFRS 7, "Financial Instruments – Disclosure" ("IFRS 7")*

IFRS 7 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments and the nature and extent of risks arising from financial instruments to which an entity is exposed and how the entity manages those risks. It was amended to: (i) add guidance on whether an arrangement to service a financial asset that has been transferred constitutes continuing involvement; and (ii) clarify that the additional disclosure required by the amendments to IFRS 7 is not specifically required for interim periods, unless required by IAS 34. The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2018. Expanded disclosures required by IFRS 7 are included in Note 36.

### *IFRS 9, "Financial Instruments" ("IFRS 9")*

IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities where the final version of IFRS 9 was issued in July 2014 and includes: (i) a third measurement category for financial assets (fair value through other comprehensive income ("OCI")); (ii) a single, forward-looking "expected loss" impairment model; (iii) a substantially reformed approach to hedge accounting; and (iv) a mandatory effective date of annual periods beginning on or after January 1, 2018. The impact of changes due to the adoption of IFRS 9 is included in Note 46.

### *IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15")*

IFRS 15 specifies how and when revenue should be recognized, in addition to requiring more informative and relevant disclosures. The IFRS 15 revenue recognition model requires management to exercise significant judgment and make estimates that affect revenue recognition. This standard supersedes IAS 18, "Revenue", IAS 11, "Construction Contracts", and a number of revenue-related interpretations. IFRS 15 must be applied for periods beginning on or after January 1, 2018, with early application permitted. Expanded disclosures required by IFRS 15 are included in Note 29 and the impact of changes due to the adoption of IFRS 15 is included in Note 46.

### *IAS 40, "Investment Property" ("IAS 40")*

IAS 40 clarifies the principles for transfers into, or out of, investment property when there has been a change in use. The Company has applied the amendments prospectively in accordance with the transitional provisions. The Company has assessed the impact of the amendment on the classification of existing property as at January 1, 2018 and has concluded that no reclassifications are required and the timing of subsequent transfers is not expected to change on adoption of the amendment. As such, there is no impact to the consolidated financial statements on application of the amendment.

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## Future Accounting Standards

### **IFRS 3, "Business Combinations"**

IFRS 3 clarifies that when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interest in the assets and liabilities of the joint operation at fair value. The amendments to IFRS 3 are effective for annual periods beginning on or after January 1, 2019, with early application permitted. These amendments will apply to the Company's future business combinations.

### **IFRS 16, "Leases" ("IFRS 16")**

IFRS 16 sets out the principles for the recognition, measurement and disclosure of leases. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right-of-use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value. Under IFRS 16, lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15. The Company has not early adopted IFRS 16. The Company is in the process of completing its in-depth assessment of IFRS 16 and the impact to the Company's consolidated financial statements. The Company's preliminary assessment has identified certain leases within Western Canada and Dream Alternatives' renewable power portfolio that will be impacted by the implementation of IFRS 16, which would result in those leases with terms of more than 12 months to be included on-balance sheet by recognizing a "right-of-use" asset and its related lease liability at the commencement of the lease. The impact to the Company's consolidated financial statements will be approximately \$17,800 in right-of-use assets and lease liabilities as at January 1, 2019.

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

IFRIC 23 clarifies the application of the recognition and measurement requirements in IAS 12, "Income Taxes" ("IAS 12"), for situations where there is uncertainty over income tax treatments. IFRIC 23 specifically addresses whether an entity considers income tax treatments separately; assumptions that an entity makes regarding the examination of tax treatments by taxation authorities; how an entity determines taxable income or loss, tax bases, unused tax losses or credits, and tax rates; and how an entity considers changes in facts and circumstances. IFRIC 23 does not apply to taxes or levies outside the scope of IAS 12. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. The Company does not expect a significant impact to the consolidated financial statements.

## 4. Critical accounting estimates, judgments and assumptions

The preparation of these consolidated financial statements in accordance with IFRS requires the Company to make judgments in applying its accounting policies and estimates and assumptions about the future. These judgments, estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities included in the Company's consolidated financial statements. The Company evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions the Company believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amount of revenues and expenses that are not readily apparent from other sources. Actual results may differ from those estimates under different assumptions or conditions. The following discusses the most significant accounting judgments, estimates and assumptions the Company has made in the preparation of its consolidated financial statements.

### **Joint Arrangements and Associates**

The Company holds investments in various assets, and its ownership interest in these investments is established through diverse structures. Significant judgment is applied in assessing whether the investment structure results in control, joint control or significant influence over the operations of the investment, or whether the Company's investment is passive in nature. The assessment of whether the Company exerts control, joint control or significant influence over an investment will determine the accounting treatment for the investment. In making this assessment, the Company considers its ownership interest in the investment as well as its decision-making authority with regard to the operating, financing and investing activities of the investment as specified in the contractual terms of the arrangement. The Company also considers any agreements with the investee that expose the Company to variable returns from its involvement with the investee. Joint arrangements that involve the establishment of a separate entity in which each venture has an interest are set up as joint ventures, whereas investments in associates are those investments over which the Company has significant influence but no control.

### **Business Combinations and Goodwill**

The Company uses significant judgment to conclude whether an acquired set of activities and assets is a business, and such judgment can lead to significantly different accounting results. If an acquired set of activities and assets does not meet the definition of a business, the transaction is accounted for as an asset acquisition.

There are many differences in accounting for a business combination versus an asset acquisition, including the recognition of goodwill and deferred tax amounts, the initial measurement of assets and accounting for transaction costs. These differences not only affect the accounting as at the acquisition date, but will also affect future depreciation and possible impairment analysis. Accordingly, the conclusion as to whether a business has been acquired can have a significant effect on the Company's reported financial position and results of operations.

Significant judgment is required in applying the acquisition method of accounting for business combinations and, specifically, in identifying and determining the fair value of assets and liabilities acquired, including intangible assets and residual goodwill, if any.

The Company's goodwill balance is allocated to the particular CGU to which it relates (herein referred to as the "goodwill CGU"). The recoverable amount of the Company's goodwill CGU is determined based on the fair value less costs of disposal approach. Refer to Note 17 for further details.



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## Consolidation

In determining if an entity is a subsidiary of the Company, the Company makes significant judgments about whether it has power and control over such an entity. In addition to voting rights, the Company considers the contractual rights and obligations arising from other arrangements, and other relevant factors relating to an entity in determining if the Company has the power and ability to affect returns from an investee. The contractual rights and obligations considered by the Company include, among others, the approvals and decision-making process over significant operating, financing and investing activities, the responsibilities and scope of decision-making power of the Company, the termination provisions of applicable agreements, the types and determination of fees paid to the Company and the significance, if any, of any investment made by the Company. The Company reviews its prior conclusions when facts and circumstances change.

## Net Realizable Value

Land, including land under development and land held for development, as well as housing and condominium inventory, are stated at the lower of cost and net realizable value. In calculating net realizable value, management must estimate the selling price of these assets based on prevailing market prices at the dates of the consolidated statements of financial position, discounted for the time value of money, if material, less estimated costs of completion and estimated selling costs. If estimates are significantly different from actual results, the carrying amounts of these assets may be overstated or understated on the consolidated statements of financial position and, accordingly, earnings in a particular period may be overstated or understated.

## Provisions

Provisions are recorded by the Company when it has determined it has a present obligation, whether legal or constructive, and it is probable that an outflow of resources will be required to settle the obligation, provided a reliable estimate can be made of the amount of the obligation. Management must use judgment in assessing the magnitude and timing of the potential economic exposure and the likelihood of a future event occurring. Actual results may differ significantly from those estimates. The consolidated financial statements include a significant provision for costs to complete land, housing and condominium projects. The stage of completion of any development project, and the remaining costs to be incurred, are determined by management, considering relevant available information at each reporting date. In making such determination, management makes significant judgments about milestones, actual work performed and the estimates of costs to complete the work.

## Fair Value of Investment Holdings and Participating Mortgages

Critical judgments are made in determining the fair value of investment holdings and participating mortgages. The fair values of these investments are reviewed regularly by the Company with reference to the applicable local market conditions and in discussion with the development's construction management company. The Company makes judgments with respect to the completion dates of the developments, and the leasing and management cost assumptions for the buildings and/or unit sales in order to determine the Company's interest and participating income. Generally, the investment holdings and participating mortgages are valued using a number of approaches that typically include a discounted cash flow analysis, direct capitalization approach and direct comparison approach. The discounted cash flow model is calculated based on future interest and participating profit payments as determined by the Company and project managers' estimates of unit sales proceeds and/or net operating income of the development properties. With the direct capitalization rate method, the fair value is determined by applying a capitalization rate to stabilized net operating income. Each investment is subject to an appraisal by an independent valuator at least once every three years, if not earlier.

Critical judgments are made in respect of the fair values of co-owned commercial assets. Assumptions related to the estimates of fair values of these investment holdings include discount rates that reflect current market uncertainties, capitalization rates and recent investment holding transaction prices, if any. If there is any change in these assumptions or regional, national or international economic conditions, the fair value of investment holdings may change materially.

## Fair Value of Investment Properties

Critical judgments are made in respect of the fair values of investment properties and the investment properties held in equity accounted investments. Assumptions relating to the estimates of fair values of investment properties include the receipt of contractual rents, expected future market rents, renewal rates, maintenance requirements, discount rates that reflect current market uncertainties, capitalization rates and current and recent investment property transaction prices, if any. If there is any change in these assumptions or regional, national or international economic conditions, the fair value of investment properties may change materially.

On a rotational basis, the Company engages independent, professionally qualified appraisers who are experienced, nationally recognized and qualified in the professional valuation of real estate in their respective geographic areas. Judgment is applied in determining the extent and frequency of independent appraisals. A select number of properties are valued by an independent appraiser on a rotational basis at least once every three years. For properties subject to an independent valuation report, management verifies all major inputs to the valuation and reviews the results with the independent appraisers.

## Fair Value of Development Investment Properties

Fair value measurement of an investment property under development is applied only if the fair value is considered to be reliably measurable. Under specific circumstances, investment properties under development may be carried at cost until their fair value becomes reliably measurable. It may sometimes be difficult to determine reliably the fair value of investment properties under development. In order to evaluate whether the fair value of an investment property under development can be determined reliably, management considers various factors, including the terms of the construction contract, the stage of completion, the location, type and quality of the property, expected completion dates, current market rents for similar properties, the level of reliability of cash inflows after completion, the development risks specific to the property, past experience with similar constructions, status of approvals and/or permits, estimated costs to complete and market conditions.

# Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

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## Impairment of Non-Financial Assets

Recreational properties, renewable power assets, capital assets and intangible assets with finite lives are tested for impairment whenever events or changes in circumstances indicate the carrying amounts may not be recoverable. Intangible assets with indefinite lives are tested at least annually. Management uses judgment in performing this impairment test. Imprecision in any of the assumptions and estimates used could affect the valuation of these assets and the assessment of performance.

IAS 36, "Impairment of Assets", requires management to use judgment in determining the recoverable amount of assets tested for impairment. Judgment is involved in estimating the fair value less the cost to sell or value-in-use of the CGUs, including estimates of growth rates, discount rates and terminal rates. The values assigned to these key assumptions reflect past experience and are consistent with external sources of information.

## Income Taxes

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations, often involving multiple jurisdictions. Judgment is required in determining whether deferred income tax assets should be recognized on the consolidated statements of financial position. Deferred income tax assets are recognized to the extent the Company believes it is probable that the assets can be recovered. Furthermore, deferred income tax balances are recorded using enacted or substantively enacted future income tax rates. Changes in enacted income tax rates are not within the control of management. However, any such changes in income tax rates may result in actual income tax amounts that may differ significantly from estimates recorded in deferred tax balances.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

## Fair Value and Impairment of Financial Instruments

Certain financial instruments are recorded in the Company's consolidated statements of financial position at values that are representative of or approximate fair value. The fair value of a financial instrument that is traded in active markets at each reporting date is determined by reference to its quoted market price or dealer price quotations. The fair value of co-owned commercial assets is based on the fair value of the Company's proportionate net assets of the underlying investment.

IFRS 9 requires management to use judgment in determining if the Company's financial assets are impaired. The Company's financial assets are subject to the ECL model whereby the Company estimates on a forward looking basis possible default scenarios and establishes a provision matrix that considers various factors including industry and sector performance, economic and technological changes and other external market indicators.

The fair value of certain other financial instruments is determined using valuation techniques. By their nature, these valuation techniques require the use of assumptions. Changes in the underlying assumptions could materially impact the determination of the fair value of a financial instrument. Imprecision in determining fair value using valuation techniques may affect the amount of earnings recorded in a particular period.

The Company classifies the fair value of its financial instruments according to the following hierarchy, which is based on the amount of observable inputs used to value the instrument:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

## Fair Value of Hedging Instruments and Effectiveness

Critical judgments are made in respect of assumptions used to estimate the fair value of hedging instruments and to assess the effectiveness of the hedging arrangement. The basis of valuation and assessment of effectiveness for the Company's derivatives is set out in Notes 21 and 22; however, the fair values reported may differ from how they are ultimately recognized if there is volatility in interest rates between the valuation date and settlement date.

## Transfer of Inventory to Development Investment Properties

Raw land is usually unentitled property without the regulatory approvals that allow the construction of residential, industrial, commercial and mixed-use developments. When development plans are formulated, the Company may decide that specific land holdings will be developed into investment properties. Once appropriate evidence of a change in use is established, the land is transferred to investment properties. This also applies to multi-family rental properties, which are transferred to investment properties from condominium inventory.

# Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

## 5. Business combination

### Dream Alternatives

On January 1, 2018, the Company acquired control of Dream Alternatives based on the increase in the Company's exposure to variable returns resulting from increased ownership through units held in Dream Alternatives and from new real estate joint venture agreements. The Company remeasured its existing 13% equity interest in Dream Alternatives to its fair value of \$60,891 at the acquisition date. As a result of the remeasurement, the Company recorded a non-cash gain of \$12,555 and realized losses reclassified from AOCI of \$78 in the year ended December 31, 2018.

The acquisition of control also resulted in a non-cash net bargain purchase gain of \$117,437 in the year ended December 31, 2018. This amount represented the difference between the fair value of net assets of Dream Alternatives relative to the implied financial consideration for the transaction. As part of the acquisition of control, the Company derecognized the intangible asset of \$43,000 related to the right to manage Dream Alternatives and eliminated amounts receivable from Dream Alternatives of \$23,107.

The following table summarizes the identifiable assets and liabilities assumed, which were measured at fair value at the date of acquisition of control of Dream Alternatives, as well as the components of the net gain on acquisition of Dream Alternatives:

Cash and cash equivalents	\$	60,927
Accounts receivable		5,645
Other financial assets		157,231
Lending portfolio		161,399
Investment properties		220,240
Renewable power assets		148,901
Equity accounted investments		133,406
Capital and other operating assets		4,515
Deferred income taxes		111
<b>Total assets</b>		<b>892,375</b>
Less:		
Accounts payable and other liabilities		(21,050)
Project-specific debt		(203,967)
Dream Alternatives trust units (87% held by other unitholders as at January 1, 2018)		(397,620)
Deferred income taxes		(23,355)
		<b>(645,992)</b>
<b>Net assets acquired</b>	<b>\$</b>	<b>246,383</b>
Consideration:		
Deemed disposal of previously held equity accounted investment at fair value	\$	60,891
<b>Total consideration</b>	<b>\$</b>	<b>60,891</b>
Net assets acquired	\$	246,383
Less: Consideration		(60,891)
Bargain purchase gain		185,492
Derecognition of intangible asset		(43,000)
Elimination of amounts receivable from Dream Alternatives		(23,107)
Adjustment for non-controlling interests in Dream Alternatives		(1,948)
Net bargain purchase gain		117,437
Non-cash gain on deemed disposal of previously held equity accounted investment		12,555
<b>Net gain on acquisition of Dream Alternatives</b>	<b>\$</b>	<b>129,992</b>

The fair values at the date of acquisition of control of Dream Alternatives' current assets, capital and other operating assets, and current liabilities approximate their carrying values due to their short-term nature. The Dream Alternatives trust units held by other unitholders are measured at the fair value of units outstanding.

### Zibi

On October 13, 2017, the Company acquired control of Zibi through a restructuring of Zibi's ownership whereby the Company obtained control of the ultimate general partner of Zibi. Prior to the acquisition date, the Company owned a 50% economic interest in Zibi and a 35% voting interest in the ultimate general partner and accounted for its interest as an equity accounted investment. As a result of the restructuring, the Company owns a 40% economic interest in Zibi and an 80% voting interest in Zibi's ultimate general partner. As part of the restructuring, Dream Alternatives also acquired a 40% interest in the project, with the residual 20% interest held by a third-party partner.

## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

Immediately prior to the restructuring, the Company had contributed \$25,000 in equity to Zibi for a 50% interest and had a \$2,573 loan outstanding from the project. The carrying value of the Company's equity accounted investment in Zibi was \$22,742 immediately prior to the restructuring.

As a result of acquiring control of the ultimate general partner of Zibi, the Company re-measured its existing 50% equity interest in Zibi to its fair value of \$36,044, implied by the purchase price agreed upon by Dream Alternatives. As a result of the remeasurement, the Company recorded a non-cash gain of \$13,302 in investment and other income in the three months ended December 31, 2017.

The acquisition of control also resulted in \$13,576 of goodwill on the Company's consolidated statements of financial position, which represented the difference between the fair value of net assets of Zibi (at 100%) relative to the implied financial consideration for the transaction.

The results of Zibi have been consolidated for the twelve months ended December 31, 2017, with a 60% non-controlling interest recognized for the residual partners' economic interest.

The following table summarizes the identifiable assets and liabilities assumed, which were measured at fair value at the date of acquisition of control of Zibi:

Cash and cash equivalents	\$	1,091
Accounts receivable		18,263
Condominium inventory		85,101
Capital and other operating assets		5,216
Goodwill		13,576
<b>Total assets</b>		<b>123,247</b>
Less:		
Accounts payable and other liabilities		(4,503)
Customer deposits		(4,662)
Project-specific debt		(36,348)
Non-controlling interest (at 60%)		(38,494)
		<b>(84,007)</b>
<b>Net assets acquired</b>	<b>\$</b>	<b>39,240</b>
Consideration:		
Deemed disposal of previously held equity accounted investment at fair value	\$	36,044
Conversion of loan receivable from Zibi to equity		2,573
Capital contributions payable		623
<b>Total consideration</b>	<b>\$</b>	<b>39,240</b>

The fair values of current assets, capital and other assets, and current liabilities approximate their carrying values due to their short-term nature. The non-controlling interest in Zibi has been measured at its proportionate share of Zibi's identifiable assets.

The Company incurred \$122 in acquisition-related costs that are included in selling, marketing and other costs.

As a result of the acquisition of control of Dream Alternatives, the Company acquired an additional 40% economic interest in Zibi, which was accounted for as an equity transaction (Note 28).



## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

### 6. Accounts receivable

The details of accounts receivable by segment are summarized in the following table:

	2018	2017
Western Canada development	\$ 120,567	\$ 118,350
Urban development	31,856	39,590
Renewables and recreational properties	4,546	5,058
Asset management and advisory services fees	6,763	6,933
Dream Alternatives	2,821	—
Corporate and other <sup>(1)</sup>	10,861	27,536
	\$ 177,414	\$ 197,467

<sup>(1)</sup> As at December 31, 2017, Corporate and other includes contributions receivable of \$14,540 from Dream Alternatives and a letter of credit of \$6,510 to a third party relating to co-owned development projects. These balances were eliminated on consolidation of Dream Alternatives as at January 1, 2018.

