



Dream Office REIT owns well-located, high-quality central business district and suburban office properties in major urban centres across Canada. Its portfolio is well diversified by geographic location and tenant mix.

# Letter to Unitholders

In February 2016, Dream Office REIT announced a multi-year Strategic Plan which would result in a smaller more valuable business with a high quality office portfolio, an industry leading balance sheet and ample liquidity for value enhancing initiatives. This strategy has changed the way we view and run our business.

In the Strategic Plan, we reduced Dream Office REIT's distribution and eliminated the distribution reinvestment plan to be able to carry on operations without reducing the value of the business. We obtained an \$800 million credit facility from a syndicate of lenders to support our liquidity while we execute our strategies.

We completed over \$870 million of asset dispositions in 2016, including the sale of a one-sixth interest in Scotia Plaza. Subsequent to year-end, a further \$600 million in assets either have been sold or are in advanced negotiations. We have also been able to sell assets in Alberta that were not contemplated in our original disposition target at the beginning of 2016. In so doing, we have further de-risked our portfolio and helped underscore the value of the remaining real estate.

Since the date of that announcement in February, Dream Office REIT's unit price has appreciated 25% compared to the REIT index at 15% and added approximately \$450 million to Dream Office REIT's market valuation. We have been pleased with how our strategies have been executed to date and hope that the improvements in our unit price this year reflects improving confidence in our business. We believe that the market has understood and appreciated the strategy and its execution.

We intend to continue course on our disposition program in 2017. We will continue to sell those assets that are not core to our strategy but which will achieve liquidity at reasonable prices in the market. The proceeds from these dispositions will be targeted to making the balance sheet



**P. Jane Gavan**  
Chief Executive Officer

stronger, investing in our buildings and opportunistically repurchasing our units, until such time as we see more attractive investment opportunities in the marketplace to redeploy the capital.

It will take some time, but we want to distill our portfolio to a smaller core group of assets - those valuable assets in core markets that are appealing to tenants over the long term. They are also the buildings for which investment of capital produces a return; the ones which will provide stability and predictability in terms of their long term cash flows.

Heading into 2017, our overall strategy remains consistent with what we announced last February, to become smaller with a core portfolio of assets that are far simpler to understand and manage. We are a business under construction, but the path is clear, with an outcome that we believe is achievable and valuable to unitholders.

As always, I would like to thank you for your continued support as we reshape Dream Office REIT and look forward to reporting back on our progress.

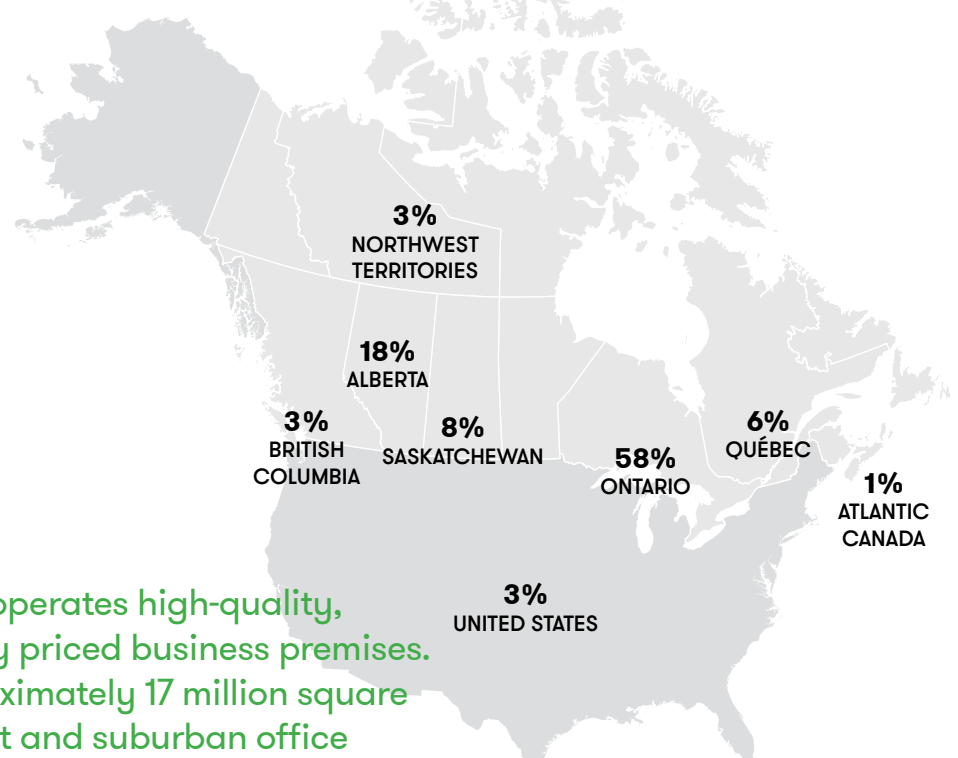
Sincerely,

A handwritten signature in black ink, appearing to read 'Jane Gavan', written over a horizontal line.

**P. Jane Gavan**  
Chief Executive Officer  
February 23, 2017

# Portfolio at-a-Glance

DECEMBER 31, 2016



Dream Office REIT owns and operates high-quality, well-located and competitively priced business premises. The portfolio comprises approximately 17 million square feet of central business district and suburban office properties located in Canada's key office markets.

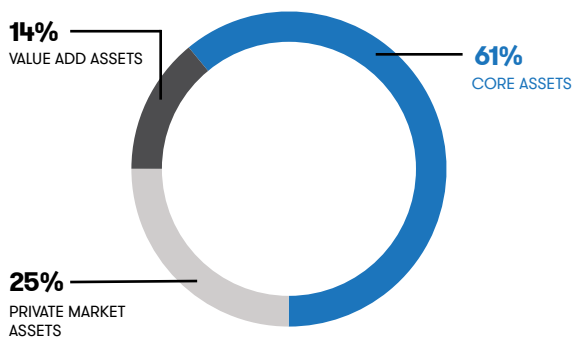
**Geographic Diversification**  
(% of net operating income, excluding properties held for sale)

## High-Quality Tenants

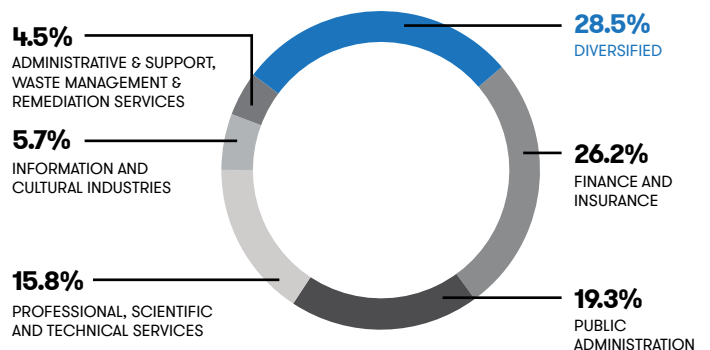
TENANT	GROSS RENTAL REVENUE (%)	OWNED AREA (THOUSANDS OF SQ. FT.)	OWNED AREA (%)	WEIGHTED AVERAGE REMAINING LEASE TERM (YEARS)	CREDIT RATING <sup>(1)</sup>
Government of Canada	8.2	1,148	6.7	3.8	AAA/A-1+
Bank of Nova Scotia	8.0	757	4.4	7.5	A+/A-/A-1
Government of Ontario	2.9	438	2.5	3.7	A+/A-1+
Bell Canada	2.6	372	2.2	1.0	BBB+
State Street Trust Company	1.9	245	1.4	5.3	A-1+/AA-/A
Aviva Canada Inc.	1.5	319	1.9	0.7	A+
Newalta Corporation	1.5	187	1.1	6.9	N/R
Government of Saskatchewan	1.5	282	1.6	2.9	AA+/A-1+
Loyalty Management	1.4	194	1.1	0.7	N/R
Government of British Columbia	1.2	191	1.1	3.7	AAA/A-1+
<b>Total</b>	<b>30.7</b>	<b>4,133</b>	<b>24.0</b>	<b>4.4</b>	

(1) Credit ratings are obtained from Standard & Poor's and may reflect the parent's or a guarantor's credit rating.  
N/R - not rated

## Net Operating Income Breakdown (excluding properties hold for sale)



## Diversified Tenant Base



\* As at December 31, 2016



Scotia Plaza,  
Toronto, ON

**\$5.5 billion**  
TOTAL ASSETS

**3.0x**  
INTEREST COVERAGE RATIO

**90%**  
OCCUPANCY  
(INCLUDING COMMITTED)



700 de la Gauchetière,  
Montréal, QC

**17 million**  
TOTAL GROSS LEASABLE AREA (SQUARE FEET)  
(EXCLUDING PROPERTIES HELD FOR SALE)



Station Tower  
Vancouver, BC

OVER  
**\$600 million**  
LIQUIDITY



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# Management's discussion and analysis

(All dollar amounts in our tables are presented in thousands of Canadian dollars, except for rental rates, unit and per unit amounts, unless otherwise stated)

## SECTION I – FINANCIAL HIGHLIGHTS AND OBJECTIVES

### UPDATE ON IMPLEMENTATION OF STRATEGIC PLAN

2016 proved to be a transformative year for Dream Office Real Estate Investment Trust ("Dream Office REIT" or the "Trust") where the Trust introduced a plan on February 18, 2016 to execute a mandate similar to that of a real estate private equity fund, to attempt to reduce the current discount to total equity<sup>(1)</sup> or net asset value ("NAV")<sup>(1)</sup>, the Strategic Plan. Over the past year, we have executed on the following initiatives based on the quality of the Trust's assets, the current state of economic uncertainty in Alberta and the private demand for many of the Trust's properties:

- The Trust completed the sale of \$531.6 million of investment properties included in the Private Market Assets (as later defined). In addition, the Trust completed the sale of \$117.3 million of investment properties included in the Value-Add Assets (as later defined) and \$221.2 million included in the Core Assets (as later defined) for total dispositions of approximately \$870 million for the year ended December 31, 2016. Subsequent to year-end, the Trust completed the sale of another \$56.7 million in the Private Market Assets and \$171.7 million of the Value-Add Assets. In addition, the Trust has approximately \$378 million of Private Market Assets currently under contract or in various stages of discussion. Upon completion, these transactions would amount to approximately \$966 million of Private Market Asset dispositions, which represents approximately 81% of the original target of \$1.2 billion;
- The Trust used the net proceeds from the dispositions to first pay down debt to reduce leverage, invest in our assets and subsequently, to repurchase REIT A Units for cancellation under the Trust's normal course issuer bid ("NCIB"). For the year ended December 31, 2016, the Trust repaid \$646.9 million of debt, invested \$128.8 million in building improvements and leasing costs and repurchased 4.3 million REIT A Units totalling \$80.2 million;
- We secured an \$800 million demand revolving credit facility (the "\$800 million Facility") to provide the Trust with operating flexibility through the execution of the Strategic Plan and significantly bolster our liquidity to manage the Trust's business in the current environment; and
- Effective with the February 2016 distribution, we revised our annual distribution from \$2.24 per unit to \$1.50 per unit, which reflects a more conservative payout ratio. Concurrently, the Trust suspended the Distribution Reinvestment Plan ("DRIP") to eliminate dilution.

### FINANCIAL OVERVIEW

- **Disposition of assets in conjunction with the Strategic Plan:** During the quarter, the Trust completed the sale of eight properties in our Private Market and Value-Add Assets located in the Kitchener and Vancouver areas totalling approximately 1.1 million square feet, for gross proceeds (net of adjustments) totalling approximately \$171.3 million.

For the year, the Trust completed the sale of properties mainly in our Private Market Assets and a portion of our interest in Scotia Plaza and 100 Yonge Street, included in our Core Assets, totalling approximately 3.6 million square feet, for gross proceeds (net of adjustments) totalling approximately \$870.2 million.

Subsequent to year-end, the Trust completed the sale of properties in our Private Market Assets and Value-Add Assets located in Calgary and Toronto totalling approximately 1.6 million square feet, for gross proceeds (net of adjustments) totalling approximately \$228.3 million. With the dispositions in Calgary, we have significantly reduced our exposure in the Alberta region from approximately 5.9 million square feet, or 30% of total gross leasable area ("GLA") in our portfolio as at December 31, 2016, to approximately 4.3 million square feet, or 24% of total GLA as at February 23, 2017.

- **Capital allocation:** The Trust has redeployed the net proceeds from dispositions to repay debt, invest in our assets, repurchase REIT A units for cancellation and purchased Dream Industrial Real Estate Investment Trust ("Dream Industrial REIT") Units.

For the three months and year ended December 31, 2016, the Trust purchased for cancellation 3.9 million REIT A Units and 4.3 million REIT A Units, respectively, under the NCIB at a cost of approximately \$73.7 million and approximately \$80.2 million, respectively.

During the quarter, the Trust discharged maturing mortgages and mortgages associated with disposed properties totalling approximately \$99.6 million with a weighted average face interest rate<sup>(2)</sup> of 3.93% per annum. In addition, the Trust renewed or refinanced mortgages totalling \$74.0 million at a weighted average face interest rate<sup>(2)</sup> of 3.09% per annum with an average term of ten years. For the year ended December 31, 2016, the Trust discharged maturing mortgages and mortgages associated with disposed properties totalling approximately \$646.9 million with an average face interest rate<sup>(2)</sup> of 4.28% per annum. In addition, the Trust renewed or refinanced mortgages during the year ended December 31, 2016 totalling \$231.4 million at a weighted average face interest rate<sup>(2)</sup> of 2.99% per annum with an average term of 7.2 years. Subsequent to year-end, the Trust repaid the Series B Debentures with an aggregate principal amount of \$125.0 million on January 9, 2017.

During the fourth quarter of 2016, the Trust purchased 747,190 Dream Industrial REIT Units for a total cost of \$5.9 million. The purchased units were enrolled in Dream Industrial REIT's distribution reinvestment plan effective for the December 2016 distribution. In addition, the Trust enrolled its 18,551,855 Dream Industrial LP Class B limited partnership units into Dream Industrial REIT's distribution reinvestment plan effective for the November 2016 distribution and elected to reinvest the distributions received in Dream Industrial REIT Units. For the year ended December 31, 2016, the Trust purchased Dream Industrial REIT Units through Dream Industrial REIT's distribution reinvestment plan totalling 135,283 Dream Industrial REIT Units for a total cost of \$1.1 million. As at December 31, 2016 the Trust's ownership increased to 24.9%, from 24.0% at December 31, 2015.

- **NAV per unit<sup>(1)</sup>:** Our NAV per unit is comprised of the Core, Private Market and Value-Add net assets totalling \$25.70, offset by corporate net liabilities totalling \$3.22 resulting in overall NAV per unit of \$22.48 as at December 31, 2016. When compared to Q3 2016, NAV per unit was down \$0.98 from \$23.46 as at September 30, 2016 and down \$9.11 from \$31.59 as at December 31, 2015. The decrease during the quarter and for the year ended December 31, 2016 was mainly driven by fair value adjustments to our investment properties totalling \$136.1 million and \$1.1 billion, respectively.
- **Conservative capital structure with significant liquidity:** We ended the year with net total debt-to-gross book value ratio<sup>(1)</sup> of 52.3%, net debt-to-adjusted EBITDFV<sup>(1)</sup> of 7.7 years, and interest coverage ratio<sup>(1)</sup> of 3.0 times. The increase quarter-over-quarter on the aforementioned leverage metrics was mainly due to the vendor takeback mortgage ("VTB Mortgage") received as partial consideration for the Kitchener portfolio sale on December 29, 2016 and fair value adjustments on investment properties in the quarter, along with REIT A Units purchased for cancellation under the NCIB. Our available liquidity is \$622.7 million as at December 31, 2016, consisting of undrawn demand revolving credit facilities totalling \$613.5 million and \$9.2 million of cash and cash equivalents on hand.
- **Net loss:** For the three months and year ended December 31, 2016, the Trust incurred a net loss of \$100.7 million and \$879.7 million, respectively, mainly driven by fair value adjustments to investment properties. For the three months and year ended December 31, 2016, the Trust recorded a fair value loss (including assets classified as held for sale and sold properties) of \$136.1 million and \$1.1 billion, respectively, mainly as a result of dispositions for the year and bids received on certain properties, changes in market rental rates and leasing cost assumptions, and an increase in cap rates on select properties in certain regions. In particular, the Alberta region (including assets classified as held for sale) had a significant decline in the current year with fair value losses of \$51.0 million and \$845.7 million for the three months and year ended December 31, 2016, respectively, mainly as a result of bids received on certain properties and the changes made to the critical and key assumptions used in the discounted cash flow model in Q2 2016.
- **Diluted funds from operations ("FFO") per unit<sup>(1)</sup> for the quarter and year:** Diluted FFO on a per unit basis for the three months ended December 31, 2016 was \$0.59, compared to \$0.62 in Q3 2016. The decrease in diluted FFO per unit on a quarter-over-quarter basis was primarily as a result of property dispositions, decrease in comparative properties NOI<sup>(1)</sup>, incremental change in straight-line rent adjustment and charge on cost reduction program as discussed below. Offsetting this decline were interest savings on discharged debt associated with disposed properties, interest rate savings upon refinancing of maturing debt and incremental change in lease termination and other.

Diluted FFO on a per unit basis for the three months and year ended December 31, 2016 was \$0.59 and \$2.54, respectively, compared to \$0.70 and \$2.82 for the three months and year ended December 31, 2015, respectively. The decrease in diluted FFO per unit on a quarter-over-quarter and year-over-year basis was due to the same reasons noted above.



- **In-place occupancy:** As at December 31, 2016, our comparative portfolio in-place occupancy improved to 87.9%, compared to 87.4% in the prior quarter. On a quarter-over-quarter basis, we saw modest increases in in-place occupancy in all regions except for B.C./Saskatchewan/N.W.T. When compared to Q4 2015, our comparative portfolio in-place occupancy decreased by 2.1% from 90.0% to 87.9%. The decrease year-over-year was experienced in all regions except for Toronto suburban where it increased 1.3%.

Our overall comparative portfolio in-place and committed occupancy was 89.7% as at December 31, 2016, relatively flat when compared to Q3 2016 and down from 91.6% in Q4 2015.

- **Leasing activity:** For the three months ended December 31, 2016, approximately 0.6 million square feet of leases commenced, of which approximately 0.3 million square feet were renewals, resulting in a tenant retention ratio of approximately 55%. For the year ended December 31, 2016, approximately 3.3 million square feet of leases commenced, of which approximately 2.3 million square feet were renewals, resulting in a tenant retention ratio of approximately 62%.

As at December 31, 2016, we continue to make good progress on securing lease commitments, with approximately 1.7 million square feet taking occupancy in 2017, representing approximately 51% of 2017 lease maturities. To date, we have secured in total 1.9 million square feet bringing the percentage to 57% of 2017 lease maturities. Factoring in a committed lease at 438 University Ave. in downtown Toronto that does not take occupancy until the end of 2018, the percentage improves to 63%.

- **Comparative properties NOI<sup>(1)</sup>:** For the three months ended December 31, 2016, NOI from comparative properties<sup>(1)</sup> on a quarter-over-quarter basis decreased by \$0.8 million, or 1.0%, from \$82.1 million to \$81.4 million, mainly driven by lower weighted average occupancy in the B.C./Saskatchewan/N.W.T. and Alberta regions, partially offset by higher weighted average occupancy in the Toronto suburban region.

For the three months ended December 31, 2016, NOI from comparative properties<sup>(1)</sup> on a year-over-year basis decreased by \$3.2 million, or 3.8%, from \$84.6 million to \$81.4 million. We saw strength in the Toronto downtown and Toronto suburban regions, with comparative properties NOI<sup>(1)</sup> increasing \$0.2 million or 0.6% and \$0.4 million or 3.3%, respectively, while the rest of our portfolio experienced a decline, mainly driven by the Alberta region, with comparative properties NOI<sup>(1)</sup> decreasing \$2.9 million, or 17.4%. The overall decline was primarily due to lower occupancy. For the year ended December 31, 2016, NOI from comparative properties on a year-over-year basis decreased by \$6.9 million, or 2.0%, from \$338.1 million to \$331.3 million. Toronto downtown saw similar trends with comparative properties NOI increasing 2.9 million, or 2.3%, while the rest of our portfolio experienced a decline due to lower occupancy.

- **Implementation of cost reduction program:** Since the announcement of our Strategic Plan in February 2016, we have made significant progress in executing our disposition program. During the quarter, to ensure that the costs of the operating platform continue to be efficient for the reduced size of the portfolio, the Trust and Dream Asset Management Corporation (“DAM”), a subsidiary of Dream Unlimited Corp., jointly implemented a cost reduction program to simplify the Trust’s operating and shared service platform. As a result of implementing this program, the Trust incurred a charge on the cost reduction program of \$3.9 million (\$0.03 per diluted unit) in the fourth quarter. The Trust expects there to be annual savings coming from recoverable operating expenses that will directly benefit existing tenants. Further, the Trust expects to achieve annual savings to FFO of up to \$4.0 million commencing in 2017 as a result of this program.

(1) Total equity, net asset value (“NAV”) per unit, diluted FFO per unit, net total debt-to-gross book value, net debt-to-adjusted EBITDFV, interest coverage ratio, and comparative properties NOI are non-GAAP measures used by Management in evaluating operating and financial performance. Please refer to the “Non-GAAP measures and other disclosures” section of the MD&A for a full description of these non-GAAP measures.

(2) Weighted average face interest rate is calculated as the weighted average face rate of all interest bearing debt on balance, including investment in joint ventures that are equity accounted.

## KEY PERFORMANCE INDICATORS

Performance is measured by these and other key indicators:

	As at		
	December 31, 2016	September 30, 2016	December 31, 2015
<b>Total portfolio<sup>(1)</sup></b>			
Number of properties	121	148	166
Gross leasable area ("GLA") <sup>(2)</sup>	17,233	20,787	23,030
Occupancy rate – including committed (period-end)	89.7%	88.9%	91.3%
Occupancy rate – in-place (period-end)	87.9%	87.0%	89.8%
Average in-place and committed net rent per square foot (period-end)	\$ 19.21	\$ 18.95	\$ 18.94
Market rent/average in-place and committed net rent (%)	(2.8%)	(6.1%)	2.7%
<b>Comparative portfolio<sup>(3)</sup></b>			
Occupancy rate – including committed (period-end)	89.7%	89.6%	91.6%
Occupancy rate – in-place (period-end)	87.9%	87.4%	90.0%
Average in-place and committed net rent per square foot (period-end)	\$ 19.21	\$ 19.32	\$ 19.12
Market rent/average in-place and committed net rent (%)	(2.8%)	(3.4%)	4.6%

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
<b>Operating results</b>				
Net loss	\$ (100,671)	\$ (54,137)	\$ (879,705)	\$ (55,039)
NOI <sup>(4)</sup>	77,255	81,147	316,761	327,332
Comparative properties NOI <sup>(4)</sup>	81,355	84,581	331,273	338,136
FFO <sup>(5)</sup>	67,155	79,672	290,887	318,511
<b>Distributions</b>				
Total distributions	\$ 42,235	\$ 64,265	\$ 177,633	\$ 254,303
<b>Per unit amounts<sup>(6)</sup></b>				
Distribution rate	\$ 0.38	\$ 0.56	\$ 1.56	\$ 2.24
FFO (basic) <sup>(5)</sup>	0.59	0.70	2.55	2.83
FFO (diluted) <sup>(5)</sup>	0.59	0.70	2.54	2.82
NAV <sup>(7)</sup>	22.48	31.59	22.48	31.59

	As at		
	December 31, 2016	September 30, 2016	December 31, 2015
<b>Financing</b>			
Weighted average effective interest rate on debt (period-end) <sup>(8)</sup>	3.82%	3.84%	4.11%
Weighted average face rate of interest on debt (period-end) <sup>(9)</sup>	3.84%	3.89%	4.05%
Interest coverage ratio (times) <sup>(10)</sup>	3.0	3.0	2.9
Net average debt-to-EBITDFV (years) <sup>(10)</sup>	7.3	7.4	7.7
Net debt-to-adjusted EBITDFV (years) <sup>(10)</sup>	7.7	7.3	7.7
Level of debt (net total debt-to-gross book value) <sup>(10)</sup>	52.3%	50.4%	48.3%
Level of debt (net secured debt-to-gross book value) <sup>(10)</sup>	44.2%	42.6%	41.0%
Debt – average term to maturity (years)	3.8	3.8	3.8
Unsecured convertible and non-convertible debentures	\$ 448,828	\$ 448,623	\$ 534,097
Unencumbered assets <sup>(11)</sup>	\$ 244,000	\$ 285,000	\$ 825,000

(1) Total portfolio includes investment in joint ventures and excludes properties held for sale and a redevelopment property at the end of each period.

(2) In thousands of square feet.

(3) Comparative portfolio includes investment in joint ventures and excludes properties sold, properties held for sale and a redevelopment property at the end of Q4 2016.

(4) NOI and comparative properties NOI (non-GAAP measures) – NOI is defined as total of net rental income, including the share of net rental income from investment in joint ventures and property management income, excluding net rental income from properties sold and assets held for sale. Comparative properties NOI includes the properties acquired prior to January 1, 2015 and excludes lease termination fees, one-time property adjustments, bad debt expenses, NOI of properties sold, properties held for sale and a redevelopment property, straight-line rent and amortization of lease incentives. The reconciliations of NOI and comparative properties NOI to net rental income can be found in the section "Non-GAAP measures and other disclosures" under the headings "NOI" and "Comparative properties NOI".

- (5) FFO (non-GAAP measure) – The reconciliation of FFO to net income can be found in the section “Our Results of Operations” under the heading “Funds from operations”. FFO (non-GAAP measure) for the comparative period excludes the one-time cost on Reorganization of \$128,132 recorded in Q2 2015.
- (6) A description of the determination of basic and diluted amounts per unit can be found in the section “Non-GAAP measures and other disclosures” under the heading “Weighted average number of units”.
- (7) NAV per unit (non-GAAP measure) is defined in the section “Non-GAAP measures and other disclosures” under the heading “Net Asset Value (“NAV”) per unit”.
- (8) Weighted average effective interest rate is calculated as the weighted average face rate of interest on balance, net of amortization of fair value adjustments and financing costs of all interest bearing debt, including debt related to investment in joint ventures, which are equity accounted.
- (9) Weighted average face interest rate is calculated as the weighted average face rate of all interest bearing debt on balance, including investment in joint ventures that are equity accounted.
- (10) The calculation of the following non-GAAP measures – interest coverage ratio, net average debt-to-EBITDFV, net debt-to-adjusted EBITDFV and levels of debt – are included in the section “Non-GAAP measures and other disclosures”.
- (11) Unencumbered assets (non-GAAP measure) includes unencumbered investment properties related to wholly owned and co-owned properties and investment in joint ventures that are equity accounted. Management believes this non-GAAP measurement is an important measure of our unencumbered pool of assets available for liquidity purposes.

## **BASIS OF PRESENTATION**

Our discussion and analysis of the financial position and results of operations of Dream Office Real Estate Investment Trust (“Dream Office REIT” or the “Trust”) should be read in conjunction with the audited consolidated financial statements of Dream Office REIT for the year ended December 31, 2016. Unless otherwise indicated, our discussion of assets, liabilities, revenue and expenses includes our investment in joint ventures, which are equity accounted at our proportionate share of assets, liabilities, revenue and expenses.

This management’s discussion and analysis (“MD&A”) is dated as at February 23, 2017.

For simplicity, throughout this discussion, we may make reference to the following:

- “REIT A Units”, meaning the REIT Units, Series A of the Trust;
- “REIT B Units”, meaning the REIT Units, Series B of the Trust;
- “REIT Units”, meaning the REIT Units, Series A, and REIT Units, Series B, of the Trust; and
- “LP B Units” and “subsidiary redeemable units”, meaning the LP Class B Units, Series 1 of Dream Office LP (a wholly owned subsidiary of the Trust).

When we use terms such as “we”, “us” and “our”, we are referring to Dream Office REIT and its subsidiaries.

The ongoing execution of the Strategic Plan is premised on the classification of our portfolio into three segments, namely Core Assets, Private Market Assets and Value-Add Assets. When evaluating the operating and financial performance of our investment properties, it remains premised on the classification of our portfolio into geographic segments. Prior to 2016, the Trust’s reportable operating segments of its investment properties and results of operations were segmented geographically, namely Western Canada, Calgary downtown, Calgary suburban, Toronto downtown, Toronto suburban and Eastern Canada. Effective January 1, 2016, the Trust made several changes to its reportable operating segments as follows: (i) separated its investment properties and results of operations in Edmonton from Western Canada and combined Calgary downtown and Calgary suburban into a new Alberta segment; and (ii) for the remaining properties in Western Canada that are located in the provinces of British Columbia, Saskatchewan and Northwest Territories, the Trust renamed the Western Canada region to “B.C./Saskatchewan/N.W.T.”. These changes will enable management and unitholders to evaluate the performance of our investment properties located in the Province of Alberta.

Market rents disclosed throughout the MD&A are management’s estimates and are based on current period leasing fundamentals. The current estimated market rents are at a point in time and are subject to change based on future market conditions.

In addition, certain disclosure incorporated by reference into this report includes information regarding our largest tenants that has been obtained from publicly available information. We have not independently verified any such information.

Certain information herein contains or incorporates comments that constitute forward-looking information within the meaning of applicable securities legislation, including but not limited to statements relating to the Trust's objectives, strategies to achieve those objectives, the Trust's 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 (including statements regarding our Strategic Plan, our disposition targets, the timing of proposed dispositions, the use of proceeds from dispositions, proposed debt repayments and unit repurchases), in each case that are not historical facts. Forward-looking statements generally can be identified by words such as "outlook", "objective", "may", "will", "would", "expect", "intend", "estimate", "anticipate", "believe", "should", "could", "likely", "plan", "project", "budget" or "continue" or similar expressions suggesting future outcomes or events. Forward-looking information is based on a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond Dream Office REIT's control, which could cause actual results to differ materially from those disclosed in or implied by such forward-looking information. These risks and uncertainties include, but are not limited to, general and local economic and business conditions; the financial condition of tenants; our ability to execute our Strategic Plan and achieve its expected benefits; our ability to refinance maturing debt; our ability to sell investment properties at a price which reflects fair value; leasing risks, including those associated with the ability to lease vacant space; our ability to source and complete accretive acquisitions; and interest rates.

Although the forward-looking statements contained in this MD&A are based on what we believe are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Forward-looking information is disclosed in this MD&A as part of the sections "Our Objectives" and "Outlook on valuations of investment properties in Alberta". Factors that could cause actual results to differ materially from those set forth in the forward-looking statements and information include, but are not limited to, general economic conditions; local real estate conditions, including the development of properties in close proximity to the Trust's properties; timely leasing of vacant space and re-leasing of occupied space upon expiration; dependence on tenants' financial condition; the uncertainties of acquisition activity; the ability to effectively integrate acquisitions; interest rates; availability of equity and debt financing; our continued compliance with the real estate investment trust ("REIT") exception under the specified investment flow-through trust ("SIFT") legislation; and other risks and factors described from time to time in the documents filed by the Trust with securities regulators.

All forward-looking information is as of February 23, 2017. Dream Office REIT does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise, except as required by applicable law. Additional information about these assumptions, risks and uncertainties is contained in our filings with securities regulators, including our latest Annual Report and Annual Information Form available on System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com). Certain filings are also available on our website at [www.dreamofficereit.ca](http://www.dreamofficereit.ca).

## OUR OBJECTIVES

We have been and remain committed to:

- Managing our business to provide stable cash flows and sustainable returns, by adapting our strategy and tactics to changes in the real estate industry and the economy;
- Building and maintaining a stronger, more flexible and resilient balance sheet, by adopting our Strategic Plan;
- Improving the overall quality of our portfolio by investing in key assets and selectively disposing of non-core assets with lower potential for long-term income growth; and
- Maintaining a REIT status that satisfies the REIT exception under the SIFT legislation in order to provide certainty to unitholders with respect to taxation of distributions.

### Strategic Plan

Management of the Trust has determined that the best course of action for the Trust is for the Trust to execute a mandate similar to that of a real estate private equity fund, to attempt to reduce the discount to NAV through the execution of our Strategic Plan, announced on February 18, 2016.

The Trust intends to advance the Strategic Plan until the Core Assets represent substantially all of the Trust's portfolio, with the goal of stabilizing the business by 2019. The proceeds from dispositions will be targeted to making the balance sheet stronger, investing in our buildings and opportunistically repurchasing our units, until such time as we see more attractive investment opportunities in the marketplace to redeploy the capital.

We believe the Trust will have sufficient liquidity and balance sheet flexibility to execute on the Strategic Plan.

At the time of the Strategic Plan announcement in February 2016, our portfolio of assets was classified into three segments: Core Assets, Private Market Assets and Value-Add Assets. Over the course of 2016, as the Trust executed on its Strategic Plan, we found there was increasing liquidity for properties in Alberta, which comprised the majority of the Value-Add Assets. With the recent disposition of properties in Alberta, the Trust has revisited the assets within its segments, with the composition and strategy for each segment as follows:

### Core Assets<sup>(1)</sup>

The Trust identified its core holdings (the "Core Assets"), which currently represent 66% of the total portfolio carrying value (excluding assets held for sale), as at December 31, 2016. The Core Assets include our long-term holdings situated in downtown Toronto, downtown Calgary, 700 De la Gauchetière St. W. in downtown Montréal, Station Tower in suburban Vancouver, 5001 Yonge St. in North York, 50 & 90 Burnhamthorpe Rd. W. (Sussex Centre) in Mississauga, and 150 Metcalfe St. in Ottawa. As at December 31, 2016, these assets were 94% leased with a Weighted Average Lease Term ("WALT") of approximately 5.5 years and have an aggregate investment property value (excluding assets held for sale) of approximately \$3.3 billion with associated mortgages outstanding of approximately \$1.3 billion. The NAV of our Core Assets was approximately \$2.0 billion or \$17.68 per unit.

The Trust continues to drive value from our Core Assets by making prudent asset management decisions in order to meet tenant and unitholders' objectives over the long term. Included in the Core Assets are six properties in downtown Calgary totalling approximately \$290 million of carrying value and approximately \$211 million of NAV. We believe these downtown Calgary assets are of higher quality and more resilient to the prolonged weakness in the Alberta economy relative to the remainder of the Alberta assets included in our Private Market and Value-Add Asset strategies.