Accounts receivable for contracted sales of land under development and housing and condominium sales are secured by the underlying real estate assets and have various terms of repayment. The carrying value of accounts receivable is reported net of a provision for impairment of \$762 (December 31, 2017 - \$663).

### 7. Other financial assets

Other financial assets consisted of the following:

	Note	2018	2017
Marketable securities - Dream Global REIT	\$	58,123	\$ 57,635
Participating mortgages		64,764	—
Investment holdings		73,085	7,054
Loans receivable		11,894	13,289
Other instruments		4,485	1,065
	36	\$ 212,351	\$ 79,043

#### Marketable Securities

As at December 31, 2018, the Company held 3,132,727 Dream Global REIT units with a fair value of \$37,279 (December 31, 2017 – 3,031,593 units with a fair value of \$37,046). In addition, the Company held 2,081,517 deferred trust units (“DTUs”) as at December 31, 2018 with a fair value of \$20,844 (December 31, 2017 – 2,059,806 DTUs with a fair value of \$20,589), which were received as compensation provided for services pursuant to the asset management and advisory services agreement between the Company and Dream Global REIT. Refer to Note 36 for the valuation methodology used to determine the fair value of the DTUs.

#### Participating Mortgages

Participating mortgages related to two long-term development loans secured by real property comprising two residential assets under development. Refer to Note 36 for the valuation methodology used to determine the fair value of the participating mortgages.

In the year ended December 31, 2018, the Company recorded a net fair value loss of \$7,844, primarily related to the participating mortgages as a result of changes in profit assumptions. As at December 31, 2018, the discount rates applied for the participating mortgages were 7% to 8% (January 1, 2018 - 9.5% to 12%). The change in discount rates was due to a reduction in risk profile of the development holdings as the assets approach completion and are fully sold. The Company determined the fair value of the participating mortgages by using a discounted cash flow analysis which is calculated based on future interest and participating profit payments as determined by the Company and the project managers' estimates of unit sales proceeds and/or net operating income of the development properties.

#### Investment Holdings

As at December 31, 2018, investment holdings include one hospitality asset (Hard Rock Hotel & Casino), retail assets and certain co-owned commercial assets.

In the year ended December 31, 2018, the Company, through Dream Alternatives, invested US\$29,000 (\$37,526) for an approximate 10% interest in the Hard Rock Hotel & Casino in Las Vegas, Nevada, with a consortium of partners, led by Juniper Capital Partners and Fencgate Real Estate Asset Investments. As at December 31, 2018, the cash consideration approximates fair value, adjusted for foreign currency translation.

#### Loans Receivable

Loans receivable are amounts owing to the Company pertaining to development partnerships in Toronto.

## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

### 8. Lending portfolio

	Total
Balance, December 31, 2017	\$ —
Acquired through business combination (Note 5)	161,399
Add (deduct):	
Lending portfolio advances <sup>(1)</sup>	35,042
Changes in accrued interest receivable	(776)
Interest capitalized to lending portfolio balance	6,113
Discount on lending portfolio, net of amortization	(3,513)
Lender fees and extension fees received, net of amortization	318
Principal repayments at maturity and contractual repayments and prepayments	(54,488)
<b>Balance, December 31, 2018</b>	<b>\$ 144,095</b>

<sup>(1)</sup> Included is a loan of \$16,574 that is classified as FVTPL. As at December 31, 2018, fair value approximates amortized cost.

The table below provides a summary of the Company's lending portfolio:

	2018	2017
Weighted average effective interest rate (year-end)	9.6%	n/a
Security allocation (1st mortgages/other)	69.8%/30.2%	n/a
Maturity dates	2019 - 2025	n/a
Balance of accrued interest	\$ 241	n/a
Loans with prepayment options	\$ 37,127	n/a

Principal repayments, based on contractual maturity date, are as follows:

2019	\$ 101,727
2020	7,230
2021	18,221
2022	6,250
2023 and thereafter	19,152
Total principal repayments	\$ 152,580
Provision for lending portfolio losses	(4,842)
Accrued interest balance	241
Unamortized balance of lender fees received	(338)
Unamortized balance of discount on lending portfolio	(3,546)
<b>Balance, December 31, 2018</b>	<b>\$ 144,095</b>

In the year ended December 31, 2018, the Company, through a subsidiary of Dream Alternatives, advanced \$35,042 at a weighted average effective interest rate of 10.7%.

In the three months and year ended December 31, 2018, a loan investment classified as FVTPL, aggregating \$16,574, was measured at fair value using a discounted cash flow method. The fair value was determined by discounting the expected cash flows of the loan using a market interest rate of 17.6%. The market rate was determined by taking into consideration similar instruments with corresponding maturity dates plus a credit adjustment in accordance with the borrowers' creditworthiness as well as the risk characteristics of the underlying development. Generally, under this method, a decrease in the market rate will result in an increase to the fair value. An increase in the market rate will result in a decrease to the fair value. If the weighted average market rate were to increase by 25 basis points ("bps"), the fair value of the loan investments would decrease by \$100. If the weighted average market rate were to decrease by 25 bps, the fair value would increase by \$100.

## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

### 9. Housing inventory

The movement in housing inventory is as follows:

	Total
Balance, January 1, 2017	\$ 50,662
Acquisitions	1,908
Transfers from land inventory	14,609
Development	54,578
Housing units occupied	(62,138)
Balance, December 31, 2017	59,619
Transfers from land inventory	17,527
Development	23,992
Housing units occupied	(44,533)
<b>Balance, December 31, 2018</b>	<b>\$ 56,605</b>

### 10. Condominium inventory

The movement in condominium inventory is as follows:

	Total
Balance, January 1, 2017	\$ 55,634
Acquisitions	7,462
Development	35,114
Condominium units occupied	(20,441)
Transfers to/from investment properties	9,425
Transfers to assets held for sale	(782)
Acquired through business combination	85,101
Balance, December 31, 2017	171,513
Acquisitions	694
Development	85,817
Condominium units occupied	(18,403)
<b>Balance, December 31, 2018</b>	<b>\$ 239,621</b>

### 11. Land inventory

The movement in land inventory is as follows:

	Land held for development	Land under development	Total
Balance, January 1, 2017	\$ 413,485	\$ 191,002	\$ 604,487
Acquisitions	7,951	—	7,951
Development	4,486	73,460	77,946
Lot and acre sales	—	(82,693)	(82,693)
Transfers	(6,339)	6,339	—
Transfers to housing inventory	—	(14,609)	(14,609)
Transfers to condominium inventory	—	(18,184)	(18,184)
Balance, December 31, 2017	419,583	155,315	574,898
Acquisitions	960	—	960
Development	10,483	76,278	86,761
Lot and acre sales	—	(62,955)	(62,955)
Transfers	(1,566)	1,566	—
Transfers to housing inventory	—	(17,527)	(17,527)
Transfers to investment properties	—	(6,241)	(6,241)
<b>Balance, December 31, 2018</b>	<b>\$ 429,460</b>	<b>\$ 146,436</b>	<b>\$ 575,896</b>

## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

### 12. Investment properties

The movement in investment properties by segment is as follows:

	Urban Development	Western Canada Development	Dream Alternatives <sup>(1)</sup>	Total
Balance, January 1, 2017	\$ 158,176	\$ 79,806	\$ —	\$ 237,982
Additions to and transfers to/from investment properties:				
Land and building additions	2,025	11,972	—	13,997
Transfers to/from condominium inventory (net)	(9,425)	—	—	(9,425)
Transfers from land inventory	—	18,184	—	18,184
Transfers to assets held for sale	(8,294)	(25,042)	—	(33,336)
Gains (losses) included in earnings:				
Fair value changes in investment properties	3,672	10,473	—	14,145
Amortization and other	(47)	—	—	(47)
Change in straight-line rent	186	291	—	477
Balance, December 31, 2017	146,293	95,684	—	241,977
Additions to and transfers to/from investment properties:				
Properties acquired through business combination (Note 5)	—	—	220,240	220,240
Acquisitions	3,381	—	10,144	13,525
Land and building additions	732	6,308	7,908	14,948
Transfers from land inventory	—	6,241	—	6,241
Transfers to assets held for sale	—	(53,732)	—	(53,732)
Dispositions	(48,000)	—	—	(48,000)
Gains (losses) included in earnings:				
Fair value changes in investment properties	19,346	1,556	(2,242)	18,660
Amortization and other	(46)	—	(1,260)	(1,306)
Change in straight-line rent	1	191	26	218
<b>Balance, December 31, 2018</b>	<b>\$ 121,707</b>	<b>\$ 56,248</b>	<b>\$ 234,816</b>	<b>\$ 412,771</b>

<sup>(1)</sup> Dream Alternatives segment includes consolidation adjustments relating to a 33.3% leasehold interest co-owned with Dream.

In the year ended December 31, 2018, Dream acquired certain office and industrial properties in connection with the acquisition of control of Dream Alternatives (Note 5).

In the year ended December 31, 2018, Dream, along with Dream Alternatives, acquired a 33.3% leasehold interest in a retail shopping centre and residential mixed-used development investment located at 100 Steeles Ave. West ("100 Steeles") in Toronto, split 25%/75% between Dream and Dream Alternatives. The investment is currently an income producing retail property with redevelopment potential in future years.

In the year ended December 31, 2018, Dream achieved first tenant occupancies within its first commercial development project in the Harbour Landing Commercial Campus in Regina, Saskatchewan (year ended December 31, 2017 - two retail properties). The achievement of first tenant occupancy demonstrated a change in use of the property, which resulted in a change in classification under IFRS from land under development (held at cost) to investment properties (held at fair value). As a result, the Company transferred the carrying value of the property of \$6,241 to investment properties and recognized a non-cash gain of \$815 within fair value changes in investment properties in the consolidated statement of earnings upon transfer (year ended December 31, 2017 - carrying value of \$18,184, non-cash gain of \$6,915).

Fair value changes for the year ended December 31, 2018 for investment properties were \$18,660 (year ended December 31, 2017 – \$14,145).

In the year ended December 31, 2018, the Company received a Notice of Expropriation and Notice of Possession from the City of Toronto for its 73-acre commercial site in Toronto (the "Obico Property"), a property within the Urban Development segment, and accordingly, ownership of the property was deemed to be passed to the City of Toronto on the date of the expropriation registration. The Company received an offer of compensation from the City of Toronto in the amount of \$48,000 in respect of its interest in the Obico Property, pursuant to Section 25 of the *Expropriations Act* (Ontario). The Company has accepted the consideration in order to repay the outstanding first mortgage obligation of \$21,917, but has the right to claim additional compensation as provided for in the *Expropriations Act* (Ontario). Based on the consideration offered, the Company has recorded a corresponding fair value gain of \$7,580 in the consolidated statements of earnings for the year ended December 31, 2018 and collected the net proceeds in the three months ended December 31, 2018. The Company intends to pursue a higher amount of compensation under the *Expropriations Act* (Ontario) in respect of the expropriation of the Obico Property. At the point of final settlement, for which both timing and outcome are uncertain, the Company may record an additional gain in the consolidated statements of earnings.



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(in thousands of Canadian dollars, except numbers of shares and per share amounts)

### Fair Value of Investment Properties

Fair values of investment properties are determined using valuations prepared by management using inputs that are Level 3 on the fair value hierarchy. To supplement the assessment of fair value, management obtains valuations of selected investment properties on a rotational basis from qualified external valuation professionals and verifies the results of such valuations with the external appraisers. As at December 31, 2018, investment properties of \$340,560 (December 31, 2017 - \$nil) were externally appraised.

The discount rate is based on the weighted average cost of capital of the Company and is used to determine the net present value of cash flows. The terminal capitalization rate is based on the location, size and quality of the investment property and takes into account any available market data at the valuation date. The terminal capitalization rate is used to estimate the value of a property at the end of the holding period.

The following are the significant assumptions used under the discounted cash flow method:

- Terminal capitalization rate – taking into account assumptions regarding vacancy rates and market rents
- Discount rate – reflecting current market assessments of the uncertainty in the amount and timing of cash flows

Significant unobservable inputs were as follows for December 31, 2018 and December 31, 2017:

Input	2018		2017		
	Range	Weighted average	Range	Weighted average	
Urban development	Discount rate	6.00%–7.00%	6.0%	5.75%–7.00%	5.8%
	Terminal capitalization rate	5.25%–6.50%	5.3%	5.25%–6.50%	5.3%
Western Canada	Discount rate	6.75%–7.00%	6.9%	6.50%–7.00%	6.7%
	Terminal capitalization rate	5.75%–6.50%	6.1%	5.75%–6.50%	5.9%
Dream Alternatives	Discount rate	5.80%–8.80%	6.9%	n/a	n/a
	Terminal capitalization rate	4.75%–8.00%	6.3%	n/a	n/a

### Fair Value of Urban Development and Dream Alternatives Investment Properties

Fair values of Urban Development and Dream Alternatives investment properties, which include commercial, retail, industrial and other properties held for long-term, are calculated using a discounted cash flow (“DCF”) model, generally over an average period of ten years, plus a terminal value based on the estimated cash flow in the final year. The DCF model incorporates, among other things, expected rental income from current leases, assumptions about rental income from future leases and implied vacancy rates, general inflation and projections of required cash outflows with respect to such leases. The significant unobservable inputs for the fair value of the Company’s investment properties are provided above.

Fair values of the Company’s Urban Development and Dream Alternatives investment properties are most sensitive to changes in the terminal capitalization rates. An increase in the terminal capitalization rate will result in a decrease in the fair value of an investment property and vice versa. If the capitalization rate were to increase or decrease by 25 bps, the value of investment properties would decrease by \$15,910 and increase by \$16,590, respectively, as at December 31, 2018.

### Fair Value of Western Canada Development Properties

The fair values of Western Canada development properties are determined by management on a property-by-property basis using a DCF model. Within the DCF the significant unobservable inputs include: forecasted net operating income based on the location, type and quality of the property, supported by the terms of actual or anticipated future leasing; current market rents for similar properties, adjusted for market allowances; discount rates based on market terms at the valuation date, adjusted for property-specific risks; estimated costs to complete, terms of construction contracts and market conditions; expected completion dates; development and leasing risks specific to the property; and the status of approvals and/or permits.

Fair values of the Company’s Western Canada development properties are most sensitive to changes in the terminal capitalization rates. An increase in the terminal capitalization rate will result in a decrease in the fair value of an investment property and vice versa. If the terminal capitalization rate were to increase or decrease by 25 bps, the value of investment properties would decrease by \$1,341 and increase by \$1,457, respectively, as at December 31, 2018.

Investment properties, including equity accounted investments and excluding assets held for sale, with a fair value of \$363,813 as at December 31, 2018 (December 31, 2017 — \$110,623) are pledged as security for mortgages and term debt. Investment properties, including equity accounted investments, with a fair value of \$28,363 as at December 31, 2018 (December 31, 2017 — \$110,621) are pledged as security for construction loans.

The Company’s future minimum rental commitments, including joint operations and excluding investment properties classified as held for sale, from non-cancellable tenant operating leases as at December 31, 2018 were as follows:

No longer than 1 year	\$	14,804
Between 1 and 5 years		50,347
Longer than 5 years		36,243
	\$	101,394

## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

### 13. Recreational properties

The movement in recreational properties is as follows:

	2018		2017	
Cost	\$	63,557	\$	52,753
Accumulated depreciation		(22,940)		(19,881)
Balance, beginning of year		40,617		32,872
Additions		9,557		11,159
Depreciation		(3,891)		(3,059)
Other		2,958		(355)
<b>Balance, end of year</b>	<b>\$</b>	<b>49,241</b>	<b>\$</b>	<b>40,617</b>
Cost	\$	76,072	\$	63,557
Accumulated depreciation		(26,831)		(22,940)
<b>Balance, end of year</b>	<b>\$</b>	<b>49,241</b>	<b>\$</b>	<b>40,617</b>
		2018		2017
<b>Operational recreational properties:</b>				
Arapahoe Basin ski hill (Colorado)	\$	32,103	\$	22,884
The Broadview Hotel (Ontario)		14,554		14,933
Willows Golf Course (Saskatchewan)		2,584		2,800
	<b>\$</b>	<b>49,241</b>	<b>\$</b>	<b>40,617</b>

### 14. Renewable power assets

The movement in renewable power assets is as follows:

	Solar power		Wind power		Total
Balance, January 1, 2018	\$	—	\$	—	\$ —
Acquired through business combination (Note 5)		88,221		60,680	148,901
Additions		312		272	584
Depreciation		(3,754)		(2,963)	(6,717)
Other		—		520	520
<b>Balance, December 31, 2018</b>	<b>\$</b>	<b>84,779</b>	<b>\$</b>	<b>58,509</b>	<b>\$ 143,288</b>
		2018		2017	
Cost	\$	160,691	\$	—	—
Accumulated depreciation		(17,403)		—	—
<b>Total renewable power assets</b>	<b>\$</b>	<b>143,288</b>	<b>\$</b>	<b>—</b>	<b>—</b>

## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

### 15. Equity accounted investments

The Company has entered into certain arrangements in the form of jointly controlled entities for various residential and investment property developments, as well as renewable energy investments. These arrangements include restrictions on the ability to access assets without the consent of all partners and include distribution conditions outlined in partnership agreements. These arrangements are accounted for under the equity method. The equity method of accounting is also applicable to investments in common stock in which the Company is deemed to be able to exercise significant influence over the investee company. As at December 31, 2018, the carrying value of these arrangements was \$549,760 (December 31, 2017 – \$402,672).

The following tables summarize the Company's proportionate share of assets and liabilities in equity accounted investments (segregated between development and income producing investments) as at December 31, 2018 and December 31, 2017.

	2018		
Project level (at 100%)	Assets	Liabilities	Net assets
Development investments			
Brighton Marketplace	\$ 46,465	\$ (30,646)	\$ 15,819
Canary District	125,057	(105,090)	19,967
Frank Gehry	345,011	(259,265)	85,746
Port Credit	259,819	(122,827)	136,992
Lakeshore East	63,575	(30,040)	33,535
Other development investments	319,370	(202,031)	117,339
<b>Total development investments</b>	<b>\$ 1,159,297</b>	<b>\$ (749,899)</b>	<b>\$ 409,398</b>
Income producing investments			
Dream Office REIT	\$ 3,122,932	\$ (1,509,310)	\$ 1,613,622
Firelight Infrastructure Partners LP	944,846	(752,188)	192,658
Other income producing investments	140,545	(85,788)	54,757
<b>Total income producing investments</b>	<b>\$ 4,208,323</b>	<b>\$ (2,347,286)</b>	<b>\$ 1,861,037</b>
<b>Total</b>	<b>\$ 5,367,620</b>	<b>\$ (3,097,185)</b>	<b>\$ 2,270,435</b>

	2018					
At Dream's share	Ownership interest	Assets	Liabilities	Net assets	Difference between net assets and deemed cost of investments <sup>(1)</sup>	Total
Development investments						
Brighton Marketplace	50%	\$ 23,233	\$ (15,323)	\$ 7,910	\$ (2,286)	\$ 5,624
Canary District	50%	62,529	(52,545)	9,984	—	9,984
Frank Gehry	25%	85,773	(64,816)	20,957	7,656	28,613
Port Credit <sup>(2)</sup>	31%	84,902	(38,076)	46,826	—	46,826
Lakeshore East <sup>(2)</sup>	50%	46,383	(15,021)	31,362	—	31,362
Other development investments	7%-50%	104,288	(75,057)	29,231	—	29,231
<b>Total development investments</b>		<b>\$ 407,108</b>	<b>\$ (260,838)</b>	<b>\$ 146,270</b>	<b>\$ 5,370</b>	<b>\$ 151,640</b>
Income producing investments						
Dream Office REIT <sup>(3)</sup>	23%	\$ 700,581	\$ (339,199)	\$ 361,382	\$ (21,125)	\$ 340,257
Firelight Infrastructure Partners LP	20%	188,969	(150,494)	38,475	—	38,475
Other income producing investments	17%-78%	45,486	(26,098)	19,388	—	19,388
<b>Total income producing investments</b>		<b>\$ 935,036</b>	<b>\$ (515,791)</b>	<b>\$ 419,245</b>	<b>\$ (21,125)</b>	<b>\$ 398,120</b>
<b>Total</b>		<b>\$ 1,342,144</b>	<b>\$ (776,629)</b>	<b>\$ 565,515</b>	<b>\$ (15,755)</b>	<b>\$ 549,760</b>

<sup>(1)</sup> The difference between net assets and the deemed cost of investment is due to the Company's proportionate share of the joint venture's net assets being either higher or lower than the Company's cost of the investment at year-end.