(1) The ongoing execution of the Strategic Plan is premised on the classification of our portfolio into three segments, namely Core Assets, Private Market Assets and Value-Add Assets. The related investment properties and associated mortgages are non-GAAP measures used by Management in evaluating the intrinsic value of the assets as it relates to the execution of the Strategic Plan. Please refer to the section "Non-GAAP measures and other disclosures" under the heading "Strategic Plan classification" of the MD&A for a full description of these non-GAAP measures.

### Private Market Assets<sup>(1)</sup>

The Trust identified good quality assets, primarily in Saskatchewan, Greater Toronto Area, Eastern Canada and Alberta as assets that the Trust believes are fairly liquid, but not strategic to the longer-term objectives of the Trust (the “Private Market Assets”). As at December 31, 2016, the Private Market Assets represented approximately \$1.1 billion of the total portfolio carrying value (excluding assets held for sale), with approximately \$0.4 billion of associated mortgages. As at December 31, 2016, the NAV of our Private Market Assets was \$0.7 billion or \$6.48 per unit. As at February 23, 2017, the Trust has sold approximately \$588 million of Private Market Assets with an additional \$378 million under contract or in various stages of negotiation. Subsequent to year-end, the Trust completed the sale of five properties in our Private Market Assets located in Calgary and Toronto totalling approximately 318,000 square feet, for gross proceeds (net of adjustments) totalling approximately \$57 million. With the dispositions in Calgary, we have significantly reduced our exposure in the Alberta region from approximately 5.9 million square feet, or 30% of total GLA in our portfolio as at December 31, 2016, to approximately 4.3 million square feet, or 24% of total GLA as at February 23, 2017.

The Trust continues to sell and crystallize the value of the Private Market Assets in 2017 and beyond.

### Value-Add Assets<sup>(1)</sup>

The Trust identified the balance of the assets (the “Value-Add Assets”), primarily in Alberta and Yellowknife, as requiring active asset management or the passage of time prior to improving their demand profile and/or liquidity in the Private Market. As at December 31, 2016, the Value-Add Assets represented approximately \$0.5 billion of the total portfolio carrying value (excluding assets held for sale), with approximately \$0.3 billion of associated mortgages. As at December 31, 2016, the NAV of our Value-Add Assets was approximately \$0.2 billion or \$1.54 per unit.

The hold period for these assets is difficult to determine at this juncture, although the Trust remains opportunistic in improving the value or achieving liquidity when and where possible.

- (1) The ongoing execution of the Strategic Plan is premised on the classification of our portfolio into three segments, namely Core Assets, Private Market Assets and Value-Add Assets. The related investment properties and associated mortgages are non-GAAP measures used by Management in evaluating the intrinsic value of the assets as it relates to the execution of the Strategic Plan. Please refer to the section “Non-GAAP measures and other disclosures” under the heading “Strategic Plan classification” of the MD&A for a full description of these non-GAAP measures.

## OUR PROPERTIES

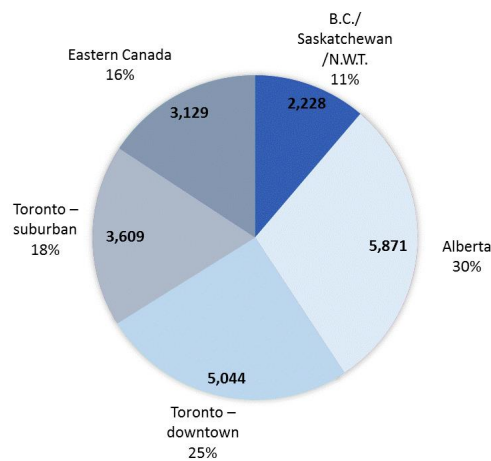
Dream Office REIT provides high-quality, well-located and reasonably priced business premises. Our portfolio comprises central business district and suburban office properties predominantly located in major urban centres across Canada including Toronto, Calgary, Edmonton, Montréal, Ottawa and Vancouver.

At December 31, 2016, our ownership interests included 143 properties, which comprise office properties, a redevelopment property and properties held for sale. The Trust owns approximately 19.9 million square feet of GLA, including 17.2 million square feet of office properties, 2.6 million square feet of properties held for sale and 0.1 million square feet related to a redevelopment property. The committed occupancy rate across our office portfolio remains high at 89.7% at December 31, 2016. Our occupancy rates include lease commitments for space that is currently being readied for occupancy but for which rent is not yet being recognized.

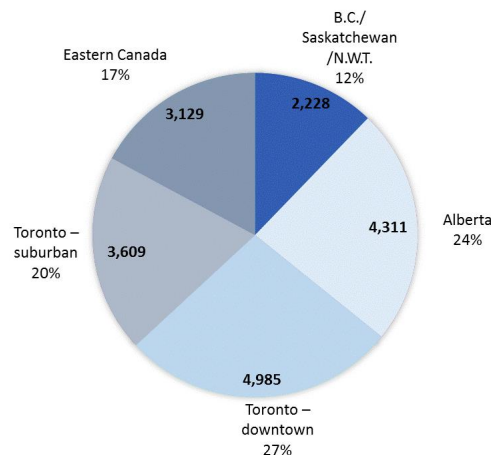
### OWNED GLA BY REGION

(in thousands of square feet)

The following chart includes GLA by region, including investment in joint ventures, properties held for sale and a redevelopment property as at December 31, 2016.



The following chart includes GLA by region, including investment in joint ventures, properties held for sale and a redevelopment property as at February 23, 2017. Subsequent to year-end, the Trust completed the sale of properties primarily in our Private Market Assets and a few properties in our Value-Add Assets, located in Calgary and Toronto totalling approximately 1.6 million square feet. With the dispositions in Calgary, we have significantly reduced our exposure in the Alberta region from approximately 5.9 million square feet, or 30% of total GLA in our portfolio as at December 31, 2016, to approximately 4.3 million square feet, or 24% of total GLA as at February 23, 2017.



## SECTION II – EXECUTING THE STRATEGY

### OUR OPERATIONS

The following key performance indicators related to our operations influence the cash generated from operating activities.

Performance indicators	December 31, 2016	September 30, 2016	December 31, 2015
<b>Total portfolio<sup>(1)</sup></b>			
Occupancy rate – including committed (period-end)	<b>89.7%</b>	88.9%	91.3%
Occupancy rate – in-place (period-end)	<b>87.9%</b>	87.0%	89.8%
Average in-place and committed net rental rates (per sq. ft.) (period-end)	\$ <b>19.21</b>	\$ 18.95	\$ 18.94
Tenant maturity profile – average term to maturity (years)	<b>4.9</b>	4.7	4.6
<b>Comparative portfolio<sup>(2)</sup></b>			
Occupancy rate – including committed (period-end)	<b>89.7%</b>	89.6%	91.6%
Occupancy rate – in-place (period-end)	<b>87.9%</b>	87.4%	90.0%
Average in-place and committed net rental rates (per sq. ft.) (period-end)	\$ <b>19.21</b>	\$ 19.32	\$ 19.12
Tenant maturity profile – average term to maturity (years)	<b>4.9</b>	5.0	4.8

(1) Total portfolio includes investment in joint ventures and excludes properties held for sale and a redevelopment property at the end of each period.

(2) Comparative portfolio includes investment in joint ventures and excludes properties sold, properties held for sale and a redevelopment property at the end of Q4 2016.

As at December 31, 2016, our comparative portfolio in-place and committed occupancy was 89.7%, stable when compared to Q3 2016. Over the prior quarter, Toronto downtown and Toronto suburban experienced a slight increase of 20 basis points (“bps”) and 30 bps, respectively. B.C./Saskatchewan/N.W.T. experienced a slight decrease of 40 bps over the prior quarter, and Alberta continues to experience a challenging leasing environment, where comparative in-place and committed occupancy decreased by 20 bps when compared to Q3 2016. Excluding the Alberta region, the remainder of our comparative portfolio in-place and committed occupancy as at December 31, 2016 was 92.0% compared to 91.9% in Q3 2016.

When compared to Q4 2015, our comparative portfolio in-place and committed occupancy decreased by 1.9% from 91.6% at Q4 2015 to 89.7% as at December 31, 2016. The decline was attributed to decreases in comparative portfolio in-place and committed occupancy for all regions, except for an increase of 1.6% in Toronto suburban when compared to the prior year. Our largest region, Toronto downtown, remained relatively stable with comparative portfolio in-place and committed occupancy at 97.8% compared to 97.9% in Q4 2015. Excluding the Alberta region, the remainder of our comparative portfolio in-place and committed occupancy as at December 31, 2016 was 92.0% compared to 92.7% in Q4 2015.

As at December 31, 2016, our comparative portfolio in-place occupancy increased by 50 bps to 87.9% when compared to the prior quarter. The increase was attributed to higher in-place occupancy across all regions except for B.C./Saskatchewan/N.W.T., which experienced a 30 bps decrease over Q3 2016. Excluding the Alberta region, the remainder of our comparative portfolio in-place occupancy as at December 31, 2016 was 90.3% compared to 89.9% in Q3 2016.

As at December 31, 2016, our comparative portfolio in-place occupancy decreased by 2.1% to 87.9% when compared to the prior year. The decrease was attributed to lower in-place occupancy across all regions except for Toronto suburban, which experienced a 1.3% increase over Q4 2015. Excluding the Alberta region, the remainder of our comparative portfolio in-place occupancy as at December 31, 2016 was 90.3% compared to 91.4% in Q4 2015.

(percentage)	Total portfolio <sup>(1)</sup>			Comparative portfolio <sup>(2)</sup>		
	December 31, 2016	September 30, 2016	December 31, 2015	December 31, 2016	September 30, 2016	December 31, 2015
<b>Occupancy rate – including committed</b>						
B.C./Saskatchewan/N.W.T.	<b>88.8</b>	89.2	91.5	<b>88.8</b>	89.2	92.0
Alberta	<b>80.2</b>	82.1	87.8	<b>80.2</b>	80.4	87.4
Toronto – downtown	<b>97.8</b>	97.6	98.0	<b>97.8</b>	97.6	97.9
Toronto – suburban	<b>83.9</b>	83.6	84.5	<b>83.9</b>	83.6	82.3
Eastern Canada	<b>94.5</b>	92.7	94.1	<b>94.5</b>	94.5	96.8
<b>Total</b>	<b>89.7</b>	88.9	91.3	<b>89.7</b>	89.6	91.6

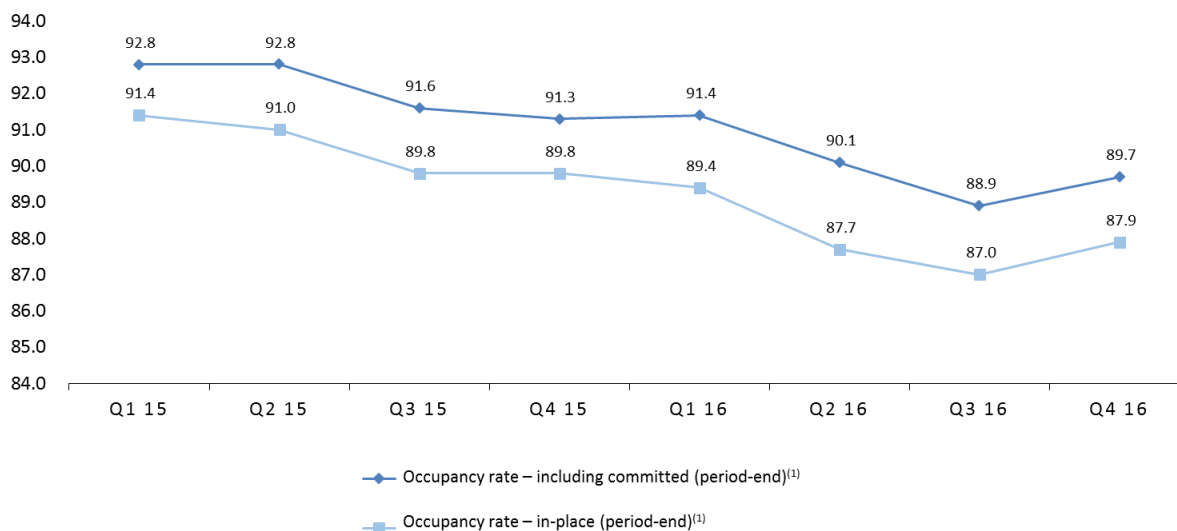
(1) Total portfolio includes investment in joint ventures and excludes properties held for sale and a redevelopment property at the end of each period.

(2) Comparative portfolio includes investment in joint ventures and excludes properties sold, properties held for sale and a redevelopment property at the end of Q4 2016.



## Occupancy rate by quarter

The graph below details the percentage of in-place and committed occupancy and in-place occupancy across our total portfolio for the last eight quarters:



(1) Includes investment in joint ventures and excludes properties held for sale and a redevelopment property at the end of each period.

## Occupancy schedule

The following table details the change in occupancy (including committed) for the three months and year ended December 31, 2016:

	Weighted average rate per sq. ft.	Three months ended December 31, 2016 in thousands of sq. ft. <sup>(1)</sup>	As a % of total GLA <sup>(1)</sup>	Weighted average rate per sq. ft.	Year ended December 31, 2016 in thousands of sq. ft. <sup>(1)</sup>	As a % of total GLA <sup>(1)</sup>
Occupancy (including vacancy committed for future leases) at beginning of period		18,488	88.9%		21,037	91.3%
Vacancy committed for future leases		(407)	(1.9%)		(361)	(1.5%)
Occupancy in-place at beginning of period		18,081	87.0%		20,676	89.8%
Occupancy related to sold properties and properties held for sale		(3,019)			(5,117)	
Remeasurements/reclassifications		(1)			5	
Occupancy at beginning of period – adjusted		15,061	87.4%		15,564	90.3%
Expiries	\$ (23.31)	(488)	(2.8%)	\$ (17.41)	(3,633)	(21.1%)
Early terminations and bankruptcies	(20.72)	(5)	(0.1%)	(19.37)	(104)	(0.6%)
New leases	18.00	304	1.8%	17.61	1,047	6.1%
Renewals	20.74	268	1.6%	16.71	2,266	13.2%
<b>Occupancy in-place – December 31, 2016</b>		<b>15,140</b>	<b>87.9%</b>		<b>15,140</b>	<b>87.9%</b>
Vacancy committed for future leases		310	1.8%		310	1.8%
<b>Occupancy (including vacancy committed for future leases) – December 31, 2016</b>		<b>15,450</b>	<b>89.7%</b>		<b>15,450</b>	<b>89.7%</b>

(1) Includes investment in joint ventures and excludes properties held for sale and a redevelopment property at period-end.

During the quarter, overall comparative portfolio in-place occupancy increased by 0.5% to 87.9%. Tenants taking occupancy during the quarter included approximately 268,000 square feet of renewals and approximately 304,000 square feet of new leases, offset by approximately 488,000 square feet of lease expiries across the portfolio and approximately 5,000 square feet of early terminations and bankruptcies.

At December 31, 2016, vacant space committed for future occupancy decreased from the beginning of the quarter by approximately 97,000 square feet to approximately 310,000 square feet, due to tenants taking occupancy during the quarter. Of the total vacant space committed for future occupancy, approximately 230,000 square feet will take occupancy during 2017.

	Three months ended December 31, 2016	Year ended December 31, 2016
Tenant retention ratio	54.9%	62.4%
Renewal rate (per sq. ft.)	\$ 20.74	\$ 16.71
Expiring rents on renewed space (per sq. ft.)	20.12	15.70
Renewal to expiring rent spread (per sq. ft.)	0.62	1.01
Renewal to expiring rent spread (%)	3.1%	6.4%

For the three months ended December 31, 2016, our tenant retention ratio was 54.9%, with renewals completed at \$20.74 per square foot, compared to expiring rents at \$20.12 per square foot, for an increase of \$0.62 per square foot, or 3.1%. For the year ended December 31, 2016, our tenant retention ratio was 62.4%, with renewals completed at \$16.71 per square foot, for an increase of \$1.01 per square foot, or 6.4%.

### In-place net rental rates

Average in-place and committed net rents across our comparative portfolio at December 31, 2016 was \$19.21 per square foot, down from \$19.32 per square foot at September 30, 2016, reflecting decreases in average in-place and committed net rents mainly in the Alberta region, offset by increases in the Eastern Canada region, with the rest of the regions remaining relatively flat. As compared to last year, average in-place and committed net rents across our portfolio increased from \$19.12 per square foot at December 31, 2015 to \$19.21 at December 31, 2016, reflecting rent uplifts in all regions except for the Alberta region.

Market rents represent base rents only and do not include the impact of lease incentives. Market rents reflect management's best estimates with reference to recent leasing activity and external market data, which do not take into account allowance for increases in the future years. Market rents are subject to change depending on the market conditions at a particular point in time. In particular, the market rents in Alberta as presented in the table below are based on the best available information as at the respective periods and may vary significantly from period-to-period given the changing economic conditions in that particular region.

We believe estimated market rents for our in-place and committed space are approximately 2.8% lower than our comparative portfolio average. Excluding the Alberta region, estimated market rents for our comparative portfolio in-place and committed space are approximately 3.0% higher than our remaining comparative portfolio average.

	December 31, 2016 <sup>(1)</sup>			September 30, 2016 <sup>(2)</sup>			December 31, 2015 <sup>(2)</sup>		
	Average in-place and committed net rent (per sq. ft.)	Market rent <sup>(3)</sup> (per sq. ft.)	Market rent/ average in-place and committed net rent (%)	Average in-place and committed net rent (per sq. ft.)	Market rent <sup>(3)</sup> (per sq. ft.)	Market rent/ average in-place and committed net rent (%)	Average in-place and committed net rent (per sq. ft.)	Market rent <sup>(3)</sup> (per sq. ft.)	Market rent/ average in-place and committed net rent (%)
Comparative portfolio	\$ 21.25	\$ 22.12	4.1	\$ 21.22	\$ 22.09	4.1	\$ 21.13	\$ 23.02	8.9
Alberta	19.88	14.24	(28.4)	20.71	14.24	(31.2)	20.35	19.54	(4.0)
Toronto – downtown	24.47	25.39	3.8	24.42	25.40	4.0	23.97	25.97	8.3
Toronto – suburban	14.12	14.04	(0.6)	14.14	14.03	(0.8)	14.07	14.29	1.6
Eastern Canada	13.57	14.05	3.5	13.45	14.06	4.5	13.51	14.25	5.5
<b>Total</b>	<b>\$ 19.21</b>	<b>\$ 18.67</b>	<b>(2.8)</b>	<b>\$ 19.32</b>	<b>\$ 18.67</b>	<b>(3.4)</b>	<b>\$ 19.12</b>	<b>\$ 20.00</b>	<b>4.6</b>

(1) Includes investment in joint ventures and excludes properties held for sale and a redevelopment property at period-end.

(2) Comparative periods includes investment in joint ventures and excludes properties sold, properties held for sale and a redevelopment property at the end of Q4 2016.

(3) Market rents include office and retail space.

Market rent estimates for occupied and committed space across our comparative portfolio at December 31, 2016 remained stable at \$18.67 per square foot when compared to the prior quarter. When compared to the prior year comparative period, market rent estimates for occupied and committed space decreased from \$20.00 per square foot at December 31, 2015 to \$18.67 per square foot at December 31, 2016, due to declines in market rents across all regions, the most significant of which related to the decrease in the Alberta region where market rents decreased by over \$5.00 per square foot given the current market and economic conditions in that region.

For the balance of our comparative portfolio, the spread between estimated market rents and average in-place and committed net rents has tightened over the past year as we bring rents to market upon lease renewals.

### Leasing and tenant profile

The average remaining lease term and other comparative portfolio information are detailed in the following table. The comparative portfolio average remaining lease term at December 31, 2016 is 4.9 years, which remained stable when compared to September 30, 2016 and December 31, 2015, largely reflecting the impact of renewals and new leases, offset by expiring leases during the period.

	December 31, 2016 <sup>(1)</sup>		September 30, 2016 <sup>(2)</sup>		December 31, 2015 <sup>(2)</sup>	
	Average remaining lease term (years)	Average tenant size (sq. ft.)	Average remaining lease term (years)	Average tenant size (sq. ft.)	Average remaining lease term (years)	Average tenant size (sq. ft.)
Comparative portfolio	3.6	10,601	3.7	10,735	3.7	10,876
B.C./Saskatchewan/N.W.T.	4.0	9,874	4.1	9,830	3.5	10,643
Alberta	5.8	10,295	5.7	10,189	5.5	10,270
Toronto – downtown	3.9	10,556	3.9	10,485	4.0	10,926
Toronto – suburban	6.2	22,838	6.4	23,020	6.5	23,164
Eastern Canada	4.9	11,430	5.0	11,385	4.8	11,732
<b>Total</b>	<b>4.9</b>	<b>11,430</b>	<b>5.0</b>	<b>11,385</b>	<b>4.8</b>	<b>11,732</b>

(1) Includes investment in joint ventures and excludes properties held for sale and a redevelopment property at period-end.

(2) Comparative periods includes investment in joint ventures and excludes properties sold, properties held for sale and a redevelopment property at the end of Q4 2016.

The following table details our lease maturity profile, net of committed occupancy, by geographic segment at December 31, 2016.

### Lease maturity profile

(in thousands of square feet)	Vacancy	Current	2017	2018	2019	2020	2021	2022+	Total
		monthly/ short-term tenancies							
B.C./Saskatchewan/N.W.T.	243	1	151	548	221	235	319	457	2,175
Alberta	682	—	481	371	461	161	424	871	3,451
Toronto – downtown	112	—	418	417	400	319	773	2,546	4,985
Toronto – suburban	580	1	501	529	244	379	402	973	3,609
Eastern Canada	166	—	94	492	57	567	51	1,586	3,013
<b>Total portfolio<sup>(1)</sup></b>	1,783	2	1,645	2,357	1,383	1,661	1,969	6,433	17,233
<b>Total portfolio<sup>(1)</sup> (%)</b>	10.3%	0.0%	9.6%	13.7%	8.0%	9.7%	11.4%	37.3%	100.0%

(1) Includes investment in joint ventures and excludes properties held for sale and a redevelopment property at the end of Q4 2016.

Our lease maturity profile, net of committed occupancy, remains staggered. Lease expiries, net of committed occupancy, as a percentage of total GLA, between 2017 and 2021 range from approximately 8% to 14%.

## Expiring net rents

The following table details the expiring net rents, including committed, by geographic segment and by year, as at December 31, 2016.

(per square foot)		2017	2018	2019	2020	2021	2022+
B.C./Saskatchewan/N.W.T.	\$	23.22	\$ 18.37	\$ 24.03	\$ 21.00	\$ 18.18	\$ 27.30
Alberta		19.78	22.27	21.77	18.21	17.19	21.78
Toronto – downtown		26.69	24.39	23.50	24.57	23.19	28.78
Toronto – suburban		10.48	18.56	10.53	15.79	13.88	16.51
Eastern Canada		20.00	17.53	17.94	14.69	17.50	11.75
<b>Total portfolio<sup>(1)</sup></b>	\$	19.03	\$ 19.91	\$ 20.49	\$ 18.07	\$ 19.04	\$ 21.68

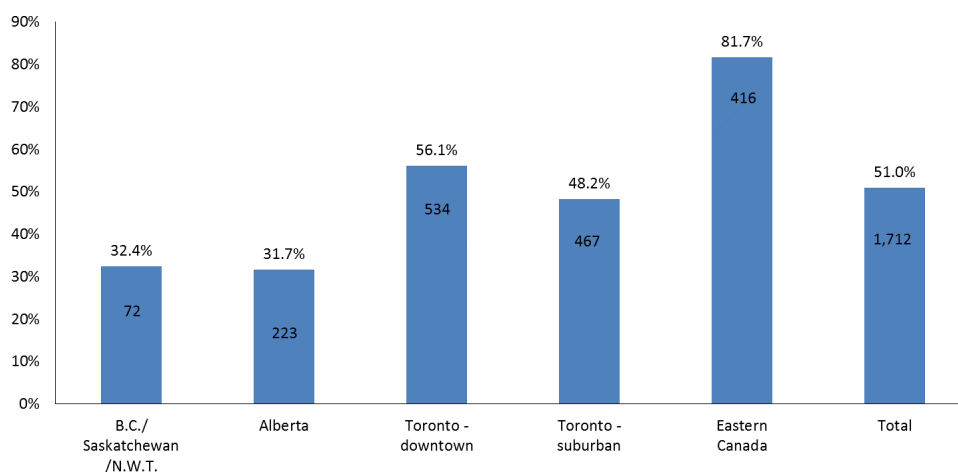
(1) Includes investment in joint ventures and excludes properties held for sale and a redevelopment property at the end of Q4 2016.

## 2017 full-year commitments as a percent of lease expiries

The following graph details our 2017 lease maturities that have been committed in each of the geographic segments, excluding current monthly and short-term tenancies.

### 2017 TOTAL COMMITMENTS AS A PERCENT OF EXPIRIES BY REGION (GLA in thousands of square feet)

(As at December 31, 2016)



As at December 31, 2016, the Trust had lease commitments totalling approximately 1.7 million square feet or 51.0% of 2017 maturities.

## Initial direct leasing costs and lease incentives

Initial direct leasing costs include leasing fees and related costs and broker commissions incurred in negotiating and arranging tenant leases. Lease incentives include costs incurred to make leasehold improvements to tenant spaces and cash allowances. Initial direct leasing costs and lease incentives are dependent upon asset type, lease terminations and expiries, the mix of new leasing activity compared to renewals, portfolio growth and general market conditions.

For the three months and year ended December 31, 2016, approximately \$19.9 million and \$57.4 million, respectively, of initial direct leasing costs and lease incentives were attributable to leases that commenced during the periods, representing an average cost of \$5.73 per square foot per year leased and \$4.26 per square foot per year leased, respectively. Average initial direct leasing costs and lease incentives for Q4 2016 increased to \$5.73 per square foot per year leased from \$4.52 per square foot per year leased for Q3 2016, mainly due to certain higher-quality tenants that took occupancy in one of our Calgary properties totalling 83,500 square feet during the quarter with a weighted average lease term of over ten years.

We expect leasing costs and lease incentives to remain elevated in light of the current competitive office leasing environment.

Performance indicators	Three months ended December 31, 2016	Year ended December 31, 2016
<b>Operating activities (comparative portfolio)<sup>(1)</sup></b>		
Portfolio size (in thousands of sq. ft.)	17,233	17,233
Occupancy rate – including committed (period-end)	89.7%	89.7%
Number of lease deals committed during the period	116	434
Leases that commenced during the period (in thousands of sq. ft.)	564	2,731
Average lease term for leases that commenced during the period (years)	6.2	4.9
Initial direct leasing costs and lease incentives attributable to leases that commenced during the period:		
In thousands of dollars	\$ 19,895	\$ 57,367
Per square foot	\$ 35.27	\$ 21.00
Per square foot per year	\$ 5.73	\$ 4.26

(1) Comparative portfolio includes investment in joint ventures and excludes properties sold, properties held for sale and a redevelopment property at the end of each period.

### Tenant base profile

Our tenant base includes municipal, provincial and federal governments as well as a wide range of high-quality large international corporations, including Canada's major banks and Canada's prominent law firms, and small to medium-sized businesses across Canada. With just over 1,850 tenants, our risk of exposure to any single large lease or tenant is mitigated. The average size of our office tenants is approximately 11,000 square feet.

The stability and quality of our cash flow is further enhanced by the fact that rental revenue from our ten largest tenants, which include both federal and provincial governments as well as other nationally and internationally recognizable high-quality corporations and businesses, comprises approximately 30.7% of our total gross rental revenue.

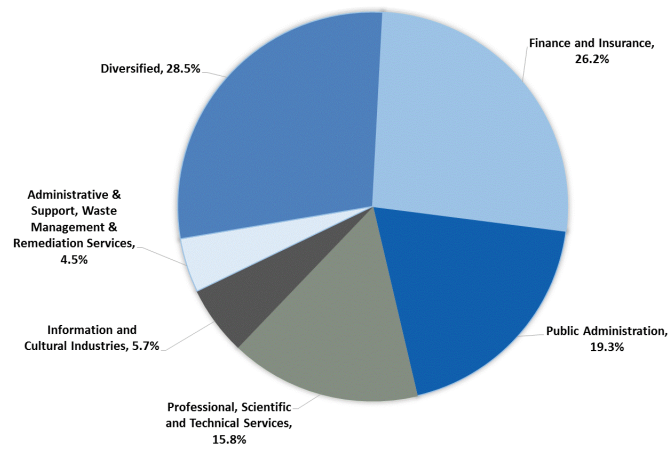
The following table outlines the contributions of our ten largest tenants to our total gross rental revenue.

Tenant	Gross rental revenue (%)	Owned area (thousands of sq. ft.)	Owned area (%)	Weighted average remaining lease term (years)	Credit rating <sup>(1)</sup>
1 Government of Canada	8.2	1,148	6.7	3.8	AAA/A-1+
2 Bank of Nova Scotia	8.0	757	4.4	7.5	A+/A-/A-1
3 Government of Ontario	2.9	438	2.5	3.7	A+/A-1+
4 Bell Canada	2.6	372	2.2	1.0	BBB+
5 State Street Trust Company	1.9	245	1.4	5.3	A-1+/AA-/A
6 Aviva Canada Inc.	1.5	319	1.9	0.7	A+
7 Newalta Corporation	1.5	187	1.1	6.9	N/R
8 Government of Saskatchewan	1.5	282	1.6	2.9	AA+/A-1+
9 Loyalty Management	1.4	194	1.1	0.7	N/R
10 Government of British Columbia	1.2	191	1.1	3.7	AAA/A-1+
<b>Total</b>	<b>30.7</b>	<b>4,133</b>	<b>24.0</b>	<b>4.4</b>	

(1) Credit ratings are obtained from Standard & Poor's and may reflect the parent's or a guarantor's credit rating.

N/R – not rated

The following pie chart illustrates our tenant base by the North American Industry Classification System codes:



## OUR RESOURCES AND FINANCIAL CONDITION

### Investment properties

As at December 31, 2016, the fair value of our comparative portfolio investment properties, which includes investment in joint ventures and excludes redevelopment properties, properties sold and assets held for sale, was \$4.9 billion (December 31, 2015 – \$5.5 billion).

The fair value of our investment properties, including investment in joint ventures, is set out below:

	December 31, 2016		September 30, 2016 <sup>(1)</sup>	Total portfolio December 31, 2015 <sup>(1)</sup>
B.C./Saskatchewan/N.W.T.	\$	644,552	\$ 660,955	\$ 702,294
Alberta		562,206	573,546	1,018,032
Toronto – downtown		2,289,463	2,277,536	2,294,136
Toronto – suburban		768,559	788,885	790,442
Eastern Canada		630,575	638,305	660,574
<b>Total comparative portfolio</b>		<b>4,895,355</b>	4,939,227	5,465,478
Add:				
Redevelopment property		1,000	10,000	10,000
Assets classified as held for sale/sold properties		321,232	543,017	1,571,968
<b>Total portfolio</b>	<b>\$</b>	<b>5,217,587</b>	<b>\$ 5,492,244</b>	<b>\$ 7,047,446</b>
Less:				
Investment in joint ventures		60,000	72,373	1,103,603
Wholly owned/co-owned properties classified as assets held for sale		321,232	55,885	44,712
<b>Total per consolidated financial statements</b>	<b>\$</b>	<b>4,836,355</b>	<b>\$ 5,363,986</b>	<b>\$ 5,899,131</b>

(1) Comparative periods have been reclassified to exclude assets held for sale and properties sold in the current period.

The fair value of our total portfolio decreased by approximately \$274.7 million during the quarter, mainly due to \$170.1 million relating to dispositions and \$136.1 million relating to fair value losses, offset by \$34.3 million of building improvements and initial direct leasing costs and lease incentive additions.

### Valuations of externally appraised properties

For the year ended December 31, 2016, the Trust valued 46 investment properties by qualified external valuation professionals, including investment in joint ventures, with an aggregate fair value of \$2.0 billion (for the year ended December 31, 2015 – 59 investment properties with an aggregate fair value of \$3.0 billion).

### Assumptions in the valuation of investment properties (excluding Alberta)

As at December 31, 2016, the Trust's total portfolio, excluding investment properties in Alberta, was valued using the cap rate method. The critical valuation metrics as at December 31, 2016, September 30, 2016 and December 31, 2015 are set out in the table below by region as follows:

	Capitalization rates					
	December 31, 2016		September 30, 2016 <sup>(1)</sup>		Total portfolio December 31, 2015 <sup>(1)</sup>	
	Range (%) <sup>(2)</sup>	Weighted average (%) <sup>(2)</sup>	Range (%) <sup>(2)</sup>	Weighted average (%) <sup>(2)</sup>	Range (%)	Weighted average (%)
B.C./Saskatchewan/N.W.T.	5.25–8.25	6.55	5.25–8.25	6.57	5.75–8.25	6.52
Toronto – downtown	4.90–6.00	5.25	4.90–6.00	5.24	4.65–6.00	5.14
Toronto – suburban	5.75–7.50	6.40	5.75–7.50	6.41	5.75–7.50	6.45
Eastern Canada	5.50–8.00	6.10	5.50–8.00	6.12	5.50–7.75	6.10
<b>Total comparative portfolio (excluding Alberta)</b>	<b>4.90–8.25</b>	<b>5.74</b>	4.90–8.25	5.76	4.65–8.25	5.73

(1) Comparative periods have been reclassified to exclude assets held for sale and sold properties during the period.

(2) Excludes certain properties where bids were received by the Trust.

For the three months ended December 31, 2016, the Trust recorded a fair value loss in our total portfolio, excluding investment properties in Alberta, of \$85.1 million. For the year ended December 31, 2016, the Trust recorded a fair value loss in our total portfolio, excluding investment properties in Alberta, of \$226.1 million. The fair value losses were for the most part due to changes in market rental rates and leasing cost assumptions and an increase in cap rates on select properties in certain regions.