<sup>(2)</sup> The Company's deemed cost of this investment includes fair value adjustments relating to the consolidation of Dream Alternatives (Note 5) and as a result, may not reflect our proportionate share of project level net assets.

<sup>(3)</sup> The ownership interest in Dream Office REIT increased throughout the year ended December 31, 2018 and was approximately 23% as at December 31, 2018 (December 31, 2017 - 14%).

## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

	2017		
Project level (at 100%)	Assets	Liabilities	Net assets
<b>Development investments</b>			
Brighton Marketplace	\$ 27,394	\$ (10,606)	\$ 16,788
Canary District	81,770	(59,838)	21,932
Port Credit	267,910	(138,323)	129,587
Lakeshore East	62,272	(30,008)	32,264
Other development investments	127,294	(8,824)	118,470
<b>Total development investments</b>	<b>\$ 566,640</b>	<b>\$ (247,599)</b>	<b>\$ 319,041</b>
<b>Income producing investments</b>			
Dream Alternatives	\$ 853,265	\$ (244,039)	\$ 609,226
Dream Office REIT	3,321,983	(1,470,379)	1,851,604
Firelight Infrastructure Partners LP	1,000,205	(797,620)	202,585
Other income producing investments	71,836	(16,877)	54,959
<b>Total income producing investments</b>	<b>\$ 5,247,289</b>	<b>\$ (2,528,915)</b>	<b>\$ 2,718,374</b>
<b>Total</b>	<b>\$ 5,813,929</b>	<b>\$ (2,776,514)</b>	<b>\$ 3,037,415</b>

	2017					
At Dream's share	Ownership interest	Assets	Liabilities	Net assets	Difference between net assets and deemed cost of investments <sup>(1)</sup>	Total
<b>Development investments</b>						
Brighton Marketplace	50%	\$ 13,697	\$ (5,303)	\$ 8,394	\$ (2,285)	\$ 6,109
Canary District	50%	40,885	(29,919)	10,966	—	10,966
Frank Gehry	6.25%	4,752	—	4,752	—	4,752
Port Credit	7.75%	20,763	(10,720)	10,043	—	10,043
Lakeshore East	12.5%	7,784	(3,751)	4,033	—	4,033
Other development investments	9%-50%	6,234	(1,717)	4,517	—	4,517
<b>Total development investments</b>		<b>\$ 94,115</b>	<b>\$ (51,410)</b>	<b>\$ 42,705</b>	<b>\$ (2,285)</b>	<b>\$ 40,420</b>
<b>Income producing investments</b>						
Dream Alternatives <sup>(2)</sup>	13%	\$ 113,072	\$ (32,421)	\$ 80,651	\$ (32,315)	\$ 48,336
Dream Office REIT	14%	472,430	(209,111)	263,319	(15,936)	247,383
Firelight Infrastructure Partners LP	20%	200,041	(159,524)	40,517	—	40,517
Other income producing investments	17%-78%	34,307	(8,291)	26,016	—	26,016
<b>Total income producing investments</b>		<b>\$ 819,850</b>	<b>\$ (409,347)</b>	<b>\$ 410,503</b>	<b>\$ (48,251)</b>	<b>\$ 362,252</b>
<b>Total</b>		<b>\$ 913,965</b>	<b>\$ (460,757)</b>	<b>\$ 453,208</b>	<b>\$ (50,536)</b>	<b>\$ 402,672</b>

<sup>(1)</sup> The difference between net assets and the deemed cost of investment is due to the Company's proportionate share of the joint venture's net assets being either higher or lower than the Company's cost of the investment at year-end.

<sup>(2)</sup> As at January 1, 2018, the Company's investment in Dream Alternatives was consolidated. Refer to Note 5 for further details.



## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

The following tables summarize the Company's proportionate share of revenues, earnings (losses), and earnings (losses) before depreciation in equity accounted investments for the years ended December 31, 2018 and 2017.

Project level (at 100%)	2018		
	Revenues	Earnings (losses)	Earnings (losses) before depreciation
Development investments			
Brighton Marketplace	\$ 486	\$ (968)	(968)
Canary District	78	(1,130)	(1,130)
Frank Gehry	—	759	759
Port Credit	—	(98)	(98)
Lakeshore East	—	(168)	(168)
Other development investments	3,843	8,276	8,290
<b>Total development investments</b>	<b>\$ 4,407</b>	<b>\$ 6,671</b>	<b>\$ 6,685</b>
Income producing investments			
Dream Office REIT	\$ 285,208	\$ 163,906	166,103
Firelight Infrastructure Partners LP	132,673	26,063	69,563
Other income producing investments	41,127	(1,222)	186
<b>Total income producing investments</b>	<b>\$ 459,008</b>	<b>\$ 188,747</b>	<b>\$ 235,852</b>
<b>Total</b>	<b>\$ 463,415</b>	<b>\$ 195,418</b>	<b>\$ 242,537</b>

At Dream's share	Ownership interest	2018		
		Revenues	Earnings (losses)	Earnings (losses) before depreciation
Development investments				
Brighton Marketplace	50%	\$ 243	\$ (484)	(484)
Canary District	50%	39	(565)	(565)
Frank Gehry	25%	—	195	195
Port Credit	31%	—	(31)	(31)
Lakeshore East	50%	—	(84)	(84)
Other development investments	7%-50%	425	956	956
<b>Total development investments</b>		<b>\$ 707</b>	<b>\$ (13)</b>	<b>(13)</b>
Income producing investments				
Dream Office REIT <sup>(1)</sup>	18%	54,658	32,402	32,805
Firelight Infrastructure Partners LP	20%	26,827	5,213	13,913
Other income producing investments	17%-78%	20,364	(573)	130
<b>Total income producing investments</b>		<b>\$ 101,849</b>	<b>\$ 37,042</b>	<b>\$ 46,848</b>
<b>Total</b>		<b>\$ 102,556</b>	<b>\$ 37,029</b>	<b>\$ 46,835</b>

<sup>(1)</sup>The ownership interest in Dream Office REIT increased throughout the year ended December 31, 2018 and averaged 18% (year ended December 31, 2017 - 14%)

## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

				2017
Project level (at 100%)	Ownership interest	Revenues	Earnings (losses)	Earnings (losses) before depreciation
<b>Development investments</b>				
Brighton Marketplace	\$	—	\$	—
Canary District		1,944	(4,998)	(4,998)
Frank Gehry		—	—	—
Port Credit		—	(217)	(217)
Lakeshore East		—	(328)	(328)
Other development investments		5,880	3,143	3,143
<b>Total development investments</b>	<b>\$</b>	<b>7,824</b>	<b>\$</b>	<b>(2,400)</b>
<b>Income producing investments</b>				
Dream Alternatives	\$	56,515	\$	(9,472)
Dream Office REIT		41,373		107,952
Firelight Infrastructure Partners LP		135,165		25,275
Other income producing investments		36,386		2,695
<b>Total income producing investments</b>	<b>\$</b>	<b>269,439</b>	<b>\$</b>	<b>126,450</b>
<b>Total</b>	<b>\$</b>	<b>277,263</b>	<b>\$</b>	<b>124,050</b>

				2017
At Dream's share	Ownership interest	Revenues	Earnings (losses)	Earnings (losses) before depreciation
<b>Development investments</b>				
Brighton Marketplace	50%	\$	—	\$
Canary District	50%		972	(2,499)
Frank Gehry	6.25%		—	—
Port Credit	7.75%		—	(16)
Lakeshore East	12.5%		—	(41)
Other development investments	7%-50%		1,419	663
<b>Total development investments</b>		<b>\$</b>	<b>2,391</b>	<b>\$</b>
<b>Income producing investments</b>				
Dream Alternatives <sup>(1)</sup>	13%	\$	6,091	\$
Dream Office REIT	14%		5,261	13,727
Firelight Infrastructure Partners LP	20%		27,033	5,055
Other income producing investments	17%-78%		18,189	1,210
<b>Total income producing investments</b>		<b>\$</b>	<b>56,574</b>	<b>\$</b>
<b>Total</b>		<b>\$</b>	<b>58,965</b>	<b>\$</b>

<sup>(1)</sup> As at January 1, 2018, the Company's investment in Dream Alternatives was consolidated. Refer to Note 5 for further details.

## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

### 16. Capital and other operating assets

Capital and other operating assets consisted of the following:

	2018		2017	
Deposits	\$	2,539	\$	935
Restricted cash		14,832		6,332
Capital assets		12,291		7,570
Prepaid expenses <sup>(1)</sup>		9,203		4,250
Inventory		1,203		1,012
<b>Total capital and other operating assets</b>	<b>\$</b>	<b>40,068</b>	<b>\$</b>	<b>20,099</b>

	2018		2017	
Capital assets	\$	20,317	\$	13,147
Accumulated depreciation		(8,026)		(5,577)
<b>Total capital assets</b>	<b>\$</b>	<b>12,291</b>	<b>\$</b>	<b>7,570</b>

<sup>(1)</sup> Included in prepaid expenses as at December 31, 2018 is \$3,507 of capitalized sales commissions relating to housing and condominium sales to be recognized in future periods (December 31, 2017 - \$195).

Restricted cash represents cash advanced by the Company to secure letters of credit provided to various government agencies to support development activity, certain customer deposits on land, housing and condominium sales required for specific statutory requirements before closing, and cash held as security.

### 17. Goodwill

	2018		2017	
Balance, beginning of year	\$	13,576	\$	—
Additions from business combinations		—		13,576
<b>Balance, end of year</b>	<b>\$</b>	<b>13,576</b>	<b>\$</b>	<b>13,576</b>

Goodwill arising from business combinations is allocated at the lowest level within the Company at which it is monitored by management to make business decisions and, therefore, has been allocated to the Zibi CGU within the Urban Development - Toronto & Ottawa operating segment.

The recoverable amount of the Zibi CGU has been estimated using fair value less costs of disposal. The CGU's inventory was fair valued using a third party appraisal, whereby the direct comparison approach was used to compare Zibi with similar sites classified as vacant for development that have been recently sold or offered for sale. The fair value measurement is categorized in Level 3 of the fair value hierarchy.

The Company performed its annual impairment test as at October 1, 2018 and did not identify an impairment for the Zibi CGU.

### 18. Assets held for sale

As at December 31, 2018, management had committed to a plan of sale of certain properties, which were considered to be highly probable. As a result, these properties were classified as assets held for sale totalling \$72,587.

	2018		2017	
Balance, beginning of year	\$	34,118	\$	—
Assets classified as held for sale during the year		53,732		34,118
Assets sold during the year		(14,086)		—
Additions to assets held for sale		1,763		—
Change in straight-line rent		458		—
Fair value changes in investment properties classified as assets held for sale		(3,398)		—
<b>Balance, end of year</b>	<b>\$</b>	<b>72,587</b>	<b>\$</b>	<b>34,118</b>

In the year ended December 31, 2018, the Company disposed of its interest in two properties, for total consideration of \$23,508. The resulting gain on disposal of \$9,422 was recognized in the consolidated financial statements for the year ended December 31, 2018.

Subsequent to December 31, 2018, the Company disposed of its interest in two properties for total consideration of \$16,121.

## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

### 19. Accounts payable and other liabilities

The details of accounts payable and other liabilities are as follows:

	Note	2018	2017
Trade payables <sup>(1)</sup>		\$ 24,549	\$ 30,032
Accrued liabilities		87,422	85,309
Deferred revenue		6,774	3,624
Interest rate swap		685	—
Retraction option on Preference shares, series 1	36	232	—
Lease obligation		7,180	—
		\$ 126,842	\$ 118,965

<sup>(1)</sup>Included in trade payables were bank overdraft balances of \$7,602 as at December 31, 2018 (December 31, 2017 - \$4,299).

### Lease Obligation

In the year ended December 31, 2018, the Company acquired a 33.3% leasehold interest in a retail shopping centre and residential mixed-use development investment in Toronto, split 25%/75% between Dream and Dream Alternatives (refer to Note 12). Under IAS 40, the Company has elected to treat the leasehold interest as a finance lease, where the Company is a lessee and the property meets the definition of an investment property. Accordingly, once the transaction closed the Company recognized the leasehold asset as an investment property of \$13,525, a lease obligation of \$7,299, and initial direct costs of \$6,226 were paid in cash. The leasehold interest has a remaining term of 17 years and includes an option to purchase a freehold interest in the property.

### 20. Provision for real estate development costs

The movement in the provision for real estate development costs is as follows:

	2018	2017
Balance, beginning of year	\$ 34,756	\$ 41,798
Additional provisions	11,845	22,666
Utilized during the year	(12,748)	(29,708)
Balance, end of year	\$ 33,853	\$ 34,756

The provision for real estate development costs includes accrued costs based on the estimated costs to complete land, housing and condominium development projects for which revenue has been recognized. These amounts have not been discounted, as the majority are expected to be substantially utilized within one year.

### 21. Project-specific debt

#### Continuity of Debt

	Construction loans - Western Canada	Construction loans - Urban development - Toronto & Ottawa	Mortgages and term debt - Dream	Mortgages and term debt - Dream Alternatives	Total
Balance, January 1, 2018	\$ 98,706	\$ 64,697	\$ 116,824	\$ —	\$ 280,227
Borrowings	62,642	73,090	69,489	—	205,221
Repayments	(99,927)	(21,260)	(51,378)	(4,664)	(177,229)
Assumed through business combination (Note 5)	—	—	—	203,967	203,967
Interest and other	—	38	2,279	77	2,394
<b>Balance, December 31, 2018</b>	<b>\$ 61,421</b>	<b>\$ 116,565</b>	<b>\$ 137,214</b>	<b>\$ 199,380</b>	<b>\$ 514,580</b>



## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

	Construction loans - Western Canada	Construction loans - Urban development - Toronto & Ottawa	Mortgages and term debt	Total
Balance, January 1, 2017	\$ 81,651	\$ 8,708	\$ 112,657	\$ 203,016
Borrowings	77,650	55,834	24,928	158,412
Repayments	(60,345)	—	(56,807)	(117,152)
Assumed through business combination	—	—	36,348	36,348
Interest and other	(250)	155	(302)	(397)
<b>Balance, December 31, 2017</b>	<b>\$ 98,706</b>	<b>\$ 64,697</b>	<b>\$ 116,824</b>	<b>\$ 280,227</b>

Western Canada construction loans relate to housing, retail and commercial projects under development and are all due on demand with recourse provisions. Urban development construction loans relate to project-specific financing for condominium units under development and land servicing and hold security against the underlying asset. Mortgages and term debt for both Dream and Dream Alternatives are provided by a variety of lenders. The balance of interest and other primarily includes accrued interest adjustments, foreign exchange and amortization of deferred financing costs. Further details on the weighted average interest rates and maturities are included in Note 36.

### Interest Rate Swap

In order to manage the interest rate risk on certain variable rate debt, the Company entered into a seven-year interest rate swap agreement that fixed the interest rate on a term loan at 3.69%. As at December 31, 2018, the aggregate value of the interest rate swap amounted to \$158 and is presented in other financial assets. The Company did not apply hedge accounting to this relationship, and therefore the change in fair value of the swap is recognized in earnings within fair value changes in derivative financial instruments in the year ended December 31, 2018. As at December 31, 2018, the outstanding amount on the hedged facility was \$7,560 (December 31, 2017 - \$8,655).

The following table summarizes the details of the interest rate swap outstanding as at December 31, 2018:

Maturity date	Notional amount hedged	Fixed interest rate	Financial instrument classification	Fair value of hedging instrument <sup>(1)</sup>
January 14, 2023	\$ 7,560	3.69%	FVTPL	\$ 158

<sup>(1)</sup> Included in other financial assets as at December 31, 2018.

## 22. Corporate debt facilities

### Continuity of Debt

	Operating line - Dream <sup>(1)</sup>	Non-revolving term facility <sup>(2)</sup>	Margin facility	Operating line - Dream Alternatives	Total
Balance, January 1, 2018	\$ 93,225	\$ 174,799	\$ 40,000	\$ —	\$ 308,024
Borrowings	212,000	50,000	75,000	35,000	372,000
Repayments	(257,000)	—	(15,000)	(35,000)	(307,000)
Interest and other	718	(716)	—	—	2
<b>Balance, December 31, 2018</b>	<b>\$ 48,943</b>	<b>\$ 224,083</b>	<b>\$ 100,000</b>	<b>\$ —</b>	<b>\$ 373,026</b>

	Operating line - Dream <sup>(1)</sup>	Non-revolving term facility <sup>(2)</sup>	Margin facility	Total
Balance, January 1, 2017	\$ 104,526	\$ 174,403	\$ —	\$ 278,929
Borrowings	114,000	—	40,000	154,000
Repayments	(126,000)	—	—	(126,000)
Interest and other	699	396	—	1,095
<b>Balance, December 31, 2017</b>	<b>\$ 93,225</b>	<b>\$ 174,799</b>	<b>\$ 40,000</b>	<b>\$ 308,024</b>

<sup>(1)</sup> Net of unamortized financing costs of \$57 as at December 31, 2018 (December 31, 2017 - \$775).

<sup>(2)</sup> Net of unamortized financing costs of \$917 as at December 31, 2018 (December 31, 2017 - \$201).

Further details on the weighted average interest rates and maturities are included in Note 36. In the year, there were no events of default on any of the Company's obligations under its corporate debt facilities.

# Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

## Operating Line - Dream

The Company has established a revolving term credit facility (the "operating line"), available up to a formula-based maximum not to exceed \$290,000, with a syndicate of Canadian financial institutions, maturing on January 31, 2019. As at December 31, 2018, funds available under this facility were \$273,543, as determined by the formula-based maximum calculation, with \$55,413 of letters of credit issued against the facility. The operating line bears interest, at the Company's option, at a rate per annum equal to either the bank's prime lending rate plus 1.25% or at the bank's then prevailing bankers' acceptance rate plus 2.50%. The operating line is secured by a general security agreement and a first charge against various real estate assets in Western Canada.

Interest expense relating to the facility for the year ended December 31, 2018 was \$4,252 (year ended December 31, 2017 – \$5,103).

## Non-Revolving Term Facility

In the year ended December 31, 2018, the Company executed on an amendment to its \$175,000 non-revolving term facility with a syndicate of Canadian financial institutions, increasing the borrowing capacity on the facility to \$225,000 and extending the maturity date to February 28, 2021. The non-revolving term facility bears interest, at the Company's option, at a rate per annum equal to either the bank's prime lending rate plus 1.50% or at the bank's then prevailing bankers' acceptance rate plus 2.75%. The facility is secured by a general security agreement and a first charge against various real estate assets and other financial assets of the Company.

Interest expense relating to the non-revolving term credit facility for the year ended December 31, 2018 was \$9,205 (year ended December 31, 2017 – \$6,486).

## Margin Facility

In the year ended December 31, 2017, the Company entered into a \$40,000 revolving margin facility. In the year ended December 31, 2018, the Company executed on an amendment to the facility, increasing the amount available to \$110,000. The loan is due on demand and bears interest, at the Company's option, at a rate per annum equal to either the bank's prime lending rate plus 1.25% or the bank's then prevailing bankers' acceptance rate plus 2.50%. The facility is secured by a first charge against certain marketable securities.

Interest expense relating to the facility for the year ended December 31, 2018 was \$3,321 (year ended December 31, 2017 – \$356).

## Operating Line - Dream Alternatives

Dream Alternatives has a revolving term credit facility (the "Dream Alternatives operating line") available up to a formula-based maximum not to exceed \$50,000, with a Canadian financial institution, maturing on July 31, 2019. As at December 31, 2018, funds available under this facility were \$39,395, as determined by a formula-based maximum calculation. The Dream Alternatives operating line bears interest, at the Company's option, at a rate per annum equal to either the bank's prime lending rate plus 1.0% or at the bank's then prevailing bankers' acceptance rate plus 2.0%. The Dream Alternatives operating line is secured by a general security agreement over certain Dream Alternatives subsidiaries.

As at December 31, 2018, no funds were drawn on the revolving credit facility (December 31, 2017 – \$nil) and funds available under this facility were \$38,000 (December 31, 2017 – \$43,295), net of \$1,395 (December 31, 2017 – \$1,705) of letters of credit issued against the facility.

Interest expense relating to the Dream Alternatives operating line for the year ended December 31, 2018 was \$615.

## Interest Rate Swap

In the year ended December 31, 2018, the Company entered into an interest rate swap to effectively exchange the variable interest rate on \$125,000 of the \$225,000 non-revolving term facility for a fixed rate of 5.20% per annum through the use of forward-purchase contracts that mature on February 28, 2021. The Company has applied hedge accounting to this relationship, whereby the change in fair value of the effective portion of the hedging derivative is recognized in AOCI. Settlement of both the fixed and variable portions of the interest rate swap occurs on a monthly basis. The full amount of the hedge was determined to be effective as at December 31, 2018 as all critical terms matched during the year.

The following table summarizes the details of the interest rate swap, which has been classified as a hedging instrument, outstanding as at December 31, 2018:

Maturity date	Notional amount hedged	Fixed interest rate	Financial instrument classification	Fair value of hedging instrument <sup>(1)</sup>
February 28, 2021	\$ 125,000	5.20%	Cash flow hedge	\$ 685

<sup>(1)</sup> Included in accounts payable and other liabilities as at December 31, 2018.

## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

### 23. Preference shares, series 1

As part of the reorganization of the Company's share capital in 2013, the Company issued 6,000,000, 7% Cumulative Redeemable First Preference shares, series 1 ("Preference shares, series 1"), with a liquidation amount of \$7.16 per share. The shares are classified and accounted for as a financial liability as they are retractable at the option of the holder for a fixed amount per share. The shares are also retractable by the Company for a fixed amount per share.

Each series of Preference shares, series 1, will be entitled to preference on the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding up of the Company over the Subordinate Voting Shares and Class B Shares (Note 26).

The Preference shares, series 1, issued and outstanding are as follows:

	Number of shares		Par value		Carrying value
Balance, January 1, 2017	4,005,729	\$	28,681	\$	28,643
Accretion using the effective interest method	—		—		25
Balance, December 31, 2017	4,005,729	\$	28,681	\$	28,668
Accretion using the effective interest method	—		—		4
<b>Balance, December 31, 2018</b>	<b>4,005,729</b>	<b>\$</b>	<b>28,681</b>	<b>\$</b>	<b>28,672</b>

In the year ended December 31, 2018, the Company declared and paid dividends on the Preference shares, series 1 of \$2,008 (year ended December 31, 2017 – \$2,008).

### 24. Dream Alternatives trust units

As described in Note 5, the Company acquired control of Dream Alternatives as of January 1, 2018. In accordance with the Company's accounting policy detailed in Note 3, as at December 31, 2018, the Company accounted for the 83% interest in Dream Alternatives trust units held by other unitholders as a financial liability measured at fair value through profit or loss (January 1, 2018 - 87%). As at December 31, 2018, the trust units had a fair value of \$377,234 based on the trading price on the TSX. The movement in Dream Alternatives trust units is as follows:

	Units	Total
Balance, January 1, 2018	— \$	—
Assumed through business combination (Note 5)	62,815,176	397,620
Units acquired by the Company in the year	(1,875,426)	(12,221)
Units issued to other unitholders through distribution reinvestment plan	756,348	4,984
Units repurchased and cancelled by Dream Alternatives	(1,289,889)	(8,455)
Deferred units exchanged for Dream Alternatives trust units	47,890	309
Fair value adjustment	—	(5,003)
<b>Balance, December 31, 2018</b>	<b>60,454,099 \$</b>	<b>377,234</b>

In the year ended December 31, 2018, the Company, through Dream Alternatives, declared distributions on the trust units of \$24,683 owing to other unitholders, of which \$19,699 was paid in cash.

In the year ended December 31, 2018, the Company recognized an expense related to Dream Alternatives trust units of \$19,680 in the consolidated statements of earnings, comprising distributions to other unitholders of \$24,683 offset by a fair value gain of \$5,003.

Subsequent to December 31, 2018, Dream Alternatives announced the suspension of its distribution reinvestment plan effective for the February 2019 distribution.

## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

### 25. Income taxes

In the year ended December 31, 2018, the Company recognized income tax expense of \$21,439 (year ended December 31, 2017 – \$32,737), the major components of which include the following items:

	2018	2017
Current income taxes:		
Current income taxes with respect to profits during the year	\$ 10,243	\$ 31,500
Current tax adjustments with respect to prior periods	(987)	(66)
Other items affecting current tax expense	3,051	2,457
Current income tax expense	12,307	33,891
Deferred income taxes:		
Origination and reversal of temporary differences	9,134	(4,224)
Recovery arising from previously unrecognized temporary difference	(148)	(361)
Impact of changes in income tax rates	146	3,431
Deferred income tax expense (recovery)	9,132	(1,154)
Income tax expense	\$ 21,439	\$ 32,737

Due to non-coterminous tax years of the Company's partnership and trust interests, income of approximately \$13,271 for the year ended December 31, 2018 (year ended December 31, 2017 – \$12,514) relating to such partnership and trust interests will be included in computing the Company's taxable income for its 2019 and 2018 taxation years.

The income tax expense amount on pre-tax earnings differs from the income tax expense amount that would arise using the combined Canadian federal and provincial statutory tax rate of 26.7% (December 31, 2017 – 26.6%), as presented in the table below. Cash paid for income taxes for the year ended December 31, 2018 was \$38,649 (year ended December 31, 2017 – \$3,871).

	2018	2017
Earnings before tax at statutory rate of 26.7% (2017 – 26.6%)	\$ 57,002	\$ 30,743
Effect on taxes of:		
Non-deductible expenses	3,105	1,466
Adjustment in expected future tax rates	146	3,431
Non-taxable gain on acquisition of Dream Alternatives	(34,713)	—
Tax adjustments in respect of prior years	(1,135)	(427)
Non-taxable portion of capital gains	(3,806)	(2,344)
Other items	840	(132)
Income tax expense	\$ 21,439	\$ 32,737

The movement in the deferred income taxes in the year ended December 31, 2018 and the year ended December 31, 2017, and the net components of the Company's net deferred income tax liabilities, are presented in the following table:

Asset (Liability)	Accounts receivable	Real estate inventory	Non-coterminous tax year	Financial assets/equity accounted investments	Loss carry-forwards	Equity issuance	Total
Balance, January 1, 2017	\$ (8,418)	\$ (17,550)	\$ (16,791)	\$ (17,366)	\$ 4,297	\$ 298	\$ (55,530)
(Charged) credited to:							
Earnings for the year	(587)	(8,279)	13,454	(214)	(3,071)	(149)	1,154
Other comprehensive income	—	(409)	—	(4,934)	—	—	(5,343)
Balance, December 31, 2017	\$ (9,005)	\$ (26,238)	\$ (3,337)	\$ (22,514)	\$ 1,226	\$ 149	\$ (59,719)
Impact of changes in accounting policies (Note 46)	—	(1,743)	—	(869)	—	—	(2,612)
Adjusted balance, January 1, 2018	(9,005)	(27,981)	(3,337)	(23,383)	1,226	149	(62,331)
(Charged) credited to:							
Earnings for the year	325	(8,857)	(210)	1,717	(1,958)	(149)	(9,132)
Assumed through business combination (Note 5)	—	(5,994)	—	(2,758)	8,863	—	111
Tax effect of business combination (Note 5)	—	5,469	—	(28,824)	—	—	(23,355)
Other comprehensive income	—	357	—	211	—	—	568
<b>Balance, December 31, 2018</b>	<b>\$ (8,680)</b>	<b>\$ (37,006)</b>	<b>\$ (3,547)</b>	<b>\$ (53,037)</b>	<b>\$ 8,131</b>	<b>\$ —</b>	<b>\$ (94,139)</b>



## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

As at December 31, 2018, the Company had tax losses of \$15,764 (December 31, 2017 – \$12,952) that expire between 2025 and 2038 and U.S. capital losses of \$1,157 (US\$848) (December 31, 2017 – \$1,064 (US\$848)) that expire in 2019. Deferred income tax assets have not been recognized in respect of these losses, as it is not probable that the Company will be able to utilize all of the losses against taxable profits in the future.

### 26. Share capital

The Company is authorized to issue an unlimited number of Subordinate Voting Shares and an unlimited number of Class B Shares. Holders of Subordinate Voting Shares and Class B Shares are entitled to one vote and 100 votes, respectively, for each share held. The Class B Shares are convertible into Subordinate Voting Shares on a one-for-one basis at any time. Holders of Subordinate Voting Shares and Class B Shares are entitled to receive and participate equally as to dividends, share for share, as and when declared by the directors of the Company. In the event of a liquidation, dissolution or winding up of the Company, holders of Subordinate Voting Shares and Class B Shares will, after payment to the holders of Preference shares, series 1, be entitled to the remaining property and assets of the Company.

	2018		2017	
	Number of shares	Amount	Number of shares	Amount
Issued and outstanding				
Dream Subordinate Voting Shares	104,215,841	\$ 1,171,034	106,120,323	\$ 1,186,865
Dream Class B Shares	3,115,164	38,785	3,115,299	38,786
	<b>107,331,005</b>	<b>\$ 1,209,819</b>	<b>109,235,622</b>	<b>\$ 1,225,651</b>

The following table summarizes the changes in the Dream Subordinate Voting Shares issued:

	2018		2017	
	Number of shares	Amount	Number of shares	Amount
Issued and outstanding, beginning of year	106,120,323	\$ 1,186,865	77,803,711	\$ 971,051
Class B Shares converted into Subordinate Voting Shares	135	1	165	1
Deferred share units converted into Subordinate Voting Shares	—	—	28,162	255
Stock options exercised	24,583	194	—	—
Subordinate Voting Shares issued under Exchange Agreement (Note 28)	—	—	31,533,682	237,764
Subordinate Voting Shares repurchased	(1,929,200)	(16,026)	(3,245,397)	(22,206)
Issued and outstanding, end of year	<b>104,215,841</b>	<b>\$ 1,171,034</b>	<b>106,120,323</b>	<b>\$ 1,186,865</b>

The following table summarizes the changes in the Dream Class B Shares issued:

	2018		2017	
	Number of shares	Amount	Number of shares	Amount
Issued and outstanding, beginning of year	3,115,299	\$ 38,786	3,115,464	\$ 38,787
Class B Shares converted into Subordinate Voting Shares	(135)	(1)	(165)	(1)
Issued and outstanding, end of year	<b>3,115,164</b>	<b>\$ 38,785</b>	<b>3,115,299</b>	<b>\$ 38,786</b>

### Dividends

In the year ended December 31, 2018, the Board of Directors of DAM declared dividends of \$nil to the Company on its non-voting common shares (year ended December 31, 2017, \$12,972 and \$5,005 to the Company and the non-controlling interest of DAM, respectively). Dividends attributable to the Company are eliminated in the consolidated financial statements of Dream. As a result of the share exchange transaction described in Note 28, the non-controlling interest of DAM relating to Sweet Dream Corp. ("SDC") was eliminated in the year ended December 31, 2017, and accordingly any dividends payable on the non-voting common shares after May 19, 2017 are only payable to Dream.

Subsequent to December 31, 2018, the Company's dividend policy was approved. In 2019, the Company will pay an annual dividend of \$0.10 per Subordinate Voting Share and Class B Share, payable quarterly. The first dividends will be paid on March 29, 2019 to shareholders of record on March 15, 2019.

### Reorganization adjustment

On May 16, 2013, shareholders of Dundee Corporation unanimously voted in favour of a corporate restructuring, through a tax-efficient Plan of Arrangement, which resulted in Dundee Corporation transferring its 70.05% interest in DAM, formerly Dundee Realty Corporation, including DAM common shares and DAM Class C shares, to the Company, in exchange for shares of Dream (the "Arrangement").

The Arrangement was accounted for as a corporate reorganization, and the Company recognized the identifiable assets and liabilities of DAM transferred to Dream pursuant to the Arrangement at DAM's historical carrying values, with no fair value adjustments. The difference between the stated capital of Dream's issued shares and the previously recorded share capital and contributed surplus of DAM, and other minor adjustments, of \$944,577 was reflected as a separate component of equity described as "Reorganization adjustment".

# Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

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## Shares of DAM

The following shares exist within DAM's share capital; they hold a carrying value of \$nil in the consolidated financial statements of Dream.

### Class D Preferred Shares

The Class D Preferred Shares of DAM, held by SDC, are non-voting and are not entitled to receive dividends. The Class D Preferred shares are redeemable by DAM, at its sole discretion, for an amount per share equal to the lesser of: (i) \$10,447 divided by the aggregate number of Class D Preferred shares originally outstanding at the date of grant of the Class D Preferred shares; and (ii) an amount obtained by multiplying 512,108 by the closing market price of a Series A unit of Dream Office REIT at the time of such redemption, divided by the aggregate number of Class D Preferred shares originally outstanding at the date of grant of the Class D Preferred shares. In each case, the redemption amount is to be satisfied only to the extent of proceeds of a corresponding redemption of Preferred shares owned by DAM in SDC.

The Class D Preferred shares have been recognized as a liability with a net carrying value of \$nil (2017 – \$nil). The value attributable to DAM's investment in the Preferred shares of SDC has been offset against the Class D Preferred shares as a result of the right to set off the redemption amounts payable on the respective shares.

### Class F Preferred Shares

The Class F Preferred shares of DAM, held by a third party, are non-voting and are entitled to receive dividends of up to 4% of the Class F redemption amount as and when declared by the directors of DAM. The Class F Preferred shares are redeemable by DAM and are retractable at the option of the third party at a price of \$10.00 per share, plus accrued and unpaid dividends.

The Class F Preferred shares have been recognized as a liability with a net carrying value of \$nil (December 31, 2017 – \$nil). The value attributable to DAM's investment in the Preferred shares of the third party has been offset against the Class F Preferred shares as a result of the right to set off the redemption amounts payable of \$180,613 on the respective shares.

### Preference Shares, Class G

Using the proceeds of an equity offering in 2014, the Company invested \$44,698 in Preference shares, Class G and \$10,767 in common shares of DAM. The Preference shares, Class G have similar terms to the Company's Preference shares, series 1, except that they do not have a conversion feature and have a subscription price of \$7.45 per share. The Preference shares, Class G held by the Company are eliminated on consolidation of DAM.

## Normal Course Issuer Bid

The Company renewed its normal course issuer bid (the "Bid"), which commenced on September 20, 2018, under which the Company has the ability to purchase for cancellation up to a maximum number of 7,062,995 Subordinate Voting Shares through the facilities of the TSX at prevailing market prices and in accordance with the rules and policies of the TSX. The actual number of Subordinate Voting Shares that may be purchased, and the timing of any such purchases as determined by the Company, are subject to a maximum daily purchase limitation of 15,925 shares, except where purchases are made in accordance with block purchase exemptions under applicable TSX rules.

In the year ended December 31, 2018, 1,929,200 Subordinate Voting Shares were purchased for cancellation by the Company at an average price of \$8.31 (year ended December 31, 2017 – 3,245,397 Subordinate Voting Shares at an average price of \$6.84).

In connection with the renewal of the Bid, the Company has established an automatic securities purchase plan (the "Plan") with its designated broker to facilitate the purchase of Subordinate Voting Shares under the Bid at times when the Company would ordinarily not be permitted to purchase its Subordinate Voting Shares due to regulatory restrictions or self-imposed blackout periods. Purchases will be made by the Company's broker based on the parameters prescribed by the TSX and the terms of the parties' written agreement. Outside of such restricted or blackout periods, the Subordinate Voting Shares may also be purchased in accordance with management's discretion. The Plan was pre-cleared by the TSX and will terminate on September 19, 2019.

Subsequent to December 31, 2018, 221,600 Subordinate Voting Shares were purchased for cancellation by the Company for \$1,544.

## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

### 27. Accumulated other comprehensive income

The movement in AOCI is as follows:

	Interest rate hedges	Foreign currency translation	Marketable securities/ equity accounted investments	Less: Amounts attributable to non- controlling interest	Total
Balance, January 1, 2017	\$ 275	\$ 8,558	\$ (6,926)	\$ (3,257)	\$ (1,350)
Other comprehensive income (loss) during the year	280	(2,026)	26,108	(1,029)	23,333
Losses reclassified to earnings upon transfer to equity accounted investments during the year	—	—	5,612	—	5,612
Change in interest in subsidiary	—	—	—	4,286	4,286
Balance, December 31, 2017	\$ 555	\$ 6,532	\$ 24,794	\$ —	\$ 31,881
Impact of changes in accounting policies (Note 46)	—	—	(23,698)	—	(23,698)
Adjusted balance, January 1, 2018	555	6,532	1,096	—	8,183
Other comprehensive income (loss) during the year	(884)	3,210	870	—	3,196
<b>Balance, December 31, 2018</b>	<b>\$ (329)</b>	<b>\$ 9,742</b>	<b>\$ 1,966</b>	<b>\$ —</b>	<b>\$ 11,379</b>

### 28. Non-controlling interest

The movement in non-controlling interest is as follows:

	Note	SDC	Zibi	Other	Total
Balance, January 1, 2017		\$ 213,038	\$ —	\$ —	\$ 213,038
Earnings (loss) for the year		3,598	(404)	—	3,194
Other comprehensive income for the year		1,029	—	—	1,029
Dividends declared		(5,005)	—	—	(5,005)
Change in interest in subsidiary		(212,660)	—	—	(212,660)
Non-controlling interest related to business combination		—	38,494	—	38,494
Balance, December 31, 2017		\$ —	\$ 38,090	\$ —	\$ 38,090
Earnings for the year		—	363	742	1,105
Change in interest in subsidiary related to business combination	5	—	(25,393)	—	(25,393)
Distributions to non-controlling interests		—	—	(1,021)	(1,021)
Contributions from non-controlling interests		—	1,600	—	1,600
Non-controlling interest related to business combination	5	—	—	1,948	1,948
<b>Balance, December 31, 2018</b>		<b>\$ —</b>	<b>\$ 14,660</b>	<b>\$ 1,669</b>	<b>\$ 16,329</b>

#### Zibi

The Company acquired control of Zibi in the year ended December 31, 2017, holding a 40% economic interest in the project. The residual non-controlling interest was held by Dream Alternatives (40%) and a third-party developer. The Company obtained control through an 80% voting interest in Zibi's ultimate general partner.