### Assumptions in the valuation of investment properties in Alberta

Since July of 2014, the oil and gas industry has been beset by significant financial deterioration. Throughout 2016, economic conditions have remained the same or deteriorated. The combination of vacancy rates increasing to over 20%, reduced number of office workers and increased supply of new office buildings indicates that the recovery of demand for office space and increase in occupancy rates and rental rates may be delayed. As at December 31, 2016, the Trust continues to note a prolonged deterioration in leasing volume as well as key operating metrics such as market rents, leasing costs and vacancy rates relative to the Trust's expectations over the past year. These observations are consistent with external market data points as at December 31, 2016. Based on the ongoing challenges in the Alberta office sector, the Trust continued to revisit all assumptions used in the discounted cash flow model in valuing the Alberta investment properties to reflect the continued slump. The critical valuation metrics as at December 31, 2016, September 30, 2016 and December 31, 2015 are set out below:

	December 31, 2016 <sup>(1)</sup>		September 30, 2016 <sup>(1)</sup>		December 31, 2015 <sup>(1)</sup>	
	Range <sup>(2)</sup>	Weighted average <sup>(2)</sup>	Range <sup>(2)</sup>	Weighted average <sup>(2)</sup>	Range	Weighted average
Discount rates (%)	7.50–8.75	7.99	7.50–8.75	8.13	7.00–8.25	7.56
Terminal cap rates (%)	6.63–8.25	7.34	6.63–8.50	7.51	6.25–7.75	6.93
Market rents <sup>(3)</sup>	\$ 11.00–16.50	\$ 14.53	\$ 11.00–16.50	\$ 13.86	\$ 14.00–24.00	\$ 18.38

(1) Includes investment in joint ventures and excludes properties held for sale at the end of each period.

(2) Excludes certain properties where bids were received by the Trust.

(3) Market rents represent year one rates in the discounted cash flow model. Market rents include office space only and exclude retail space.

In addition to the assumptions noted above, the Trust has also updated its assumptions for leasing costs and vacancy rates throughout the year. In particular, the leasing cost assumptions for new and renewed leasing were within the range of \$25 and \$60 per square foot, with vacancy rate assumptions in years one to four remaining unchanged relative to the prior quarter at a range of 15% and 20%, and returning to normalized vacancy rates of 5% beyond year four.

For the three months ended December 31, 2016, the Trust recorded a fair value loss in our Alberta investment properties, including investment properties in joint ventures, of \$51.0 million mainly as a result of bids received on certain properties. These bids may not reflect the final price the Trust may obtain in connection with a potential sale of any of such properties. Accordingly, these adjustments were applied to the properties impacted while the rest of the Alberta portfolio values remained relatively flat when compared to the prior quarter as there were no significant changes to the underlying critical and key assumptions used in the discounted cash flow model. For the year ended December 31, 2016, the Trust recorded a fair value loss in the Alberta investment properties, including investment properties in joint ventures, of \$845.7 million, mainly as a result of the changes made to the critical and key assumptions used in the discounted cash flow model in Q2 2016.

### Outlook on valuations of investment properties in Alberta

Given the prominence of the oil and gas industry in Alberta, the office market in that province continues to be significantly impacted by the price of oil. A continuation of these market and economic conditions, including any substantial decline or prolonged weakness in the price of oil, could adversely affect the Trust's occupancy, its operating results and its investment property values as they relate to the properties in our Alberta portfolio.

The Trust expects that the fair value of our Alberta investment properties will remain challenging to value for the foreseeable future and there can be no assurance that the fair value will not decrease further. Until there is positive visibility on oil prices and related economic fundamentals, the Trust anticipates continued challenges for its assets located in Alberta and will continuously evaluate the economic health of the markets in which we operate to ensure that we have identified and, where possible, mitigated, risks to the Trust, including the potential impacts of changes in the price of oil.



The fair value of the Trust's investment properties as at December 31, 2016, as reflected in the Trust's consolidated financial statements represents the Trust's best estimate based on the available information both internally and externally as at the end of the reporting period and is subject to many factors outside of the Trust's control. If there are any changes in the assumptions used in valuing the investment properties, or regional, national or international economic conditions, the fair value of investment properties may change materially. The fair value of such properties as reflected in the Trust's consolidated financial statements, particularly with respect to properties in the Trust's Alberta portfolio, may not reflect the actual price that may be obtained by the Trust in connection with a sale of any such properties.

Below are some internal and external market factors that may cause the fair value of investment properties in Alberta to change materially:

- Changes in economic indicators in Alberta and/or Canada, including but not limited to gross domestic product, employment and unemployment rates, construction volumes, leasing volumes, market rents, leasing costs, vacancy rates, interest rates, foreign exchange rates, performance and/or sentiments of the stock market and commercial real estate;
- New market information or forecast from brokerage firms, financial and/or government institutions;
- Changes in operating costs, leasing costs and capital maintenance requirements;
- Changes in the operational performance and leasing in our investment properties or comparable assets in Alberta;
- Ability to obtain financing for commercial office properties in Alberta;
- New transactions in Calgary or Edmonton which include office properties that are comparable to our portfolio in 2017 would provide new data points and benchmarks on the fair value of our investment properties and on various metrics such as price per square foot and cap rates; and
- Unsolicited or solicited offers for any of our investment properties in Alberta.

For the three months and year ended December 31, 2016, approximately 17% and 18%, respectively, of our comparative properties NOI was generated from Alberta with a period-end in-place and committed occupancy rate of 80.2%. We had 45 properties in Alberta as at December 31, 2016 with 540 tenants and an average tenant size of approximately 9,445 square feet. As at February 23, 2017, we have 32 properties in Alberta with 357 tenants and an average tenant size of approximately 10,870 square feet.

Changes in the value of our investment properties by region for the three months ended December 31, 2016 are summarized in the table below as follows:

	Three months ended					
	September 30, 2016 <sup>(1)</sup>	Assets held for sale/sold properties	Building improvement, initial direct leasing costs and lease incentives	Fair value adjustments	Amortization of lease incentives, foreign exchange and other adjustments	December 31, 2016
B.C./Saskatchewan/N.W.T.	\$ 660,955	\$ —	\$ 1,101	\$ (17,000)	\$ (504)	\$ 644,552
Alberta	573,546	—	7,029	(17,600)	(769)	562,206
Toronto – downtown	2,277,536	—	8,533	2,400	994	2,289,463
Toronto – suburban	788,885	—	8,023	(27,300)	(1,049)	768,559
Eastern Canada	638,305	—	4,744	(14,600)	2,126	630,575
<b>Total comparative portfolio</b>	<b>4,939,227</b>	<b>—</b>	<b>29,430</b>	<b>(74,100)</b>	<b>798</b>	<b>4,895,355</b>
Add:						
Redevelopment property	10,000	—	—	(9,000)	—	1,000
Assets classified as held for sale/sold properties	543,017	(170,052)	4,821	(53,000)	(3,554)	321,232
<b>Total portfolio</b>	<b>\$ 5,492,244</b>	<b>\$ (170,052)</b>	<b>\$ 34,251</b>	<b>\$ (136,100)</b>	<b>\$ (2,756)</b>	<b>\$ 5,217,587</b>
Less:						
Investment in joint ventures	72,373	—	350	(12,900)	177	60,000
Wholly owned/co-owned properties classified as assets held for sale	55,885	265,600	70	300	(623)	321,232
<b>Total amounts included in consolidated financial statements</b>	<b>\$ 5,363,986</b>	<b>\$ (435,652)</b>	<b>\$ 33,831</b>	<b>\$ (123,500)</b>	<b>\$ (2,310)</b>	<b>\$ 4,836,355</b>

(1) Opening balances have been reclassified to exclude assets held for sale and sold properties during the period.

Changes in the value of our investment properties by region for the year ended December 31, 2016 are summarized in the table below as follows:

	Year ended					
	January 1, 2016 <sup>(1)</sup>	Assets held for sale/sold properties	Building improvement, initial direct leasing costs and lease incentives	Fair value adjustments	Amortization of lease incentives, foreign exchange and other adjustments	December 31, 2016
B.C./Saskatchewan/N.W.T.	\$ 702,294	\$ —	\$ 7,037	\$ (63,000)	\$ (1,779)	\$ 644,552
Alberta	1,018,032	—	25,225	(477,600)	(3,451)	562,206
Toronto – downtown	2,294,136	—	36,943	(44,300)	2,684	2,289,463
Toronto – suburban	790,442	—	17,860	(37,400)	(2,343)	768,559
Eastern Canada	660,574	—	13,816	(38,800)	(5,015)	630,575
<b>Total comparative portfolio</b>	5,465,478	—	100,881	(661,100)	(9,904)	4,895,355
Add:						
Redevelopment property	10,000	—	—	(9,000)	—	1,000
Assets classified as held for sale/sold properties	1,571,968	(867,241)	27,876	(401,700)	(9,671)	321,232
<b>Total portfolio</b>	\$ 7,047,446	\$ (867,241)	\$ 128,757	\$ (1,071,800)	\$ (19,575)	\$ 5,217,587
Less:						
Investment in joint ventures	1,103,603	(221,235)	15,606	(172,700)	(665,274) <sup>(2)</sup>	60,000
Wholly owned properties classified as assets held for sale	44,712	276,798	799	(300)	(777)	321,232
<b>Total amounts included in consolidated financial statements</b>	\$ 5,899,131	\$ (922,804)	\$ 112,352	\$ (898,800)	\$ 646,476	\$ 4,836,355

(1) Opening balances have been reclassified to exclude assets held for sale and sold properties during the period.

(2) On June 30, 2016, the Trust derecognized its investment in the joint ventures of Scotia Plaza and 100 Yonge Street and recognized the Trust's remaining 50% interest in the investment properties totalling \$663,705 as a joint operation.

### Building improvements

Building improvements represent investments made to our investment properties to ensure optimal building performance, to improve the experience and attractiveness to our tenants, as well as to reduce operating costs. In order to retain desirable rentable space and to generate adequate revenue over the long term, we must maintain or, in some cases, improve each property's condition to meet market demand.

As part of our broader strategy to invest capital in our buildings to improve the experience and attractiveness to tenants as well as to reduce operating costs, we expect overall building improvements to remain elevated. By doing so, our tenants will have a better experience at our buildings, leading to improved tenant retention, quicker leasing of available space and realization of higher rental rates.

The table below summarizes the building improvements incurred for the three months and years ended December 31, 2016 and December 31, 2015.

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
<b>Building improvements</b>				
Recoverable	\$ 8,720	\$ 17,987	\$ 24,738	\$ 47,209
Non-recoverable	503	2,025	3,703	4,077
Scotia Plaza	2,877	8,499	13,714	18,045
<b>Total comparative portfolio<sup>(1)</sup></b>	<b>12,100</b>	<b>28,511</b>	<b>42,155</b>	<b>69,331</b>
Assets classified as held for sale /sold properties	1,124	1,659	5,967	4,965
<b>Total portfolio</b>	<b>\$ 13,224</b>	<b>\$ 30,170</b>	<b>\$ 48,122</b>	<b>\$ 74,296</b>
Less:				
Investment in joint ventures	—	5,429	9,901	22,359
Wholly owned/co-owned properties classified as assets held for sale	—	—	128	—
<b>Total amounts included in consolidated financial statements</b>	<b>\$ 13,224</b>	<b>\$ 24,741</b>	<b>\$ 38,093</b>	<b>\$ 51,937</b>

(1) Excludes assets held for sale and sold properties during the period.

For the three months and year ended December 31, 2016, we incurred \$13.2 million and \$48.1 million in expenditures, respectively, related to building improvements, the majority of which are recoverable from tenants under current terms of the leases.

Recoverable building improvements for the three months and year ended December 31, 2016 were \$8.7 million and \$24.7 million, respectively, and included safety enhancements, roof, heating, ventilation, air conditioning replacements, parking upgrades, elevator modernization, recoverable lobby and common area upgrades, and exterior enhancements.

For the three months and year ended December 31, 2016, non-recoverable building improvements were \$0.5 million and \$3.7 million, respectively, which include costs for parkade and curtain wall restoration.

The Trust is investing a significant amount of capital in Scotia Plaza, the Trust's largest and most iconic asset in our Toronto downtown portfolio. The capital will be allocated across three major property enhancements: elevator modernization, common area revitalization and Leadership in Energy and Environmental Design ("LEED") recertification. All of these investments are targeted towards a superior tenant experience. For the three months and year ended December 31, 2016, approximately \$2.9 million and \$13.7 million, respectively, of our building improvement expenditures pertained to Scotia Plaza and accounted for approximately 21.8% and 28.5%, respectively, of the total building improvements incurred over those respective periods. Of the \$2.9 million and \$13.7 million total building improvements incurred during the periods related to Scotia Plaza, approximately \$2.0 million and \$5.9 million, respectively, are recoverable from tenants under current terms of the leases.

## Dispositions

As part of our Strategic Plan, we initially identified approximately \$2.6 billion of high-quality Private Market Assets primarily located in the Greater Toronto Area, Ottawa and Vancouver, which we believed were liquid, but not irreplaceable to the Trust. We set a three-year disposition target of \$1.2 billion from the assets identified as Private Market Assets. We completed the following dispositions mainly from our Private Market Assets for the year ended December 31, 2016:

	Asset bucket	Ownership (%)	Disposed share of GLA (000s sq. ft.)	Sales price <sup>(1)</sup>	Date disposed
2450 Girouard Street West & 455 Saint Joseph Avenue (Intact Tower), Saint-Hyacinthe	Private Market	100%	232		February 26, 2016
8550 Newman Boulevard, Montréal	Private Market	100%	66		March 1, 2016
1305 Chemin Sainte-Foy, Québec City	Private Market	100%	37		March 1, 2016
1 Riverside Drive, Windsor	Private Market	100%	236		March 10, 2016
<b>Total dispositions to March 31, 2016</b>			571	\$ 81,501	
2010 Winston Park Drive, Oakville	Private Market	40%	32		April 1, 2016
4259–4299 Canada Way, Burnaby	Private Market	100%	120		April 27, 2016
960 Quayside Drive, New Westminster	Private Market	100%	62		April 29, 2016
625 Cochrane Drive and Valleywood Corporate Centre, Markham	Private Market	100%	318		May 2, 2016
30 Eglinton Ave. West, Mississauga	Private Market	100%	165		May 18, 2016
887 Great Northern Way, Vancouver	Private Market	100%	164		June 10, 2016
Scotia Plaza and 100 Yonge Street, Toronto	Core	17%	371		June 30, 2016
<b>Total dispositions to June 30, 2016</b>			1,232	\$ 471,030	
100 Gough Road, Markham	Private Market	100%	112		July 25, 2016
Suburban Ottawa & Gatineau Portfolio <sup>(2)</sup>	Private Market	100%	392		July 29, 2016
Seven Capella Court, Ottawa	Private Market	100%	32		August 2, 2016
4370 & 4400 Dominion Street, Burnaby	Private Market	100%	157		September 16, 2016
<b>Total dispositions to September 30, 2016</b>			693	\$ 146,350	
2665 Renfrew Street, Vancouver	Private Market	100%	82		November 16, 2016
Kitchener Portfolio <sup>(3)</sup>	Private Market	100%	985		December 29, 2016
<b>Total dispositions to December 31, 2016</b>			1,067	\$ 171,273	
<b>Total dispositions for the year ended December 31, 2016</b>			3,563	\$ 870,154	
Braithwaite Boyle Centre, Calgary	Value-Add	100%	55		January 9, 2017
10 Lower Spadina Avenue, Toronto	Private Market	40%	24		January 11, 2017
49 Ontario Street, Toronto	Private Market	40%	35		January 11, 2017
Calgary Portfolio <sup>(4)</sup>	Value-Add/ Private Market	100%	1,505		January 31, 2017
<b>Total dispositions to February 23, 2017</b>			1,619	\$ 228,330	
<b>Total dispositions from January 1, 2016 to February 23, 2017</b>			5,182	\$ 1,098,484	

(1) Sales price reflects gross proceeds net of adjustments and before transaction costs.

(2) Includes four properties in suburban Ottawa and Gatineau: 2625 Queensview Drive, Gateway Business Park, 1125 Innovation Drive and 22 Varennes Street.

(3) Includes seven properties in Kitchener: Market Square, 101 Frederick Street (Galleria), 50 Queen Street North, 55 King Street West, 235 King Street East, 22 Frederick Street and 70 King Street East.

(4) Includes 12 properties in Calgary: Atrium I, Atrium II, Roslyn Building, 435-4th Avenue SW, Mount Royal Place, 1035-7th Avenue SW, 840-7th Avenue, McFarlane Tower, Dominion Centre, 510-5th Street SW, Northland Building and 441-5th Avenue.

On June 30, 2016, four limited partnerships jointly controlled by the Trust and H&R Real Estate Investment Trust (“H&R REIT”) completed the sale of a 50% undivided interest in each of Scotia Plaza and 100 Yonge Street to KingSett Canadian Real Estate Income Fund LP (“KingSett”) and Alberta Investment Management Corporation (“AIMCo”) for gross proceeds net of adjustments of \$663.7 million. The Trust’s share of the sale represented one-third of the 50%, or 16.7%, for gross proceeds net of adjustments of \$221.2 million. On June 30, 2016, a portion of the net proceeds totalling approximately \$49.5 million was used to pay down drawings on our credit facilities with the balance of the proceeds totalling \$64.0 million used to further pay down debt immediately after Q2 2016. The Trust’s share of the transaction costs related to the sale, including debt settlement costs, totalled \$4.4 million and were included within the share of net loss from investment in joint ventures in the consolidated statements of comprehensive income (loss) during Q2 2016.

Concurrently on June 30, 2016, the Trust terminated the joint venture agreement with H&R REIT and entered into a co-ownership agreement with KingSett and AIMCo. As a result of this change, the Trust derecognized its investment in joint ventures of Scotia Plaza and 100 Yonge Street at its combined carrying amount of \$329.1 million and recognized the Trust’s remaining 50% interest in the assets and liabilities amounting to \$664.1 million and \$345.3 million, respectively, of Scotia Plaza and 100 Yonge Street on a combined basis, in the consolidated balance sheet. This resulted in the Trust recognizing a loss of \$10.3 million in the consolidated statement of net income related to the initial recognition at fair value of the Trust’s remaining 50% share of the debt compared to the carrying values of the joint ventures. The newly formed co-ownership entered into a property management agreement with a wholly owned subsidiary of the Trust to provide property management services to Scotia Plaza and 100 Yonge Street.

We completed the following dispositions for the year ended December 31, 2015:

	Ownership (%)	Disposed share of GLA (000s sq. ft.)	Sales price <sup>(1)</sup>	Date disposed
Capital Centre, Edmonton <sup>(2)</sup>	25%	16		March 12, 2015
8100 Granville Avenue, Vancouver	100%	95		July 15, 2015
2200–2204 Walkley Road, Ottawa	100%	159		August 27, 2015
Québec City Portfolio <sup>(3)</sup>	100%	634		October 30, 2015
<b>Total dispositions to December 31, 2015</b>		904	\$ 154,131	

(1) Sales price reflects gross proceeds net of adjustments and before transaction costs.

(2) The Trust held a 25% interest in the property through a partnership interest and accounted for this as an investment in joint venture.

(3) Includes four properties in Québec City: 900 Place D’Youville, 580 Rue Grand Allée, 200 Chemin Sainte-Foy and 141 Saint-Jean Street.

On April 30, 2015, a parcel of land at 60 Columbia Way, Markham, was expropriated by the City of Markham to build a highway off-ramp for total gross proceeds of \$2.7 million. The gross proceeds represented fair market value. In addition to the gross proceeds, the Trust recorded a one-time compensation income of \$0.6 million for the expropriation of the parcel of land.

### Investment in Dream Industrial REIT

Dream Industrial REIT is an unincorporated, open-ended real estate investment trust listed on the Toronto Stock Exchange under the symbol “DIR.UN”. Dream Industrial REIT owns a portfolio of 213 primarily light industrial properties comprising approximately 16.2 million square feet of gross leasable area.

During the fourth quarter of 2016, the Trust purchased 747,190 Dream Industrial REIT Units for a total cost of \$5.9 million. These units purchased were enrolled in Dream Industrial REIT’s distribution reinvestment plan effective for the December 2016 distribution. In addition, the Trust enrolled its 18,551,855 Dream Industrial LP Class B limited partnership units into Dream Industrial REIT’s distribution reinvestment plan effective for the November 2016 distribution and elected to reinvest the distributions received in Dream Industrial REIT Units. For the year ended December 31, 2016, the Trust purchased Dream Industrial REIT Units through its distribution reinvestment plan totalling 135,283 Dream Industrial REIT Units for a total cost of \$1.1 million (December 31, 2015 – \$nil).

As at December 31, 2016 and December 31, 2015, the Trust's ownership of Dream Industrial REIT Units was 24.9% and 24.0%, respectively. The net change in the Trust's ownership was as a result of the Trust's purchase of Dream Industrial REIT Units during 2016 and as part of Dream Industrial REIT's issuance of additional units through Dream Industrial REIT's distribution reinvestment plan, deferred unit incentive plan, and unit purchase plan during the years ended December 31, 2016 and December 31, 2015.

	Year ended December 31, 2016	Year ended December 31, 2015
Balance as at beginning of year	\$ 184,817	\$ 191,691
Dream Industrial REIT units purchased during the year	5,851	—
Dream Industrial REIT units purchased through distribution reinvestment plan	1,115	—
Distributions received on LP Class B limited partnership units	(13,050)	(12,986)
Distributions received on Dream Industrial REIT Units	(65)	—
Share of net income from investment in Dream Industrial REIT	8,467	6,112
Accretion loss	(381)	—
<b>Balance as at end of year</b>	<b>\$ 186,754</b>	<b>\$ 184,817</b>
Dream Industrial REIT Units held, end of year	882,473	—
Dream Industrial LP Class B limited partnership units held, end of year	18,551,855	18,551,855
Total Dream Industrial REIT Units and Dream Dream Industrial LP Class B limited partnership units held, end of year	19,434,328	18,551,855
Ownership %, end of year	24.9%	24.0%

The carrying value of the Trust's interest in Dream Industrial REIT as at December 31, 2016 was \$186.8 million (December 31, 2015 – \$184.8 million). The fair value of the Trust's interest in Dream Industrial REIT of \$165.8 million (December 31, 2015 – \$133.2 million) was determined using the Dream Industrial REIT closing unit price of \$8.53 per unit at year-end multiplied by the number of units held by the Trust as at December 31, 2016.

Pursuant to the reorganization of the Trust's management structure on April 2, 2015, the Trust has granted DAM, a subsidiary of Dream Unlimited Corp., a right of first offer to purchase up to 18,551,855 Dream Industrial LP Class B limited partnership units, in the event the Trust sells its interest in Dream Industrial REIT.

## OUR FINANCING

Our discussion of financing activities is based on the debt balance, which includes debt related to investments in joint ventures that are equity accounted, at our proportionate ownership, and debt associated with assets held for sale. Where applicable, a reconciliation to our consolidated financial statements has been included in the tables in this section.

### Liquidity and capital resources

Dream Office REIT's primary sources of capital are cash generated from operating activities, credit facilities, mortgage financing and refinancing, and equity and debt issuances. Our primary uses of capital include the payment of distributions, costs of attracting and retaining tenants, recurring property maintenance, major property improvements, debt principal repayments and interest payments. We expect to meet all of our ongoing obligations with current cash and cash equivalents, cash flows generated from operations, credit facilities, conventional mortgage refinancing and, as growth requires and when appropriate, new equity or debt issuances.

In our consolidated financial statements for the year ended December 31, 2016, our current liabilities exceeded our current assets by \$218.7 million. Typically, real estate entities seek to address liquidity needs by having a balanced debt maturity schedule, undrawn credit facilities and a pool of unencumbered assets. We are able to use our credit facilities on short notice, which eliminates the need to hold significant amounts of cash and cash equivalents on hand. Working capital balances can fluctuate significantly from period-to-period depending on the timing of receipts and payments. Debt obligations that are due within one year include debt maturities of \$328.3 million (excluding debt related to investment in joint ventures, which are equity accounted), which we typically refinance with our undrawn demand credit facilities and mortgages of terms between five and ten years. Amounts payable and accrued liabilities balances outstanding at the end of any reporting period depend primarily on the timing of leasing costs, capital expenditures incurred, as well as the impact of transaction costs incurred on dispositions completed during the reporting period. Our available liquidity is \$622.7 million as at December 31, 2016, consisting of undrawn demand revolving credit facilities totalling \$613.5 million and \$9.2 million of cash and cash equivalents on hand.

We endeavour to maintain high levels of liquidity to ensure that we can meet distribution requirements and react quickly to potential investment opportunities.

	December 31, 2016	September 30, 2016	December 31, 2015
Debt	\$ 2,898,901	\$ 2,898,800	\$ 3,520,486
Less debt related to:			
Investment in joint ventures <sup>(1)</sup>	39,883	39,854	485,493
Assets held for sale	209,228	2,281	24,245
<b>Debt (amounts included in consolidated financial statements)</b>	<b>\$ 2,649,790</b>	<b>\$ 2,856,665</b>	<b>\$ 3,010,748</b>

(1) On June 30, 2016, the Trust derecognized its investment in the joint ventures of Scotia Plaza and 100 Yonge Street and recognized the Trust's remaining 50% interest in the debt of these investment properties in its joint operations.



## A summary of debt

The key performance indicators in the management of our debt are as follows:

	December 31, 2016	September 30, 2016	December 31, 2015
<b>Financing and liquidity metrics</b>			
Weighted average effective interest rate (period-end) <sup>(1)</sup>	<b>3.82%</b>	3.84%	4.11%
Weighted average face rate of interest (period-end) <sup>(2)</sup>	<b>3.84%</b>	3.89%	4.05%
Interest coverage ratio (times) <sup>(3)</sup>	<b>3.0</b>	3.0	2.9
Net average debt-to-EBITDFV (years) <sup>(3)</sup>	<b>7.3</b>	7.4	7.7
Net debt-to-adjusted EBITDFV (years) <sup>(3)</sup>	<b>7.7</b>	7.3	7.7
Level of debt (net total debt-to-gross book value) <sup>(3)</sup>	<b>52.3%</b>	50.4%	48.3%
Level of debt (net secured debt-to-gross book value) <sup>(3)</sup>	<b>44.2%</b>	42.6%	41.0%
Secured debt to total investment properties <sup>(4)</sup>	<b>47.0%</b>	44.6%	42.6%
Debt – average term to maturity (years)	<b>3.8</b>	3.8	3.8
Variable rate debt as percentage of total debt	<b>13.0%</b>	11.6%	7.6%
Unsecured convertible and non-convertible debentures	\$ <b>448,828</b>	\$ 448,623	\$ 534,097
Unencumbered assets <sup>(5)</sup>	\$ <b>244,000</b>	\$ 285,000	\$ 825,000
Cash and cash equivalents on hand <sup>(6)</sup>	\$ <b>9,211</b>	\$ 19,780	\$ 12,433
Undrawn demand revolving credit facilities	\$ <b>613,514</b>	\$ 677,701	\$ 186,495

(1) Weighted average effective interest rate is calculated as the weighted average face rate of interest on balance, net of amortization of fair value adjustments and financing costs of all interest bearing debt, including debt related to investment in joint ventures, which are equity accounted.

(2) Weighted average face interest rate is calculated as the weighted average face rate of all interest bearing debt on balance, including debt related to investment in joint ventures that are equity accounted.

(3) The calculation of the following non-GAAP measures – interest coverage ratio, net average debt-to-EBITDFV, net debt-to-adjusted EBITDFV and levels of debt – are included in the “Non-GAAP measures and other disclosures” section of the MD&A.

(4) Secured debt to total investment properties (non-GAAP measure) is calculated as total debt secured by investment properties related to wholly owned and co-owned properties and investment in joint ventures that are equity accounted, divided by total investment properties. Management believes this non-GAAP measurement is an important measure of our secured debt levels.

(5) Unencumbered assets (non-GAAP measure) includes unencumbered investment properties related to wholly owned and co-owned properties and investment in joint ventures that are equity accounted. Management believes this non-GAAP measurement is an important measure of our unencumbered pool of assets available for liquidity purposes.

(6) Cash and cash equivalents on hand (non-GAAP measure) includes cash and cash equivalents related to investment in joint ventures that are equity accounted.

We ended the year with a net debt-to-gross book value ratio of 52.3%, net debt-to-adjusted EBITDFV of 7.7 years, and interest coverage ratio of 3.0 times. The increase quarter-over-quarter on the aforementioned leverage metrics was mainly due to the VTB Mortgage received as partial consideration for the Kitchener Portfolio sale on December 29, 2016 and fair value adjustments on investment properties in the quarter, along with REIT A Units purchased for cancellation under the NCIB.

## Financing activities during the quarter

The following table details the total mortgages renewed, refinanced and discharged during the three months and year ended December 31, 2016:

Financing activities	Three months ended December 31, 2016		Year ended December 31, 2016	
	Mortgages renewed or refinanced	Mortgages discharged	Mortgages renewed or refinanced	Mortgages discharged
Amount	\$ 74,000	\$ (99,589)	\$ 231,434	\$ (646,859)
New term (years)	10.0	n/a	7.2	n/a
Weighted average face interest rate <sup>(1)</sup>	3.09%	3.93%	2.99%	4.28%

(1) Weighted average face interest rate is calculated as the weighted average face rate of all interest bearing debt on balance, including debt related to investment in joint ventures that are equity accounted.

During the quarter, the Trust discharged maturing mortgages and mortgages associated with disposed properties totalling approximately \$99.6 million with an average face rate of 3.93% per annum. In addition, the Trust renewed or refinanced mortgages totalling \$74.0 million at an average face rate of 3.09% per annum with an average term of 10.0 years. Over the year ended December 31, 2016, the Trust discharged maturing mortgages and mortgages associated with disposed properties totalling approximately \$646.9 million with an average face rate of 4.28% per annum. In addition, the Trust renewed or refinanced mortgages during the year ended December 31, 2016 totalling \$231.4 million at an average face rate of 2.99% per annum with an average term of 7.2 years.

### Composition of debt

As at December 31, 2016, variable rate debt as a percentage of total debt increased to 13.0% from 7.6% as at December 31, 2015, mainly due to discharge of fixed rate debt associated with disposed properties and repayment of the term loan facility, Series H Debentures, Series K Debentures and Series L Debentures with our \$800 million Facility. When compared to the prior quarter, variable rate debt as a percentage of total debt increased from 11.6% to 13.0%, primarily due to higher drawings on demand revolving facilities during the period.

	December 31, 2016			December 31, 2015		
	Fixed	Variable	Total <sup>(1)</sup>	Fixed	Variable	Total <sup>(1)</sup>
Mortgages	\$ 2,198,450	\$ 77,833	\$ 2,276,283	\$ 2,714,921	\$ 38,978	\$ 2,753,899
Demand revolving credit facilities	—	173,790	173,790	—	49,500	49,500
Debentures	323,829	124,999	448,828	358,396	124,778	483,174
Term loan facility	—	—	—	129,459	53,531	182,990
Convertible debentures	—	—	—	50,923	—	50,923
<b>Total</b>	<b>\$ 2,522,279</b>	<b>\$ 376,622</b>	<b>\$ 2,898,901</b>	<b>\$ 3,253,699</b>	<b>\$ 266,787</b>	<b>\$ 3,520,486</b>
Less debt related to:						
Investment in joint ventures	—	39,883	39,883	485,493	—	485,493
Assets held for sale	209,228	—	209,228	24,245	—	24,245
<b>Debt (amounts included in consolidated financial statements)</b>	<b>\$ 2,313,051</b>	<b>\$ 336,739</b>	<b>\$ 2,649,790</b>	<b>\$ 2,743,961</b>	<b>\$ 266,787</b>	<b>\$ 3,010,748</b>
Percentage of total debt <sup>(2)</sup>	87.0%	13.0%	100.0%	92.4%	7.6%	100.0%
In-place face rate (year-end) <sup>(2)</sup>	4.03%	2.63%	3.84%	4.17%	2.62%	4.05%
Average term to maturity (years) <sup>(2)</sup>	4.2	1.3	3.8	4.0	1.3	3.8

(1) Net of financing costs and fair value adjustments.

(2) Includes investment in joint ventures that are equity accounted and properties held for sale.

### Demand revolving credit facilities

On March 1, 2016, the Trust entered into an \$800 million Facility. The \$800 million Facility bears interest at the bankers' acceptances ("BA") rate plus 1.70% and/or at the bank's prime rate (2.70% as at December 31, 2016) plus 0.70%. As at December 31, 2016, the \$800 million Facility is secured by first-ranking mortgages on 22 properties and matures on March 1, 2019. The formula-based amount available under the \$800 million Facility was \$763.3 million less \$178.0 million drawn and less \$16.5 million in the form of letters of credit as at December 31, 2016.

The amounts available and drawn under the demand revolving credit facilities as at December 31, 2016 and December 31, 2015 are as follows:

	Maturity date	Interest rates on drawings	December 31, 2016					
			Secured investment properties	Face interest rate	Borrowing capacity	Drawings	Letters of credit	Amount available
Formula-based maximum not to exceed \$800,000	March 1, 2019	BA + 1.70% or Prime + 0.70%	22	2.61%	\$ 763,333	\$ (178,000)	\$ (16,461)	\$ 568,872
Formula-based maximum not to exceed \$45,000	April 30, 2018	BA + 2.00% or Prime + 0.85%	4	3.55%	45,000	—	(358)	44,642
			26		\$ 808,333	\$ (178,000)	\$ (16,819)	\$ 613,514

December 31, 2015

	Maturity date	Interest rates on drawings	Secured investment properties	Face interest rate	Borrowing capacity	Drawings	Letters of credit	Amount available
Formula-based maximum not to exceed \$171,500	March 5, 2016	BA + 1.75% or Prime + 0.75%	8	2.62%	\$ 171,500	\$ (15,000)	\$ —	\$ 156,500
Formula-based maximum not to exceed \$27,690	April 30, 2016	BA + 1.85% or Prime + 0.85%	2	3.55%	27,690	—	(443)	27,247
Formula-based maximum not to exceed \$15,000	November 1, 2016	BA + 1.70% or Prime + 0.70%	2	3.40%	15,000	(14,500)	(150)	350
Formula-based maximum not to exceed \$55,000	November 1, 2016	BA + 1.70% or Prime + 0.70%	2	2.54%	55,000	(20,000)	(32,602)	2,398
			14		\$ 269,190	\$ (49,500)	\$ (33,195)	\$ 186,495

On March 1, 2016, the Trust's \$171,500 formula-based demand revolving credit facility was repaid in full and terminated.