As a result of the acquisition of control of Dream Alternatives in the year ended December 31, 2018, the Company acquired an additional 40% economic interest in the project, which was accounted for as an equity transaction and resulted in a decrease in non-controlling interest. A summary of the impact is as follows:

	Amount
Fair value of acquired interest in Zibi as at January 1, 2018	\$ 33,002
Decrease in non-controlling interest	(25,393)
Decrease in retained earnings	\$ 7,609

#### Sweet Dream Corp.

Prior to May 19, 2017, SDC, an entity wholly owned by the President and Chief Responsible Officer of DAM and Dream, owned a non-controlling interest in DAM. In May 2017, DAM received an exchange notice from SDC pursuant to the Exchange Agreement dated May 30, 2013 among Dream, DAM and SDC, exercising SDC's right to receive 31,533,682 newly issued Subordinate Voting Shares of Dream, representing approximately 30% of the post-issuance outstanding Subordinate Voting Shares, in consideration for the transfer of 261.52 non-voting common shares and Class C voting preference shares of DAM, representing approximately 30% of the outstanding non-voting common shares and Class C voting preference shares. On completion of the exchange, Dream owned 100%

## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

of the outstanding non-voting common shares and Class C voting preference shares of DAM, thus simplifying the corporate structure. Including the Subordinate Voting Shares of Dream and Class B Shares held or controlled directly or indirectly, the President and Chief Responsible Officer owned an approximate 34% economic interest and 83% voting interest in the Company as at December 31, 2018.

The change in DAM equity attributable to the Company on May 19, 2017 was accounted for as an equity transaction with non-controlling interest, resulting in the following:

	Amount
Fair value of Subordinate Voting Shares issued <sup>(1)</sup>	\$ 237,764
Decrease in non-controlling interest	(212,660)
Increase in accumulated other comprehensive income	4,286
Decrease in retained earnings	\$ 29,390

<sup>(1)</sup> The fair value of Subordinate Voting Shares issued was based on the market price of the Subordinate Voting Shares on May 19, 2017.

The Company's total equity remained unchanged as a result of the transaction.

## 29. Revenues

Revenue consisted of the following:

	2018	2017
Revenues from contracts with customers	\$ 294,343	\$ 342,863
Revenues from other sources - lending portfolio	15,684	—
Revenues from other sources - rental income	29,846	14,101
<b>Total revenues</b>	<b>\$ 339,873</b>	<b>\$ 356,964</b>

### Revenue from Contracts with Customers

The following table disaggregates revenue by major revenue stream and timing of revenue recognition:

								2018
	Land	Housing and condominium	Investment properties	Recreational properties	Asset management	Renewable power	Total	
Revenues	\$ 107,458	\$ 94,215	\$ 15,856	\$ 45,889	\$ 44,034	\$ 17,874	\$ 325,326	
Less: Intercompany revenue	—	(18,750)	—	—	(12,233)	—	(30,983)	
<b>Revenue from external customers</b>	<b>\$ 107,458</b>	<b>\$ 75,465</b>	<b>\$ 15,856</b>	<b>\$ 45,889</b>	<b>\$ 31,801</b>	<b>\$ 17,874</b>	<b>\$ 294,343</b>	
Timing of revenue recognition								
At a point in time	\$ 107,458	\$ 75,465	\$ —	\$ 38,564	\$ 5,434	\$ —	\$ 226,921	
Over time	—	—	15,856	7,325	26,367	17,874	67,422	
	\$ 107,458	\$ 75,465	\$ 15,856	\$ 45,889	\$ 31,801	\$ 17,874	\$ 294,343	
								2017
	Land	Housing and condominium	Investment properties	Recreational properties	Asset management	Renewable power	Total	
Revenues	\$ 146,955	\$ 126,481	\$ 5,127	\$ 40,282	\$ 45,823	\$ —	\$ 364,668	
Less: Intercompany revenue	—	(21,805)	—	—	—	—	(21,805)	
<b>Revenue from external customers</b>	<b>\$ 146,955</b>	<b>\$ 104,676</b>	<b>\$ 5,127</b>	<b>\$ 40,282</b>	<b>\$ 45,823</b>	<b>\$ —</b>	<b>\$ 342,863</b>	
Timing of revenue recognition								
At a point in time	\$ 146,955	\$ 104,676	\$ —	\$ 33,908	\$ 10,342	\$ —	\$ 295,881	
Over time	—	—	5,127	6,374	35,481	—	46,982	
	\$ 146,955	\$ 104,676	\$ 5,127	\$ 40,282	\$ 45,823	\$ —	\$ 342,863	



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### Unsatisfied contracts

The following table summarizes unsatisfied performance obligations resulting from the sale of condominium units, excluding equity accounted investments. The timing of revenue recognition upon occupancy is subject to uncertainty due to a number of variables throughout the construction process. Any revenue attributable to unsatisfied performance obligations subject to a variable constraint have been excluded from the table below.

	Contract value at Dream's share	Performance obligation expected to be fully satisfied by		
		2019	2020	2021
Aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied as at December 31, 2018	\$ 216,137	\$ 115,091	\$ 85,075	\$ 15,971

As permitted under the transitional provisions under IFRS 15, the transaction price allocated to unsatisfied performance obligations as at December 31, 2017 is not disclosed. In addition, as permitted under IFRS 15, the transaction price allocated to unsatisfied contracts for sales contracts for periods of one year or less is not disclosed.

### Revenue recognized in relation to contract liabilities

The following table summarizes revenue recognized in the current reporting period relating to prior period deferred revenue. There was no revenue recognized in the current reporting period that relates to performance obligations satisfied in a prior year.

	2018	2017
Revenue recognized that was included in deferred revenue at the beginning of the period	\$ 3,624	\$ 3,190

## 30. Direct operating costs

Direct operating costs consisted of the following:

	2018	2017
Direct costs of real estate inventory	\$ 126,282	\$ 165,375
Direct costs of operating investment and recreational properties	39,056	22,537
Salary and other compensation	17,838	15,398
Direct costs of renewable power	10,751	—
	\$ 193,927	\$ 203,310

## 31. Asset management and advisory services expenses

Asset management and advisory services expenses consisted of the following:

	2018	2017
Salary and other compensation	\$ 7,997	\$ 7,879
Corporate, service and professional fees	2,969	1,405
General office and other	198	354
	\$ 11,164	\$ 9,638

## 32. Selling, marketing and other operating costs

Selling, marketing and other operating costs consisted of the following:

	2018	2017
Selling and marketing costs	\$ 8,741	\$ 11,063
Salary and other compensation	23,074	21,393
General office and other	15,299	13,325
	\$ 47,114	\$ 45,781

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### 33. General and administrative expenses

General and administrative expenses consisted of the following:

	2018	2017
Salary and other compensation	\$ 11,545	\$ 8,334
Corporate, service and professional fees	5,597	3,985
General office and other	3,253	1,100
	<b>\$ 20,395</b>	<b>\$ 13,419</b>

### 34. Investment and other income

Investment and other income consisted of the following:

	2018	2017
Distributions from Dream Publicly Listed Funds	\$ 3,388	\$ 10,104
Deemed gain on disposition of equity accounted investment in Zibi	—	13,302
Losses reclassified to earnings on accounting changes (Notes 5 and 15)	(78)	(6,481)
Interest and other income	9,392	4,699
	<b>\$ 12,702</b>	<b>\$ 21,624</b>

Investment income on Dream Publicly Listed Funds includes the income portion of distributions earned on the Company's investment in Dream Global REIT. In the year ended December 31, 2017, the Company's investment in Dream Office REIT was transferred to equity accounted investments.

### 35. Interest expense

Interest expense consisted of the following:

	2018	2017
Interest on project-specific debt	\$ 22,723	\$ 10,407
Interest on corporate debt facilities	17,393	11,945
Dividends on Preference shares, series 1	2,008	2,008
Amortization of deferred financing costs and accretion of effective interest	1,696	1,264
Project-specific interest capitalized to real estate development projects	(5,889)	(4,025)
<b>Total</b>	<b>\$ 37,931</b>	<b>\$ 21,599</b>

Interest expense was capitalized to real estate development projects for the year ended December 31, 2018 at a weighted average effective borrowing rate of 4.64% (year ended December 31, 2017 - 5.52%).

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### 36. Financial instruments fair value and risk management

#### Fair Value of Financial Instruments

The following table categorizes financial assets or liabilities measured or disclosed at fair value by level according to the significance of inputs used in making measurements. Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Company maximizes the use of observable inputs. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3.

	Fair value hierarchy	2018		2017	
		Carrying value	Fair value	Carrying value	Fair value
<b>Recurring measurement</b>					
<b>Financial assets</b>					
Marketable securities	Level 1	\$ 37,279	\$ 37,279	\$ 37,046	\$ 37,046
Investment in Dream Global REIT - deferred trust units	Level 3	20,844	20,844	20,589	20,589
Participating mortgages	Level 3	64,764	64,764	—	—
Investment holdings	Level 3	73,085	73,085	7,054	n/a
Other instruments	Level 3	4,485	4,485	1,065	1,065
Lending portfolio	Level 3	16,574	16,574	—	—
<b>Financial liabilities</b>					
Dream Alternatives trust units	Level 1	377,234	377,234	—	—
Retraction option on Preference shares, series 1	Level 3	232	232	—	—
<b>Fair values disclosed</b>					
Lending portfolio	Level 3	127,521	126,825	—	—
Construction loans	Level 3	177,986	177,953	163,403	163,486
Mortgages and term debt - Dream	Level 3	137,214	136,591	116,824	116,502
Mortgages and term debt - Dream Alternatives	Level 3	199,380	200,500	—	—
Operating line - Dream	Level 3	48,943	49,000	93,225	94,000
Non-revolving term facility	Level 3	224,083	225,000	174,799	175,000
Margin facility	Level 3	100,000	100,000	40,000	40,000
Preference shares, series 1	Level 2	28,672	28,838	28,668	29,162

The fair values of cash and cash equivalents, accounts receivable, loans receivable, deposits, restricted cash, certain financial instruments included in accounts payable and other liabilities, and customer deposits are carried at amortized cost, which approximates their fair values due to their short-term nature.

The fair value of the Preference shares, series 1, is based on the listed market price on the TSX as at December 31, 2018 of \$7.25 per share for the 4,005,729 issued and outstanding Preference shares, series 1, adjusted for the fair value of the embedded redemption and retraction options.

The fair value of the Dream Alternatives trust units is based on the listed market price on the TSX as at December 31, 2018 of \$6.24 per share for the 60,454,099 outstanding trust units not held by the Company.

#### Level 3 Fair Value Measurements

The Company used the following techniques to determine the fair value measurements categorized in Level 3:

##### Dream Global REIT Deferred Trust Units

The fair value of Dream Global REIT deferred trust units is based on the market price of Dream Global REIT units and applying an appropriate discount rate to reflect the vesting period. The significant unobservable inputs used in determining the discount rate include the following:

	2018	2017
Risk-free rate	1.9%	1.7%–1.9%
Expected volatility	14.6%–16.9%	16.5%–18.4%

The volatility of the Dream Global REIT units is estimated based on comparable companies in both the European and Canadian real estate markets. The discount rate used to value the deferred trust units is calculated by weighting a put-and-call model calculated using the Black-Scholes option pricing model. A higher volatility or risk-free rate will decrease the value of the deferred trust units and vice versa.

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	Total deferred units granted	Vesting period	Fair value as at December 31, 2018
Units as at December 31, 2018 closing price of \$11.90 per unit			\$ 24,770
Discount rate of 11% per unit for units issued in 2012	412,777	2018–2022	(540)
Discount rate of 14% per unit for units issued in 2013	536,053	2019–2023	(893)
Discount rate of 17% per unit for units issued in 2014	513,196	2020–2024	(1,038)
Discount rate of 19% per unit for units issued in 2015	392,751	2021–2025	(888)
Discount rate of 21% per unit for units issued in 2016	226,740	2022–2026	(567)
<b>Total</b>	<b>2,081,517</b>		<b>\$ 20,844</b>

	Total deferred units granted	Vesting period	Fair value as at December 31, 2017
Units as at December 31, 2017 closing price of \$12.22 per unit			\$ 25,171
Discount rate of 14% per unit for units issued in 2012	486,472	2018–2022	(832)
Discount rate of 17% per unit for units issued in 2013	505,406	2019–2023	(1,050)
Discount rate of 19% per unit for units issued in 2014	483,855	2020–2024	(1,123)
Discount rate of 21% per unit for units issued in 2015	370,296	2021–2025	(950)
Discount rate of 24% per unit for units issued in 2016	213,777	2022–2026	(627)
<b>Total</b>	<b>2,059,806</b>		<b>\$ 20,589</b>

In the case of Dream Global REIT, the Company had irrevocably elected to receive the first \$3,500 of the annual fees payable to it pursuant to these arrangements in DTUs of Dream Global REIT for the first five years until August 2016. The DTUs will vest to the Company in five equal annual installments, beginning in the sixth year following the grant of such DTUs.

### Participating Mortgages

The fair value of participating mortgages are valued using a discounted cash flow analysis. The discounted cash flow model is calculated based on future interest and participating profit payments and the project managers' estimates of unit sales proceeds and/or net operating income of the underlying development. In determining the discount rate, the Company considered market conditions, time to completion of the development, the market capitalization rate, the percentage of space leased on units sold and other available information. The significant unobservable inputs include the following:

	2018	2017
Discount rate	7.0%-8.0%	n/a

Generally, an increase in anticipated proceeds from unit closings or an increase in stabilized net operating income will result in an increase in fair values. An increase in the capitalization rates or in the discount rates will result in a decrease in fair values. The capitalization rate magnifies the effect of a change in stabilized net operating income, with a lower rate resulting in a greater impact to the fair value than a higher rate. Any change in the revenue or costing estimates or development timeline could have a significant impact on the value of the development and investment holdings.

If the discount rates applied for participating mortgages were to increase by 1%, the fair value of the participating mortgages would decrease by \$700. If the discount rate were to decrease by 1%, the fair value would increase by \$700.

### Investment Holdings - Co-Owned Commercial Assets

The fair value of co-owned commercial assets is based on the fair value of the Company's proportionate net assets of the underlying investment. The significant unobservable inputs used in the fair value measurement relate to the fair value of the underlying investment properties and project-specific debt and include the following:

	2018	2017
Capitalization rate	2.9%-4.5%	n/a
Average growth rate	1.5%	n/a
Market rate on project-specific debt	1.0%-1.4%	n/a

### Redemption and Retraction Options on Preference Shares, Series 1

The fair value of the Preference shares, series 1, redemption and retraction options are calculated using an interest rate option pricing method. The significant unobservable inputs used in the fair value measurement of the redemption and retraction options on the Preference shares, series 1, include the following:

	2018	2017
Credit spread	4.6%	3.6%
Reversion parameter	2.9%	81.4%
Expected volatility	22.5%	26.9%



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A higher volatility will increase the value of the redemption and retraction options. A lower credit spread will decrease the value of the redemption and retraction options.

### Interest Rate Swaps

The fair value measurements of the interest rate swaps were valued by qualified external valutors based on the present value of the estimated future cash flows determined using observable yield curves.

### Lending Portfolio

The fair value measurement of the lending portfolio is determined based on the Company's assessment of the current lending market for lending portfolio investments of same or similar terms in consultation with the Canadian Mortgage Servicing Corporation ("CMSC"), the manager and servicer of the lending portfolio, and other available information.

### Corporate Debt Facilities

The fair value measurement of the non-revolving term facility, operating line, margin facility and Dream Alternatives operating line approximates the carrying value excluding unamortized financing costs given their variable rate.

### Project-Specific Debt

The fair value of the construction loans and mortgages and term debt has been calculated by discounting the expected cash flows of each loan using a discount rate specific to each individual loan. The discount rate is determined using the bond yield for similar instruments of similar maturity adjusted for each individual project's specific credit risk. In determining the adjustment for credit risk, the Company considers current market conditions and other indicators of the Company's creditworthiness.

### Valuation Process

The Company's finance department is responsible for performing the valuation of fair value measurements or reviewing the fair value measurements provided by third-party appraisers. The Company has determined that third-party appraisers will be utilized for recurring measurements of derivative instruments, such as the redemption and retraction options on the Preference shares, series 1, on a quarterly basis. On a quarterly basis, management will review the valuation policies, procedures and analysis of changes in fair value measurements. Refer to Note 8 for a continuity of the Company's lending portfolio balance.

The Company recognizes transfers into and transfers out of fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer. In the year ended December 31, 2018, \$1,435 was transferred from Level 3 to Level 1 related to vested Dream Global REIT DTUs (year ended December 31, 2017 - \$2,264).

	Investment holdings	Investment in Dream Global REIT - DTUs	Redemption option on Preference shares, series 1	Interest rate swaps <sup>(1)</sup>	Participating mortgages	Retraction option on Preference shares, series 1
Balance, December 31, 2017	\$ 7,054	\$ 20,589	\$ 280	\$ 785	\$ —	\$ —
Impact of changes in accounting policies (Note 46)	6,518	—	—	—	—	—
Adjusted balance, January 1, 2018	13,572	20,589	280	785	—	—
Issued or received during the year:						
DTUs	—	1,369	—	—	—	—
Acquired through business combination on January 1, 2018 (Note 5)	18,451	—	—	—	75,668	—
Acquired during the year	37,526	—	—	—	—	—
DTUs vested during the year	—	(1,435)	—	—	—	—
Distributions/capital repayment	(4,886)	—	—	—	(3,060)	—
Total gains or losses for the year included in net earnings:						
Change in fair value	6,383	321	(252)	31	(7,844)	(232)
Foreign currency gain	2,039	—	—	—	—	—
Included in other comprehensive income:						
Change in fair value	—	—	—	(1,343)	—	—
<b>Balance, December 31, 2018</b>	<b>\$ 73,085</b>	<b>\$ 20,844</b>	<b>\$ 28</b>	<b>\$ (527)</b>	<b>\$ 64,764</b>	<b>\$ (232)</b>

<sup>(1)</sup> Included within other instruments in other financial assets and within accounts payable and other liabilities.