On April 30, 2016, the Trust's \$27,690 formula-based demand revolving credit facility matured and was subsequently renewed to April 30, 2018 with an increased formula-based credit limit of \$45,000. The renewed facility bears interest at the BA rate plus 2.00% and/or at the bank's prime rate (2.70% as at December 31, 2016) plus 0.85%.

On September 30, 2016 and November 1, 2016, respectively, the Trust's \$55,000 and \$15,000 formula-based demand revolving credit facilities were repaid in full and terminated.

### Continuity of debt

Changes in debt levels, including debt related to investment in joint ventures that are equity accounted and assets held for sale for the three months and year ended December 31, 2016, are as follows:

	Three months ended December 31, 2016			
	Mortgages	Demand revolving credit facilities	Debentures	Total
<b>Debt as at September 30, 2016</b>	\$ 2,318,092	\$ 132,085	\$ 448,623	\$ 2,898,800
Borrowings	74,000	231,086	—	305,086
Principal repayments	(16,874)	—	—	(16,874)
Lump sum repayments	(44,162)	(189,086)	—	(233,248)
Financing costs additions	(480)	—	—	(480)
Lump sum repayment on property dispositions	(55,426)	—	—	(55,426)
Foreign exchange adjustments	1,524	—	—	1,524
Other adjustments <sup>(1)</sup>	(391)	(295)	205	(481)
<b>Debt as at December 31, 2016</b>	\$ 2,276,283	\$ 173,790	\$ 448,828	\$ 2,898,901
Less:				
Debt related to investment in joint ventures	39,883	—	—	39,883
Debt related to assets held for sale	209,228	—	—	209,228
<b>Debt (per consolidated financial statements)</b>	\$ 2,027,172	\$ 173,790	\$ 448,828	\$ 2,649,790

(1) Other adjustments includes amortization of financing costs and amortization of fair value adjustments.

Year ended December 31, 2016

	Mortgages	Demand revolving credit facilities	Debentures	Convertible debentures	Term loan facility	Total
<b>Debt as at January 1, 2016</b>	\$ 2,753,899	\$ 49,500	\$ 483,174	\$ 50,923	\$ 182,990	\$ 3,520,486
Borrowings	231,434	930,309	—	—	—	1,161,743
Principal repayments	(67,649)	—	—	—	—	(67,649)
Lump sum repayments	(317,809)	(801,809)	(35,000)	(50,628)	(183,453)	(1,388,699)
Financing costs additions	(1,545)	(5,710)	—	—	—	(7,255)
Lump sum repayment on property dispositions	(133,916)	—	—	—	—	(133,916)
Debt assumed by purchaser on disposal of investment properties	(195,133)	—	—	—	—	(195,133)
Foreign exchange adjustments	(2,064)	—	—	—	—	(2,064)
Other adjustments <sup>(1)(2)</sup>	9,066	1,500	654	(295)	463	11,388
<b>Debt as at December 31, 2016</b>	\$ 2,276,283	\$ 173,790	\$ 448,828	\$ —	\$ —	\$ 2,898,901
Less:						
Debt related to investment in joint ventures	39,883	—	—	—	—	39,883
Debt related to assets held for sale	209,228	—	—	—	—	209,228
<b>Debt (per consolidated financial statements)</b>	\$ 2,027,172	\$ 173,790	\$ 448,828	\$ —	\$ —	\$ 2,649,790

(1) Other adjustments include amortization of financing costs and amortization of fair value adjustments.

(2) As a result of the recognition of debt related to joint operations, the Trust recognized \$9,145 of fair value adjustments on June 30, 2016.

Our current debt profile is balanced with staggered maturities over the next 12 years. The following tables summarize our debt maturity profile as at December 31, 2016:

	Mortgages		Demand revolving credit facilities		Debentures		Total	
	Outstanding balance due at maturity	Weighted average face interest rate	Outstanding balance due at maturity	Weighted average face interest rate	Outstanding balance due at maturity	Weighted average face interest rate	Outstanding balance due at maturity	Weighted average face interest rate
Debt maturities								
2017	\$ 220,803	5.09%	\$ —	—	\$ 125,000	2.60%	\$ 345,803	4.19%
2018	234,717	3.96%	—	—	175,000	3.42%	409,717	3.73%
2019	343,098	3.33%	—	—	—	—	343,098	3.33%
2020	246,448	3.60%	—	—	150,000	4.07%	396,448	3.78%
2021	304,539	4.72%	—	—	—	—	304,539	4.72%
2022–2028	629,862	3.89%	—	—	—	—	629,862	3.89%
<b>Subtotal before undernoted items</b>	\$ 1,979,467	4.03%	\$ —	—	\$ 450,000	3.41%	\$ 2,429,467	3.91%
Demand revolving credit facilities (2019)	—	—	178,000	2.61%	—	—	178,000	2.61%
Scheduled principal repayments on non-matured debt	293,139	—	—	—	—	—	293,139	—
<b>Subtotal before undernoted items</b>	\$ 2,272,606	4.02%	\$ 178,000	2.61%	\$ 450,000	3.41%	\$ 2,900,606	3.84%
Fair value adjustments	11,087	—	—	—	—	—	11,087	—
Financing costs	(7,410)	—	(4,210)	—	(1,172)	—	(12,792)	—
<b>Subtotal before undernoted items</b>	\$ 2,276,283	3.91%	\$ 173,790	3.02%	\$ 448,828	3.70%	\$ 2,898,901	3.82%
Less:								
Debt related to investment in joint ventures	39,883	—	—	—	—	—	39,883	—
Debt related to assets held for sale	209,228	—	—	—	—	—	209,228	—
<b>Debt (per consolidated financial statements)</b>	\$ 2,027,172	—	\$ 173,790	—	\$ 448,828	—	\$ 2,649,790	—

## Term loan facility

The total principal amount outstanding for the term loan facility is as follows:

	Date issued	Maturity date	Original principal issued	Weighted average face interest rate	Outstanding principal amount	
					December 31, 2016	December 31, 2015
Term loan facility	August 15, 2011	August 15, 2016	\$ 188,000	3.28	\$ —	\$ 183,453

On March 1, 2016, the Trust repaid in full the outstanding principal amount of \$183.5 million under its term loan facility prior to the maturity date of August 15, 2016. As a result of the early repayment, the Trust wrote off \$0.3 million of associated unamortized financing costs into net income during the period.

On March 1, 2016, the associated five-year interest rate swap on the notional balance of \$129.8 million under the term loan facility was terminated prior to its maturity date of August 15, 2016. As a result, the Trust reclassified the unrealized loss of \$0.6 million included in accumulated other comprehensive income into net income during the period.

## Convertible debentures

The principal amount and carrying value for the convertible debentures is as follows:

	Date issued	Maturity date	Original principal issued	Face interest rate	Outstanding principal amount		Carrying value	
					December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
5.50% Series H Debentures	December 9, 2011	March 31, 2017	\$ 51,650	5.50%	\$ —	\$ 50,628	\$ —	\$ 50,923

On March 31, 2016 (the "Redemption Date"), the Trust completed the redemption of its remaining 5.50% Series H Debentures, in accordance with the provisions of the indenture and supplemental indenture related to the redeemed 5.50% Series H Debentures. The redemption price was paid in cash and was equal to the aggregate of (i) \$1,000 for each \$1,000 principal amount of 5.50% Series H Debentures issued and outstanding on the Redemption Date, and (ii) all accrued and unpaid interest on the 5.50% Series H Debentures up to but excluding the Redemption Date. The aggregate principal amount redeemed on the Redemption Date for 5.50% Series H Debentures was \$50.6 million. As a result of the redemption, the Trust (i) wrote off the conversion feature on the convertible debentures of \$0.04 million, and (ii) wrote off the fair value adjustments of \$0.2 million, all into net loss during Q1 2016.

## Debentures

The principal amount outstanding and the carrying value for each series of debentures are as follows:

Debentures	Date issued	Maturity date	Original principal	Face interest rate	December 31, 2016		December 31, 2015	
					Outstanding principal	Carrying value	Outstanding principal	Carrying value
Series A Debentures	June 13, 2013	June 13, 2018	\$ 175,000	3.42%	\$ 175,000	\$ 174,536	\$ 175,000	\$ 174,218
Series B Debentures	October 9, 2013	January 9, 2017	125,000	2.60% <sup>(1)</sup>	125,000 <sup>(2)</sup>	124,999	125,000	124,778
Series C Debentures	January 21, 2014	January 21, 2020	150,000	4.07%	150,000	149,293	150,000	149,047
Series K Debentures	April 26, 2011	April 26, 2016	35,000	5.95%	—	—	25,000	25,097
Series L Debentures	August 8, 2011	September 30, 2016	10,000	5.95%	—	—	10,000	10,034
			\$ 495,000		\$ 450,000	\$ 448,828	\$ 485,000	\$ 483,174

(1) Variable interest rate at three-month CDOR plus 1.7%.

(2) On January 9, 2017, the Trust repaid the Series B Debentures with an aggregate principal amount of \$125,000.

On April 26, 2016, the Trust repaid Series K Debentures with an aggregate principal amount of \$25.0 million at maturity.

On September 30, 2016, the Trust repaid Series L Debentures with an aggregate principal amount of \$10.0 million at maturity.

On January 9, 2017, the Trust repaid Series B Debentures with an aggregate principal amount of \$125.0 million at maturity.

### Short form base shelf prospectus

On April 27, 2015, the Trust filed a short form base shelf prospectus, which is valid for a 25-month period, during which time the Trust may offer and issue, from time to time, debt securities, with an aggregate offering price of up to \$2.0 billion. For the three months and year ended December 31, 2016, no debt securities were issued under the short form base shelf prospectus.

### Commitments and contingencies

We are contingently liable with respect to guarantees that are issued in the normal course of business, on certain debt assumed by purchasers, and with respect to 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.

In 2015, a subsidiary of the Trust received notices of reassessment from both the Canada Revenue Agency and the Alberta Minister of Finance with respect to its 2007, 2008 and 2010 taxation years. These reassessments relate to the deductibility of certain tax losses claimed by the subsidiary prior to its acquisition by the Trust. These federal and provincial reassessments if upheld could increase total current taxes payable, including interest and penalties by \$11.2 million. No cash payment is expected to be made unless it is ultimately established that the Trust has an obligation to make one. Management is of the view that there is a strong case to support the position as filed and has contested both the federal and provincial reassessments. Since management believes that it is more likely than not that its position will be sustained, no amounts related to these reassessments have been recorded in the consolidated financial statements as of December 31, 2016.

In an effort to manage the volatility of electricity prices, the Trust entered into fixed price contracts to purchase electricity for certain properties. Furthermore, in an effort to manage the volatility of heating prices mainly in the Toronto downtown region, the Trust entered into fixed price contracts to purchase steam for nine properties.

Dream Office REIT's finance leases, fixed price contracts to purchase electricity and steam, and future minimum commitments under operating leases are as follows:

	Minimum payments due			
	< 1 year	1–5 years	> 5 years	Total
Operating lease payments	\$ 3,243	\$ 7,503	\$ 100,738	\$ 111,484
Finance lease payments	68	—	—	68
Fixed price contracts – steam	315	1,576	4,096	5,987
<b>Total</b>	<b>\$ 3,626</b>	<b>\$ 9,079</b>	<b>\$ 104,834</b>	<b>\$ 117,539</b>

Operating leases include ground leases on certain properties totalling \$108.5 million, payable over the next 73 years.

The Trust has entered into lease agreements whereby tenants currently in place may require the Trust to reimburse such tenants for tenant improvement costs totalling approximately \$42.6 million (December 31, 2015 – \$37.8 million).

As at December 31, 2016, the Trust's share of contingent liabilities for the obligation of the other owners of co-owned properties was \$5.3 million (December 31, 2015 – \$6.4 million).

The Trust is contingently liable under guarantees that are issued on certain debt assumed by purchasers totalling \$74.4 million (December 31, 2015 – \$nil).

## OUR EQUITY

Our discussion of equity includes LP B Units (or subsidiary redeemable units), which are economically equivalent to REIT Units. Pursuant to IFRS, the LP B Units are classified as a liability in our consolidated financial statements.

	December 31, 2016		Unitholders' equity December 31, 2015	
	Number of Units	Amount	Number of Units	Amount
REIT Units, Series A	104,806,724	\$ 3,108,424	107,860,638	\$ 3,168,915
Retained earnings (deficit)	—	(747,840)	—	301,324
Accumulated other comprehensive income	—	11,181	—	11,575
Equity (per consolidated financial statements)	104,806,724	2,371,765	107,860,638	3,481,814
Add: LP B Units	5,233,823	102,321	5,233,823	90,912
<b>Total equity (including LP B Units)<sup>(1)</sup></b>	<b>110,040,547</b>	<b>\$ 2,474,086</b>	<b>113,094,461</b>	<b>\$ 3,572,726</b>
NAV per unit <sup>(2)</sup>		\$ 22.48		\$ 31.59

(1) Total equity (non-GAAP measure) is defined in the section "Non-GAAP measures and other disclosures" under the heading "Total equity (including LP B Units)".

(2) NAV per unit (non-GAAP measure) is defined in the section "Non-GAAP measures and other disclosures" under the heading "Net Asset Value ("NAV") per unit".

The amended and restated Declaration of Trust of Dream Office REIT dated May 8, 2014, as amended or amended and restated from time to time (the "Declaration of Trust"), authorizes the issuance of an unlimited number of the following classes of units: REIT Units, issuable in one or more series, Transition Fund Units and Special Trust Units. The Special Trust Units may only be issued to holders of LP B Units, are not transferable separately from these Units, and are used to provide voting rights with respect to Dream Office REIT to persons holding LP B Units. The LP B Units are held by DAM, a related party to Dream Office REIT, and DAM holds an equivalent number of Special Trust Units. Both the REIT Units and Special Trust Units entitle the holder to one vote for each Unit at all meetings of the unitholders. The LP B Units are exchangeable on a one-for-one basis for REIT B Units at the option of the holder, which can then be converted into REIT A Units. The LP B Units and corresponding Special Trust Units together have economic and voting rights equivalent in all material respects to REIT A Units. The REIT A Units and REIT B Units have economic and voting rights equivalent in all material respects to each other.

At December 31, 2016, DAM held 3,858,153 REIT A Units and 5,233,823 LP B Units for a total ownership interest of approximately 8.3%.

### Outstanding equity

The following table summarizes the changes in our outstanding equity:

	REIT A Units	LP B Units	Total
<b>Total Units issued and outstanding at January 1, 2016</b>	107,860,638	5,233,823	113,094,461
Units issued pursuant to DRIP	1,122,411	—	1,122,411
Units issued pursuant to the Unit Purchase Plan	362	—	362
Units issued pursuant to Deferred Unit Incentive Plan ("DUIP")	154,507	—	154,507
Cancellation of REIT A Units	(4,331,194)	—	(4,331,194)
<b>Total Units issued and outstanding at December 31, 2016</b>	<b>104,806,724</b>	<b>5,233,823</b>	<b>110,040,547</b>
Percentage of all Units	95.2%	4.8%	100.0%
Units issued pursuant to DUIP	42,999	—	42,999
Cancellation of REIT A Units	(90,500)	—	(90,500)
<b>Total Units issued and outstanding at February 23, 2017</b>	<b>104,759,223</b>	<b>5,233,823</b>	<b>109,993,046</b>
Percentage of all Units	95.2%	4.8%	100.0%

As at December 31, 2016, there were 913,141 deferred trust units and income deferred trust units outstanding (December 31, 2015 – 847,071) under the Trust's DUIP.

## Normal course issuer bid

On June 22, 2016, the Trust renewed its NCIB which expired on June 21, 2016. The NCIB will remain in effect until the earlier of June 21, 2017 or the date on which the Trust has purchased the maximum number of REIT A Units permitted under the Bid. Under the Bid, the Trust has the ability to purchase for cancellation up to a maximum of 10,732,867 REIT A Units (representing 10% of the Trust's public float of 107,328,675 REIT A Units at the time of entering the Bid through the facilities of the TSX). Daily purchases are limited to 81,907 REIT A Units, other than purchases pursuant to applicable block purchase exceptions.

For the three months ended December 31, 2016, 3.9 million REIT A Units were purchased and subsequently cancelled under the NCIB for a total cost of \$73.7 million.

For the year ended December 31, 2016, 4,331,194 REIT A Units were purchased and subsequently cancelled under the NCIB for a total cost of \$80.2 million (December 31, 2015 – 4,486,473 REIT A Units cancelled for \$105.1 million).

Subsequent to year-end, the Trust purchased an additional 90,500 REIT A Units under the NCIB for cancellation for a cost of \$1.7 million.

## Distribution policy

Our Declaration of Trust provides our trustees with the discretion to determine the percentage payout of income that would be in the best interest of the Trust, which allows for any unforeseen expenditures.

The Trust is committed to preserving a strong balance sheet and bolstering its liquidity position. In consideration of these objectives, the Trust announced on February 18, 2016 a reduction to its monthly cash distribution from \$0.18666 per unit to \$0.125 per unit, or \$1.50 per unit on an annualized basis, effective for the month of February 2016 distribution. In addition, the Trust also announced on February 18, 2016 the suspension of its DRIP until further notice, effective for the February 2016 distribution.

	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Annualized distribution rate	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 2.24	\$ 2.24	\$ 2.24	\$ 2.24
Monthly distribution rate	\$ 0.125	\$ 0.125	\$ 0.125	\$ 0.125 <sup>(1)</sup>	\$ 0.187	\$ 0.187	\$ 0.187	\$ 0.187
Period-end closing unit price	\$ 19.55	\$ 16.92	\$ 18.58	\$ 20.75	\$ 17.37	\$ 21.20	\$ 24.54	\$ 26.35
Annualized distribution yield on period-end closing unit price (%) <sup>(2)</sup>	7.7%	8.9%	8.1%	7.2%	12.9%	10.6%	9.1%	8.5%

(1) The Trust announced on February 18, 2016 a reduction to its monthly cash distribution from \$0.18666 per unit to \$0.125 per unit, or \$1.50 per unit on an annualized basis, effective for the month of February 2016 distribution.

(2) Annualized distribution yield is calculated as the annualized distribution rate divided by period-end closing price.

The table below summarizes the distributions for the three months and year ended December 31, 2016:

	Three months ended December 31, 2016		Year ended December 31, 2016	
	Total <sup>(1)</sup>	Declared distributions <sup>(1)</sup>	4% bonus distributions <sup>(2)</sup>	Total
<b>2016 distributions</b>				
Paid in cash or reinvested in units	\$ 28,480	\$ 163,558	\$ 320	\$ 163,878
Payable at December 31, 2016	13,755	13,755	—	13,755
<b>Total distributions</b>	42,235	177,313	320	177,633
<b>2016 reinvestment</b>				
Reinvested to December 31, 2016	—	8,005	320	8,325
<b>Total distributions reinvested</b>	\$ —	\$ 8,005	\$ 320	\$ 8,325
<b>Distributions paid in cash</b>	\$ 42,235	\$ 169,308		
Reinvestment to distribution ratio	—	4.5%		
Cash payout ratio	100.0%	95.5%		

(1) Includes distributions to LP B Units.

(2) Unitholders who participated in the DRIP prior to the suspension in February 2016 received an additional distribution of units equal to 4% of each cash distribution that was reinvested.



Distributions declared for the three months ended December 31, 2016 were \$42.2 million, a decrease of \$21.1 million over the prior year comparative quarter. Distributions declared for the year ended December 31, 2016 were \$177.3 million, a decrease of \$73.3 million over the prior year. The decrease mainly reflects the reduction in the monthly cash distribution from \$0.18666 per unit to \$0.125 per unit, or \$1.50 per unit on an annualized basis, effective for the month of February 2016 distribution.

Of the distributions declared for the year ended December 31, 2016, \$8.0 million or approximately 4.5% was reinvested in additional REIT A Units, resulting in cash payout ratios for the three months and year ended December 31, 2016 of 100.0% and 95.5%, respectively.

## OUR RESULTS OF OPERATIONS

### Basis of accounting

The Trust's proportionate share of the results of operations of its investment in joint ventures, which are accounted for using the equity method in the consolidated financial statements, are presented and discussed throughout the MD&A using the proportionate consolidation method and are, therefore, non-GAAP measures. A reconciliation of the results of operations to the consolidated statements of comprehensive income (loss) is included in the following tables.

"GAAP" or "IFRS" means International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the Canadian Professional Accountants of Canada in Part I of The Canadian Professional Accountants of Canada Handbook – Accounting, as amended from time to time.

### Statement of comprehensive loss reconciliation to consolidated financial statements

	Three months ended December 31,					
	2016			2015		
	Amounts included in consolidated financial statements	Share of income from investment in joint ventures	Total	Amounts included in consolidated financial statements	Share of income from investment in joint ventures	Total
Investment properties revenue	\$ 166,919	\$ 2,196	\$ 169,115	\$ 168,349	\$ 27,829	\$ 196,178
Investment properties operating expenses	(75,204)	(1,247)	(76,451)	(73,662)	(12,907)	(86,569)
<b>Net rental income</b>	<b>91,715</b>	<b>949</b>	<b>92,664</b>	<b>94,687</b>	<b>14,922</b>	<b>109,609</b>
<b>Other income (loss)</b>						
Share of net income (loss) and accretion loss from investment in Dream Industrial REIT	1,156	—	1,156	(5,923)	—	(5,923)
Share of net income (loss) from investment in joint ventures	(12,201)	12,201	—	10,186	(10,186)	—
Interest and fee income	1,055	9	1,064	914	15	929
	(9,990)	12,210	2,220	5,177	(10,171)	(4,994)
<b>Other expenses</b>						
General and administrative	(2,811)	—	(2,811)	(1,899)	(47)	(1,946)
Interest:						
Debt	(28,248)	(259)	(28,507)	(32,302)	(4,286)	(36,588)
Subsidiary redeemable units	(1,963)	—	(1,963)	(2,931)	—	(2,931)
Amortization of external management contracts and depreciation on property and equipment	(872)	—	(872)	(779)	(3)	(782)
	(33,894)	(259)	(34,153)	(37,911)	(4,336)	(42,247)
<b>Fair value adjustments, net losses on transactions and other activities</b>						
Fair value adjustments to investment properties	(123,200)	(12,900)	(136,100)	(79,100)	(300)	(79,400)
Fair value adjustments to financial instruments	(15,246)	—	(15,246)	20,695	—	20,695
Net losses on transactions and other activities	(9,332)	—	(9,332)	(57,169)	(115)	(57,284)
	(147,778)	(12,900)	(160,678)	(115,574)	(415)	(115,989)
<b>Loss before income taxes</b>	<b>(99,947)</b>	<b>—</b>	<b>(99,947)</b>	<b>(53,621)</b>	<b>—</b>	<b>(53,621)</b>
Deferred income tax expense	(724)	—	(724)	(516)	—	(516)
<b>Net loss for the period</b>	<b>(100,671)</b>	<b>—</b>	<b>(100,671)</b>	<b>(54,137)</b>	<b>—</b>	<b>(54,137)</b>
<b>Other comprehensive income</b>						
Items that will be reclassified subsequently to net loss:						
Unrealized gain on interest rate swaps, net of taxes	11	—	11	377	—	377
Unrealized foreign currency translation gain, net of taxes	950	—	950	1,406	—	1,406
	961	—	961	1,783	—	1,783
<b>Comprehensive loss for the period</b>	<b>\$ (99,710)</b>	<b>\$ —</b>	<b>\$ (99,710)</b>	<b>\$ (52,354)</b>	<b>\$ —</b>	<b>\$ (52,354)</b>

Year ended December 31,

	2016			2015		
	Amounts per consolidated financial statements	Share of income from investment in joint ventures	Total	Amounts per consolidated financial statements	Share of income from investment in joint ventures	Total
Investment properties revenue	\$ 664,291	\$ 59,002	\$ 723,293	\$ 690,962	\$ 111,484	\$ 802,446
Investment properties operating expenses	(295,713)	(28,381)	(324,094)	(303,449)	(51,693)	(355,142)
<b>Net rental income</b>	<b>368,578</b>	<b>30,621</b>	<b>399,199</b>	<b>387,513</b>	<b>59,791</b>	<b>447,304</b>
<b>Other income (loss)</b>						
Share of net income and accretion loss from investment in Dream Industrial REIT	8,086	—	8,086	6,112	—	6,112
Share of net income (loss) from investment in joint ventures	(154,300)	154,300	—	53,136	(53,136)	—
Interest and fee income	3,258	42	3,300	3,005	68	3,073
	(142,956)	154,342	11,386	62,253	(53,068)	9,185
<b>Other expenses</b>						
General and administrative	(11,906)	—	(11,906)	(12,196)	(47)	(12,243)
Interest:						
Debt	(119,520)	(8,864)	(128,384)	(131,818)	(17,266)	(149,084)
Subsidiary redeemable units	(8,174)	—	(8,174)	(9,171)	—	(9,171)
Amortization of external management contracts and depreciation on property and equipment	(3,573)	(27)	(3,600)	(2,949)	(24)	(2,973)
	(143,173)	(8,891)	(152,064)	(156,134)	(17,337)	(173,471)
<b>Fair value adjustments, net losses on transactions and other activities</b>						
Fair value adjustments to investment properties	(899,100)	(172,700)	(1,071,800)	(201,030)	11,030	(190,000)
Fair value adjustments to financial instruments	(13,555)	—	(13,555)	48,890	—	48,890
Net losses on transactions and other activities	(47,546)	(3,372)	(50,918)	(194,836)	(416)	(195,252)
	(960,201)	(176,072)	(1,136,273)	(346,976)	10,614	(336,362)
<b>Loss before income taxes</b>	<b>(877,752)</b>	<b>—</b>	<b>(877,752)</b>	<b>(53,344)</b>	<b>—</b>	<b>(53,344)</b>
Deferred income taxes	(1,953)	—	(1,953)	(1,695)	—	(1,695)
<b>Net loss for the year</b>	<b>(879,705)</b>	<b>—</b>	<b>(879,705)</b>	<b>(55,039)</b>	<b>—</b>	<b>(55,039)</b>
<b>Other comprehensive income (loss)</b>						
Items reclassified to net loss:						
Reclassified interest rate swaps, net of taxes	561	—	561	—	—	—
Items that will be reclassified subsequently to net income (loss):						
Unrealized gain (loss) on interest rate swaps, net of taxes	252	—	252	(139)	—	(139)
Unrealized foreign currency translation gain (loss), net of taxes	(1,207)	—	(1,207)	7,486	—	7,486
	(394)	—	(394)	7,347	—	7,347
<b>Comprehensive loss for the year</b>	<b>\$ (880,099)</b>	<b>\$ —</b>	<b>\$ (880,099)</b>	<b>\$ (47,692)</b>	<b>\$ —</b>	<b>\$ (47,692)</b>

## Net loss

For the three months and year ended December 31, 2016, the Trust incurred a net loss of \$100.7 million and \$879.7 million, respectively, mainly driven by fair value adjustments to investment properties (including joint ventures) of \$136.1 million and \$1.1 billion recorded during the respective periods.

For the three months and year ended December 31, 2015, the Trust incurred a net loss of \$54.1 million and \$55.0 million, respectively, mainly driven by fair value adjustments to investment properties (including joint ventures) of \$79.4 million and \$190.0 million recorded during the respective periods, an impairment of goodwill charge of \$51.2 million in Q4 2015 and cost of Reorganization of \$128.1 million in Q2 2015.

## Investment properties revenue

Investment properties revenue includes base rent from investment properties, recovery of operating costs and property taxes from tenants, as well as lease termination fees and other adjustments. Lease termination fees and other adjustments are not necessarily of a recurring nature and the amounts may vary year-over-year.

Investment properties revenue for the quarter (per consolidated financial statements) was \$166.9 million, a decrease of \$1.4 million, or 0.8%, over the prior year comparative quarter (for the year ended December 31, 2016 – \$664.3 million, a decrease of \$26.7 million, or 3.9%, over the prior year), primarily driven by dispositions during the current and prior year, lower weighted average in-place occupancy, lower straight-line rent and an increase in amortization of lease incentives. Offsetting this decline in investment properties revenue (per consolidated financial statements) for the three months and year ended December 31, 2016 was the recognition of the Trust's remaining 50% interest in Scotia Plaza and 100 Yonge Street's investment property revenues<sup>(1)</sup> in the consolidated financial statements effective June 30, 2016 and an increase in lease termination fees and other adjustments.

Investment properties revenue (including joint ventures) for the quarter was \$169.1 million, a decrease of \$27.1 million, or 13.8%, over the prior year comparative quarter (for the year ended December 31, 2016 – \$723.3 million, a decrease of \$79.2 million, or 9.9%, over the prior year), primarily driven by dispositions during the current and prior year, lower weighted average in-place occupancy, lower straight-line rent and an increase in amortization of lease incentives. Offsetting this decline in investment properties revenue (including joint ventures) for the three months and year ended December 31, 2016 was an increase in lease termination fees and other adjustments.

## Investment properties operating expenses

Investment properties operating expenses comprise operating costs and property taxes as well as certain expenses that are not recoverable from tenants. Operating expenses fluctuate with changes in occupancy levels, expenses that are seasonal in nature, and the level of repairs and maintenance incurred during the period.

Investment properties operating expenses (per consolidated financial statements) for the quarter were \$75.2 million, an increase of \$1.5 million, or 2.1%, over the prior year comparative quarter, mainly due to the recognition of the Trust's remaining 50% interest in Scotia Plaza and 100 Yonge Street's investment property operating expenses<sup>(1)</sup> in the consolidated financial statements effective June 30, 2016. For the year ended December 31, 2016, investment properties operating expenses (per consolidated financial statements) was \$295.7 million, a decrease of \$7.7 million, or 2.5%, over the prior year, primarily driven by lower operating expenses as a result of dispositions during the current and prior year, and lower weighted average in-place occupancy offset by the recognition of the Trust's remaining 50% interest in Scotia Plaza and 100 Yonge Street's investment property.

Investment properties operating expenses (including joint ventures) for the quarter were \$76.5 million, a decrease of \$10.1 million, or 11.7%, over the prior year comparative quarter (for the year ended December 31, 2016 – \$324.1 million, a decrease of \$31.0 million, or 8.7%, over the prior year), primarily driven by lower operating expenses as a result of dispositions during the current and prior year, and lower weighted average in-place occupancy.

## Share of net income and accretion loss from investment in Dream Industrial REIT

Share of net income and accretion loss from investment in Dream Industrial REIT for the quarter was \$1.2 million, an increase of \$7.1 million, or 119.5%, over the prior year comparative quarter (for the year ended December 31, 2016 – \$8.1 million, an increase of \$2.0 million, or 32.3%, over the prior year). The increase in the share of net income and accretion loss from our investment in Dream Industrial REIT over the prior quarter and over the prior year was mainly driven by fair value adjustments to investment properties and non-recurring charges on other activities, net of accretion loss recognized during the quarter as a result of our purchase of Dream Industrial REIT Units and our participation in Dream Industrial REIT's distribution reinvestment plan.

(1) On June 30, 2016, the Trust derecognized its investment in the joint ventures of Scotia Plaza and 100 Yonge Street and recognized the Trust's remaining 50% interest in the revenues and expenses of these investment properties in the consolidated financial statements.

## Interest and fee income

Interest and fee income comprises fees earned from third-party property management, including management and construction fees, our share of net income (loss) from investment in Dream Technology Ventures LP (“DTV LP”), and interest earned on bank accounts. Except for the third-party property management fees, the income included in interest and fee income is not necessarily of a recurring nature and the amounts may vary year-over-year.

Interest and fee income (per consolidated financial statements) for the quarter was \$1.1 million, an increase of \$0.1 million, or 15.5%, over the prior year comparative quarter (for the year ended December 31, 2016 – \$3.3 million, an increase of \$0.3 million, or 8.5%, over the prior year), mainly due to third-party property management fees. Interest and fee income from joint ventures was relatively flat for the three months and year ended December 31, 2016 when compared to the prior year same periods.

## General and administrative expenses

The following table summarizes the nature of expenses included in general and administrative expenses:

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Management Services Agreement with DAM	\$ (110)	\$ (133)	\$ (661)	\$ (435)
Asset Management Agreement with DAM	—	—	—	(4,338)
Salaries and benefits	(438)	(152)	(1,902)	(346)
Deferred compensation expense	(694)	(494)	(2,551)	(2,638)
Other <sup>(1)</sup>	(1,569)	(1,167)	(6,792)	(4,486)
<b>General and administrative expenses</b>	<b>\$ (2,811)</b>	<b>\$ (1,946)</b>	<b>\$ (11,906)</b>	<b>\$ (12,243)</b>

(1) “Other” comprises public reporting, professional service fees, corporate sponsorships, donations and overhead-related costs.

General and administrative (“G&A”) expenses (per consolidated financial statements) for the quarter was \$2.8 million, an increase of \$0.9 million, or 48.0%, over the prior year comparative quarter mainly attributable to the realignment of certain employees based on change in roles and responsibilities since the beginning of the year, deferred compensation expense and overhead-related costs. The increase in the aforementioned costs is a result of the elimination of the Trust’s obligation to pay asset management fees to DAM effective April 2, 2015. For the year ended December 31, 2016, G&A expenses (per consolidated financial statements) was \$11.9 million, a decrease of \$0.3 million, or 2.4%, over the prior year, mainly attributable to the elimination of the Trust’s obligation to pay asset management fees to DAM, offset by the same reasons noted earlier, and higher corporate sponsorships and donations incurred during the current year. G&A expense from joint ventures was relatively flat for the three months and year ended December 31, 2016 when compared to the prior year same periods.

## Interest expense – debt

Interest expense on debt (per consolidated financial statements) for the quarter was \$28.2 million, a decrease of \$4.1 million, or 12.6%, over the prior year comparative quarter (for the year ended December 31, 2016 – \$119.5 million, a decrease of \$12.3 million or 9.3% over the prior year) mainly due to the discharge of debt related to the sold properties during the current and prior year, and the refinancing of maturing debt at lower interest rates. Offsetting this decline in interest expense on debt (per consolidated financial statements) for the three months and year ended December 31, 2016 was the recognition of the Trust’s remaining 50% interest in Scotia Plaza and 100 Yonge Street’s interest expense<sup>(1)</sup> on debt in the consolidated financial statements effective June 30, 2016.

Interest expense on debt (including joint ventures) for the quarter was \$28.5 million, a decrease of \$8.1 million, or 22.1%, over the prior year comparative quarter (for the year ended December 31, 2016 – \$128.4 million, a decrease of \$20.7 million or 13.9% over the prior year) mainly due to the discharge of debt related to the sold properties during the current and prior year, and the refinancing of maturing debt at lower interest rates.

(1) On June 30, 2016, the Trust derecognized its investment in the joint ventures of Scotia Plaza and 100 Yonge Street and recognized the Trust’s remaining 50% interest in the revenues and expenses of these investment properties in the consolidated financial statements.

### **Interest expense – subsidiary redeemable units**

Interest expense on subsidiary redeemable units for the quarter was \$2.0 million, a decrease of \$1.0 million, or 33.0%, over the prior year comparative quarter (year ended December 31, 2016 – \$8.2 million, a decrease of \$1.0 million, or 10.9%, over the prior year), mainly due to the reduction in monthly cash distribution from \$0.18666 per unit to \$0.125 per unit, or \$1.50 per unit on an annualized basis, effective for the month of February 2016 distribution.

### **Amortization of external management contracts and depreciation on property and equipment**

Amortization of external management contracts and depreciation on property and equipment expense (per consolidated financial statements) for the quarter was \$0.9 million, an increase of \$0.1 million, or 11.9%, when compared to the prior year comparative quarter (for the year ended December 31, 2016 – \$3.6 million, an increase of \$0.6 million, or 21.2%, over the prior year), primarily driven by additions to property and equipment during the current and prior year. Depreciation on property and equipment from joint ventures was relatively flat for the three months and year ended December 31, 2016 when compared to the prior year same periods.

### **Fair value adjustments to investment properties**

For the three months ended December 31, 2016, the Trust recorded a fair value loss in our total portfolio, excluding investment properties in Alberta, of \$85.1 million. For the year ended December 31, 2016, the Trust recorded a fair value loss in our total portfolio, excluding investment properties in Alberta, of \$226.1 million. The fair value losses were for the most part due to changes in market rental rates and leasing cost assumptions and an increase in cap rates on select properties in certain regions.

For the three months ended December 31, 2016, the Trust recorded a fair value loss in the Alberta investment properties of \$38.2 million (as included in the consolidated financial statements) as a result of bids received on certain properties. These bids may not reflect the final price the Trust may obtain in connection with a potential sale of any of such properties. Accordingly, these adjustments were applied to the properties impacted while the rest of the Alberta Portfolio values remained relatively flat when compared to the prior quarter as there were no significant changes to the underlying critical and key assumptions used in the discounted cash flow model. For the year ended December 31, 2016, the Trust recorded a fair value loss in the Alberta investment properties of \$768.9 million (as included in the consolidated financial statements), mainly as a result of the changes made to the critical and key assumptions used in the discounted cash flow model in Q2 2016.

For the three months ended December 31, 2016, the Trust recorded a fair value loss in the investment properties in joint ventures of \$12.9 million, mainly due to changes in cash flow assumptions. For the year ended December 31, 2016, the Trust recorded a fair value loss in the investment properties in joint ventures of \$172.7 million mainly due to contracted sales prices for the sale of our 16.7% interest in Scotia Plaza and 100 Yonge Street and changes made to the critical and key assumptions used in the discounted cash flow model in Q2 2016 for the remaining property.

### **Fair value adjustments to financial instruments**

Fair value adjustments to financial instruments include remeasurement on the conversion feature of the convertible debenture, remeasurement of the carrying value of subsidiary redeemable units and remeasurement of deferred trust units.

Our remeasurement of the conversion feature of the convertible debentures was \$nil during the quarter and for the year, given that the convertible debentures were redeemed on March 31, 2016 and as a result eliminated the associated conversion feature of the convertible debentures.

Our remeasurement of the carrying value of subsidiary redeemable units resulted in a loss of \$13.8 million during the quarter (loss of \$11.4 million for the year ended December 31, 2016), mainly as a result of an increase in our unit price during the respective periods.

The remeasurement of the deferred trust units resulted in a loss of \$1.5 million during the quarter mainly as a result of an increase in our unit price during the period. The remeasurement of the deferred trust units resulted in a loss of \$2.1 million for the year ended December 31, 2016, due to an increase in our unit price for the year relative to the beginning of the year.

## Net losses on transactions and other activities

The following table summarizes the nature of expenses included:

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Debt settlement costs, net	\$ —	\$ (1,136)	\$ (13,320)	\$ (1,999)
Costs on sale of investment properties	(3,137)	(2,121)	(12,074)	(3,773)
Internal leasing costs	(2,150)	(2,442)	(8,822)	(9,246)
Business transformation costs	(122)	(373)	(1,219)	(1,490)
Loss on recognition of net assets related to joint operations	—	—	(10,263)	—
Charge on cost reduction program	(3,923)	—	(3,923)	—
Cost on Reorganization	—	—	—	(128,132)
Impairment of goodwill	—	(51,212)	—	(51,212)
Other	—	—	(1,297)	600
<b>Total</b>	<b>\$ (9,332)</b>	<b>\$ (57,284)</b>	<b>\$ (50,918)</b>	<b>\$ (195,252)</b>

Net losses on transactions and other activities for the quarter (per consolidated financial statements) were \$9.3 million, a decrease of \$47.8 million, or 83.7%, over the prior year comparative quarter mainly due to the goodwill impairment charge of \$51.2 million recognized in Q4 2015, offset by higher costs related to property dispositions and a charge of \$3.9 million recognized as a result of the cost reduction program implemented this quarter (see “Related party transactions” section below for details).

Net losses on transactions and other activities for the year (per consolidated financial statements) was \$47.5 million, a decrease of \$147.3 million, or 75.6%, over the prior year comparative quarter mainly due to the reasons noted above, \$128.1 million of one-time cost on Reorganization incurred in Q2 2015 (see “Related party transactions” section below for details), offset by higher debt settlement and costs related to property dispositions and \$10.3 million one-time loss on recognition of net assets related to Scotia Plaza and 100 Yonge Street in Q2 2016.

Net losses on transactions and other activities from joint ventures were relatively flat for the three months ended December 31, 2016 when compared to the prior year comparative quarter while net losses on transactions and other activities from joint ventures for the year ended December 31, 2016, was \$3.0 million higher than the prior year mainly due to \$3.4 million of financing costs written off as a result of the recognition of the Trust’s remaining 50% interest in Scotia Plaza and 100 Yonge Street’s debt at fair value in the consolidated financial statements effective June 30, 2016.

## Related party transactions

From time to time, Dream Office REIT and its subsidiaries enter into transactions with related parties that are conducted under normal commercial terms.

### Agreements with DAM

On August 24, 2007, Dream Office REIT had an asset management agreement (the “Asset Management Agreement”) with DAM pursuant to which DAM provided certain asset management services to Dream Office REIT and its subsidiaries. On April 2, 2015, the Trust acquired a subsidiary of DAM which was a party to the Asset Management Agreement with the Trust, resulting in the elimination of the Trust’s obligation to pay asset management, acquisition and capital expenditure fees to DAM. In consideration for the Reorganization, the Trust issued 4,850,000 subsidiary redeemable units to DAM, representing total consideration of \$127.3 million using the closing price of REIT A Units at the date of the transaction. The total consideration of \$127.3 million and costs related to the Reorganization totalling \$0.8 million were charged to net income in the consolidated statement of comprehensive income.

On April 2, 2015, the Trust and DAM also entered into a Management Services Agreement pursuant to which DAM will provide strategic oversight of the Trust and the services of a Chief Executive Officer as requested on a cost recovery basis. In accordance with the termination provisions of the Management Services Agreement, the Trust is subject to an incentive fee payable which is based on 15% of the Trust’s Aggregate Adjusted Funds from Operations (as defined in the Management Services Agreement), including the net gain on sale of any properties during the term of the agreement, and the deemed sale of the remaining portfolio upon termination, in excess of \$2.65 per REIT A Unit. As the termination of the Management Services Agreement for the first three years is solely at the discretion of the Trust and the Trust currently has no intention to terminate the Management Services Agreement, the Trust has determined that it is not probable that the incentive fee is payable and, accordingly, no amounts related to the incentive fee have been recorded in the consolidated financial statements as at December 31, 2016.

On December 1, 2013, Dream Office REIT and DAM entered into a Shared Services and Cost Sharing Agreement. Pursuant to the Reorganization, the Trust and DAM amended the existing Shared Services and Cost Sharing Agreement as of April 2, 2015. According to the terms of the amended arrangement, DAM will continue to provide administrative and support services on an as-needed basis and will receive an annual fee to reimburse it for all expenses incurred. The Trust will continue to reimburse DAM for any shared costs allocated in each calendar year. This amended agreement provides for the automatic reappointment of DAM for additional one-year terms commencing on January 1 unless and until terminated in accordance with its terms or by mutual agreement of the parties.

Dream Office REIT, Dream Office Management LP (a wholly owned subsidiary of Dream Office LP) and DAM were parties to an administrative services agreement (the "Services Agreement with DAM"). Effective April 2, 2015, as part of the Reorganization, the existing Services Agreement with DAM was terminated and Dream Office Management Corp. ("DOMC"), a wholly owned subsidiary of Dream Office Management LP, and DAM entered into an amended Administrative Services Agreement pursuant to which DOMC will continue to provide certain administrative and support services to DAM. The terms of the agreement provide for DOMC to be reimbursed by DAM for the actual costs incurred by it in carrying out these activities on behalf of DAM. This agreement is for one-year terms unless and until terminated in accordance with its terms or by mutual agreement of the parties.

On October 25, 2016, the Trust and DAM jointly implemented a cost reduction program to simplify and to establish more dedicated services on a cost-efficient basis of the Trust's operating and shared service platform. On a go forward basis, the portion of the cost reduction program that relates to the shared service platform will impact the costs being allocated to related parties in accordance with the Shared Services and Cost Sharing Agreements and Administrative Services Agreement currently in place. As a result of implementing this program, the Trust incurred a charge of \$3.9 million for the three months ended December 31, 2016 which is included in net losses on transactions and other activities.

#### Management Services Agreement with DAM

The following is a summary of fees incurred for the three months and years ended December 31, 2016 and December 31, 2015 pursuant to the Management Services Agreement:

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Senior management compensation (included in G&A expenses)	\$ (110)	\$ (133)	\$ (661)	\$ (435)
Expense reimbursements related to financing arrangements (included in debt)	(190)	(122)	(753)	(359)
Expense reimbursements related to disposition arrangements (included in costs on sale of investment properties)	(271)	(119)	(876)	(300)
<b>Total incurred under the Management Services Agreement</b>	<b>\$ (571)</b>	<b>\$ (374)</b>	<b>\$ (2,290)</b>	<b>\$ (1,094)</b>

#### Asset Management Agreement with DAM

The Asset Management Agreement provided for a broad range of asset management services for the following fees:

- base annual management fee calculated and payable on a monthly basis, equal to 0.25% of the gross asset value of properties, defined as the fair value of the properties at August 23, 2007 (the date of the sale of our portfolio of properties in Eastern Canada) plus the purchase price of properties acquired subsequent to that date, adjusted for any properties sold;
- incentive fee equal to 15% of Dream Office REIT's adjusted funds from operations per unit (as defined in the Asset Management Agreement) in excess of \$2.65 per unit;
- capital expenditures fee equal to 5% of all hard construction costs incurred on each capital project with costs in excess of \$1 million, excluding work done on behalf of tenants or any maintenance capital expenditures;
- acquisition fee, calculated over a fiscal year based on the anniversary date of the Asset Management Agreement, equal to: (i) 1.0% of the purchase price of a property on the first \$100 million of properties acquired; (ii) 0.75% of the purchase price of a property on the next \$100 million of properties acquired; and (iii) 0.50% of the purchase price of a property acquired in excess of \$200 million of properties acquired; and
- financing fee equal to the lesser of actual expenses incurred by DAM in supplying services relating to financing transactions and 0.25% of the debt and equity of all financing transactions completed on behalf of Dream Office REIT.



The following is a summary of fees incurred pursuant to the Asset Management Agreement for the three months and years ended December 31, 2016 and December 31, 2015 prior to its elimination as part of the Reorganization on April 2, 2015:

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Base annual management fee (included in G&A expenses)	\$ —	\$ —	\$ —	\$ (4,338)
<b>Total incurred under the Asset Management Agreement</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (4,338)</b>

### Shared Services and Cost Sharing Agreement with DAM

Effective January 1, 2016, the Shared Services and Cost Sharing Agreement was amended such that future funding costs in respect of technology personnel and technology related platforms ceased subsequent to December 31, 2015. There were no other material changes to the agreement.

Effective January 1, 2016, DTV LP, a limited partnership, was established by a wholly owned subsidiary of DAM acting as general partner and Dream Office LP (a wholly owned subsidiary of the Trust), DAM, Dream Industrial LP, Dream Global REIT, and Dream Alternatives Master LP as the limited partners. Each of the limited partners, including the Trust, will contribute capital to DTV LP to fund costs incurred relating to technology personnel and technology related platforms. In addition, the Trust will be party to a licensing agreement in respect of the use of the developed technology. The Trust accounts for its investment in DTV LP using the equity method and has included the equity accounted investment in other non-current assets, and the associated results have been included in interest and other fee income within the consolidated financial statements for the three months and year ended December 31, 2016. A one-time charge relating to the DTV LP cost reduction program has been recorded in net losses on transaction and other activities for the three months and year ended December 31, 2016.

As a result of the cost reduction program implemented on October 25, 2016, the Trust accelerated payment of the remaining outstanding commitments under the Shared Services and Cost Sharing Agreement to DAM totalling \$1.2 million and has been included in the charge on cost reduction program within net losses on transaction and other activities for the three months ended December 31, 2016.

The following is a summary of fees billed by DAM for the three months and years ended December 31, 2016 and December 31, 2015. Amounts billed by DAM prior to April 2, 2015 are included pursuant to the original Shared Services and Cost Sharing Agreement:

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Business transformation costs <sup>(1)</sup>	\$ (122)	\$ (373)	\$ (1,219)	\$ (1,490)
Strategic services and other (included in G&A expenses)	(180)	(352)	(871)	(889)
<b>Total costs incurred under the Shared Services and Cost Sharing Agreement</b>	<b>\$ (302)</b>	<b>\$ (725)</b>	<b>\$ (2,090)</b>	<b>\$ (2,379)</b>

(1) Business transformation costs are included in net losses on transactions and other activities and relate to process and technology improvement. This initiative will transform our operating platform to allow us to improve data integrity, realize operating efficiencies, establish business analytic tools and ultimately generate better business outcomes. This initiative will also form the foundation of our continuous improvement culture. The Trust has no remaining commitment under the Shared Services and Cost Sharing Agreement.

### Administrative Services Agreement with DAM

The following is a summary of cost reimbursements received from or paid to DAM and costs incurred by DAM or the Trust on behalf of the other party for the three months and years ended December 31, 2016 and December 31, 2015 pursuant to the amended Administrative Services Agreement with DAM. Amounts incurred prior to April 2, 2015 are included pursuant to the original agreement:

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Shared services and costs processed on behalf of DAM	\$ 1,569	\$ 1,495	\$ 7,220	\$ 5,560
Operating and administration costs of regional offices processed on behalf of DAM	85	810	615	2,979
<b>Total costs processed on behalf of DAM under the Administrative Services Agreement</b>	<b>\$ 1,654</b>	<b>\$ 2,305</b>	<b>\$ 7,835</b>	<b>\$ 8,539</b>
<b>Total costs processed by DAM on behalf of the Trust under the Administrative Services Agreement</b>	<b>\$ (148)</b>	<b>\$ (476)</b>	<b>\$ (568)</b>	<b>\$ (610)</b>

### Services Agreement with Dream Industrial REIT

Effective October 4, 2012, DOMC and Dream Industrial REIT entered into a Services Agreement, pursuant to which DOMC provides certain services to Dream Industrial REIT on a cost recovery basis.

The following is a summary of the cost recoveries from Dream Industrial REIT for the three months and years ended December 31, 2016 and December 31, 2015:

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Total cost recoveries from Dream Industrial REIT	\$ 973	\$ 806	\$ 3,682	\$ 3,471

### Deferred income taxes

Deferred income taxes (per consolidated financial statements) for the three months and year ended December 31, 2016 were \$0.7 million and \$2.0 million, respectively, which related to the two investment properties located in the United States ("U.S.").

### Other comprehensive income (loss)

Other comprehensive income (loss) comprises unrealized gain (loss) on interest rate swaps and unrealized foreign currency translation gain (loss) related to the two investment properties located in the U.S. Other comprehensive income (per consolidated financial statements) for the three months ended December 31, 2016 was \$1.0 million (for the year ended December 31, 2016 – other comprehensive loss was \$0.4 million). The changes in overall comprehensive income (loss) for the respective periods were mainly driven by foreign exchange adjustments related to our U.S. properties.

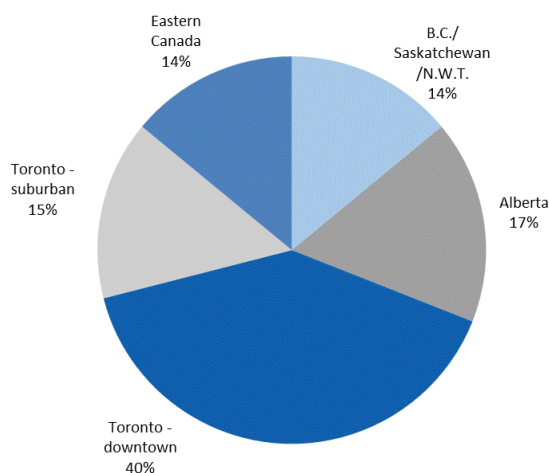
## Net operating income (“NOI”)

NOI is defined as the total of net rental income, including the share of net rental income from investment in joint ventures and property management income, excluding net rental income from properties sold and assets held for sale.

The following pie chart illustrates comparative properties NOI by region as a percentage of comparative properties NOI, excluding properties sold and properties held for sale, for the three months ended December 31, 2016.

### COMPARATIVE PROPERTIES NOI BY REGION

(Three months ended December 31, 2016)



## Comparative portfolio NOI

NOI shown below details comparative and non-comparative items to assist in understanding the impact each component has on NOI. The comparative properties NOI on a year-over-year basis disclosed in the following table excludes NOI from properties held for redevelopment, sold and held for sale. Income from properties held for redevelopment, sold and held for sale contributing to NOI in comparative periods are shown separately. Comparative properties NOI excludes lease termination fees, bad debt expense, one-time property adjustments, straight-line rents and amortization of lease incentives.

For the three months ended December 31, 2016, NOI from comparative properties decreased by 3.8%, or \$3.2 million, over the prior year comparative quarter, with decreases mainly in Alberta, B.C./Saskatchewan/N.W.T., and Eastern Canada, partially offset by increases in Toronto downtown and suburban regions. For the year ended December 31, 2016, NOI from comparative properties decreased by 2.0%, or \$6.9 million, over the prior year, with decreases in all regions except for Toronto downtown where it increased 2.3%, or \$2.9 million, over the prior year. The overall decrease in comparative properties NOI was mainly due to lower occupancy.

	Three months ended December 31,				Year ended December 31,			
	2016	2015	Change		2016	2015	Change	
	\$	\$	\$	%	\$	\$	\$	%
B.C./Saskatchewan/N.W.T.	11,513	11,975	(462)	(3.9)	47,112	47,912	(800)	(1.7)
Alberta	13,795	16,708	(2,913)	(17.4)	61,110	67,662	(6,552)	(9.7)
Toronto – downtown	32,784	32,573	211	0.6	131,345	128,433	2,912	2.3
Toronto – suburban	12,203	11,816	387	3.3	46,959	48,772	(1,813)	(3.7)
Eastern Canada	11,060	11,509	(449)	(3.9)	44,747	45,357	(610)	(1.3)
<b>Comparative properties NOI<sup>(1)</sup></b>	<b>81,355</b>	<b>84,581</b>	<b>(3,226)</b>	<b>(3.8)</b>	<b>331,273</b>	<b>338,136</b>	<b>(6,863)</b>	<b>(2.0)</b>
Lease termination fees and other	213	35	178		1,703	16	1,687	
Property held for redevelopment	(119)	(121)	2		(375)	(432)	57	
Straight-line rent	461	484	(23)		1,843	2,852	(1,009)	
Amortization of lease incentives	(4,655)	(3,832)	(823)		(17,683)	(13,240)	(4,443)	
<b>NOI excluding NOI from properties sold and properties held for sale</b>	<b>77,255</b>	<b>81,147</b>	<b>(3,892)</b>	<b>(4.8)</b>	<b>316,761</b>	<b>327,332</b>	<b>(10,571)</b>	<b>(3.2)</b>
NOI from properties sold and properties held for sale	15,409	28,462	(13,053)		82,438	119,972	(37,534)	
<b>NOI<sup>(1)</sup></b>	<b>\$ 92,664</b>	<b>\$ 109,609</b>	<b>\$ (16,945)</b>	<b>(15.5)</b>	<b>\$ 399,199</b>	<b>\$ 447,304</b>	<b>\$ (48,105)</b>	<b>(10.8)</b>

(1) Comparative properties NOI and NOI (non-GAAP measures) – The reconciliations of comparative properties NOI and NOI to net rental income can be found in the section “Non-GAAP measures and other disclosures” under the headings “Comparative properties NOI” and “NOI”.

Comparative properties NOI from B.C./Saskatchewan/N.W.T. decreased by 3.9%, or \$0.5 million, over the prior year comparative quarter (for the year ended December 31, 2016 – a decrease of 1.7%, or \$0.8 million, over the prior year), primarily due to a decline in weighted average in-place occupancy of approximately 85,000 square feet, partially offset by higher in-place net rents.

Comparative properties NOI from Alberta decreased by 17.4%, or \$2.9 million, over the prior year comparative quarter (for the year ended December 31, 2016 – a decrease of 9.7%, or \$6.6 million, over the prior year), mainly attributable to declines in weighted average in-place occupancy in Alberta of approximately 243,000 square feet and lower in-place net rents. Of that decline, approximately 170,500 square feet related to a previously identified tenant that departed one of our Calgary properties during Q2 2016.

Comparative properties NOI from Toronto downtown increased by 0.6%, or \$0.2 million, over the prior year comparative quarter (for the year ended December 31, 2016 – an increase of 2.3%, or \$2.9 million, over the prior year), mainly due to higher in-place rents on renewals and contractual step-up in rental rates for certain tenants, partially offset by lower weighted average in-place occupancy.

Comparative properties NOI from Toronto suburban increased by 3.3%, or \$0.4 million, over the prior year comparative quarter, mainly attributable to increase in weighted average in-place occupancy in Toronto suburban of approximately 50,000 square feet and one-time favourable year-end recovery adjustments of approximately \$0.2 million on certain properties. For the year ended December 31, 2016, NOI from Toronto suburban decreased by 3.7%, or \$1.8 million, over the prior year, primarily due to a previously identified tenant departure that occupied 196,200 square feet in one of our Mississauga properties at the beginning of Q3 2015 with a full-year impact in 2016.

Comparative properties NOI from Eastern Canada decreased by 3.9%, or \$0.4 million, over the prior year comparative quarter (for the year ended December 31, 2016 – a decrease of 1.3%, or \$0.6 million, over the prior year), primarily due to a decline in weighted average in-place occupancy of approximately 121,000 square feet, partially offset by favourable foreign exchange adjustments in our U.S. properties for the year.

Lease termination fees and other adjustments are not necessarily of a recurring nature and the amounts may vary year-over-year. For the three months and year ended December 31, 2016, lease termination fees and other adjustments amounted to income of \$0.2 million and \$1.7 million, respectively (three months and year ended December 31, 2015 – income of \$0.04 million and \$0.02 million, respectively).

### NOI prior quarter comparison

The comparative properties NOI on a quarter-over-quarter basis disclosed in the following table exclude properties held for redevelopment, sold and held for sale. Income from properties held for redevelopment, sold and held for sale contributing to NOI in comparative periods are shown separately. Comparative properties NOI excludes lease termination fees, bad debt expense, one-time property adjustments, straight-line rents and amortization of lease incentives.

For the three months ended December 31, 2016, NOI from comparative properties on a quarter-over-quarter basis decreased by 1.0%, or \$0.8 million, over the prior quarter, with decreases mainly in Alberta, B.C./Saskatchewan/N.W.T. and the Toronto downtown regions, offset by an increase in Toronto suburban, with Eastern Canada remaining relatively stable. The overall decrease was mainly driven by lower occupancy.

	December 31, 2016	September 30, 2016	Three months ended	
			Amount	Change %
B.C./Saskatchewan/N.W.T.	\$ 11,513	\$ 11,841	\$ (328)	(2.8)
Alberta	13,795	14,877	(1,082)	(7.3)
Toronto – downtown	32,784	32,886	(102)	(0.3)
Toronto – suburban	12,203	11,514	689	6.0
Eastern Canada	11,060	11,019	41	0.4
<b>Comparative properties NOI<sup>(1)</sup></b>	<b>81,355</b>	<b>82,137</b>	<b>(782)</b>	<b>(1.0)</b>
Lease termination fees and other	213	(67)	280	
Property held for redevelopment	(119)	(67)	(52)	
Straight-line rent	461	404	57	
Amortization of lease incentives	(4,655)	(4,399)	(256)	
<b>NOI excluding NOI from properties sold and properties held for sale</b>	<b>77,255</b>	<b>78,008</b>	<b>(753)</b>	<b>(1.0)</b>
NOI from properties sold and properties held for sale	15,409	16,621	(1,212)	
<b>NOI<sup>(1)</sup></b>	<b>\$ 92,664</b>	<b>\$ 94,629</b>	<b>\$ (1,965)</b>	<b>(2.1)</b>

(1) Comparative properties NOI and NOI (non-GAAP measures) – The reconciliations of comparative properties NOI and NOI to net rental income can be found in the section “Non-GAAP measures and other disclosures” under the headings “Comparative properties NOI” and “NOI”.

Comparative properties NOI from B.C./Saskatchewan/N.W.T. decreased by 2.8%, or \$0.3 million, over the prior quarter, mainly attributable to declines in weighted average in-place occupancy in B.C./Saskatchewan/N.W.T. of approximately 22,000 square feet.

Comparative properties NOI from Alberta decreased by 7.3%, or \$1.1 million, over the prior quarter, mainly attributable to declines in weighted average in-place occupancy in Alberta of approximately 35,000 square feet and lower in-place net rents.

Comparative properties NOI from Toronto downtown decreased by 0.3%, or \$0.1 million, over the prior quarter, mainly due to lower weighted average in-place occupancy, partially offset by higher in-place rents on renewals and contractual step-up in rental rates for certain tenants.

Comparative properties NOI from Toronto suburban increased by 6.0%, or \$0.7 million, over the prior quarter, mainly attributable to one-time favourable year-end recovery adjustments of approximately \$0.2 million on certain properties and an increase in the weighted average in-place occupancy in Toronto suburban of approximately 33,000 square feet.

Comparative properties NOI from Eastern Canada was relatively flat quarter-over-quarter.

Lease termination fees and other adjustments are not necessarily of a recurring nature and the amounts may vary from quarter to quarter. For the three months ended December 31, 2016, lease termination fees and other adjustments amounted to a gain of \$0.2 million (three months ended September 30, 2016 – loss of \$0.1 million).

### Funds from operations (“FFO”)

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
<b>Net loss for the period</b>	\$ (100,671)	\$ (54,137)	\$ (879,705)	\$ (55,039)
Add (deduct):				
Share of net income (loss) and accretion loss from investment in Dream Industrial REIT	(1,156)	5,923	(8,086)	(6,112)
Share of FFO from investment in Dream Industrial REIT	4,068	4,519	17,104	18,056
Depreciation and amortization	5,526	4,614	21,283	16,213
Costs on sale of investment properties <sup>(1)</sup>	3,137	2,121	12,074	3,773
Interest expense on subsidiary redeemable units	1,963	2,931	8,174	9,171
Fair value adjustments to investment properties	136,100	79,400	1,071,800	190,000
Fair value adjustments to financial instruments and DUIP included in G&A expenses	15,257	(21,046)	13,108	(49,851)
Debt settlement costs, net	—	1,136	13,320	1,999
Internal leasing costs	2,150	2,442	8,822	9,246
Deferred income taxes	724	516	1,953	1,695
Loss on recognition of net assets related to joint operations	—	—	10,263	—
Impairment of goodwill	—	51,212	—	51,212
Interest rate swap reclassified to net income, net of taxes	—	—	561	—
Other	57	41	216	16
<b>FFO before undernoted item</b>	\$ 67,155	\$ 79,672	\$ 290,887	\$ 190,379
Add: Cost on Reorganization	—	—	—	128,132
<b>FFO<sup>(2)</sup></b>	\$ 67,155	\$ 79,672	\$ 290,887	\$ 318,511
FFO per unit – basic <sup>(3)</sup>	\$ 0.59	\$ 0.70	\$ 2.55	\$ 2.83
FFO per unit – diluted <sup>(3)</sup>	\$ 0.59	\$ 0.70	\$ 2.54	\$ 2.82

(1) For the three months and year ended December 31, 2016, costs on sale of investment properties included severance charges directly attributable to the investment properties sold of \$161 and \$210, respectively.

(2) FFO (non-GAAP measure) – Refer to the section “Non-GAAP measures and other disclosures” under the heading “Funds from operations (“FFO”)” for further details. FFO (non-GAAP measure) for the comparative period excludes the one-time cost on Reorganization of \$128,132 recorded in Q2 2015.

(3) The LP B Units are included in the calculation of basic and diluted FFO per unit.

FFO for the three months and year ended December 31, 2016 was \$67.2 million and \$290.9 million, respectively, a decrease of \$12.5 million, or 15.7%, over the prior year comparative quarter and a decrease of \$27.6 million, or 8.7%, over the prior year.

Diluted FFO on a per unit basis for the three months and year ended December 31, 2016 was \$0.59 and \$2.54, respectively, compared to \$0.70 and \$2.82 for the three months and year ended December 31, 2015. The decline when compared to the prior year comparative quarter and period was mainly due to the following reasons:

- Disposition of properties;
- Decrease in comparative NOI;
- Incremental change in straight-line rent adjustment; and
- Charge on cost reduction program relating to the simplification of the Trust's operating and shared service platform.

The decline when compared to the prior year comparative quarter and period was partially offset by:

- Interest savings on debt discharged associated with disposed properties;
- Interest rate savings upon refinancing of maturing debt; and
- Incremental change in lease termination and other.

### Adjusted funds from operations ("AFFO")

Consistent with the Strategic Plan as described in the "Our Objectives" section of this MD&A, the Trust is focused on the net asset value of its portfolio. To do this, the Trust has originally targeted the disposition of \$1.2 billion of Private Market Assets over the next three years to crystallize value and reduce the unit price discount to the Trust's underlying net asset value per unit. The timing and amount of these dispositions is not certain, nor is the composition of the remaining portfolio. Further, continuing economic uncertainty in the Alberta office market will result in higher leasing costs, relative to historical normalized rates. There can also be a large degree of variability in the actual amounts incurred in any given period due to the timing and extent of leasing activity and building improvement projects. Management does not believe current costs in respect of leasing and building improvements are indicative of a normalized longer-term trend.

Given these dynamics, it is difficult for management to provide a meaningful normalized reserve for leasing costs and building improvements, based on a percentage of NOI, in the calculation of AFFO consistent with our practice in prior periods. Accordingly, the Trust has discontinued presenting AFFO in its MD&A and public disclosures and is of the view that net asset value is a more relevant metric.

In prior periods, the Trust had included AFFO, a non-GAAP measure, as part of the MD&A as management previously was of the view that it provided an important additional measure of the Trust's operating performance. For unitholders that continue to use AFFO to evaluate the performance of the Trust, we continue to disclose in our MD&A relevant information, including leasing and building improvement costs incurred during the period, for unitholders to make their own estimates of AFFO.

### SELECTED ANNUAL INFORMATION

The following table provides selected financial information for the past three years:

	2016	2015	2014
Investment properties revenue	\$ 664,291	\$ 690,962	\$ 705,279
Net income (loss)	<b>(879,705)</b>	(55,039)	159,290
Total assets	<b>5,486,516</b>	6,762,874	7,029,751
Non-current debt	<b>2,321,530</b>	2,401,104	2,730,973
Total debt	<b>2,649,790</b>	3,010,748	3,096,828
Total distributions	<b>177,313</b>	254,303	244,698
Distribution rate (per unit)	<b>1.56<sup>(1)</sup></b>	2.24	2.24
Units outstanding:			
REIT Units, Series A	<b>104,806,724</b>	107,860,638	107,936,575
LP Class B Units, Series 1	<b>5,233,823</b>	5,233,823	602,434

(1) The Trust announced on February 18, 2016 a reduction to its monthly cash distribution from \$0.18666 per unit to \$0.125 per unit, or \$1.50 per unit on an annualized basis, effective for the month of February 2016 distribution.

## QUARTERLY INFORMATION

The following tables show quarterly information since January 1, 2015.

### Key leasing, financing, portfolio and results of operations quarterly information

	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Leasing – total portfolio<sup>(1)</sup></b>								
Occupancy rate – including committed (period-end)	<b>89.7%</b>	88.9%	90.1%	91.4%	91.3%	91.6%	92.8%	92.8%
Occupancy rate – in-place (period-end)	<b>87.9%</b>	87.0%	87.7%	89.4%	89.8%	89.8%	91.0%	91.4%
Tenant retention ratio	<b>54.9%</b>	66.1%	60.0%	65.3%	74.7%	53.4%	61.8%	51.5%
Average in-place and committed net rent per square foot (period-end)	<b>\$ 19.21</b>	\$ 18.95	\$ 18.75	\$ 19.02	\$ 18.94	\$ 18.73	\$ 18.28	\$ 18.24
Market rent/in-place and committed net rent (%)	<b>(2.8%)</b>	(6.1%)	(5.9%)	0.9%	2.7%	5.0%	6.4%	7.5%
<b>Financing</b>								
Weighted average face rate of interest on debt (period-end) <sup>(2)</sup>	<b>3.84%</b>	3.89%	3.97%	3.96%	4.05%	4.11%	4.13%	4.16%
Interest coverage ratio (times) <sup>(3)</sup>	<b>3.0</b>	3.0	2.9	2.9	2.9	2.9	2.9	2.9
Net debt-to-adjusted EBITDFV (years) <sup>(3)</sup>	<b>7.7</b>	7.3	7.4	7.8	7.7	7.8	7.7	7.9
Level of debt (net total debt-to-gross book value) <sup>(3)</sup>	<b>52.3%</b>	50.4%	51.3%	48.6%	48.3%	48.0%	47.9%	47.6%
<b>Portfolio<sup>(1)</sup></b>								
Number of properties	<b>121</b>	148	157	160	166	169	174	174
GLA (millions of sq. ft.)	<b>17.2</b>	20.8	21.5	22.3	23.0	23.3	24.1	24.1

(1) Excludes properties held for sale and a redevelopment property at period-end.