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	Investment in Dream Global REIT - DTUs	Redemption option on Preference shares, series 1	Interest rate swaps <sup>(1)</sup>	Retraction option on Preference shares, series 1
Balance, December 31, 2016	\$ 15,564	\$ 841	\$ 330	\$ —
Issued or received during the year:				
DTUs	1,386	—	—	—
DTUs vested during the year	(2,264)	—	—	—
Total gains or losses for the year included in net earnings:				
Change in fair value	—	(561)	73	—
Included in other comprehensive income:				
Change in fair value	5,903	—	382	—
Balance, December 31, 2017	\$ 20,589	\$ 280	\$ 785	\$ —

<sup>(1)</sup> Included within other instruments in other financial assets.

### Risk Management

The Company is exposed to financial risks due to the nature of its business and the financial assets and liabilities that it holds. The Company's overall risk management strategy seeks to minimize potential adverse effects on the Company's financial performance.

#### Market Risk

Market risk is the risk a material loss may arise from fluctuations in the fair value of a financial instrument. For purposes of this disclosure, the Company segregates market risk into two categories: fair value risk and interest rate risk.

#### Fair Value Risk

Fair value risk is the risk of a potential loss from adverse movements in the values of assets and liabilities, excluding movements relating to changes in interest rates and foreign exchange currency rates, because of changes in market prices. The Company's investment in marketable securities is listed on the TSX. A 10% absolute change in the market price of the Company's marketable securities would increase (decrease) the carrying amount of the investments by \$5,812, before associated taxes, with a corresponding increase (decrease) in earnings before income taxes.

The Company's liability associated with the Dream Alternatives trust units is fair valued in reference to Dream Alternatives' unit trading price as listed on the TSX. A 10% absolute change in the market price of the Dream Alternatives units would increase (decrease) the carrying amount of the liability by \$37,723, before associated taxes, with a corresponding decrease (increase) in earnings before income taxes.

#### Credit Risk

Credit risk is the risk one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Credit risk arises from the possibility that builders or other third-party purchasers of the Company's real estate inventory, or other entities to which the Company may have advanced funds, may not fulfill their contractual obligations to repay amounts due to the Company. The Company mitigates its credit risk by requiring graduated deposits from buyers and withholding real estate titles until final payments are received. The Company also mitigates credit risk by dealing only with builders and other third-party buyers the Company considers to have secure financial standing and by diversifying the mix of builders and markets.

Credit risk also arises from the possibility that tenants in investment properties may not fulfill their lease or contractual obligations. The Company mitigates this credit risk by attracting tenants of sound financial standing and diversifying its mix of tenants. It also monitors tenant payment patterns and discusses potential tenant issues with property managers on a regular basis.

Credit risk related to the lending portfolio and investment holdings arises from the possibility that a borrower may not be able to honour its debt commitments as a result of a negative change in market conditions that could result in a loss to the Company. The Company mitigates risk by actively monitoring the mortgage and loan investments and initiating recovery procedures, in a timely manner, when required.

The maximum exposure to credit risk at December 31, 2018 was the fair value of the Company's investment holdings and the contractual value of its lending portfolio which, including interest receivable, was \$208,858. The Company has recourse under these investments in the event of default by the borrower, in which case, the Company would have a claim against the underlying collateral.

#### Interest Rate Risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk primarily through its variable rate debt obligations. Excluding the demand facility and margin facility, variable rate debt represented 71% (December 31, 2017 – 87%) of total debt obligations as at December 31, 2018. Interest rate risk is mitigated, in part, by borrowing long-term fixed rate mortgages with relatively consistent interest expense. The Company has entered into interest rate swaps to further mitigate interest rate risk. See Notes 21 and 22 for further details.

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The Company has exposure to the variability in market interest rates on its lending portfolio investments with variable-rate loans and fixed-rate loans maturing within the next 12 months. As at December 31, 2018, there are no variable-rate loans within the lending portfolio. The Company invests in mortgages and loans secured by all types of residential and commercial real estate property that represent an acceptable underwriting risk. As a result, the Company's lending portfolio investments are not exposed to significant market interest risk.

### Liquidity Risk

Liquidity risk is the risk the Company will encounter difficulty in meeting obligations associated with the maturity of financial liabilities. The Company manages its liquidity risk primarily through the management of its financial leverage. The Company uses various debt and equity ratios to monitor its capital adequacy and debt requirements, including interest coverage, minimum net worth, average term to debt maturity, and the ratio of variable rate debt to aggregate debt. These ratios assist the Company in assessing the debt level maintained by the Company in order to ensure adequate cash flows for real estate development. The Company manages maturities of outstanding debt by matching them to project closing dates and monitoring the repayment dates to ensure sufficient capital will be available to cover obligations. Management also monitors the Company's availability under the operating lines and margin facility.

A summary of the Company's weighted average effective interest rates as at December 31, 2018 is as follows:

	Weighted average effective interest rates			Maturity dates	Debt amount	
	2018	2017			2018	2017
<b>Fixed rate</b>						
Mortgages and term debt	4.53%	4.73%		2019-2025	\$ 104,216	\$ 61,642
Mortgages and term debt - Dream Alternatives	4.08%	n/a		2019-2022	112,637	—
Preference shares, series 1	7.00%	7.00%		2021	28,672	28,668
<b>Total fixed rate debt</b>	<b>4.61%</b>	<b>5.46%</b>			<b>245,525</b>	<b>90,310</b>
<b>Variable rate</b>						
Construction loans - Western Canada	4.05%	3.26%		2019-2021	61,421	98,706
Construction loans - Urban development	4.63%	4.36%		2019-2021	116,565	64,697
Mortgages and term debt	4.44%	3.94%		2019-2023	32,998	55,182
Mortgages and term debt - Dream Alternatives	3.60%	n/a		2019-2022	86,743	—
Operating line	4.48%	3.62%		2019	48,943	93,225
Non-revolving term facility	4.36%	3.65%		2021	224,083	174,799
Margin facility	4.35%	3.82%		2019	100,000	40,000
<b>Total variable rate debt</b>	<b>4.29%</b>	<b>3.70%</b>			<b>670,753</b>	<b>526,609</b>
<b>Total debt</b>	<b>4.38%</b>	<b>3.96%</b>			<b>\$ 916,278</b>	<b>\$ 616,919</b>

The following table summarizes the aggregate of the scheduled principal repayments and debt maturities as at December 31, 2018:

	Construction loans - Western Canada	Construction loans - Urban development	Mortgages and term debt - Dream	Mortgages and term debt - Dream Alternatives	Operating line - Dream <sup>(1)</sup>	Non-revolving term facility <sup>(1)</sup>	Margin facility	Preference shares, series 1	Total
2019	\$ 47,966	\$ 17,237	\$ 58,350	\$ 32,646	\$ 49,000	\$ —	\$ 100,000	\$ 28,681	\$ 333,880
2020	11,636	44,748	17,965	11,635	—	—	—	—	85,984
2021	1,819	54,580	3,649	16,512	—	225,000	—	—	301,560
2022	—	—	3,732	76,998	—	—	—	—	80,730
2023 and thereafter	—	—	54,096	60,863	—	—	—	—	114,959
	61,421	116,565	137,792	198,654	49,000	225,000	100,000	28,681	917,113
Discount/unamortized premium/financing costs	—	—	(578)	726	(57)	(917)	—	(9)	(835)
	\$ 61,421	\$ 116,565	\$ 137,214	\$ 199,380	\$ 48,943	\$ 224,083	\$ 100,000	\$ 28,672	\$ 916,278

<sup>(1)</sup> Subsequent to December 31, 2018, the maturity dates of these facilities were amended as described in Note 22.

The contractual payments above include the principal repayments owing in future periods. The amounts presented above are shown consistent with their contractual repayments. Certain facilities may be due on demand.

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### 37. Share-based compensation

#### Stock Option Plan

The Company has a stock option plan under which key officers and employees are granted options to purchase Subordinate Voting Shares. Each option granted can be exercised for one Subordinate Voting Share.

	Options	Weighted average exercise price
Options outstanding, January 1, 2017	1,678,500	\$ 8.60
Granted	144,550	6.60
Forfeited	(14,000)	7.76
Options outstanding, December 31, 2017	1,809,050	\$ 8.44
Granted	147,050	7.44
Exercised	(24,583)	7.93
Forfeited	(39,417)	7.55
<b>Options outstanding, December 31, 2018</b>	<b>1,892,100</b>	<b>\$ 8.39</b>
<b>Options exercisable, December 31, 2018</b>	<b>1,061,663</b>	<b>\$ 8.87</b>

As at December 31, 2018, 1,892,100 options were outstanding under the stock option plan collectively. Grants that are outstanding as at December 31, 2018 are as follows:

Grant date	October 2013	February 2015	December 2015	May 2016	March 2017	February 2018
Number of options granted and outstanding as at December 31, 2018	150,000	690,000	680,000	93,000	138,300	140,800
Weighted average exercise price	\$ 13.88	\$ 8.96	\$ 7.25	\$ 7.76	\$ 6.60	\$ 7.44
Vesting period	5 years	5 years	5 years	3 years	5 years	5 years
Expiry date	October 2023	February 2025	December 2025	May 2021	March 2027	February 2028
Fair value of stock options granted at grant date	\$ 5.08	\$ 2.05	\$ 2.06	\$ 1.57	\$ 1.91	\$ 2.09
Number of options vested as at December 31, 2018	150,000	414,000	408,000	62,000	27,663	—

The fair value of the stock options granted in the year ended and outstanding as at December 31, 2018 was estimated on the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free interest rate	2.2%
Estimated volatility <sup>(1)</sup>	22.0%
Expected life	6.5 years
Contractual life	10 years
Expected dividend yield	—%

<sup>(1)</sup> Estimated volatility is based on a blended rate of market comparables and the Company's historical volatility.

In the year ended December 31, 2018, the Company recognized \$621 (year ended December 31, 2017 – \$822) of share-based compensation expense related to stock options, offset by a \$120 recovery from forfeited shares in the year ended December 31, 2018 (year ended December 31, 2017 – \$6), primarily recognized in general and administrative expense.

#### Performance Share Unit Plan

Performance share units ("PSUs") may be granted to current employees and are subject to either time vesting only, or time and performance vesting. PSUs subject to performance vesting provide the holder with a minimum of 0 and a maximum of 1.5 Subordinate Voting Shares based on the achievement of predetermined Company performance goals. In lieu of receiving Subordinate Voting Shares on vesting, PSU holders have the right to request a cash payment equal to the five-day trailing weighted average share price of the Company's Subordinate Voting Shares on the vesting date or settlement date, when applicable; however, the form of payment on vesting is ultimately the decision of the Company.



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	Units	Weighted average fair value at grant date
Units outstanding, January 1, 2017	—	\$ —
Granted	328,526	6.62
Units outstanding, December 31, 2017	328,526	6.62
Granted	334,130	7.44
Forfeited	(28,404)	7.03
<b>Units outstanding, December 31, 2018</b>	<b>634,252</b>	<b>\$ 7.03</b>

In the year ended December 31, 2018, compensation expense of \$1,428 (year ended December 31, 2017 – \$562) related to this plan was primarily recognized in general and administrative expense.

The fair value of PSUs granted and outstanding as at December 31, 2018 was estimated on the grant date with the following assumptions:

Risk-free interest rate	1.92%
Expected life	3 years
Contractual life	10 years
Expected dividend yield	—%

### Deferred Share Unit Plan

The Company has a deferred share unit incentive plan pursuant to which DSUs may be granted to eligible directors, senior management and certain service providers. As at December 31, 2018, there were 273,839 units outstanding (December 31, 2017 – 186,546 units outstanding). In the year ended December 31, 2018, compensation expense of \$779 (year ended December 31, 2017 – \$499) related to this plan was recognized in general and administrative expense.

	2018	2017
Units outstanding, beginning of year	186,546	142,949
Granted	87,293	71,765
Settled	—	(28,168)
<b>Units outstanding, end of year</b>	<b>273,839</b>	<b>186,546</b>

The net changes in contributed surplus relating to share-based compensation for the stock option plan, preferred share unit plan and deferred share unit plan were as follows:

	Total
Balance, January 1, 2017	\$ 3,719
Granted, net of forfeitures	1,877
Settled	(255)
Balance, December 31, 2017	5,341
Granted, net of forfeitures	2,708
<b>Balance, December 31, 2018</b>	<b>\$ 8,049</b>

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### 38. Earnings per share

Basic earnings per share is calculated by dividing the Company's earnings attributable to outside shareholders of the Company by the weighted average number of shares outstanding in the year.

Diluted earnings per share is calculated by dividing the Company's earnings attributable to the outside shareholders of the Company by the weighted average number of shares outstanding after the dilutive effect of the Preference shares, series 1, stock options, preferred share units and deferred share units. The diluted weighted average number of shares used in the diluted earnings per share calculation is determined by assuming that the total proceeds received for the conversion of such units is used to repurchase Subordinate Voting Shares at the average selling price of such publicly traded units over the term of the calculation.

The following table summarizes the basic and diluted earnings per share and the weighted average number of shares outstanding:

	2018	2017
Earnings attributable to the outside shareholders of the Company	\$ 190,948	\$ 79,645
Diluted earnings per share adjustments for Preference shares, series 1	2,496	1,472
<b>Earnings for diluted earnings per share</b>	<b>\$ 193,444</b>	<b>\$ 81,117</b>
Weighted average number of shares outstanding:		
Dream Subordinate Voting Shares	105,335,690	95,336,774
Dream Class B Shares	3,115,272	3,115,388
<b>Total weighted average number of shares</b>	<b>108,450,962</b>	<b>98,452,162</b>
Effect of dilutive securities on weighted average number of shares outstanding at year end:		
Share-based compensation <sup>(1)</sup>	466,248	164,748
Preference shares, series 1	4,399,351	3,799,704
<b>Total weighted average number of shares outstanding after dilution</b>	<b>113,316,561</b>	<b>102,416,614</b>
Basic earnings per share	\$ 1.76	\$ 0.81
Diluted earnings per share	\$ 1.71	\$ 0.79

<sup>(1)</sup> For the year ended December 31, 2018, 997,883 stock options (including PSUs) were considered anti-dilutive (year ended December 31, 2017 – 1,825,907 stock options).

### 39. Capital management

The Company's capital consists of project-specific debt, corporate debt facilities, Preference shares, series 1, and shareholders' equity. The Company's objectives in managing capital are to:

- i) Ensure adequate operating funds are available to fund the development of real estate inventory and other assets, including investments through joint ventures and joint operations;
- ii) Ensure the Company is able to meet its lease and capital expenditure obligations relating to its investment and recreational properties;
- iii) Ensure the Company has adequate resources available to benefit from acquisition opportunities, should they arise; and
- iv) Generate a targeted rate of return on its investments.

The Company continuously monitors its debt structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying real estate industry.

# Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

## 40. Commitments and contingencies

### Leases and Other

The Company, including joint operations, has operating leases and other commitments pursuant to which future minimum annual payments, exclusive of operating costs and realty taxes, are as follows:

2019	\$	5,650
2020		8,769
2021		3,301
2022		2,568
2023		1,938
2024 and thereafter		15,421
	\$	37,647

### Land and Other Purchase Agreements

As at December 31, 2018, the Company had remaining commitments under land purchase agreements totalling \$3,223 (December 31, 2017 – \$1,131), which will become payable in future periods on satisfaction of certain conditions pursuant to these arrangements. These amounts exclude future repayments of debt relating to land, which has been included in mortgages and term debt as at December 31, 2018.

### Letters of Credit and Surety Bonds

The Company is contingently liable for letters of credit and surety bonds that have been provided to support land developments, equity accounted investments and other activities in the amount of \$91,672 (December 31, 2017 – \$87,934). The Company is also contingently liable for bonds that have been provided to support certain urban development condominium partnerships that expire at the end of a specified warranty period.

The Company is committed to pay levies in the future of up to \$1,252 (December 31, 2017 – \$2,151) relating to signed municipal agreements on commencement of development of certain real estate assets. Additional development costs may also be required to satisfy the requirements of these municipal agreements.

### Joint Operations, Co-ownerships, Joint Ventures and Associates

The Company may conduct its real estate activities from time to time through joint operations and joint ventures with third-party partners. The Company was contingently liable for the obligations of the other owners of the unincorporated joint operations and joint ventures in the amount of \$15,609 as at December 31, 2018 (December 31, 2017 – \$16,973). The Company would have available to it the other co-venturers' share of assets to satisfy any obligations that may arise.

### Dream Alternatives

In the year ended December 31, 2018, the Company, through a subsidiary of Dream Alternatives, continued to provide a guarantee for up to \$45,000 pursuant to the requirements of a senior construction loan associated with a participating mortgage. The guarantee will be in place for the term of the construction loan and will proportionately scale down as the construction loan is repaid as unit closings begin to occur. Guarantees of the other underlying development project loan amounts of third parties are \$7,500. As at December 31, 2018, the Company is contingently liable under guarantees that are issued on certain debt assumed by purchasers of income properties up to an amount of \$44,157.

A subsidiary of Dream Alternatives is contingently liable for letters of credit in the amount of \$1,395 that have been provided to support third party performance.

### Legal Contingencies

The Company and its operating subsidiaries may become liable under guarantees that are issued in the normal course of business and with respect to litigation and claims that arise from time to time. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the consolidated financial statements of the Company.

Management is aware of a legal matter relating to a development project and intends to vigorously defend the matter. A statement of claim was originally filed by the plaintiff against the Company and others in 2013, and the Company and the other defendants successfully brought a motion to strike the claim in December 2014. In April 2016, the Company was served with an amended statement of claim. Management continues to believe that this amended claim is without merit and that this action will not have a material adverse effect on the financial condition, results of operations or cash flows of the Company. A reasonable estimate of the possible loss or range of loss cannot be made at this time. We are contingently liable with respect to other litigation and claims that may arise from time to time. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on our consolidated financial statements.

# Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

## 41. Asset management and management services agreements and related party transactions

### Material Transactions with Dream Industrial REIT and Dream Global REIT

The Company has entered into agreements with Dream Global REIT and Dream Industrial REIT, effective August 2011 and October 2012 respectively, pursuant to which the Company provides each entity a broad range of management and advisory services relative to their respective real estate holdings. The Company receives revenues in respect of these services including base annual management fees, acquisition fees, financing fees, capital expenditure fees and incentive fees, determined in accordance with a formula as outlined in the respective agreements. Each of these agreements has an initial term of 10 years and is renewable for further five-year terms. Subject to the termination provisions in the respective agreements, the Company is automatically reappointed at the expiration of each five-year term.

In addition, the Company has entered into shared services and cost sharing agreements (“shared services agreements”) with each of Dream Industrial REIT and Dream Global REIT. Pursuant to the agreements, Dream Industrial REIT and Dream Global REIT reimburse the Company for shared costs allocated in each calendar year on a cost recovery basis.