(2) Weighted average face interest rate is calculated as the weighted average face rate of all interest bearing debt on balance, including debt related to investment in joint ventures that are equity accounted.

(3) The calculation of the following non-GAAP measures – interest coverage ratio, net debt-to-adjusted EBITDFV and levels of debt – are included in the “Non-GAAP measures and other disclosures” section of the MD&A.

### Results of operations

(in thousands of Canadian dollars)

	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Investment properties revenue	<b>\$ 166,919</b>	\$ 170,699	\$ 159,124	\$ 167,549	\$ 168,349	\$ 174,370	\$ 174,402	\$ 173,841
Investment properties operating expenses	<b>(75,204)</b>	(77,032)	(70,513)	(72,964)	(73,662)	(78,734)	(75,275)	(75,778)
<b>Net rental income</b>	<b>91,715</b>	93,667	88,611	94,585	94,687	95,636	99,127	98,063
Other income (loss)	<b>(9,990)</b>	1,616	(63,682)	(70,900)	5,177	19,099	15,894	22,083
Other expenses	<b>(33,894)</b>	(34,766)	(36,013)	(38,500)	(37,911)	(38,741)	(39,185)	(40,297)
Fair value adjustments, net losses on transactions and other activities	<b>(147,778)</b>	(31,573)	(695,587)	(85,263)	(115,574)	(49,259)	(164,345)	(17,798)
<b>Income (loss) before income taxes</b>	<b>(99,947)</b>	28,944	(706,671)	(100,078)	(53,621)	26,735	(88,509)	62,051
Deferred income taxes expense	<b>(724)</b>	(364)	(403)	(462)	(516)	(522)	(328)	(329)
<b>Net income (loss) for the period</b>	<b>(100,671)</b>	28,580	(707,074)	(100,540)	(54,137)	26,213	(88,837)	61,722
Other comprehensive income (loss)	<b>961</b>	523	(40)	(1,859)	1,783	3,315	(59)	2,308
<b>Comprehensive income (loss) for the period</b>	<b>\$ (99,710)</b>	\$ 29,103	\$ (707,114)	\$ (102,399)	\$ (52,354)	\$ 29,528	\$ (88,896)	\$ 64,030

## Calculation of funds from operations

(in thousands of Canadian dollars except for unit and per unit amounts)

	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Net income (loss) for the period</b>	<b>\$ (100,671)</b>	\$ 28,580	\$ (707,074)	\$ (100,540)	\$ (54,137)	\$ 26,213	\$ (88,837)	\$ 61,722
Add (deduct):								
Share of net loss (income) and dilution/accretion loss from investment in Dream Industrial REIT	(1,156)	(255)	(4,400)	(2,275)	5,923	(3,303)	(4,305)	(4,427)
Share of FFO from investment in Dream Industrial REIT	4,068	4,307	4,348	4,381	4,519	4,506	4,517	4,514
Depreciation and amortization	5,526	5,291	5,460	5,006	4,614	4,125	3,915	3,561
Costs on sale of investment properties	3,137	2,213	5,217	1,507	2,121	1,531	—	121
Interest expense on subsidiary redeemable units	1,963	1,963	1,963	2,285	2,931	2,931	2,972	337
Fair value adjustments to investment properties	136,100	33,700	759,400	142,600	79,400	58,200	44,100	8,300
Fair value adjustments to financial instruments and DUIP included in G&A expenses	15,257	(9,677)	(12,748)	20,276	(21,046)	(19,091)	(10,647)	933
Debt settlement costs, net	—	2,844	8,862	1,614	1,136	863	—	—
Reclassified interest rate swap, net of taxes	—	—	—	561	—	—	—	—
Internal leasing costs	2,150	2,051	2,299	2,322	2,442	2,411	2,342	2,051
Deferred income taxes expense	724	364	403	462	516	522	328	329
Impairment of goodwill	—	—	—	—	51,212	—	—	—
Loss on recognition of net assets related to joint operations	—	—	10,263	—	—	—	—	—
Other	57	(22)	157	24	41	9	(44)	(2)
<b>FFO before undernoted item</b>	<b>\$ 67,155</b>	\$ 71,359	\$ 74,150	\$ 78,223	\$ 79,672	\$ 78,917	\$ (45,659)	\$ 77,439
Add: Cost on Reorganization	—	—	—	—	—	—	128,132	—
<b>FFO<sup>(1)</sup></b>	<b>\$ 67,155</b>	\$ 71,359	\$ 74,150	\$ 78,223	\$ 79,672	\$ 78,917	\$ 82,473	\$ 77,439
FFO per unit – basic <sup>(2)</sup>	\$ 0.59	\$ 0.62	\$ 0.65	\$ 0.69	\$ 0.70	\$ 0.70	\$ 0.73	\$ 0.71
FFO per unit – diluted <sup>(2)</sup>	\$ 0.59	\$ 0.62	\$ 0.65	\$ 0.68	\$ 0.70	\$ 0.69	\$ 0.72	\$ 0.71
<b>Weighted average units outstanding<sup>(3)</sup></b>								
Basic (in thousands)	113,920	114,448	114,396	113,971	113,483	113,532	113,664	108,718
Diluted (in thousands)	114,018	114,558	114,516	115,488	115,019	115,075	115,256	110,352

(1) FFO (non-GAAP measure) – Refer to the section “Non-GAAP measures and other disclosures” under the heading “Funds from operations (“FFO”) for further details. FFO (non-GAAP measure) for the comparative period excludes the one-time cost on Reorganization of \$128,132 recorded in Q2 2015.

(2) The LP B Units are included in the calculation of basic and diluted FFO per unit.

(3) A description of the determination of basic and diluted amounts per unit can be found in the section Non-GAAP measures and other disclosures under the heading “Weighted average number of units”.



## NON-GAAP MEASURES AND OTHER DISCLOSURES

The following non-GAAP measures are important measures used by management in evaluating the Trust's underlying operating performance and debt management. These non-GAAP measures are not defined by IFRS, do not have a standardized meaning and may not be comparable with similar measures presented by other income trusts.

### Strategic Plan classification

The ongoing execution of the Strategic Plan is premised on the classification of our portfolio into three segments, namely Core Assets, Private Market Assets and Value-Add Assets. The related investment properties and associated mortgages are non-GAAP measures used by Management in evaluating the intrinsic value of the assets as it relates to the execution of the Strategic Plan. However, these non-GAAP measures are not defined by IFRS, do not have a standardized meaning and may not be comparable with similar measures presented by other income trusts.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", the Strategic Plan classification of the related investment properties and associated mortgages has been reconciled in the table below to investment properties and mortgages as included in the consolidated financial statements.

Strategic Plan classification	December 31, 2016	
	Investment properties	Mortgages
Core Assets	\$ 3,252,640	\$ 1,306,771
Private Market Assets	1,160,588	446,236
Value-Add Assets	483,127	314,048
<b>Total comparative portfolio before assets classified as held for sale/sold properties</b>	4,896,355	2,067,055
Add:		
Assets classified as held for sale/sold properties	321,232	209,228
<b>Total portfolio</b>	\$ 5,217,587	\$ 2,276,283
Less:		
Investment in joint ventures	60,000	39,883
Wholly owned/co-owned properties classified as assets held for sale	321,232	209,228
<b>Total amounts included in consolidated financial statements</b>	\$ 4,836,355	\$ 2,027,172

### Total equity (including LP B Units)

One of the components used to determine the Trust's net asset value per unit is total equity (including LP B Units). Total equity (including LP B Units) is calculated as the sum of the equity amount per consolidated financial statements and the subsidiary redeemable units amount. Management believes it is important to include the subsidiary redeemable units amount for the purpose of determining the Trust's capital management. Management does not consider the subsidiary redeemable units to be debt or borrowings of the Trust, but rather a component of the Trust's equity. However, total equity (including LP B Units) is not defined by IFRS, does not have a standardized meaning and may not be comparable with similar measures presented by other income trusts.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", the table within the section "Our Equity" reconciles total equity (including LP B Units) to equity (as per consolidated financial statements).

### Net asset value ("NAV") per unit

NAV per unit is calculated as the total equity (including LP B Units) divided by the total number of REIT A Units and LP B Units. This non-GAAP measurement is an important measure used by the Trust, as it reflects management's view of the intrinsic value of the Trust. However, it is not defined by IFRS, does not have a standardized meaning and may not be comparable with similar measures presented by other income trusts.

## Funds from operations (“FFO”)

Management believes FFO is an important measure of our operating performance. This non-GAAP measurement is a commonly used measure of performance of real estate operations; however, it does not represent net income nor cash generated from operating activities, as defined by IFRS, and is not necessarily indicative of cash available to fund Dream Office REIT’s needs.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”, FFO has been reconciled to net income in the section “Our Results of Operations” under the heading “Funds from operations”.

## NOI

NOI is defined by the Trust as the total investment property revenue less investment property operating expenses, including the share of net rental income from investment in joint ventures and property management income. This non-GAAP measurement is an important measure used by the Trust in evaluating property operating 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 income trusts. In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”, NOI has been reconciled to net rental income in the table below:

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Net rental income (included in consolidated financial statements)	\$ 91,715	\$ 94,687	\$ 368,578	\$ 387,513
Add: Share of net rental income from investments in joint ventures	949	14,922	30,621	59,791
NOI	92,664	109,609	399,199	447,304
Less: NOI from properties sold and properties held for sale	15,409	28,462	82,438	119,972
<b>NOI (excluding NOI from properties sold and properties held for sale)</b>	<b>\$ 77,255</b>	<b>\$ 81,147</b>	<b>\$ 316,761</b>	<b>\$ 327,332</b>

## Comparative properties NOI

Comparative properties NOI includes NOI of the same properties owned by the Trust in (i) the current and prior year comparative period and (ii) the current and prior quarter, and excludes: lease termination fees; one-time property adjustments; bad debt expenses; NOI of properties sold, properties held for sale, and properties held for redevelopment; straight-line rent; and amortization of lease incentives. Comparative properties NOI is an important non-GAAP measure used by management to evaluate the performance of the same properties owned by the Trust in the current period, comparative period and prior quarter as presented. This non-GAAP measure is not defined by IFRS, does not have a standard meaning and may not be comparable with similar measures presented by other income trusts. In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”, comparative properties NOI for the respective periods have been reconciled to net rental income in the tables below:

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Net rental income (included in consolidated financial statements)	\$ 91,715	\$ 94,687	\$ 368,578	\$ 387,513
Add: Share of net rental income from investments in joint ventures	949	14,922	30,621	59,791
Less: Lease termination fees and other	213	35	1,703	16
Less: Properties held for redevelopment	(119)	(121)	(375)	(432)
Less: Straight-line rent	461	484	1,843	2,852
Less: Amortization of lease incentives	(4,655)	(3,832)	(17,683)	(13,240)
Less: NOI from properties sold and properties held for sale	15,409	28,462	82,438	119,972
<b>Comparative properties NOI</b>	<b>\$ 81,355</b>	<b>\$ 84,581</b>	<b>\$ 331,273</b>	<b>\$ 338,136</b>

	Three months ended	
	December 31, 2016	September 30, 2016
Net rental income (included in consolidated financial statements)	\$ 91,715	\$ 93,667
Add: Share of net rental income from investments in joint ventures	949	962
Less: Lease termination fees and other	213	(67)
Less: Properties held for redevelopment	(119)	(67)
Less: Straight-line rent	461	404
Less: Amortization of lease incentives	(4,655)	(4,399)
Less: NOI from properties sold and properties held for sale	15,409	16,621
<b>Comparative properties NOI</b>	<b>\$ 81,355</b>	<b>\$ 82,137</b>

### Stabilized NOI

Stabilized NOI for an individual property is defined by the Trust as investment property revenues less property operating expenses, including the share of net rental income from investment in joint ventures and property management income, adjusted for items such as average lease up costs, long-term vacancy rates, non-recoverable capital expenditures, management fees, straight-line rents and other non-recurring items. This non-GAAP measurement is an important measure used by the Trust in determining the fair value of certain investment properties that are valued using the direct capitalization method; however, it is not defined by IFRS, does not have a standard meaning and may not be comparable with similar measures presented by other income trusts.

### Weighted average number of units

The basic weighted average number of units outstanding used in the FFO per unit calculations includes the weighted average number of all REIT Units, LP B Units, and vested but unissued deferred trust units and income deferred trust units. The diluted weighted average number of units for the year ended December 31, 2016 reflects the conversion of the 5.5% Series H Debentures, as they are dilutive prior to its redemption on March 31, 2016. Diluted FFO per unit for the year ended December 31, 2016 excludes \$0.7 million in interest related to convertible debentures (for the three months and year ended December 31, 2015 – \$0.7 million and \$2.8 million, respectively).

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Weighted average number of units (in thousands)				
Basic	113,920	113,483	114,203	112,370
Diluted	114,018	115,019	114,651	113,927

### Adjusted cash flows from operating activities

When the Trust determines its cash available for distribution, it uses adjusted cash flows from operating activities which includes cash flows from operating activities of our investments in joint ventures that are equity accounted and excludes working capital and investment in lease incentives and initial direct leasing costs. Working capital and investment in lease incentives and initial direct leasing costs have been excluded from adjusted cash flows from operating activities to eliminate the seasonal fluctuations in non-cash working capital and the impact of leasing costs, which fluctuate with lease maturities, renewal terms, the type of asset being leased and when tenants fulfill the terms of their respective lease agreements. The Trust funds its working capital needs and investments in lease incentives and initial direct leasing costs with cash and cash equivalents on hand and, if necessary, with our credit facilities. Accordingly, management believes adjusted cash flows from operating activities is an important measure that reflects our ability to pay cash distributions. This non-GAAP measurement does not represent cash generated from (utilized in) operating activities (as per consolidated financial statements), as defined by GAAP.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”, the table within this section under the heading “Cash flows from operating activities and distributions declared” reconciles adjusted cash flows from operating activities to cash generated from (utilized in) operating activities (as per consolidated financial statements).

### **Cash flows from operating activities (including investments in joint ventures)**

When the Trust determines its cash available for distribution, it uses adjusted cash flows from operating activities. One of the components of adjusted cash flows from operating activities is cash flows from operating activities of our investments in joint ventures that are equity accounted. Management believes it is important to include cash flows from operating activities of our investments in joint ventures that are equity accounted as it forms part of the Trust's determination of its cash available for distribution. This non-GAAP measurement does not represent cash generated from (utilized in) operating activities (as per consolidated financial statements), as defined by IFRS.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", the table within this section under the heading "Cash flows from operating activities and distributions declared" reconciles cash flows from operating activities (including investments in joint ventures) to cash generated from (utilized in) operating activities (as per consolidated financial statements).

### **Investment in joint ventures and debt associated with assets held for sale**

The Trust's proportionate share of the financial position and results of operations of its investment in joint ventures, which are accounted for using the equity method in the consolidated financial statements and as presented and discussed throughout this MD&A using the proportionate consolidation method, are non-GAAP measures. The reconciliation of debt tables is included in the "Our financing" section of this MD&A. The reconciliation of the consolidated statements of comprehensive income is included in the "Our results of operations" section of this MD&A under the heading "Statement of comprehensive income (loss) reconciliation to consolidated financial statements". A reconciliation of the financial position to the consolidated balance sheets is included in the following table:

## Balance sheet reconciliation to consolidated financial statements

	December 31, 2016			December 31, 2015		
	Amounts per consolidated financial statements	Share from investment in joint ventures	Total	Amounts per consolidated financial statements	Share from investment in joint ventures	Total
<b>Assets</b>						
<b>NON-CURRENT ASSETS</b>						
Investment properties	\$ 4,836,355	\$ 60,000	\$ 4,896,355	\$ 5,899,131	\$ 1,103,603	\$ 7,002,734
Investment in Dream Industrial REIT	186,754	—	186,754	184,817	—	184,817
Investment in joint ventures	15,189	(15,189)	—	595,203	(595,203)	—
Other non-current assets	16,556	7	16,563	17,448	256	17,704
	<b>5,054,854</b>	<b>44,818</b>	<b>5,099,672</b>	<b>6,696,599</b>	<b>508,656</b>	<b>7,205,255</b>
<b>CURRENT ASSETS</b>						
Amounts receivable	17,786	249	18,035	10,258	3,785	14,043
Prepaid expenses and other receivables	84,854	140	84,994	9,052	340	9,392
Cash and cash equivalents	7,667	1,544	9,211	2,051	10,382	12,433
	<b>110,307</b>	<b>1,933</b>	<b>112,240</b>	<b>21,361</b>	<b>14,507</b>	<b>35,868</b>
Assets held for sale	321,355	—	321,355	44,914	—	44,914
<b>Total assets</b>	<b>\$ 5,486,516</b>	<b>\$ 46,751</b>	<b>\$ 5,533,267</b>	<b>\$ 6,762,874</b>	<b>\$ 523,163</b>	<b>\$ 7,286,037</b>
<b>Liabilities</b>						
<b>NON-CURRENT LIABILITIES</b>						
Debt	\$ 2,321,530	\$ 39,883	\$ 2,361,413	\$ 2,401,104	\$ 410,832	\$ 2,811,936
Subsidiary redeemable units	102,321	—	102,321	90,912	—	90,912
Deferred Unit Incentive Plan	14,796	—	14,796	12,596	—	12,596
Deferred tax liabilities, net	10,735	—	10,735	9,038	—	9,038
Other non-current liabilities	15,056	2	15,058	20,284	491	20,775
	<b>2,464,438</b>	<b>39,885</b>	<b>2,504,323</b>	<b>2,533,934</b>	<b>411,323</b>	<b>2,945,257</b>
<b>CURRENT LIABILITIES</b>						
Debt	328,260	—	328,260	609,644	74,661	684,305
Amounts payable and accrued liabilities	104,997	6,866	111,863	112,980	37,179	150,159
	<b>433,257</b>	<b>6,866</b>	<b>440,123</b>	<b>722,624</b>	<b>111,840</b>	<b>834,464</b>
Liabilities related to assets held for sale	217,056	—	217,056	24,502	—	24,502
<b>Total liabilities</b>	<b>3,114,751</b>	<b>46,751</b>	<b>3,161,502</b>	<b>3,281,060</b>	<b>523,163</b>	<b>3,804,223</b>
<b>Equity</b>						
Unitholders' equity	3,108,424	—	3,108,424	3,168,915	—	3,168,915
Retained earnings (deficit)	(747,840)	—	(747,840)	301,324	—	301,324
Accumulated other comprehensive income	11,181	—	11,181	11,575	—	11,575
<b>Total equity</b>	<b>2,371,765</b>	<b>—</b>	<b>2,371,765</b>	<b>3,481,814</b>	<b>—</b>	<b>3,481,814</b>
<b>Total liabilities and equity</b>	<b>\$ 5,486,516</b>	<b>\$ 46,751</b>	<b>\$ 5,533,267</b>	<b>\$ 6,762,874</b>	<b>\$ 523,163</b>	<b>\$ 7,286,037</b>

## Cash flows from operating activities and distributions declared

In any given period, actual cash generated from (utilized in) operating activities may differ from distributions declared, primarily due to seasonal fluctuations in non-cash working capital and the impact of leasing costs, which fluctuate with lease maturities, renewal terms, the type of asset being leased, and when tenants fulfill the terms of their respective lease agreements. These seasonal fluctuations or the unpredictability of when leasing costs are incurred are funded with our cash and cash equivalents on hand and, if necessary, with our existing credit facilities. The Trust determines the distribution rate by, among other considerations, its assessment of cash flow as determined using adjusted cash flows from operating activities (a non-GAAP measure), which includes cash flows from operating activities of our investments in joint ventures that are equity accounted and excludes non-cash working capital, and investment in lease incentives and initial direct leasing costs. As such, the Trust believes the cash distributions are not an economic return of capital, but a distribution of sustainable adjusted cash flow from operating activities. The Trust continues to monitor our distribution policy in light of the ongoing execution of our Strategic Plan.

In any given period, the Trust anticipates that net income (loss) will, in the foreseeable future, continue to vary from total distributions as net income (loss) includes non-cash items such as fair value adjustments to investment properties and financial instruments. Accordingly, the Trust does not use net income (loss) as a proxy for distributions.

As required by National Policy 41-201, "Income Trusts and Other Indirect Offerings", the following tables outline the differences between cash generated from (utilized in) operating activities (per consolidated financial statements) and total distributions, as well as the differences between net income (loss) and total distributions, in accordance with the guidelines.

The following table summarizes net income (loss) and total distributions for the three months and years ended December 31, 2016 and December 31, 2015:

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Net loss for the period	\$ (100,671)	\$ (54,137)	\$ (879,705)	\$ (55,039)
Total distributions <sup>(1)</sup>	\$ 42,235	\$ 64,265	\$ 177,633	\$ 254,303

(1) Includes distributions declared on LP B Units and 4% bonus on distributions reinvested.

As the Trust uses adjusted cash flows from operating activities (a non-GAAP measure) in determining its cash available for distribution, the following table reconciles cash generated from operating activities (per consolidated financial statements) to adjusted cash flows from operating activities.

	Three months ended December 31,		Year ended December 31,	
	2016	2015 <sup>(1)</sup>	2016	2015 <sup>(1)</sup>
<b>Cash generated from operating activities (per consolidated financial statements)</b>	\$ 35,911	\$ 53,778	\$ 147,368	\$ 192,509
Add:				
Investment in joint ventures' cash flows from operating activities	278	7,270	18,123	46,419
<b>Cash flows from operating activities (including investment in joint ventures)</b>	<b>36,189</b>	<b>61,048</b>	<b>165,491</b>	<b>238,928</b>
Add (deduct):				
Investment in lease incentives and initial direct leasing costs	21,710	24,653	82,287	67,145
Change in non-cash working capital	3,810	(12,591)	15,586	(15,454)
<b>Adjusted cash flows from operating activities</b>	<b>\$ 61,709</b>	<b>\$ 73,110</b>	<b>\$ 263,364</b>	<b>\$ 290,619</b>
Total distributions <sup>(2)</sup>	\$ 42,235	\$ 64,265	\$ 177,633	\$ 254,303

(1) Comparative figures have been reclassified to conform to the current period presentation.

(2) Includes distributions declared on LP B Units and 4% bonus on distributions reinvested.

The following table compares adjusted cash flows from operating activities to total distributions, net loss and cash generated from operating activities (per consolidated financial statements) to total distributions:

	Three months ended December 31,		Year ended December 31,	
	2016	2015 <sup>(1)</sup>	2016	2015 <sup>(1)</sup>
Excess of adjusted cash flows from operating activities over total distributions <sup>(2)</sup>	\$ 19,474	\$ 8,845	\$ 85,731	\$ 36,316
Total distributions <sup>(2)</sup> over net loss	(142,906)	(118,402)	(1,057,338)	(309,342)
Shortfall of cash generated from operating activities (per consolidated financial statements) over total distributions <sup>(2)</sup>	\$ (6,324)	\$ (10,487)	\$ (30,265)	\$ (61,794)

(1) Comparative figures have been reclassified to conform to the current period presentation.

(2) Includes distributions declared on LP B Units and 4% bonus on distributions reinvested.

For the three months and year ended December 31, 2016, adjusted cash flows from operating activities exceeded total distributions by \$19.5 million and \$85.7 million, respectively (for the three months and year ended December 31, 2015 – \$8.8 million and \$36.3 million, respectively).

For the three months and year ended December 31, 2016, total distributions exceeded cash generated from operating activities (per consolidated financial statements) by \$6.3 million and \$30.3 million, respectively. The shortfall of cash generated from operating activities over total distributions is mainly due to the seasonal fluctuations in non-cash working capital and the impact of leasing costs, which fluctuate with lease maturities, renewal terms and the type of asset being leased. In addition, the shortfall for the year ended December 31, 2016 was due to the fact that cash flows from operating activities of our investments in joint ventures that are equity accounted were excluded from this calculation despite the fact that they form part of the Trust's determination of its cash available for distribution. For the three months and year ended December 31, 2015, total distributions exceeded cash generated from operating activities (per consolidated financial statements) by \$10.5 million and \$61.8 million, respectively, for the same reasons noted in the current year.

For the three months and year ended December 31, 2016, total distributions exceeded cash flows from operating activities (including investment in joint ventures) by \$6.0 million and \$12.1 million, respectively. The shortfall was mainly driven by the impact of leasing costs, which fluctuate with lease maturities, renewal terms, the type of asset being leased, and when tenants fulfill the terms of their respective lease agreements. These investments were funded by cash and cash equivalents and, if necessary, by our existing credit facilities. For the three months and year ended December 31, 2015, total distributions exceeded cash flows from operating activities (including investment in joint ventures) by \$3.2 million and \$15.4 million, respectively, for the same reasons noted in the current year.

Of the total distributions for the year ended December 31, 2016, \$8.3 million was reinvested in units pursuant to the DRIP. Over time, reinvestments pursuant to the DRIP will increase the number of units outstanding, thereby increasing the total cash distributions. Our Declaration of Trust provides our trustees with the discretion to determine the percentage payout of income that would be in the best interest of the Trust, which allows for any unforeseen expenditures and the variability in cash distributions as a result of additional units issued pursuant to the Trust's DRIP. Accordingly, the Trust believes this does not constitute an economic return of capital. The Trust's DRIP was suspended in February 2016.

For the three months and year ended December 31, 2016, total distributions exceeded net loss by \$142.9 million and \$1.1 billion, respectively, primarily due to non-cash components of net loss, which include the fair value loss to investment properties of \$136.1 million and \$1.1 billion, respectively, and fair value adjustments to financial instruments of \$15.2 million and \$13.6 million, respectively. For the three months and year ended December 31, 2015, total distributions exceeded net loss by \$118.4 million and \$309.3 million, respectively, mainly due to the same reasons noted in the current year.

### Level of debt (net total debt-to-gross book value and net secured debt-to-gross book value)

Management believes these non-GAAP measurements are important measures in the management of our debt levels. Net total debt-to-gross book value as shown below is determined as total debt (net of cash on hand), which includes debt related to investment in joint ventures that are equity accounted and debt related to assets held for sale, divided by total assets. Net secured debt-to-gross book value as shown below is determined as secured debt (net of unsecured debt and cash on hand), which includes debt related to investment in joint ventures that are equity accounted and debt related to assets held for sale, divided by total assets. Total assets include assets of investment in joint ventures that are equity accounted and the reversal of accumulated depreciation of property and equipment and cash on hand.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”, the following tables calculate the level of debt (net total debt-to-gross book value and net secured debt-to-gross book value) as at December 31, 2016 and December 31, 2015:

	As at December 31, 2016		
	Amounts per consolidated financial statements	Share of amounts from investment in joint ventures	Total
Non-current debt	\$ 2,321,530	\$ 39,883	\$ 2,361,413
Current debt	328,260	—	328,260
Debt before undernoted items	2,649,790	39,883	2,689,673
Add: Debt related to assets held for sale	209,228	—	209,228
Add: Overdraft <sup>(1)</sup>	1,274	—	1,274
<b>Net total debt</b>	<b>2,860,292</b>	<b>39,883</b>	<b>2,900,175</b>
Less: Unsecured debt	<b>(448,828)</b>	—	<b>(448,828)</b>
<b>Net total secured debt</b>	<b>2,411,464</b>	<b>39,883</b>	<b>2,451,347</b>
Total assets	5,486,516 <sup>(2)</sup>	46,751	5,533,267 <sup>(3)</sup>
Add: Accumulated depreciation of property and equipment	8,753	—	8,753
Add: Overdraft <sup>(1)</sup>	1,274	—	1,274
<b>Total assets (excluding accumulated depreciation of property and equipment and cash on hand)</b>	<b>\$ 5,496,543</b>	<b>\$ 46,751</b>	<b>\$ 5,543,294</b>
<b>Net total debt-to-gross book value</b>			<b>52.3%</b>
<b>Net secured debt-to-gross book value</b>			<b>44.2%</b>

(1) Overdraft represents overdraft at year-end, excluding cash held in joint ventures and co-owned properties.

(2) Includes investment in joint ventures that are equity accounted.

(3) Total assets are determined as total assets, including assets related to investment in joint ventures that are equity accounted and assets held for sale at year-end.



As at December 31, 2015

	Amounts per consolidated financial statements	Share of amounts from investment in joint ventures	Total
Non-current debt	\$ 2,401,104	\$ 410,832	\$ 2,811,936
Current debt	609,644	74,661	684,305
Debt before undernoted items	3,010,748	485,493	3,496,241
Add: Debt related to assets held for sale	24,245	—	24,245
Add: Overdraft <sup>(1)</sup>	2,485	—	2,485
<b>Net total debt</b>	<b>3,037,478</b>	<b>485,493</b>	<b>3,522,971</b>
Less: Unsecured debt	(534,097)	—	(534,097)
<b>Net total secured debt</b>	<b>2,503,381</b>	<b>485,493</b>	<b>2,988,874</b>
Total assets	6,762,874 <sup>(2)</sup>	523,163	7,286,037 <sup>(3)</sup>
Add: Accumulated depreciation of property and equipment	6,471	—	6,471
Add: Overdraft <sup>(1)</sup>	2,485	—	2,485
<b>Total assets (excluding accumulated depreciation of property and equipment and cash on hand)</b>	<b>\$ 6,771,830</b>	<b>\$ 523,163</b>	<b>\$ 7,294,993</b>
<b>Net total debt-to-gross book value</b>			<b>48.3%</b>
<b>Net secured debt-to-gross book value</b>			<b>41.0%</b>

(1) Overdraft represents overdraft at year-end, excluding cash held in joint ventures and co-owned properties.

(2) Includes investment in joint ventures that are equity accounted.

(3) Total assets are determined as total assets, including assets related to investment in joint ventures that are equity accounted and assets held for sale at year-end.

## Interest coverage ratio

Management believes this non-GAAP measurement is an important measure in determining our ability to cover interest expense based on our operating performance. Interest coverage ratio for the year ended December 31, 2016 and for the year ended December 31, 2015 includes the results from investment in joint ventures that are equity accounted. Interest coverage ratio as shown below is calculated as net rental income plus interest and fee income, less general and administrative expenses, all divided by interest expense on total debt.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”, the following tables calculate the interest coverage ratio for the years ended December 31, 2016 and December 31, 2015:

	For the year ended December 31, 2016		
	Amounts per	Share of amounts	Total
	consolidated financial statements	from investment in joint ventures	
Net rental income	\$ 368,578	\$ 30,621	\$ 399,199
Add: Interest and fee income	3,258	42	3,300
Less: General and administrative expenses	(11,906)	—	(11,906)
<b>Total</b>	<b>359,930</b>	<b>30,663</b>	<b>390,593</b>
Interest expense – debt	\$ 119,520	\$ 8,864	\$ 128,384
<b>Interest coverage ratio (times)</b>			<b>3.0</b>

	For the year ended December 31, 2015		
	Amounts per	Share of amounts	Total
	consolidated financial statements	from investment in joint ventures	
Net rental income	\$ 387,513	\$ 59,791	\$ 447,304
Add: Interest and fee income	3,005	68	3,073
Less: General and administrative expenses	(12,196)	(47)	(12,243)
<b>Total</b>	<b>378,322</b>	<b>59,812</b>	<b>438,134</b>
Interest expense – debt	\$ 131,818	\$ 17,266	\$ 149,084
<b>Interest coverage ratio (times)</b>			<b>2.9</b>

## Net average debt-to-EBITDFV

Management believes this non-GAAP measurement is an important measure in determining the time it takes the Trust, based on its historical operating performance, to repay our average debt.

Net average debt-to-EBITDFV as shown below is calculated as total average debt (net of cash on hand), which includes debt related to investment in joint ventures that are equity accounted and debt related to assets held for sale, divided by annualized EBITDFV for the current quarter. EBITDFV – annualized is calculated as net income for the period adjusted for: lease termination fees and other, non-cash items included in investment properties revenue, fair value adjustments to investment properties and financial instruments, share of net income and accretion loss from Dream Industrial REIT, distributions received from Dream Industrial REIT, interest expense, amortization of external management contracts and depreciation on property and equipment, net loss on transactions and other activities, and deferred income taxes.

## Net debt-to-adjusted EBITDFV

Management believes this non-GAAP measurement is an important measure in determining the time it takes the Trust, on a go forward basis, based on its normalized operating performance, to repay our debt.

Net debt-to-adjusted EBITDFV as shown below is calculated as total debt (net of cash on hand), which includes debt related to investment in joint ventures that are equity accounted and debt related to assets held for sale, divided by adjusted EBITDFV – annualized. Adjusted EBITDFV – annualized is calculated as EBITDFV – annualized less NOI of disposed properties for the quarter.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”, the following tables calculate the annualized net average debt-to-EBITDFV and annualized net debt-to-adjusted EBITDFV for the three months ended December 31, 2016 and December 31, 2015:

	December 31, 2016		
	Amounts per consolidated financial statements	Share of amounts from investment in joint ventures	Total
Non-current debt	\$ 2,321,530	\$ 39,883	\$ 2,361,413
Current debt	328,260	—	328,260
Debt before undernoted items	2,649,790	39,883	2,689,673
Add: Debt related to assets held for sale	209,228	—	209,228
Less: Weighted average debt adjustment <sup>(1)</sup>	(19,700)	—	(19,700)
Add: Overdraft <sup>(2)</sup>	1,274	—	1,274
<b>Net average debt</b>	<b>\$ 2,840,592</b>	<b>\$ 39,883</b>	<b>\$ 2,880,475</b>
Add: Weighted average debt adjustment <sup>(1)</sup>	19,700	—	19,700
<b>Net debt</b>	<b>\$ 2,860,292</b>	<b>\$ 39,883</b>	<b>\$ 2,900,175</b>
Net loss for the period	(88,470)	(12,201)	(100,671)
Add (deduct):			
Lease termination fees and other	(213)	—	(213)
Non-cash items included in investment properties revenue <sup>(3)</sup>	4,163	31	4,194
Fair value adjustments to investment properties	123,200	12,900	136,100
Fair value adjustments to financial instruments	15,246	—	15,246
Share of net income and accretion loss from Dream Industrial REIT	(1,156)	—	(1,156)
Distributions received from Dream Industrial REIT	3,293	—	3,293
Interest – debt	28,248	259	28,507
Interest – subsidiary redeemable units	1,963	—	1,963
Amortization of external management contracts and depreciation on property and equipment	872	—	872
Net loss on transactions and other activities	9,332	—	9,332
Deferred income taxes	724	—	724
<b>EBITDFV – quarterly</b>	<b>\$ 97,202</b>	<b>\$ 989</b>	<b>\$ 98,191</b>
Less: NOI of disposed properties for the quarter	(3,634)	—	(3,634)
<b>Adjusted EBITDFV – quarterly</b>	<b>\$ 93,568</b>	<b>\$ 989</b>	<b>\$ 94,557</b>
<b>EBITDFV – annualized</b>			<b>\$ 392,764</b>
<b>Adjusted EBITDFV – annualized</b>			<b>\$ 378,228</b>
<b>Net average debt-to-EBITDFV (years)</b>			<b>7.3</b>
<b>Net debt-to-adjusted EBITDFV (years)</b>			<b>7.7</b>

(1) Weighted average debt adjustment reflects outstanding debt at year-end, pro-rated for the number of days outstanding during the period.

(2) Overdraft represents overdraft at year-end, excluding cash held in joint ventures and co-owned properties.

(3) Includes adjustments for straight-line rent and amortization of lease incentives.

	Amounts included in consolidated financial statements	Share of amounts from investment in joint ventures	Total
Non-current debt	\$ 2,401,104	\$ 410,832	\$ 2,811,936
Current debt	609,644	74,661	684,305
Debt before undernoted items	3,010,748	485,493	3,496,241
Add: Debt related to assets held for sale	24,245	—	24,245
Add: Weighted average debt adjustment <sup>(1)</sup>	8,430	—	8,430
Add: Overdraft <sup>(2)</sup>	2,485	—	2,485
<b>Net average debt</b>	<b>\$ 3,045,908</b>	<b>\$ 485,493</b>	<b>\$ 3,531,401</b>
Less: Weighted average debt adjustment <sup>(1)</sup>	(8,430)	—	(8,430)
<b>Net debt</b>	<b>\$ 3,037,478</b>	<b>\$ 485,493</b>	<b>\$ 3,522,971</b>
Net income (loss) for the period	(64,323)	10,186	(54,137)
Add (deduct):			
Lease termination fees and other	(35)	—	(35)
Non-cash items included in investment properties revenue <sup>(3)</sup>	3,408	(60)	3,348
Fair value adjustments to investment properties	79,100	300	79,400
Fair value adjustments to financial instruments	(20,695)	—	(20,695)
Share of net loss from Dream Industrial REIT	5,923	—	5,923
Distributions received from Dream Industrial REIT	3,247	—	3,247
Interest – debt	32,302	4,286	36,588
Interest – subsidiary redeemable units	2,931	—	2,931
Amortization of external management contracts and depreciation on property and equipment	779	3	782
Net loss on transactions and other activities	57,169	115	57,284
Deferred income taxes	516	—	516
<b>EBITDFV – quarterly</b>	<b>\$ 100,322</b>	<b>\$ 14,830</b>	<b>\$ 115,152</b>
Less: NOI of disposed properties for the quarter	(494)	—	(494)
<b>Adjusted EBITDFV – quarterly</b>	<b>\$ 99,828</b>	<b>\$ 14,830</b>	<b>\$ 114,658</b>
<b>EBITDFV – annualized</b>			<b>\$ 460,608</b>
<b>Adjusted EBITDFV – annualized</b>			<b>\$ 458,632</b>
<b>Net average debt-to-EBITDFV (years)</b>			<b>7.7</b>
<b>Net debt-to-adjusted EBITDFV (years)</b>			<b>7.7</b>

(1) Weighted average debt adjustment reflects outstanding debt at year-end, pro-rated for the number of days outstanding during the period.

(2) Overdraft represents overdraft at year-end, excluding cash held in joint ventures and co-owned properties.

(3) Includes adjustments for straight-line rent and amortization of lease incentives.

## SECTION III – DISCLOSURE CONTROLS AND PROCEDURES

At December 31, 2016, financial year-end, the Chief Executive Officer and the Chief Financial Officer (the “Certifying Officers”), together with other members of management, have evaluated the design and operational effectiveness of Dream Office REIT’s disclosure controls and procedures, as defined in National Instrument 52-109 – Certification of Disclosure in Issuers’ Annual and Interim Filings (“NI 52-109”). The Certifying Officers have concluded that the disclosure controls and procedures 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 Dream Office REIT and its consolidated subsidiary entities, within the required time periods.

Dream Office REIT’s internal control over financial reporting (as defined in 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. During the year ended December 31, 2016, Dream Office REIT implemented 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 Dream Office REIT’s internal control over financial reporting. Based on that evaluation, the Certifying Officers have concluded that Dream Office REIT’s internal control over financial reporting was effective as at December 31, 2016.

There were no changes in Dream Office REIT’s internal control over financial reporting during the financial year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, Dream Office REIT’s internal control over financial reporting.

## SECTION IV – RISKS AND OUR STRATEGY TO MANAGE

In addition to the specific risks discussed in this MD&A, 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. Unitholders should consider these risks and uncertainties when assessing our outlook in terms of investment potential. For a further discussion of the risks and uncertainties identified by Dream Office REIT, please refer to our latest Annual Report and Annual Information Form filed on SEDAR ([www.sedar.com](http://www.sedar.com)).

### REAL ESTATE OWNERSHIP

Real estate ownership is generally subject to numerous factors and risks, including changes in general economic conditions (such as the availability, terms and cost of mortgage financings and other types of credit), local economic conditions (such as an oversupply of office and other commercial properties or a reduction in demand for real estate in the area), the attractiveness of properties to potential tenants or purchasers, competition with other landlords with similar available space, and the ability of the owner to provide adequate maintenance at competitive costs.

An investment in real estate is relatively illiquid. Such illiquidity will tend to limit our ability to vary our 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 for us to dispose of properties at lower prices in order to generate sufficient cash from operations and make distributions and interest payments.

Certain significant expenditures (e.g., property taxes, maintenance costs, mortgage payments, insurance costs and related charges) must be made throughout the period of ownership of real property, regardless of whether the property is producing sufficient income to pay such expenses. In order to retain desirable rentable space and to generate adequate revenue over the long term, we must maintain or, in some cases, improve each property’s condition to meet market demand. Maintaining a rental property in accordance with market standards can entail significant costs, which we may not be able to pass on to our 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. In the course of acquiring a property, undisclosed defects in design or construction or other risks might not have been recognized or correctly evaluated during the pre-acquisition due diligence process. These circumstances could lead to additional costs and could have an adverse effect on our proceeds from sales and rental income of the relevant properties.

## **ROLLOVER OF LEASES**

Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. Furthermore, the terms of any subsequent lease may be less favourable than those of the existing lease. Our cash flows and financial position would be adversely affected if our tenants were to become unable to meet their obligations under their leases or if a significant amount of available space in our 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. Furthermore, 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.

## **CONCENTRATION OF PROPERTIES AND TENANTS**

Currently, principally all of our properties are located in Canada and, as a result, are impacted by economic and other factors specifically affecting the real estate markets in Canada. These factors may differ from those affecting the real estate markets in other regions. Due to the concentrated nature of our properties, a number of our properties could experience any of the same conditions at the same time. If real estate conditions in Canada 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.

Given the prominence of the oil and gas industry in Alberta, the office market in that province continues to be significantly impacted by the price of oil. A continuation of these market and economic conditions, including any substantial decline or prolonged weakness in the price of oil, could adversely affect the Trust's occupancy, its operating results and its investment property values as they relate to the properties in our Alberta portfolio. The Trust expects that occupancy, operating results and its Alberta investment properties values will remain challenging for the foreseeable future and there can be no assurance that the occupancy, operating results and fair value will not decrease further. Until there is positive visibility on oil prices and related economic fundamentals, the Trust anticipates continued challenges for its assets located in Alberta and will continuously evaluate the economic health of the markets in which we operate to ensure that we have identified and, where possible, mitigated risks to the Trust, including the potential impacts of changes in the price of oil.

## **FINANCING**

We require access to capital to maintain our properties 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 current and expected future earnings; our cash flow and cash distributions and cash interest payments; and the market price of our REIT A Units.

A significant portion of our financing is debt. Accordingly, we are subject to the risks associated with debt financing, including the risk that our cash flows will be insufficient to meet required payments of principal and interest, and that, on maturities of such debt, we may not be able to refinance the outstanding principal under such debt or that the terms of such refinancing will be more onerous than those of the existing debt. If we are unable to refinance debt at maturity on terms acceptable to us or at all, we may be forced to dispose of one or more of our properties on disadvantageous terms, which may result in losses and could alter our debt-to-equity ratio or be dilutive to unitholders. Such losses could have a material adverse effect on our financial position or cash flows.

The degree to which we are leveraged could have important consequences to our operations. A high level of debt will reduce the amount of funds available for the payment of distributions to unitholders and interest payments on our debentures; limit our flexibility in planning for and reacting to changes in the economy and in the industry, and increase our vulnerability to general adverse economic and industry conditions; limit our ability to borrow additional funds, dispose of assets, encumber our assets and make potential investments; place us at a competitive disadvantage compared to other owners of similar real estate assets that are less leveraged and, therefore, may be able to take advantage of opportunities that our indebtedness would prevent us from pursuing; make it more likely that a reduction in our borrowing base following a periodic valuation (or redetermination) could require us to repay a portion of then outstanding borrowings; and impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general trust or other purposes.

## **CHANGES IN LAW**

We are subject to applicable federal, provincial, municipal, local and common laws and regulations governing the ownership and leasing of real property, 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 us (including with retroactive effect). In addition, the political conditions in the jurisdictions in which we operate are also subject to change. Any changes in investment policies or shifts in political attitudes may adversely affect our investments. Any changes in the laws to which we are subject in the jurisdictions in which we operate could materially affect our rights and title in and to the properties and the revenues we are able to generate from our investments.

## **INTEREST RATES**

When entering into financing agreements or extending such agreements, we depend on our ability to agree on terms for interest payments that will not impair our desired profit, and on amortization schedules that do not restrict our ability to pay distributions on our REIT A Units and interest payments on our debentures. In addition to existing variable rate portions of our financing agreements, we may enter into future financing agreements with variable interest rates. An increase in interest rates could result in a significant increase in the amount we pay to service debt, which could limit our ability to pay distributions to unitholders and could impact the market price of the REIT A Units and/or the debentures. We have implemented an active hedging program in order to offset the risk of revenue losses and to provide more certainty regarding the payment of distributions to unitholders and cash interest payments under the debentures should current variable interest rates increase. However, to the extent that we fail to adequately manage these risks, including if any such hedging arrangements do not effectively or completely hedge increases in variable interest rates, our financial results, our ability to pay distributions to unitholders and cash interest payments under our financing arrangements, and the debentures and future financings may be negatively affected. Hedging transactions involve inherent risks. Increases in interest rates generally cause a decrease in demand for properties. Higher interest rates and more stringent borrowing requirements, whether mandated by law or required by banks, could have a significant negative effect on our ability to sell any of our properties.

## **ENVIRONMENTAL RISK**

As an owner of real property, we are subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide a range of potential liability, including potentially significant penalties, and potential liability for the costs of removal or remediation of certain hazardous substances. The presence of such substances, if any, could adversely affect our ability to sell or redevelop such real estate or to borrow using such real estate as collateral and, potentially, could also result in civil claims against us. In order to obtain financing for the purchase of a new property through traditional channels, we may be requested to arrange for an environmental audit to be conducted. Although such an audit provides us and our lenders with some assurance, we may become subject to liability 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 have formal policies and procedures to review and monitor environmental exposure. These policies include the requirement to obtain a Phase I Environmental Site Assessment, conducted by an independent and qualified environmental consultant, before acquiring any real property or any interest therein.

## **JOINT ARRANGEMENTS**

We are a participant in jointly controlled entities and co-ownerships, combined (“joint arrangements”) with third parties. A joint arrangement involves certain additional risks, including:

- (i) the possibility that such third parties may at any time have economic or business interests or goals that will be inconsistent with ours, or take actions contrary to our instructions or requests or to our policies or objectives with respect to our real estate investments;
- (ii) the risk that such third parties could experience financial difficulties or seek the protection of bankruptcy, insolvency or other laws, which could result in additional financial demands on us to maintain and operate such properties or repay the third parties’ share of property debt guaranteed by us or for which we will be liable, and/or result in our suffering or incurring delays, expenses and other problems associated with obtaining court approval of the joint arrangement;
- (iii) the risk that such third parties may, through their activities on behalf of or in the name of the joint arrangements, expose or subject us to liability; and

- (iv) the need to obtain third parties' consents with respect to certain major decisions, including the decision to distribute cash generated from such properties or to refinance or sell a property. In addition, the sale or transfer of interests in certain of the joint arrangements may be subject to rights of first refusal or first offer, and certain of the joint venture and partnership agreements may provide for buy-sell or similar arrangements. Such rights may be triggered at a time when we may not desire to sell but may be forced to do so because we do not have the cash to purchase the other party's interests. Such rights may also inhibit our ability to sell an interest in a property or a joint arrangement within the time frame or otherwise on the basis we desire.

Our investment in properties through joint arrangements is subject to the investment guidelines set out in our Declaration of Trust.

## **COMPETITION**

The real estate market in Canada is highly competitive and fragmented, and we compete for real property acquisitions with individuals, corporations, institutions and other entities that may seek real property investments similar to those we desire. An increase in the availability of investment funds or an increase in interest in real property investments may increase competition for real property investments, thereby increasing purchase prices and reducing the yield on them. If competing properties of a similar type are built in the area where one of our properties is located or if similar properties located in the vicinity of one of our properties are substantially refurbished, the net operating income derived from and the value of such property could be reduced.

Numerous other developers, managers and owners of properties will compete with us in seeking tenants. To the extent that our competitors own properties that are in better locations, of better quality or less leveraged than the properties owned by us, they may be in a better position to attract tenants who might otherwise lease space in our properties. To the extent that our competitors are better capitalized or financially stronger, they would be in a better position to withstand an economic downturn. The existence of competition for tenants could have an adverse effect on our ability to lease space in our properties and on the rents charged or concessions granted, and could materially and adversely affect our cash flows, operating results and financial condition.

## **INSURANCE**

We carry general liability, umbrella liability and excess liability insurance with limits that are typically obtained for similar real estate portfolios in Canada and otherwise acceptable to our trustees. For the property risks, we carry "All Risks" property insurance including, but not limited to, flood, earthquake and loss of rental income insurance (with at least a 24-month indemnity period). We also carry boiler and machinery insurance covering all boilers, pressure vessels, HVAC systems and equipment breakdown. However, certain types of risks (generally of a catastrophic nature such as from war or nuclear accident) are uninsurable under any insurance policy. Furthermore, there are other risks that are not economically viable to insure at this time. We partially self-insure against terrorism risk for our entire portfolio. We have insurance for earthquake risks, subject to certain policy limits, deductibles and self-insurance arrangements. Should an uninsured or underinsured loss occur, we could lose our investment in, and anticipated profits and cash flows from, one or more of our properties, but we would continue to be obligated to repay any recourse mortgage indebtedness on such properties. We do not carry title insurance on our properties. If a loss occurs resulting from a title defect with respect to a property where there is no title insurance or the loss is in excess of insured limits, we could lose all or part of our investment in, and anticipated profits and cash flows from, such property.

## **RELIANCE ON DAM FOR CERTAIN MANAGEMENT SERVICES**

We rely on DAM for certain management services, including the services of a Chief Executive Officer, as requested. DAM has the right, upon 180 days' notice, to terminate our Management Services Agreement for any reason: (i) at any time on or after April 2, 2018; and (ii) at any time on or after April 2, 2017 if the Shared Services and Cost Sharing Agreement has been terminated by Dream Office LP. Our Management Services Agreement may also be terminated in other circumstances, such as in the event of default or insolvency of DAM within the meaning of such agreement. Accordingly, there can be no assurance that DAM will continue to provide management services. If DAM should cease for whatever reason to provide such services, this may adversely impact our ability to meet our objectives and execute our strategy.

The Management Services Agreement does not obligate DAM to provide the services of any particular person to Dream Office REIT, including the services of our current senior management team. However, we have no reason to believe the services of our current senior management team will not continue to be provided by DAM.



## **IMPLEMENTING THE TRUST'S STRATEGIC PLAN**

The Trust's Strategic Plan is intended to surface value for unitholders by reducing the current discount to NAV and creating a stronger and more flexible balance sheet. However, there can be no assurance that the Trust will be successful in executing the Strategic Plan and achieving its expected benefits. If we are unable to successfully execute the Strategic Plan, whether because we are unable to complete dispositions of our investment properties contemplated by the Strategic Plan on favourable terms or at prices which reflect fair value, because one or more of the assumptions underlying the Strategic Plan proves to be incorrect, or as a result of events outside the Trust's control that were not anticipated or expected when the Strategic Plan was implemented or for other reasons, or if the benefits of the Strategic Plan are not fully achieved or take longer to realize than anticipated, it could have a material adverse effect on the Trust's financial condition and results of operations.

## **SECTION V – CRITICAL ACCOUNTING POLICIES**

### **CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS IN APPLYING ACCOUNTING POLICIES**

Preparing the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported. Management bases its judgments and estimates on historical experience and other factors it believes to be reasonable under the circumstances, but which are inherently uncertain and unpredictable, the result of which forms the basis of the carrying amounts of assets and liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

#### **Critical accounting judgments**

The following are the critical accounting judgments used in applying the Trust's accounting policies that have the most significant effect on the amounts in the consolidated financial statements:

##### **Investment properties**

Critical judgments are made in respect of the fair values of investment properties and the investment properties held in equity accounted investments. The fair values of these investments are reviewed at least quarterly by management with reference to independent property appraisals and market conditions existing at the reporting date, using generally accepted market practices. The independent appraisers are experienced, nationally recognized and qualified in the professional valuation of office buildings in their respective geographic areas. Judgment is also applied in determining the extent and frequency of independent appraisals. At each reporting period, a select number of properties, determined on a rotational basis, are valued by appraisals. For properties not subject to independent appraisals, valuations are prepared internally during each reporting period.

Critical assumptions relating to the estimates of fair values of investment properties include cap rates, discount rates that reflect current market uncertainties, terminal cap rates and market rents. Other key assumptions relating to the estimates of fair values of investment properties include components of stabilized NOI, leasing costs and vacancy rates. The Trust examines the critical and key assumptions at the end of each reporting period and updates these assumptions based on recent leasing activity and external market data available at that time. If there is any change in these assumptions or regional, national or international economic conditions, the fair value of investment properties may change materially.

The Trust makes judgments with respect to whether lease incentives provided in connection with a lease enhance the value of the leased space, which determines whether or not such amounts are treated as tenant improvements and added to investment properties. Lease incentives, such as cash, rent-free periods and lessee- or lessor-owned improvements, may be provided to lessees to enter into an operating lease. Lease incentives that do not provide benefits beyond the initial lease term are included in the carrying amount of investment properties and are amortized as a reduction of rental revenue on a straight-line basis over the term of the lease.

Judgment is also applied in determining whether certain costs are additions to the carrying amount of the investment property.

## Impairment

The Trust assesses the possibility and amount of any impairment loss or write-down as it relates to the investment in Dream Industrial REIT, amounts receivable, property and equipment, external management contracts and goodwill.

IAS 39, “Financial Instruments: Recognition and Measurement”, requires management to use judgment in determining if the Trust’s financial assets are impaired. In making this judgment, the Trust evaluates, among other factors, the duration and extent to which the fair value of the investment is less than its carrying amount; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology, and operational and financing cash flows.

IAS 36, “Impairment of Assets” (“IAS 36”), requires management to use judgment in determining the recoverable amount of assets and equity accounted investments that are tested for impairment, including goodwill, the investment in Dream Industrial REIT and the investment in joint ventures. Judgment is involved in estimating the fair value less cost to sell or value-in-use of the cash-generating units (“CGUs”) to which goodwill has been allocated, including estimates of growth rates, discount rates and terminal rates. Judgment is also involved in estimating the value-in-use of the investment in Dream Industrial REIT, including estimates of future cash flows, discount rates and terminal rates. The values assigned to these key assumptions reflect past experience and are consistent with external sources of information.

The Trust’s goodwill balance is allocated to the office properties group of CGUs by geographical segment (herein referred to as the goodwill CGU). The recoverable amount of the Trust’s goodwill CGU is determined based on the value-in-use approach. For the purpose of this impairment test, the Trust uses cash flow projections forecasted out for a ten-year period, consistent with the internal financial budgets approved by management on a property-by-property basis. The key assumptions used in determining the value-in-use of the goodwill CGU are the estimated growth rate, discount rate and terminal rate. In arriving at the growth rate, the Trust considers past experience and inflation, as well as industry trends. The Trust utilizes weighted average cost of capital (“WACC”) to determine the discount rate and terminal rate. The WACC reflects specific risks that would be attributable to the Trust. As the Trust is not subject to taxation, no adjustment is required to adjust the WACC on a pre-tax basis.

## Estimates and assumptions

The Trust makes estimates and assumptions that affect the carrying amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amount of earnings for the reporting period. Actual results could differ from these estimates. The estimates and assumptions that are critical in determining the amounts reported in the consolidated financial statements relate to the following:

### Valuation of financial instruments

The Trust makes estimates and assumptions relating to the fair value measurement of the subsidiary redeemable units, the deferred trust units, the convertible debenture conversion feature, interest rate swaps and the fair value disclosure of the mortgages, term loan facility, convertible debentures and debentures. The critical assumptions underlying the fair value measurements and disclosures include the market price of REIT A Units, market interest rates for mortgages, term loan facility and unsecured debentures, and assessment of the effectiveness of hedging relationships.

For certain financial instruments, including cash and cash equivalents, amounts receivable, other receivables, amounts payable and accrued liabilities, deposits and distributions payable, the carrying amounts approximate fair values due to their immediate or short-term maturity. The fair values of mortgages, term loan facility and interest rate swaps are determined based on discounted cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. The fair value of convertible debentures is determined by reference to quoted market prices from an active market.

## FUTURE ACCOUNTING POLICY CHANGES

### Statement of cash flows

IAS 7, “Cash Flow Statements” – (“IAS 7”), has been amended by the IASB to introduce additional disclosure that will allow users to understand changes in liabilities arising from financing activities. This amendment to IAS 7 is effective for annual periods beginning or after January 1, 2017. The Trust does not anticipate this amendment to have a material impact to the consolidated financial statements.

## Revenue recognition

IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”), provides a comprehensive five-step revenue recognition model for all contracts with customers. The IFRS 15 revenue recognition model requires management to exercise significant judgment and make estimates that affect revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Trust is currently evaluating the impact of adopting this standard on the consolidated financial statements.

## Financial instruments

The final version of IFRS 9, “Financial Instruments” (“IFRS 9”), was issued by the IASB in July 2014 and will replace IAS 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”). IFRS 9 introduces a model for classification and measurement, a single, forward-looking “expected loss” impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of an entity’s own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognized in profit or loss. The entity’s own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments.

Lastly, a third measurement category for financial assets – “fair value through other comprehensive income” will exist. IFRS 9 is effective for annual periods beginning on or after January 1, 2018; however, it is available for early adoption. The Trust is currently evaluating the impact of adopting this standard on the consolidated financial statements.

## Financial instruments – disclosures

IFRS 7, “Financial Instruments: Disclosures” (“IFRS 7”), has been amended by the IASB to require additional disclosures on transition from IAS 39 to IFRS 9. The amendment to IFRS 7 is effective for annual periods beginning on or after January 1, 2018. The Trust is currently evaluating the impact of adopting this standard on the consolidated financial statements.

## Leases

IFRS 16, “Leases” (“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 Trust is currently evaluating the impact of adopting this standard on the consolidated financial statements.

## ADDITIONAL INFORMATION

Additional information relating to Dream Office REIT, including the latest Annual Information Form of Dream Office REIT, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## SECTION V – SUPPLEMENTARY INFORMATION

The following table within this section include supplementary information on our portfolio as at December 31, 2016.

### Asset listing

Property	Ownership	Total GLA (in thousands of square feet)	Owned share of total GLA (in thousands of square feet)	Year built/ renovated	No. of tenants	Average tenant size (in thousands of square feet)	Average lease term remaining (in years)	Occupancy <sup>(1)</sup>
Saskatoon Square, Saskatoon	100.0%	228	228	1980	14	15	2.8	92.9%
Station Tower, Surrey	100.0%	220	220	1994	19	11	3.8	93.8%
1900 Sherwood Place, Regina	100.0%	185	185	1992/2003	7	26	2.8	100.0%
Victoria Tower, Regina	100.0%	144	144	1976	2	72	1.8	100.0%
Princeton Tower, Saskatoon	100.0%	135	135	1988	16	7	3.9	86.3%
340-450 3rd Avenue N., Saskatoon	100.0%	131	131	1980/1993	5	17	4.1	65.5%
13888 Wireless Way, Richmond	100.0%	117	117	2008	2	58	2.5	100.0%
Scotia Centre, Yellowknife	100.0%	108	108	1991	15	7	6.4	96.8%
Precambrian Building, Yellowknife	100.0%	93	93	1976	7	11	4.3	85.6%
Northwest Tower, Yellowknife	100.0%	88	88	1991	14	6	4.1	93.3%
625 Agnes Street, New Westminster	100.0%	86	86	1981	15	5	3.7	82.5%
1914 Hamilton Street, Regina	100.0%	82	82	1973	7	12	3.4	100.0%
350-450 Lansdowne Street, Kamloops <sup>(2)</sup>	40.0%	190	76	1970/2008	29	6	4.8	86.1%
2261 Keating Cross Road, Victoria <sup>(2)</sup>	40.0%	182	73	1999	5	26	2.8	72.3%
Financial Building, Regina	100.0%	66	66	1958/1992	1	5	1.0	6.8%
Preston Centre, Saskatoon	100.0%	62	62	1988/2003	12	5	4.5	97.4%
2220 College Avenue, Regina	100.0%	60	60	1976	1	60	4.6	100.0%
Bellanca Building, Yellowknife <sup>(3)</sup>	100.0%	52	52	1973	—	—	—	—%
Gallery Building, Yellowknife	100.0%	48	48	2012	2	24	5.2	100.0%
Harbour Landing, Phase 2, Regina	100.0%	39	39	2013	2	19	6.6	100.0%
2400 College Avenue, Regina	100.0%	36	36	1977	4	8	3.9	89.4%
Royal Centre, Saskatoon	100.0%	32	32	1952	2	16	2.2	100.0%
2208 Scarth Street, Regina	100.0%	25	25	1974	3	7	3.5	87.3%
Royal Centre-Retail, Saskatoon	100.0%	16	16	1952	6	2	2.4	90.6%
2445 – 13th Avenue, Regina	100.0%	16	16	1975	5	2	3.2	50.4%
234 – 1st Avenue South, Saskatoon	100.0%	10	10	1971	4	2	5.5	83.4%
<b>B.C./Saskatchewan/N.W.T.</b>		<b>2,451</b>	<b>2,228</b>		<b>199</b>	<b>11</b>	<b>3.6</b>	<b>86.7%</b>
IBM Corporate Park, Calgary	100.0%	358	358	2002	10	34	4.9	94.5%
F1RST Tower, Calgary <sup>(4)</sup>	50.0%	710	354	1983	8	46	3.4	51.3%
HSBC Bank Place, Edmonton	100.0%	301	301	1981	18	15	2.6	88.2%
840 – 7th Avenue SW, Calgary	100.0%	273	273	1979/2001	21	8	4.9	59.2%
Enbridge Place, Edmonton	100.0%	262	262	1981	5	52	2.0	100.0%
444 – 7th Building, Calgary	100.0%	261	261	1963/1998	11	23	8.2	98.3%
McFarlane Tower, Calgary	100.0%	242	242	1979/2003	30	7	3.2	91.4%
Life Plaza, Calgary	100.0%	237	237	1980/1992	28	5	3.2	56.8%
Rocky Mountain Plaza, Calgary	100.0%	205	205	1972	11	17	5.2	93.7%
Milner Building, Edmonton	100.0%	178	178	1957	4	43	2.1	97.7%
2257 & 2301 Premier Way, Sherwood Park	100.0%	156	156	2003	16	9	2.3	91.2%
2121 & 2181 Premier Way, Sherwood Park	100.0%	151	151	2005, 2006	16	9	3.6	95.3%
Airport Corporate Centre, Calgary	100.0%	150	150	2000	9	16	4.9	93.8%
Franklin Atrium, Calgary	100.0%	150	150	1981	8	12	3.1	65.3%
Northland Building, Calgary	100.0%	147	147	1982	18	6	3.9	73.5%
Baker Centre, Edmonton	100.0%	143	143	1958	23	5	2.8	86.9%

Property	Ownership	Total GLA (in thousands of square feet)	Owned share of total GLA (in thousands of square feet)	Year built/ renovated	No. of tenants	Average tenant size (in thousands of square feet)	Average lease term remaining (in years)	Occupancy <sup>(1)</sup>
606 4th Building & Barclay Parkade, Calgary	100.0%	133	133	1969/1998	13	8	2.0	80.2%
Roslyn Building, Calgary	100.0%	131	131	1966/2003	13	8	4.1	80.1%
HSBC Building, Edmonton	100.0%	119	119	1974	19	6	3.0	90.6%
Atrium I, Calgary	100.0%	110	110	1978	6	14	7.0	77.4%
Atrium II, Calgary	100.0%	110	110	1979	12	7	3.7	73.2%
510 – 5th Street SW, Calgary	100.0%	109	109	1981	21	4	2.7	79.9%
Joffre Place, Calgary	100.0%	107	107	1980	12	7	3.0	81.1%
Highfield Place, Edmonton	100.0%	105	105	1978	5	6	3.2	30.9%
Dominion Centre, Calgary	100.0%	99	99	1979	6	16	3.4	100.0%
435 – 4th Avenue SW, Calgary	100.0%	89	89	1978	15	5	2.2	91.0%
2891 Sunridge Way, Calgary	100.0%	87	87	2001	4	22	1.9	100.0%
2055 Premier Way, Strathcona County	100.0%	87	87	2007	9	9	5.5	97.0%
2899 Broadmoor Blvd., Strathcona County	100.0%	82	82	1999	5	15	0.1	90.0%
2693 Broadmoor Blvd., Strathcona County	100.0%	82	82	2007	8	5	2.6	48.6%
Kensington House, Calgary	100.0%	78	78	1982/2002, 2003	15	4	5.4	70.5%
1035 – 7th Ave SW, Calgary	100.0%	75	75	1979/2002	2	27	1.6	71.8%
2833 Broadmoor Blvd., Strathcona County	100.0%	75	75	2000	15	4	4.0	80.1%
3115 – 12th Street NE, Calgary	100.0%	73	73	1981	16	4	3.3	88.4%
14505 Bannister Road, SE, Calgary	100.0%	61	61	2000	4	15	4.2	100.0%
2755 Broadmoor Blvd.	100.0%	61	61	2005	13	4	2.9	89.9%
441 – 5th Avenue SW, Calgary	100.0%	61	61	1973	12	3	1.9	68.8%
10199 – 101st Street NW, Edmonton <sup>(2)</sup>	50.0%	120	60	1985	1	66	0.8	54.0%
Mount Royal Place, Calgary	100.0%	59	59	1979/2004	18	3	3.2	87.6%
Braithwaite Boyle Centre, Calgary	100.0%	55	55	1982	9	5	4.2	80.0%
Morgex Building, Edmonton	100.0%	53	53	1982/1995	1	53	2.7	100.0%
Franklin Building, Calgary	100.0%	51	51	1978/2001	2	24	1.0	95.2%
13183 – 146th Street NW, Edmonton	100.0%	39	39	2005	5	7	4.6	92.0%
2816 – 11th Street NE, Calgary	100.0%	33	33	1981	6	5	2.5	81.4%
Centre 70, Calgary <sup>(2)</sup>	15.0%	132	19	1977	37	3	2.7	76.9%
<b>Alberta</b>		<b>6,400</b>	<b>5,871</b>		<b>540</b>	<b>9</b>	<b>3.6</b>	<b>81.7%</b>
Scotia Plaza (40 King Street West), Toronto <sup>(2)</sup>	50.0%	1,580	790	1989/2011	71	22	6.7	97.9%
Adelaide Place, Toronto	100.0%	657	657	1982/2001	72	9	5.5	94.8%
State Street Financial Centre, Toronto	100.0%	414	414	1958/2001	8	52	7.6	100.0%
438 University Avenue, Toronto	100.0%	323	323	1992	19	17	8.3	99.7%
655 Bay Street, Toronto	100.0%	299	299	1990	25	12	4.7	99.8%
74 Victoria Street/137 Yonge Street, Toronto	100.0%	266	266	1958/1968, 2011	5	53	6.9	100.0%
720 Bay Street, Toronto	100.0%	248	248	1989	1	248	4.0	100.0%
18 King Street East, Toronto	100.0%	233	233	1967/2008, 2009	30	8	3.0	100.0%
36 Toronto Street, Toronto	100.0%	214	214	1875/2008, 2009	37	6	4.1	95.8%
Scotia Plaza (44 King Street West), Toronto <sup>(2)</sup>	50.0%	401	200	1951/2011	1	402	10.5	100.0%
330 Bay Street, Toronto	100.0%	164	164	1926	42	4	3.6	97.7%