In the years ended December 31, 2018 and 2017, the Company earned/recovered the following amounts pursuant to its asset management and advisory services and shared services agreements:

	2018	2017
Asset management fees charged by Dream to Dream Industrial REIT	\$ 6,546	\$ 5,372
Asset management fees charged by Dream to Dream Global REIT	20,890	19,202
Cost recoveries charged by Dream to Dream Industrial REIT	657	682
Cost recoveries charged by Dream to Dream Global REIT	1,173	1,111

Included in accounts receivable are balances due from Dream Industrial REIT and Dream Global REIT related to asset management and management services agreements and cost sharing agreements as follows:

	2018	2017
Dream Industrial REIT	\$ 606	\$ 781
Dream Global REIT	5,047	2,631
	\$ 5,653	\$ 3,412

### Material Transactions with Dream Office REIT

The Company and Dream Office REIT entered into a Management Services Agreement effective April 2015, pursuant to which the Company will provide certain management services, including services of a Chief Executive Officer to Dream Office REIT, as requested. The Company will be reimbursed for out-of-pocket costs and expenses incurred in connection with performance of the management services and costs incurred. This agreement will continue until it is terminated by either party in accordance with the termination provisions of the agreement. The Company has also entered into a shared services agreement with Dream Office REIT, whereby Dream Office REIT reimburses the Company for shared costs allocated in each calendar year on a cost recovery basis. In addition, the Company and Dream Office REIT are party to an administrative services agreement.

Amounts charged under the respective agreements in the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Costs recovered under Management Services Agreement from Dream Office REIT	\$ 2,270	\$ 2,955
Cost recoveries charged by Dream to Dream Office REIT	1,207	965
Charges under the Administrative Services Agreement to Dream	6,391	6,029

Amounts owing to and from Dream Office REIT as of December 31, 2018 were \$988 and \$531, respectively (December 31, 2017 – \$763 and \$894, respectively).

### Distributions Earned from Investments

The Company earned distributions from Dream Global REIT and Dream Office REIT (Notes 7 and 15).

### Other Transactions

Included in other financial assets as at December 31, 2018 is \$19,052 (December 31, 2017 - \$7,054) relating to co-owned commercial assets acquired jointly with Dream Global REIT. The acquisitions were primarily funded through loans from Dream Global REIT amounting to \$9,072 (December 31, 2017 - \$8,173), which were included in accounts payable and other liabilities owing to Dream Global REIT as at December 31, 2018 of \$9,440 (December 31, 2017 - \$8,358).

In the year ended December 31, 2018, the Company received services for \$88 related to a project-level property management agreement with Dream Industrial REIT. As at December 31, 2018, \$nil was owed to Dream Industrial REIT.



## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

In the year ended December 31, 2018, the Company, along with Dream Office REIT, entered into a strategic partnership focused on the property technology market. The Company and Dream Office REIT each hold a 25% interest in the partnership, included within other development interests in equity accounted investments. As at December 31, 2018, the Company had funded \$1,541 into the partnership.

### Compensation of Key Management

Compensation expense for the year for key management personnel, including the President and Chief Responsible Officer, Executive Vice President and Chief Financial Officer, Chief Development Officer, Chief Investment Officer, President of Asset Management, and the Company's directors, is shown in the table below.

	2018	2017
Compensation and benefits	\$ 5,892	\$ 7,152
Share-based compensation	1,821	1,222
Directors' fees	780	1,090
	<b>\$ 8,493</b>	<b>\$ 9,464</b>

## 42. Supplementary cash flow information

Components of other adjustments include:

	2018	2017
Dream Global REIT deferred trust units	\$ (1,369)	\$ (1,386)
Accrued interest on loans receivable and other expenses	(5,567)	(1,125)
Share-based compensation expense	2,902	1,877
Fair value changes in financial instruments	577	488
Non-cash acquisition of investment property	(7,299)	—
Non-cash contribution to equity accounted investment	—	(2,170)
Other	2,490	(526)
	<b>\$ (8,266)</b>	<b>\$ (2,842)</b>

Components of changes in non-cash working capital include:

	2018	2017
Accounts receivable	\$ 8,863	\$ (38,810)
Accounts payable and other liabilities	(19,654)	17,241
Income and other taxes payable	(25,456)	30,020
Provision for real estate development costs	(903)	(7,042)
Customer deposits	(4,910)	4,703
Deposits	(1,204)	6,013
Restricted cash	(5,029)	(414)
Inventory, prepaid expenses and other assets	(329)	4,459
	<b>\$ (48,622)</b>	<b>\$ 16,170</b>

The breakdown of cash and cash equivalents is as follows:

	2018	2017
Cash	\$ 63,955	\$ 25,228
Money market funds, term deposits and GICs	338	180
	<b>\$ 64,293</b>	<b>\$ 25,408</b>

## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

### 43. Segmented information

Management has determined the operating segments based on the reports reviewed by the President and Chief Responsible Officer and senior management. Gross margin represents revenue, less direct operating costs and asset management and advisory services expenses, excluding selling, marketing and other operating costs. Net margin represents gross margin, as defined above, including selling, marketing and other operating costs. Used as a percentage of revenue to evaluate operational efficiency, these margins are employed as fundamental business considerations in updating budgets, forecasts and strategic planning. The allocation of other components of earnings would not assist management in the evaluation of the segments' contributions to earnings.

The Company's operating segments are as follows:

- *Asset management, management services and investments in publicly listed funds ("asset management")* includes managing four publicly listed funds and various development partnerships, in addition to equity interests in Dream Office REIT and Dream Global REIT.
- *Urban development - Toronto & Ottawa* includes condominium and mixed-use development in the Greater Toronto Area and Ottawa/Gatineau regions.
- *Renewables and recreational properties* includes a ski area in Colorado, a 50% interest in the Broadview Hotel and the ownership of wind and solar power generating facilities.
- *Western Canada development* includes land and housing development, as well as income producing retail and commercial developments in Saskatoon, Regina, Calgary and Edmonton.
- *Dream Alternatives* includes the operating activity of Dream Alternatives' diversified portfolio.

In connection with the acquisition of control of Dream Alternatives on January 1, 2018, the Company has reviewed its segment reporting taking into consideration how the Company presents information for financial reporting and management decision making. The Company has retrospectively applied this segment presentation for all periods presented.

#### Segmented Statement of Net Earnings

Segmented revenues and expenditures for the year ended December 31, 2018 and 2017 are as follows:

	<b>2018</b>							
	Asset management	Urban development - Toronto & Ottawa	Renewables and recreational properties	Western Canada development	Corporate and other	Dream Alternatives	Consolidation adjustments	Consolidated Dream
Revenues	\$ 44,034	\$ 35,826	\$ 45,889	\$ 168,322	\$ —	\$ 57,596	\$ (11,794)	\$ <b>339,873</b>
Direct operating costs	—	(23,633)	(35,789)	(110,915)	—	(22,672)	(918)	<b>(193,927)</b>
Asset management expenses	(10,721)	—	—	—	—	—	(443)	<b>(11,164)</b>
Gross margin	33,313	12,193	10,100	57,407	—	34,924	(13,155)	<b>134,782</b>
Selling, marketing and other operating costs	—	(10,470)	(4,456)	(32,188)	—	—	—	<b>(47,114)</b>
Net margin	33,313	1,723	5,644	25,219	—	34,924	(13,155)	<b>87,668</b>
Fair value changes in investment properties	—	19,271	—	(1,767)	—	(2,195)	(47)	<b>15,262</b>
Investment and other income	1,292	3,154	237	1,530	3,108	3,313	68	<b>12,702</b>
Net gain on acquisition of Dream Alternatives	12,555	—	—	—	—	—	117,437	<b>129,992</b>
Gain on disposition of assets	—	9,422	—	—	—	—	—	<b>9,422</b>
Share of earnings from equity accounted investments	30,198	(253)	5,164	(484)	—	813	1,591	<b>37,029</b>
Net segment earnings	\$ 77,358	\$ 33,317	\$ 11,045	\$ 24,498	\$ 3,108	\$ 36,855	\$ 105,894	\$ <b>292,075</b>
General and administrative expenses					(15,277)	(15,411)	10,293	<b>(20,395)</b>
Fair value changes in financial instruments					4,486	2,106	(7,169)	<b>(577)</b>
Interest expense					(29,201)	(8,964)	234	<b>(37,931)</b>
Adjustments related to Dream Alternatives trust units					—	—	(19,680)	<b>(19,680)</b>
Income tax expense					(26,241)	(684)	5,486	<b>(21,439)</b>
Net earnings (loss) <sup>(1)</sup>					\$ (63,125)	\$ 13,902	\$ 95,058	\$ <b>192,053</b>

<sup>(1)</sup> Includes earnings attributable to non-controlling interest.

## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

2017

	Asset management	Urban development - Toronto & Ottawa	Renewables and recreational properties	Western Canada development	Corporate and other	Dream Alternatives	Consolidation adjustments	Consolidated Dream
Revenues	\$ 45,823	\$ 38,619	\$ 40,283	\$ 232,239	\$ —	\$ —	\$ —	\$ 356,964
Direct operating costs	—	(26,124)	(30,005)	(147,181)	—	—	—	(203,310)
Asset management expenses	(9,638)	—	—	—	—	—	—	(9,638)
Gross margin	36,185	12,495	10,278	85,058	—	—	—	144,016
Selling, marketing and other operating costs	—	(7,892)	(3,831)	(34,058)	—	—	—	(45,781)
Net margin	36,185	4,603	6,447	51,000	—	—	—	98,235
Fair value changes in investment properties	—	3,672	—	10,473	—	—	—	14,145
Investment and other income	1,386	14,960	—	1,732	3,546	—	—	21,624
Share of earnings from equity accounted investments	13,926	(915)	5,088	—	—	(1,021)	—	17,078
Net segment earnings (loss)	\$ 51,497	\$ 22,320	\$ 11,535	\$ 63,205	\$ 3,546	\$ (1,021)	\$ —	\$ 151,082
General and administrative expenses					(13,419)	—	—	(13,419)
Fair value changes in financial instruments					(488)	—	—	(488)
Interest expense					(21,599)	—	—	(21,599)
Income tax expense					(32,737)	—	—	(32,737)
Net earnings (loss) <sup>(1)</sup>					\$ (64,697)	\$ (1,021)	\$ —	\$ 82,839

<sup>(1)</sup> Includes earnings attributable to non-controlling interest.

## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

### Segmented Assets and Liabilities

Segmented assets and liabilities as at December 31, 2018 and December 31, 2017 were as follows:

	2018								
	Asset management	Urban development - Toronto & Ottawa	Renewables and recreational properties	Western Canada development	Corporate and other <sup>(1)</sup>	Dream Alternatives	Consolidation and fair value adjustments	Consolidated Dream	
<b>Assets</b>									
Cash and cash equivalents	\$ 138	\$ 9,583	\$ 3,129	\$ 3,047	\$ 1,547	\$ 46,730	\$ 119	\$ 64,293	
Accounts receivable	8,329	31,846	4,546	120,567	12,646	2,821	(3,341)	177,414	
Other financial assets	58,123	—	—	—	103,019	122,908	(71,699)	212,351	
Lending portfolio	—	—	—	—	—	144,095	—	144,095	
Housing inventory	—	—	—	56,605	—	—	—	56,605	
Condominium inventory	—	233,974	—	5,647	—	—	—	239,621	
Land inventory	—	1,742	843	573,311	—	—	—	575,896	
Investment properties	—	121,707	—	56,248	—	224,921	9,895	412,771	
Recreational properties	—	—	49,241	—	—	—	—	49,241	
Renewable power assets	—	—	—	—	—	132,251	11,037	143,288	
Equity accounted investments	342,415	46,153	41,793	5,624	—	132,528	(18,753)	549,760	
Capital and other operating assets	114	18,705	3,942	6,101	6,180	5,023	3	40,068	
Intangible asset	43,000	—	—	—	—	—	(43,000)	—	
Goodwill	—	13,576	—	—	—	—	—	13,576	
Assets held for sale	—	8,308	—	64,279	—	—	—	72,587	
<b>Total assets</b>	<b>\$ 452,119</b>	<b>\$ 485,594</b>	<b>\$ 103,494</b>	<b>\$ 891,429</b>	<b>\$ 123,392</b>	<b>\$ 811,277</b>	<b>\$ (115,739)</b>	<b>\$ 2,751,566</b>	
<b>Liabilities</b>									
Accounts payable and other liabilities	\$ 13,662	\$ 24,851	\$ 10,974	\$ 30,208	\$ 19,321	\$ 25,888	\$ 1,938	\$ 126,842	
Income and other taxes payable	—	—	—	—	51,236	(1,707)	—	49,529	
Provision for real estate development costs	—	3,338	—	30,515	—	—	—	33,853	
Customer deposits	—	31,647	597	1,867	—	—	—	34,111	
Project-specific debt	—	183,309	15,644	116,247	—	195,492	3,888	514,580	
Corporate debt facilities	—	—	—	—	373,026	—	—	373,026	
Preference shares, series 1	—	—	—	—	28,672	—	—	28,672	
Dream Alternatives trust units	—	—	—	—	—	—	377,234	377,234	
Deferred income taxes	—	—	—	—	75,662	(323)	18,800	94,139	
<b>Total liabilities</b>	<b>\$ 13,662</b>	<b>\$ 243,145</b>	<b>\$ 27,215</b>	<b>\$ 178,837</b>	<b>\$ 547,917</b>	<b>\$ 219,350</b>	<b>\$ 401,860</b>	<b>\$ 1,631,986</b>	
Non-controlling interest	—	43,935	—	—	—	1,669	(29,275)	16,329	
<b>Total shareholders' equity</b>	<b>\$ 438,457</b>	<b>\$ 198,514</b>	<b>\$ 76,279</b>	<b>\$ 712,592</b>	<b>\$ (424,525)</b>	<b>\$ 590,258</b>	<b>\$ (488,324)</b>	<b>\$ 1,103,251</b>	

<sup>(1)</sup> Included in other financial assets is \$72,678 relating to the Company's investment in Dream Alternatives units that is eliminated in the consolidation and fair value adjustments column.



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(in thousands of Canadian dollars, except numbers of shares and per share amounts)

2017

	Asset management	Urban development - Toronto & Ottawa	Renewables and recreational properties	Western Canada development	Corporate and other	Dream Alternatives	Consolidation and fair value adjustments	Consolidated Dream
<b>Assets</b>								
Cash and cash equivalents	\$ —	\$ 9,411	\$ 3,178	\$ 10,529	\$ 2,290	\$ —	\$ —	\$ 25,408
Accounts receivable	6,933	39,590	5,058	118,350	27,536	—	—	197,467
Other financial assets	57,635	—	—	—	21,408	—	—	79,043
Housing inventory	—	—	—	59,619	—	—	—	59,619
Condominium inventory	—	165,866	—	5,647	—	—	—	171,513
Land inventory	—	1,619	717	572,562	—	—	—	574,898
Investment properties	—	146,293	—	95,684	—	—	—	241,977
Recreational properties	—	—	40,617	—	—	—	—	40,617
Equity accounted investments	247,274	56,444	44,509	6,109	—	48,336	—	402,672
Capital and other operating assets	—	9,055	3,536	5,668	1,840	—	—	20,099
Intangible asset	43,000	—	—	—	—	—	—	43,000
Goodwill	—	13,576	—	—	—	—	—	13,576
Assets held for sale	—	9,076	—	25,042	—	—	—	34,118
<b>Total assets</b>	<b>\$ 354,842</b>	<b>\$ 450,930</b>	<b>\$ 97,615</b>	<b>\$ 899,210</b>	<b>\$ 53,074</b>	<b>\$ 48,336</b>	<b>\$ —</b>	<b>\$ 1,904,007</b>
<b>Liabilities</b>								
Accounts payable and other liabilities	\$ 13,558	\$ 40,206	\$ 8,377	\$ 33,088	\$ 23,736	\$ —	\$ —	\$ 118,965
Income and other taxes payable	—	—	—	—	77,143	—	—	77,143
Provision for real estate development costs	—	2,926	—	31,830	—	—	—	34,756
Customer deposits	—	32,249	518	6,254	—	—	—	39,021
Project-specific debt	—	157,947	17,137	105,143	—	—	—	280,227
Corporate debt facilities	—	—	—	—	308,024	—	—	308,024
Preference shares, series 1	—	—	—	—	28,668	—	—	28,668
Deferred income taxes	—	—	—	—	59,719	—	—	59,719
<b>Total liabilities</b>	<b>\$ 13,558</b>	<b>\$ 233,328</b>	<b>\$ 26,032</b>	<b>\$ 176,315</b>	<b>\$ 497,290</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 946,523</b>
Non-controlling interest	—	38,090	—	—	—	—	—	38,090
<b>Total shareholders' equity</b>	<b>\$ 341,284</b>	<b>\$ 179,512</b>	<b>\$ 71,583</b>	<b>\$ 722,895</b>	<b>\$ (444,216)</b>	<b>\$ 48,336</b>	<b>\$ —</b>	<b>\$ 919,394</b>

## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

### 44. Classification of items in consolidated statements of financial position

A summary of the classification between current and non-current assets and liabilities is presented below.

	2018			
	Less than 12 months	Greater than 12 months	Non-determinable	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 64,293	\$ —	\$ —	64,293
Accounts receivable	146,461	30,953	—	177,414
Other financial assets	8,111	204,240	—	212,351
Lending portfolio	96,968	47,127	—	144,095
Housing inventory	—	—	56,605	56,605
Condominium inventory	—	—	239,621	239,621
Land inventory	—	—	575,896	575,896
Investment properties	—	412,771	—	412,771
Recreational properties	—	49,241	—	49,241
Renewable power assets	—	143,288	—	143,288
Equity accounted investments	—	—	549,760	549,760
Capital and other operating assets	10,406	29,662	—	40,068
Goodwill	—	13,576	—	13,576
Assets held for sale	72,587	—	—	72,587
<b>Total assets</b>	<b>\$ 398,826</b>	<b>\$ 930,858</b>	<b>\$ 1,421,882</b>	<b>\$ 2,751,566</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 107,426	\$ 19,416	\$ —	126,842
Income and other taxes payable	49,529	—	—	49,529
Provision for real estate development costs	33,853	—	—	33,853
Customer deposits	—	—	34,111	34,111
Project-specific debt <sup>(1)</sup>	152,253	362,327	—	514,580
Corporate debt facilities <sup>(1)</sup>	148,943	224,083	—	373,026
Preference shares, series 1 <sup>(2)</sup>	—	—	28,672	28,672
Dream Alternatives trust units <sup>(2)</sup>	—	—	377,234	377,234
Deferred income taxes	—	94,139	—	94,139
<b>Total liabilities</b>	<b>\$ 492,004</b>	<b>\$ 699,965</b>	<b>\$ 440,017</b>	<b>\$ 1,631,986</b>

<sup>(1)</sup> The amounts presented are shown consistent with the contractual terms of repayment, which may be due on demand.

<sup>(2)</sup> Preference shares, series 1 and Dream Alternatives trust units may be redeemed at the option of the holder with no expiry date.

## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

					2017
	Less than 12 months	Greater than 12 months	Non-determinable	Total	
<b>Assets</b>					
Cash and cash equivalents	\$ 25,408	\$ —	\$ —	\$ —	25,408
Accounts receivable	175,373	22,094	—	—	197,467
Other financial assets	7,714	71,329	—	—	79,043
Housing inventory	—	—	59,619	—	59,619
Condominium inventory	—	—	171,513	—	171,513
Land inventory	—	—	574,898	—	574,898
Investment properties	—	241,977	—	—	241,977
Recreational properties	—	40,617	—	—	40,617
Equity accounted investments	—	—	402,672	—	402,672
Capital and other operating assets	5,262	14,837	—	—	20,099
Intangible asset	—	43,000	—	—	43,000
Goodwill	—	13,576	—	—	13,576
Assets held for sale	34,118	—	—	—	34,118
<b>Total assets</b>	<b>\$ 247,875</b>	<b>\$ 447,430</b>	<b>\$ 1,208,702</b>	<b>\$ —</b>	<b>1,904,007</b>
<b>Liabilities</b>					
Accounts payable and accrued liabilities	\$ 108,179	\$ 10,786	\$ —	\$ —	118,965
Income and other taxes payable	77,143	—	—	—	77,143
Provision for real estate development costs	34,756	—	—	—	34,756
Customer deposits	—	—	39,021	—	39,021
Project-specific debt <sup>(1)</sup>	133,847	146,380	—	—	280,227
Corporate debt facilities <sup>(1)</sup>	214,799	93,225	—	—	308,024
Preference shares, series 1 <sup>(2)</sup>	—	—	28,668	—	28,668
Deferred income taxes	—	59,719	—	—	59,719
<b>Total liabilities</b>	<b>\$ 568,724</b>	<b>\$ 310,110</b>	<b>\$ 67,689</b>	<b>\$ —</b>	<b>946,523</b>

<sup>(1)</sup> The amounts presented are shown consistent with the contractual terms of repayment, which may be due on demand.

<sup>(2)</sup> Preference shares, series 1 may be redeemed at the option of the holder with no expiry date.

## 45. Comparative figures

Certain comparative balances have been reclassified from the consolidated financial statements previously presented to conform to the presentation of the 2018 consolidated financial statements.

## 46. Changes in accounting policies

### IFRS 15

The Company adopted IFRS 15 with a date of initial application of January 1, 2018. As a result, the Company has changed its accounting policy for revenue as detailed below. The Company applied IFRS 15 using the modified approach, whereby comparative information has not been adjusted. The details and quantitative impact of the changes in accounting policies are described below.

#### Costs incurred to obtain a contract

The Company previously expensed certain costs incurred to obtain a contract (primarily refundable sales commissions on real estate property sales). Under IFRS 15, the Company capitalizes all commissions paid to an intermediary as a cost to obtain a contract when they are expected to be recovered. These costs are amortized consistently with the pattern of recognition for the related revenue. The Company has applied the practical expedient in IFRS 15 and has expensed the costs incurred to obtain contracts if the amortization period is less than one year. The impact of this change effective January 1, 2018 is an increase to equity accounted investments and capital and other assets of \$2,208 and \$3,424, respectively, to capitalize sales commissions previously expensed relating to future revenue.

# Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

## Accounting Policies Applicable up to December 31, 2017

The following policies apply to comparative information for 2017 in the Company's consolidated financial statements as we did not restate prior periods on adoption of IFRS 15.

Revenue from sales of real estate inventory is generally recognized when the earnings process is virtually complete, the significant risks and rewards of ownership are transferred to the buyer, collectibility is reasonably assured, and the Company does not have a substantial continuing involvement with the asset to the degree normally associated with ownership.

Revenue relating to sales of land under development is recognized provided: the related agreement of purchase and sale is unconditional; an appropriate deposit of the sale proceeds has been received; collectibility of the remaining proceeds is reasonably assured; and the Company can reliably measure the necessary costs to complete the development of the asset. Until these criteria are met, any proceeds received are accounted for as customer deposits.

Revenue relating to sales of condominiums and housing projects or commercial property is recognized provided: the related agreement of purchase and sale is unconditional; the buyer occupies the unit; a reasonable portion of the sale proceeds has been received; collectibility of the remaining proceeds is reasonably assured; and the Company can reliably measure the necessary costs to complete the development of the asset. Until these criteria are met, any proceeds received are accounted for as customer deposits.

Revenue from investment properties includes base rents, recoveries of operating expenses including property taxes, percentage participation rents, lease cancellation fees, parking income and other incidental income. The Company uses the straight-line method of rental revenue recognition on investment properties whereby any contractual free-rent periods and rent increases over the term of a lease are recognized in earnings evenly over the lease term. Initial direct leasing costs incurred in negotiating and arranging tenant leases are added to the carrying amount of the investment properties and are amortized over the term of the lease. Lease incentives, which include costs incurred to make leasehold improvements to tenants' space and cash allowances provided to tenants, are added to the carrying amount of investment properties and are amortized on a straight-line basis over the term of the lease as a reduction in revenue from investment properties.

Amounts received for the sale of annual season passes to recreational properties are deferred and amortized on a straight-line basis over the term of the season. Hotel revenues are derived from room rentals and services provided at the Company's property and are recorded when rooms are occupied and services have been rendered. Other amounts received from the use of recreational properties are recognized as revenue when earned.

Revenue from real estate asset management and advisory services is calculated based on a fee that is a formula specific to each advisory client and may include fee revenue calculated as a percentage of the capital managed, capital expenditures incurred or the purchase price of properties acquired. These fees are recognized on an accrual basis over the period during which the related service is rendered. Asset management and advisory services fee arrangements may also provide the Company with an incentive fee when the investment performance of the underlying assets exceeds established benchmarks. Incentive fees and other revenues are not recognized in earnings until the amounts can be established with certainty and are no longer dependent on future events.

The Company recognizes investment income from distributions on financial assets when the distributions are received or receivable, after adjusting for the portion considered to be a return of capital. The Company's basis of measurement for distributions from financial assets classified as investment income and return of capital is the Company's pro rata share of cash flows from operations of the investee.

## IFRS 9

The Company has adopted IFRS 9 with initial application as at January 1, 2018. The accounting policies were changed to comply with IFRS 9 and replace the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and liabilities; derecognition of financial instruments; and impairment of assets and hedge accounting. IFRS 9 also amends other standards dealing with financial instruments such as IFRS 7. The details and quantitative impact of the changes in accounting policies are described below.

### Investments in marketable securities

The Company previously recorded its investment in Dream Global REIT (including DTUs) at fair value through OCI. Under IFRS 9, the Company records these investments at fair value through profit or loss. The impact of this change effective January 1, 2018 is an increase to retained earnings of \$23,698 (net of tax in AOCI of \$3,620).

### Investments in co-owned commercial assets

The Company previously recorded its investment in equity securities not quoted in an active market at cost. Under IFRS 9, the Company records these investments at fair value through profit or loss. The impact of this change effective January 1, 2018 is an increase to retained earnings of \$5,649 (net of tax of \$869).

### Gain on prior debt modifications

The Company previously modified certain debt instruments held through Firelight Infrastructure Partners LP, an equity accounted investment. Under IFRS 9, the Company calculated a gain on modification as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. The impact of this change effective January 1, 2018 at Dream's 20% ownership interest is an increase to retained earnings of \$667 (net of tax of \$241).

# Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

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## Accounting Policies applicable up to December 31, 2017

The following policies apply to comparative information for 2017 in the Company's consolidated financial statements as we did not restate prior periods on adoption of IFRS 9.

The Company's financial instruments include cash and cash equivalents, accounts receivable, other financial assets, financial instruments within accounts payable and other liabilities, customer deposits, construction loans, amounts borrowed pursuant to the Company's operating line, non-revolving term facility, margin loan, mortgages and term debt, and Preference shares, series 1, including related redemption and retraction options that have been separately recognized and deposits and restricted cash that have been included in the consolidated financial statements under "Capital and other operating assets".

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are no longer recognized when the rights to receive cash flows from the assets have expired or are assigned and the Company has transferred substantially all risks and rewards of ownership in respect of an asset to a third-party. Financial assets are recognized at settlement date less any related transaction costs. Financial liabilities are no longer recognized when the related obligation expires, is discharged or cancelled.

Classification of financial instruments in the Company's consolidated financial statements depends on the purpose for which the financial instruments were acquired or incurred. Management determines the classification of financial instruments at initial recognition.

## Available-for-sale Securities

AFS securities are non-derivative financial instruments that are either specifically designated as available for sale or have not been classified in any other financial instrument category. AFS securities are initially recognized at cost on acquisition, including directly attributable transaction costs, and are subsequently carried at fair value.

Certain investments included as other financial assets in the Company's consolidated statements of financial position, including the Company's investment in Dream Global REIT (Note 7), have been included in this category.

Changes in the fair values of AFS securities are reported in OCI until the financial asset is sold or becomes impaired, at which time the accumulated gain or loss is removed from AOCI and recognized in earnings.

Also included as AFS securities are DTUs of Dream Global REIT, which the Company received as compensation for services provided pursuant to an asset management and advisory services agreement up to August 2016 (Note 41). The DTUs will vest to the Company in five equal annual installments, beginning in the sixth year following the grant of such DTUs until September 2026. The DTUs and the corresponding asset management and advisory services revenue are recognized at fair value, determined by applying a discount to the trading value of the underlying units of Dream Global REIT to reflect the vesting period. Subsequent to initial recognition, the DTUs are carried at fair value, with changes in fair value recognized in AOCI.

## Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial instruments classified in this category include cash and cash equivalents, accounts receivable, loans receivable included in the Company's portfolio of other financial assets, and deposits and restricted cash. Financial instruments designated as loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less a provision for impairment, if applicable.

## Financial Liabilities at Amortized Cost

Financial liabilities at amortized cost include certain financial instruments included in accounts payable and other liabilities, customer deposits, construction loans, amounts borrowed pursuant to the Company's operating line, non-revolving term facility, margin loan, mortgages and term debt, amounts due to a shareholder, and the Company's Preference shares, series 1. These amounts are initially measured at the amount required to be paid, less, when material, a discount to reduce the liabilities to fair value. Subsequently, these financial liabilities are measured at amortized cost using the effective interest method.

## Fair Value Through Profit or Loss

Financial instruments in this category, which include the redemption and retraction options on the Preference shares, series 1, and the interest rate swap are initially and subsequently recognized at fair value. Gains and losses arising from changes in fair value are presented within net earnings in the consolidated statements of comprehensive income in the period in which they arise, unless they are derivative instruments that have been designated as hedges.

## Hedging Instruments and Activities

At the inception of a hedging transaction, the Company documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are hedges of a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction is recognized in OCI. The gain or loss relating to the ineffective portion, if any, is recognized immediately in the consolidated statements of earnings.



## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

The realized gain or loss recognized on settlement of a hedging instrument designated as a cash flow hedge will be reclassified to earnings over the same basis as the cash flows received from the hedged item. When a hedging instrument no longer meets the criteria for hedge accounting, any cumulative gains or losses existing in OCI at that time are recognized in earnings immediately.

### Impairment of Financial Assets

At each reporting date, management assesses whether there is objective evidence that financial assets are impaired. Objective evidence may include a significant or prolonged decline in the trading value of an equity security below its cost, significant financial difficulty of the obligor, or delinquencies in interest and principal payments. If such evidence exists, an impairment loss is recognized equal to: (i) the difference between the weighted average cost of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate, for financial assets carried at amortized cost; or (ii) the difference between the weighted average cost of the asset and the fair value at the measurement date, less any previously recognized impairment loss, for financial assets designated as AFS securities.

### Impact on Date of Initial Application

	December 31, 2017	IFRS 15	IFRS 9	January 1, 2018
<b>Assets</b>				
Other financial assets	\$ 79,043	\$ —	\$ 6,518	\$ 85,561
Equity accounted investments	402,672	2,208	908	405,788
Capital and other operating assets	20,099	3,424	—	23,523
<b>Liabilities</b>				
Deferred income taxes	\$ 59,719	\$ 1,502	\$ 1,110	\$ 62,331
<b>Shareholders' Equity</b>				
Retained earnings	\$ 601,098	\$ 4,130	\$ 30,014	\$ 635,242
Accumulated other comprehensive income	31,881	—	(23,698)	8,183

### Impact on Consolidated Financial Statements

The following tables summarize the impacts of adopting IFRS 15 on the Company's consolidated financial statements for the year ended December 31, 2018.

#### Consolidated Statement of Financial Position

	2018		
	As reported	Adjustments	Balance without adoption of IFRS 15
Equity accounted investments	\$ 549,760	\$ (3,127)	\$ 546,633
Capital and other operating assets	40,068	(3,431)	36,637
Other	2,161,738	—	2,161,738
<b>Total assets</b>	<b>\$ 2,751,566</b>	<b>\$ (6,558)</b>	<b>\$ 2,745,008</b>
Accounts payable and other liabilities	\$ 126,842	\$ 423	\$ 127,265
Deferred income taxes	94,139	(1,765)	92,374
Other	1,411,005	—	1,411,005
<b>Total liabilities</b>	<b>1,631,986</b>	<b>(1,342)</b>	<b>1,630,644</b>
Retained earnings	818,581	(5,216)	813,365
Accumulated other comprehensive income	11,379	—	11,379
Other	289,620	—	289,620
<b>Total equity</b>	<b>1,119,580</b>	<b>(5,216)</b>	<b>1,114,364</b>
<b>Total liabilities and equity</b>	<b>\$ 2,751,566</b>	<b>\$ (6,558)</b>	<b>\$ 2,745,008</b>

## Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except numbers of shares and per share amounts)

### Consolidated Statement of Earnings

	2018		
	As reported	Adjustments	Balance without adoption of IFRS 15
Gross margin	\$ 134,782	\$ —	\$ 134,782
Selling, marketing and other operating costs	(47,114)	(430)	(47,544)
Net margin	87,668	(430)	87,238
Other income (expenses):			
Share of earnings from equity accounted investments	37,029	(919)	36,110
Other	88,795	—	88,795
Income tax expense	(21,439)	263	(21,176)
Earnings for the year	\$ 192,053	\$ (1,086)	\$ 190,967

### Consolidated Statement of Cash Flows

	2018		
	As reported	Adjustments	Balance without adoption of IFRS 15
<b>Operating activities</b>			
Earnings for the year	\$ 192,053	\$ (1,086)	\$ 190,967
Share of earnings from equity accounted investments	(37,029)	919	(36,110)
Deferred income taxes	9,132	(263)	8,869
Changes in non-cash working capital	(48,622)	430	(48,192)
Other	(212,676)	—	(212,676)
Net cash flows used in operating activities	(97,142)	—	(97,142)
Net cash flows provided by investing activities	93,703	—	93,703
Net cash flows provided by financing activities	42,324	—	42,324
Change in cash and cash equivalents	\$ 38,885	\$ —	\$ 38,885

## 47. Subsequent events

Subsequent to December 31, 2018, the Company entered into an agreement to purchase a 25% interest in IVY Condominiums, formed for the development of a residential condominium located in downtown Toronto. The residual 75% interest is held by Dream Alternatives and the project will be managed by Dream.

Subsequent to December 31, 2018, the Company amended its Dream operating line and non-revolving term facility, extending the maturity dates to January 31, 2021 and February 28, 2022, respectively, and revising certain covenants of DAM.





## Directors

**Michael J. Cooper<sup>h</sup>**  
Toronto, Ontario  
President & Chief Responsible Officer  
Dream Unlimited Corp.

**James Eaton<sup>Ind.</sup>**  
Toronto, Ontario  
Corporate Director

**Joanne Ferstman<sup>Ind.,1,3,4,5</sup>**  
Toronto, Ontario  
Corporate Director

**Richard Gateman<sup>Ind.,2,3</sup>**  
Calgary, Alberta  
Vice President, Major Projects  
Business Development  
TransCanada Pipelines Limited

**P. Jane Gavan<sup>h</sup>**  
Toronto, Ontario  
President, Asset Management  
Dream Unlimited Corp.

**Duncan Jackman<sup>Ind.</sup>**  
Toronto, Ontario  
Chairman, President and CEO  
E-L Financial Corporation Limited

**Jennifer Lee Koss<sup>Ind.,1,2</sup>**  
Toronto, Ontario  
Co-Founder and Builder of Business  
BRIKA

**Vincenza Sera<sup>Ind.,1,2,3,4</sup>**  
Toronto, Ontario  
Corporate Director

### Legend:

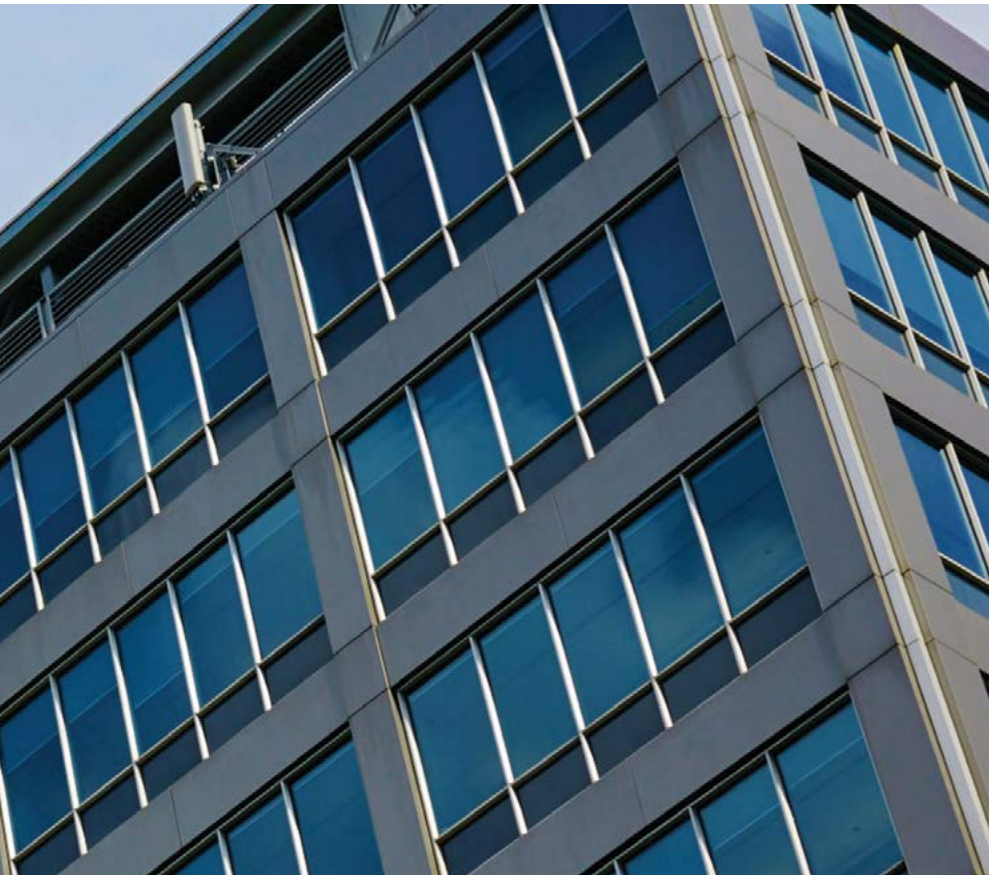
Ind. Independent

1. Member of the Audit Committee
2. Member of the Governance and Nominating Committee
3. Member of the Organization, Design and Culture Committee
4. Member of Leaders and Mentors Committee
5. Chair of the Board

## Management Team

**Michael J. Cooper**  
President & Chief Responsible Officer

**Pauline Alimchandani**  
EVP & Chief Financial Officer



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(for change of address, registration  
or other unitholder enquiries)

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Company of Canada**  
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Toronto, Ontario M5J 2Y1  
Phone: (514) 982-7555 or  
1 800 564-6253  
Fax: (416) 263-9394 or  
1 888 453-0330  
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### AUDITOR

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### CORPORATE COUNSEL

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### STOCK EXCHANGE LISTING

**The Toronto Stock Exchange**  
**Listing Symbols:**  
Subordinate Voting Shares: DRM  
Series 1 Preferred Shares: DRM.PR.A

For more information, please visit  
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