Property	Ownership	Total GLA (in thousands of square feet)	Owned share of total GLA (in thousands of square feet)	Year built/ renovated	No. of tenants	Average tenant size (in thousands of square feet)	Average lease term remaining (in years)	Occupancy <sup>(1)</sup>
20 Toronto Street /33 Victoria Street, Toronto	100.0%	158	158	1965/2009, 2011	24	7	5.5	99.1%
8 King Street East, Toronto	100.0%	151	151	1914/2006, 2008	51	3	3.2	92.2%
100 Yonge Street, Toronto <sup>(2)</sup>	50.0%	245	122	1989	14	18	6.8	100.0%
250 Dundas Street West, Toronto	100.0%	122	122	1983	19	6	6.9	100.0%
Victory Building, Toronto	100.0%	101	101	1925/2007, 2008	44	2	3.0	96.7%
425 Bloor Street East, Toronto	100.0%	84	84	1986	8	10	7.0	100.0%
212 King Street West, Toronto	100.0%	73	73	1908/1980	8	8	3.4	89.0%
357 Bay Street, Toronto	100.0%	64	64	1921/2008	22	2	2.3	82.8%
360 Bay Street, Toronto	100.0%	58	58	1955/2007, 2009	15	4	3.9	96.8%
10 King Street East, Toronto	100.0%	57	57	1965/2010	21	3	2.8	100.0%
67 Richmond Street West, Toronto	100.0%	54	54	1940	5	10	3.3	93.3%
350 Bay Street, Toronto	100.0%	53	53	1928/1987	12	4	3.4	92.2%
366 Bay Street, Toronto	100.0%	36	36	1959/2006, 2009	12	3	2.9	96.2%
49 Ontario Street, Toronto <sup>(2)</sup>	40.0%	87	35	1972	2	44	7.3	100.0%
56 Temperance Street, Toronto	100.0%	32	32	1984/2008	10	3	4.2	100.0%
10 Lower Spadina Avenue, Toronto <sup>(2)</sup>	40.0%	60	24	1988	9	7	3.6	100.0%
83 Yonge Street, Toronto	100.0%	12	12	1857/2006	4	3	3.4	100.0%
<b>Toronto Downtown</b>		<b>6,246</b>	<b>5,044</b>		<b>591</b>	<b>10</b>	<b>5.8</b>	<b>97.7%</b>
5915–5935 Airport Road, Mississauga	100.0%	498	498	1983	55	8	5.5	86.0%
Aviva Corporate Centre, Toronto	100.0%	352	352	1987	7	50	0.8	98.7%
6655–6725 Airport Road, Mississauga	100.0%	331	331	1983	5	25	1.3	38.0%
5001 Yonge Street, Toronto	100.0%	309	309	1992	20	15	2.5	99.9%
2075 Kennedy Road, Toronto	100.0%	211	211	1991	13	13	4.0	78.7%
5945–5955 Airport Road, Mississauga	100.0%	185	185	1981	42	4	4.5	88.9%
50 Burnhamthorpe Road West, Mississauga (Sussex Centre) <sup>(2)</sup>	49.9%	351	175	1987	34	8	4.5	80.7%
401 & 405 The West Mall, Toronto (Commerce West) <sup>(2)</sup>	40.0%	412	166	1985/2007	20	18	4.4	85.3%
300, 302 & 304 The East Mall, Toronto (Valhalla Executive Centre) <sup>(2)</sup>	49.9%	326	163	1973	20	9	3.6	56.2%
90 Burnhamthorpe Road West, Mississauga (Sussex Centre) <sup>(2)</sup>	49.9%	303	151	1989	22	12	4.3	90.2%
185 The West Mall, Toronto <sup>(2)</sup>	49.9%	297	148	1989/2006	20	13	5.9	87.5%
2645 Skymark Ave., Mississauga	100.0%	141	141	1984	6	23	5.5	96.1%
6299 Airport Road, Mississauga	100.0%	91	91	1975/2007	18	3	4.2	68.6%
1020 Birchmount Road, Toronto	100.0%	89	89	1952	1	89	2.1	100.0%
6303 Airport Road, Mississauga	100.0%	80	80	1979/2007	9	9	4.8	98.0%
195 The West Mall, Toronto <sup>(2)</sup>	49.9%	161	80	1984	1	161	5.3	100.0%
191 The West Mall, Toronto <sup>(2)</sup>	49.9%	158	79	1985	9	16	6.8	93.3%
586 Argus Road, Oakville	100.0%	75	75	1992/2011	5	15	5.3	100.0%
2810 Matheson Boulevard East, Mississauga <sup>(2)</sup>	49.9%	139	69	1989	8	13	5.6	76.2%
6509 Airport Road, Mississauga	100.0%	60	60	1981/2010	1	60	4.0	100.0%
2550 Argentia Road, Mississauga	100.0%	52	52	1987	17	3	4.5	88.4%
6501–6523 Mississauga Road, Mississauga <sup>(2)</sup>	40.0%	85	34	1982	26	3	3.3	96.9%
6531–6559 Mississauga Road, Mississauga <sup>(2)</sup>	40.0%	71	29	1978	23	2	4.6	72.7%

Property	Ownership	Total GLA (in thousands of square feet)	Owned share of total GLA (in thousands of square feet)	Year built/ renovated	No. of tenants	Average tenant size (in thousands of square feet)	Average lease term remaining (in years)	Occupancy <sup>(1)</sup>
80 Whitehall Drive, Markham <sup>(2)</sup>	40.0%	61	24	1990	2	30	3.0	100.0%
3035 Orlando Drive, Mississauga	100.0%	17	17	1991	1	17	5.4	100.0%
<b>Toronto Suburban</b>		<b>4,855</b>	<b>3,609</b>		<b>385</b>	<b>11</b>	<b>3.9</b>	<b>83.9%</b>
700 De la Gauchetière Street West, Montréal	100.0%	954	954	1983/2003, 2010	14	67	6.3	98.2%
445 Opus Industrial Boulevard, Mount Juliet, Nashville, U.S.	100.0%	717	717	2010	1	717	9.3	100.0%
275 Dundas Street West, London (London City Centre) <sup>(2)</sup>	40.0%	541	217	1974	22	23	6.4	92.2%
12800 Foster Street, Overland Park, U.S.	100.0%	185	185	2006	1	185	3.9	100.0%
400 Cumberland Road, Ottawa	100.0%	174	174	1972/2000	3	58	1.0	100.0%
130 Slater Street, Ottawa	100.0%	123	123	1968	21	5	3.5	78.7%
150 Metcalfe Street, Ottawa	100.0%	109	109	1991	19	5	2.9	83.6%
360 Laurier Avenue West, Ottawa	100.0%	107	107	1966/2010	7	15	2.3	100.0%
Accelerator Building, Waterloo	100.0%	93	93	2006	4	23	8.0	100.0%
250 King Street, Fredericton	100.0%	80	80	1999	3	27	3.2	100.0%
277 Pleasant Street, Dartmouth	100.0%	77	77	1971	3	21	3.0	81.3%
219 Laurier Avenue West, Ottawa <sup>(2)</sup>	40.0%	188	75	1965	3	43	15.5	69.2%
236 Brownlow Avenue, Dartmouth	100.0%	61	61	1987	1	21	1.0	35.3%
180 Keil Drive South, Chatham	100.0%	37	37	2005	1	37	10.0	100.0%
700 De la Gauchetière Street West- Retail, Montréal	79.2%	40	32	1983/2003, 2010	27	1	6.0	100.0%
111 Ilsley Avenue, Dartmouth	100.0%	27	27	1983	4	4	4.4	63.1%
680 Broadway Street, Tillsonburg (Tillsonburg Gateway Centre) <sup>(2)</sup>	49.9%	47	23	2003	4	12	6.3	100.0%
460 Two Nations Crossing, Fredericton <sup>(2)</sup>	40.0%	51	20	2008	1	51	11.6	100.0%
117 Kearney Lake Road, Halifax <sup>(2)</sup>	35.0%	36	13	1994	12	2	3.8	80.2%
55 Norfolk Street South, Simcoe <sup>(2)</sup>	40.0%	13	5	1987/2000	1	13	5.2	100.0%
<b>Eastern Canada<sup>(3)</sup></b>		<b>3,660</b>	<b>3,129</b>		<b>152</b>	<b>23</b>	<b>6.3</b>	<b>94.7%</b>
<b>Total</b>		<b>23,612</b>	<b>19,881</b>		<b>1,867</b>	<b>11</b>	<b>4.7</b>	<b>88.8%</b>

(1) Occupancy includes in-place and committed.

(2) Co-owned property.

(3) Redevelopment property.

(4) Investment in joint venture.

(5) Includes properties in southwestern Ontario and U.S.

## Management's responsibility for the consolidated financial statements

The accompanying consolidated financial statements, the notes thereto and other financial information contained in this Annual Report have been prepared by, and are the responsibility of, the management of Dream Office Real Estate Investment Trust. 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 Trustees is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit Committee, which comprises trustees, 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 Trustees, 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.



**P. Jane Gavan**  
Chief Executive Officer



**Rajeev Viswanathan**  
Chief Financial Officer

Toronto, Ontario, February 23, 2017



## Independent auditor's report

### **To the Unitholders of Dream Office Real Estate Investment Trust**

We have audited the accompanying consolidated financial statements of Dream Office Real Estate Investment Trust and its subsidiaries (together, Dream Office REIT), which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Dream Office REIT as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants, Licensed Public Accountants**

Toronto, Ontario, February 23, 2017

## Consolidated balance sheets

(in thousands of Canadian dollars)	Note	December 31, 2016	December 31, 2015
<b>Assets</b>			
<b>NON-CURRENT ASSETS</b>			
Investment properties	7	\$ 4,836,355	\$ 5,899,131
Investment in Dream Industrial REIT	8	186,754	184,817
Investment in joint ventures	9	15,189	595,203
Other non-current assets	10	16,556	17,448
		<b>5,054,854</b>	<b>6,696,599</b>
<b>CURRENT ASSETS</b>			
Amounts receivable	11	17,786	10,258
Prepaid expenses and other receivables	19	84,854	9,052
Cash and cash equivalents		7,667	2,051
		<b>110,307</b>	<b>21,361</b>
Assets held for sale	19	321,355	44,914
<b>Total assets</b>		<b>\$ 5,486,516</b>	<b>\$ 6,762,874</b>
<b>Liabilities</b>			
<b>NON-CURRENT LIABILITIES</b>			
Debt	12	\$ 2,321,530	\$ 2,401,104
Subsidiary redeemable units	13	102,321	90,912
Deferred Unit Incentive Plan	14	14,796	12,596
Deferred tax liabilities, net	22	10,735	9,038
Other non-current liabilities	15	15,056	20,284
		<b>2,464,438</b>	<b>2,533,934</b>
<b>CURRENT LIABILITIES</b>			
Debt	12	328,260	609,644
Amounts payable and accrued liabilities	16	104,997	112,980
		<b>433,257</b>	<b>722,624</b>
Liabilities related to assets held for sale	19	217,056	24,502
<b>Total liabilities</b>		<b>3,114,751</b>	<b>3,281,060</b>
<b>Equity</b>			
Unitholders' equity	18	3,108,424	3,168,915
Retained earnings (deficit)	18	(747,840)	301,324
Accumulated other comprehensive income	18, 27	11,181	11,575
<b>Total equity</b>		<b>2,371,765</b>	<b>3,481,814</b>
<b>Total liabilities and equity</b>		<b>\$ 5,486,516</b>	<b>\$ 6,762,874</b>

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Trustees of Dream Office Real Estate Investment Trust:



**JOANNE FERSTMAN**  
Trustee



**MICHAEL J. COOPER**  
Trustee

## Consolidated statements of comprehensive loss

(in thousands of Canadian dollars)	Note	Year ended December 31,	
		2016	2015
Investment properties revenue		\$ 664,291	\$ 690,962
Investment properties operating expenses		(295,713)	(303,449)
<b>Net rental income</b>		<b>368,578</b>	<b>387,513</b>
<b>Other income (loss)</b>			
Share of net income and accretion loss from investment in Dream Industrial REIT	8	8,086	6,112
Share of net income (loss) from investment in joint ventures	9	(154,300)	53,136
Interest and fee income		3,258	3,005
		(142,956)	62,253
<b>Other expenses</b>			
General and administrative	24	(11,906)	(12,196)
Interest:			
Debt	20	(119,520)	(131,818)
Subsidiary redeemable units	20	(8,174)	(9,171)
Amortization of external management contracts and depreciation on property and equipment		(3,573)	(2,949)
		(143,173)	(156,134)
<b>Fair value adjustments, net losses on transactions and other activities</b>			
Fair value adjustments to investment properties	7, 19	(899,100)	(201,030)
Fair value adjustments to financial instruments	21	(13,555)	48,890
Net losses on transactions and other activities	32	(47,546)	(194,836)
		(960,201)	(346,976)
<b>Loss before income taxes</b>		<b>(877,752)</b>	<b>(53,344)</b>
Deferred income taxes	22	(1,953)	(1,695)
<b>Net loss for the year</b>		<b>(879,705)</b>	<b>(55,039)</b>
<b>Other comprehensive income (loss)</b>			
Items reclassified to net loss:			
Reclassified interest rate swaps, net of taxes	27	561	—
Items that will be reclassified subsequently to net income (loss):			
Unrealized gain (loss) on interest rate swaps, net of taxes	27	252	(139)
Unrealized foreign currency translation gain (loss), net of taxes	27	(1,207)	7,486
		(394)	7,347
<b>Comprehensive loss for the year</b>		<b>\$ (880,099)</b>	<b>\$ (47,692)</b>

See accompanying notes to the consolidated financial statements.

## Consolidated statements of changes in equity

(in thousands of Canadian dollars, except for number of units)

Year ended December 31, 2016	Note	Number of REIT A Units	Unitholders' equity	Attributable to unitholders of the Trust		Total equity
				Retained earnings (deficit)	Accumulated other comprehensive income (loss)	
<b>Balance at January 1, 2016</b>		<b>107,860,638</b>	<b>\$ 3,168,915</b>	<b>\$ 301,324</b>	<b>\$ 11,575</b>	<b>\$ 3,481,814</b>
Net loss for the year		—	—	(879,705)	—	(879,705)
Distributions paid and payable	17	—	—	(169,459)	—	(169,459)
Distribution Reinvestment Plan	18	<b>1,122,411</b>	<b>17,034</b>	—	—	<b>17,034</b>
Unit Purchase Plan	18	<b>362</b>	<b>6</b>	—	—	<b>6</b>
Deferred trust units exchanged for REIT A Units	14	<b>154,507</b>	<b>2,696</b>	—	—	<b>2,696</b>
Cancellation of REIT A Units	18	<b>(4,331,194)</b>	<b>(80,174)</b>	—	—	<b>(80,174)</b>
Issue costs		—	(53)	—	—	(53)
Other comprehensive loss	27	—	—	—	(394)	(394)
<b>Balance at December 31, 2016</b>		<b>104,806,724</b>	<b>\$ 3,108,424</b>	<b>\$ (747,840)</b>	<b>\$ 11,181</b>	<b>\$ 2,371,765</b>

Year ended December 31, 2015	Note	Number of REIT A Units	Unitholders' equity	Attributable to unitholders of the Trust		Total equity
				Retained earnings	Accumulated other comprehensive income	
<b>Balance at January 1, 2015</b>		<b>107,936,575</b>	<b>\$ 3,171,794</b>	<b>\$ 601,495</b>	<b>\$ 4,228</b>	<b>\$ 3,777,517</b>
Net loss for the year		—	—	(55,039)	—	(55,039)
Distributions paid and payable	17	—	—	(245,132)	—	(245,132)
Distribution Reinvestment Plan	18	<b>4,040,965</b>	<b>93,122</b>	—	—	<b>93,122</b>
Unit Purchase Plan	18	<b>13,727</b>	<b>343</b>	—	—	<b>343</b>
Deferred trust units exchanged for REIT A Units	14	<b>137,233</b>	<b>3,269</b>	—	—	<b>3,269</b>
REIT B Units exchanged for REIT A Units	18	<b>218,611</b>	<b>5,795</b>	—	—	<b>5,795</b>
Cancellation of REIT A Units	18	<b>(4,486,473)</b>	<b>(105,114)</b>	—	—	<b>(105,114)</b>
Issue costs		—	(294)	—	—	(294)
Other comprehensive income	27	—	—	—	7,347	7,347
<b>Balance at December 31, 2015</b>		<b>107,860,638</b>	<b>\$ 3,168,915</b>	<b>\$ 301,324</b>	<b>\$ 11,575</b>	<b>\$ 3,481,814</b>

See accompanying notes to the consolidated financial statements.

## Consolidated statements of cash flows

(in thousands of Canadian dollars)	Note	Year ended December 31,	
		2016	2015
<b>Generated from (utilized in) operating activities</b>			
Net loss for the year		\$ (879,705)	\$ (55,039)
Non-cash items:			
Share of net income and accretion loss from investment in Dream Industrial REIT	8	(8,086)	(6,112)
Share of net loss (income) from investment in joint ventures	9	154,300	(53,136)
Amortization and depreciation	26	21,006	14,981
Fair value adjustments to investment properties	7, 19	899,100	201,030
Fair value adjustments to financial instruments	21	13,555	(48,890)
Other adjustments	26	35,646	186,196
Investment in lease incentives and initial direct leasing costs		(78,201)	(63,895)
Interest expense on subsidiary redeemable units	20	8,174	9,171
Change in non-cash working capital	26	(18,421)	8,203
		<b>147,368</b>	<b>192,509</b>
<b>Generated from (utilized in) investing activities</b>			
Investment in building improvements		(47,689)	(44,755)
Investment in property and equipment		(2,623)	(1,450)
Net proceeds from disposal of investment properties and expropriation of land		470,293	130,582
Distributions from investment in Dream Industrial REIT		11,918	12,986
Purchase of Dream Industrial REIT Units		(5,851)	—
Distributions from investment in joint ventures		130,698	33,577
Contributions to investment in joint ventures		(35,909)	(19,535)
Change in restricted cash		101	2,101
		<b>520,938</b>	<b>113,506</b>
<b>Generated from (utilized in) financing activities</b>			
Borrowings	12	1,121,743	572,628
Principal repayments	12, 19	(61,814)	(63,792)
Lump sum repayments	12	(1,325,173)	(512,633)
Lump sum repayments on property dispositions	12, 19	(133,917)	(44,674)
Financing costs additions	12	(7,080)	(1,987)
Distributions paid on REIT A Units	17	(159,782)	(151,945)
Interest paid on subsidiary redeemable units	20, 26	(8,497)	(8,306)
Cancellation of REIT A Units	18	(80,174)	(105,114)
REIT A Units issued for cash	18	6	343
Debt settlement and REIT A Unit issue costs		(7,918)	(1,408)
		<b>(662,606)</b>	<b>(316,888)</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>5,700</b>	<b>(10,873)</b>
<b>Foreign exchange gain (loss) on cash held in foreign currency</b>		<b>(84)</b>	<b>2,004</b>
<b>Cash and cash equivalents, beginning of year</b>		<b>2,051</b>	<b>10,920</b>
<b>Cash and cash equivalents, end of year</b>		<b>\$ 7,667</b>	<b>\$ 2,051</b>

See accompanying notes to the consolidated financial statements.

# Notes to the consolidated financial statements

(All dollar amounts in thousands of Canadian dollars, except for unit, per unit or per square foot amounts)

## Note 1

### ORGANIZATION

Dream Office Real Estate Investment Trust (“Dream Office REIT” or the “Trust”) is an open-ended investment trust created pursuant to a Declaration of Trust, as amended and restated, under the laws of the Province of Ontario. The consolidated financial statements of Dream Office REIT include the accounts of Dream Office REIT and its subsidiaries. Dream Office REIT’s portfolio comprises office properties located in urban centres across Canada and the United States (“U.S.”). A subsidiary of Dream Office REIT performs the property management function.

The principal office and centre of administration of the Trust is 30 Adelaide Street East, Suite 301, State Street Financial Centre, Toronto, ON M5C 3H1. The Trust is listed on the Toronto Stock Exchange (“TSX”) under the symbol “D.UN”. Dream Office REIT’s consolidated financial statements for year ended December 31, 2016 were authorized for issuance by the Board of Trustees on February 23, 2017, after which they may only be amended with the Board of Trustees’ approval.

For simplicity, throughout the Notes, reference is made to the units of the Trust as follows:

- “REIT A Units”, meaning the REIT Units, Series A;
- “REIT B Units”, meaning the REIT Units, Series B;
- “REIT Units”, meaning the REIT Units, Series A, and REIT Units, Series B, collectively;
- “Units”, meaning REIT Units, Series A, REIT Units, Series B, and Special Trust Units, collectively; and
- “subsidiary redeemable units”, meaning the LP Class B Units, Series 1, limited partnership units of Dream Office LP, a subsidiary of Dream Office REIT.

## Note 2

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

#### Basis of presentation and statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

#### Basis of consolidation

The consolidated financial statements comprise the financial statements of Dream Office REIT and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, the date on which the Trust obtains control, and continue to be consolidated until the date such control ceases. Control exists when the Trust is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All intercompany balances, income and expenses, and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

#### Equity accounted investments

Equity accounted investments are investments over which the Trust has significant influence, but not control. Generally, the Trust is considered to exert significant influence when it holds more than a 20% interest in an entity or partnership. However, determining significant influence is a matter of judgment and specific circumstances and, from time to time, the Trust may hold an interest of more than 20% in an entity or partnership without exerting significant influence. Conversely, the Trust may hold an interest of less than 20% and exert significant influence through representation on the Board of Trustees, direction of management or through contractual agreements.

The financial results of the Trust's equity accounted investments are included in the Trust's consolidated financial statements using the equity method, whereby the investment is carried on the consolidated balance sheets at cost, adjusted for the Trust's proportionate share of post-acquisition profits and losses and for post-acquisition changes in excess of the Trust's carrying amount of its investment over the net assets of the equity accounted investments, less any identified impairment loss. The Trust's share of profits and losses is recognized in the share of net earnings from equity accounted investments in the consolidated statements of comprehensive income (loss). Dilution gains and losses arising from changes in the Trust's interest in equity accounted investments are recognized in earnings. If the Trust's investment is reduced to zero, additional losses are not provided for, and a liability is not recognized, unless the Trust has incurred legal or constructive obligations, or made payments on behalf of the equity accounted investment.

At each reporting date, the Trust evaluates whether there is objective evidence that its interest in an equity accounted investment is impaired. The entire carrying amount of the equity accounted investment is compared to the recoverable amount, which is the higher of the value-in-use or fair value less costs to sell. The recoverable amount of each investment is considered separately.

Where the Trust transacts with its equity accounted investments, unrealized profits and losses are eliminated to the extent of the Trust's interest in the investment. Balances outstanding between the Trust and equity accounted investments in which it has an interest are not eliminated in the consolidated balance sheets.

### **Joint arrangements**

The Trust enters into joint arrangements via joint operations and joint ventures. A joint arrangement is a contractual arrangement pursuant to which the Trust 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, and that is referred to as joint operations. Joint arrangements that involve the establishment of a separate entity or partnership in which each party to the venture has rights to the net assets of the arrangements are referred to as joint ventures. In a co-ownership arrangement, the Trust owns jointly one or more investment properties with another party and has direct rights to the investment property, and obligations for the liabilities relating to the co-ownership.

The Trust reports its interests in joint ventures using the equity method of accounting as previously described under "Equity accounted investments". The Trust reports its interests in co-ownerships as joint operations by accounting for its share of the assets, liabilities, revenues and expenses. Under this method, the Trust's consolidated financial statements reflect only the Trust's proportionate share of the assets, its share of any liabilities incurred jointly with the other ventures as well as any liabilities incurred directly, its share of any revenues earned or expenses incurred by the joint operation and any expenses incurred directly.

### **Note 3**

#### **ACCOUNTING POLICIES SELECTED AND APPLIED FOR SIGNIFICANT TRANSACTIONS AND EVENTS**

The significant accounting policies used in the preparation of these consolidated financial statements are described below:

#### **Investment properties**

Investment properties are initially recorded at cost, including related transaction costs in connection with asset acquisitions and include office properties held to earn rental income and/or for capital appreciation. Subsequent to initial recognition, investment properties are accounted for at fair value. At the end of each reporting period, the Trust determines the fair value of investment properties by:

- 1) considering current contracted sales prices for properties that are available for sale;
- 2) obtaining appraisals from qualified external professionals applying the income approach on a rotational basis for select properties; and
- 3) using internally prepared valuations applying the income approach.

The income approach is derived from two methods: capitalization rate (“cap rate”) method and discounted cash flow method. In applying the cap rate method, the stabilized net operating income (“stabilized NOI”) of each property is divided by an appropriate cap rate with adjustments for items such as average lease up costs, long-term vacancy rates, non-recoverable capital expenditures, management fees, straight-line rents and other non-recurring items. On a quarterly basis, the Trust generally uses the cap rate method to value investment properties that are more stable and uses the discounted cash flow method on an annual basis to validate the cap rate value on such properties. On a quarterly basis, for investment properties that are subject to significant volatility, uncertainty and risk, the Trust generally uses the discounted cash flow method to value such properties.

Initial direct leasing costs incurred in negotiating and arranging tenant leases are added to the carrying amount of investment properties. 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 to investment properties revenue. Internal leasing costs are expensed in the period that they are incurred.

Investment properties are derecognized on disposal or when no future economic benefits are expected from their use or disposal. Any transaction costs arising on derecognition of an investment property is included in the consolidated statements of comprehensive income (loss) in the period the asset is derecognized.

Straight-line rent receivables are added to the carrying amount of investment properties.

### Segment reporting

A reportable operating segment is a distinguishable component of the Trust that is engaged either in providing related products or services (geographic segment) or in providing products or services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other reportable segments. The Trust’s primary format for segment reporting is based on geographic segments. The business segments, office properties, are based on the Trust’s management and internal reporting structure. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, determined to be the Chief Executive Officer (“CEO”) of the Trust. The operating segments derive their revenue primarily from rental income from lessees. All of the Trust’s business activities and operating segments are reported within the geographic segments.

Prior to 2016, the Trust’s reportable operating segments of its investment properties and results of operations were segmented geographically, namely Western Canada, Calgary downtown, Calgary suburban, Toronto downtown, Toronto suburban and Eastern Canada. Effective January 1, 2016, the Trust made several changes to its reportable operating segments as follows: (i) separated its investment properties and results of operations in Edmonton from Western Canada and combined Calgary downtown and Calgary suburban into a new Alberta segment; and (ii) for the remaining properties in Western Canada, which are located in British Columbia, Saskatchewan and Northwest Territories, the Trust renamed the Western Canada region to B.C./Saskatchewan/N.W.T. These changes enable the chief operating decision-maker, determined to be the Chief Executive Officer of the Trust, to evaluate the performance of our investment properties located in the province of Alberta, which is subject to risks and rewards that are different from those of other reportable operating segments.

### Other non-current assets

Other non-current assets include property and equipment, deposits, restricted cash, external management contracts and goodwill. Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of property and equipment is calculated using the straight-line method to allocate their cost, net of their residual values, over their expected useful lives of two to seven years. The residual values and useful lives of all property and equipment are reviewed and adjusted, if appropriate, at least once a year. Cost includes expenditures that are directly attributable to the acquisition and expenditures for replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met. Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Trust and the cost of the item can be measured reliably. All other repairs and maintenance are charged to consolidated statements of comprehensive income (loss) during the reporting period in which they are incurred.

Other non-current assets are derecognized on disposal or when no future economic benefits are expected from their use or disposal. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of comprehensive income (loss) in the year the asset is derecognized.



## Revenue recognition

The Trust accounts for tenant leases as operating leases given that it has retained substantially all of the risks and rewards of ownership of its investment properties. Revenues from investment properties include base rents, recoveries of operating expenses including property taxes, percentage participation rents, lease termination fees, parking income and incidental income. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight-line rent receivable, which is included in investment properties, is recorded for the difference between the rental revenue recognized and the contractual amount received. Recoveries from tenants are recognized as revenues in the period in which the corresponding costs are incurred and collectibility reasonably assured. Percentage participation rents are recognized on an accrual basis once tenant sales revenues exceed contractual thresholds. Other revenues are recorded as earned.

## Goodwill

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

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of cash-generating units that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored by the Trust at the geographic 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, 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.

## External property management contracts

External property management contracts assumed in a business combination are recorded on the consolidated balance sheets and arise when the Trust acquires less than 100% of an investment property, but manages the investment property and earns a property management fee from the co-owner. External property management contracts are in place as long as the property is co-owned by the Trust and are amortized on a straight-line basis into consolidated statements of comprehensive income (loss) over the life of the contract. As co-owned investment properties are derecognized on disposal, a portion of the unamortized external property management contracts is written off and included in the consolidated statements of comprehensive income (loss).

## Distributions

Distributions to unitholders are recognized in the period in which the distributions are declared and are recorded as a reduction of retained earnings.

## Income taxes

Dream Office REIT is taxed as a mutual fund trust for Canadian income tax purposes. The Trust expects to distribute all of its taxable income to its unitholders, which enables it to deduct such distributions for income tax purposes. As the income tax obligations relating to the distributions are those of the individual unitholder, no provision for income taxes is required on such amounts. The Trust expects to continue to distribute its taxable income and to qualify as a real estate investment trust ("REIT") for the foreseeable future.

For U.S. subsidiaries, income taxes are accounted for using the asset and liability method. Under this method, deferred income taxes are recognized for the expected future tax consequences of temporary differences between the carrying value of balance sheet items and their corresponding tax values. Deferred income taxes are computed using substantively enacted income tax rates or laws for the years in which the temporary differences are expected to reverse or settle. Deferred tax assets are recognized only to the extent that they are realizable.

## Unit-based compensation plan

As described in Note 14, the Trust has a Deferred Unit Incentive Plan ("DUIP") that provides for the granting of deferred trust units and income deferred trust units to trustees, officers, employees and employees of affiliates.

Over the vesting period, deferred units are recorded as a liability, and compensation expense is recognized at amortized cost based on the fair value of the units. Once vested, the liability is remeasured at each reporting date at amortized cost, based on the fair value of the corresponding REIT A Units, with changes in fair value recognized in the consolidated statements of comprehensive income (loss) as a fair value adjustment to financial instruments. Deferred trust units and income deferred units are only settled in REIT A Units.

## Cash and cash equivalents

Cash and cash equivalents include all short-term investments with an original maturity of three months or less, and exclude cash subject to restrictions that prevent its use for current purposes. Excluded from cash and cash equivalents are amounts held for repayment of tenant security deposits, as required by various lending agreements. Restricted cash and deposits are included in other non-current assets (see Note 10).

## Financial instruments

### Designation of financial instruments

The following summarizes the Trust's classification and measurement of financial assets and financial liabilities:

	Classification	Measurement
<b>Financial assets</b>		
Amounts receivable	Loans and receivables	Amortized cost
Other receivables	Loans and receivables	Amortized cost
Restricted cash and deposits	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost
<b>Financial liabilities</b>		
Amounts payable and accrued liabilities	Other liabilities	Amortized cost
Distributions payable	Other liabilities	Amortized cost
Tenant security deposits	Other liabilities	Amortized cost
Deferred Unit Incentive Plan	Other liabilities	Amortized cost
Subsidiary redeemable units	Other liabilities	Amortized cost
Mortgages	Other liabilities	Amortized cost
Term loan and demand revolving credit facilities	Other liabilities	Amortized cost
Debentures	Other liabilities	Amortized cost
Convertible debentures – host instrument	Other liabilities	Amortized cost
Convertible debentures – conversion feature	Fair value through profit or loss	Fair value
Interest rate swaps	Cash flow hedge	Fair value

## Financial assets

The Trust classifies its non-derivative financial assets with fixed or determinable payments that are not quoted in an active market as loans and receivables. All financial assets are initially measured at fair value, less any related transaction costs, and are subsequently measured at amortized cost.

Amounts receivable and other receivables are initially measured at fair value and are subsequently measured at amortized cost less provision for impairment. A provision for impairment is established for amounts receivable when there is objective evidence that collection of all principal and interest is unlikely under the original terms of the contract. Indicators of impairment include payment delinquency and significant financial difficulty of the tenant. The carrying amount of the financial asset is reduced through an allowance account, and the amount of the loss is recognized in the consolidated statements of comprehensive income (loss) within investment properties operating expenses. Bad debt write-offs occur when the Trust determines collection is not possible. Any subsequent recoveries of amounts previously written off are credited against investment properties operating expenses in the consolidated statements of comprehensive income (loss). Trade receivables that are less than three months past due are not considered impaired unless there is evidence collection is not possible. If in a subsequent period when the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying amount of the amounts receivable does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of comprehensive income (loss).

Financial assets are derecognized only when the contractual rights to the cash flows from the financial asset expire or the Trust transfers substantially all risks and rewards of ownership.

### Financial liabilities

The Trust classifies its financial liabilities on initial recognition as either fair value through profit or loss or other liabilities measured at amortized cost. Financial liabilities are initially recognized at fair value less related transaction costs. Financial liabilities classified as other liabilities are measured at amortized cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the financial liabilities are recognized in the consolidated statements of comprehensive income (loss) over the expected life of the debt. The Trust's financial liabilities that are classified as fair value through profit or loss are initially recognized at fair value and are subsequently remeasured at fair value each reporting period, with changes in the fair value recognized in the consolidated statements of comprehensive income (loss).

Mortgages, term loan facility, demand revolving credit facilities and debentures are initially recognized at fair value less related transaction costs, or at fair value when assumed in a business or asset acquisition. Subsequent to initial recognition, mortgages, term loan facility, demand revolving credit facilities and debentures are recognized at amortized cost.

On issuance, convertible debentures are separated into two financial liability components: the host instrument and the conversion feature. This presentation is required because the conversion feature permits the holder to convert the debenture into REIT A Units, except for the available exemption under International Accounting Standard ("IAS") 32, "Financial Instruments: Presentation" ("IAS 32"), would normally be presented as a financial liability because of the redemption feature attached to the REIT A Units. Both components are measured based on their respective estimated fair values at the date of issuance. The fair value of the host instrument is net of any related transaction costs. The fair value of the host instrument is estimated based on the present value of future interest and principal payments due under the terms of the debenture using a discount rate for similar debt instruments without a conversion feature. Subsequent to initial recognition, the host instrument is accounted for at amortized cost. The conversion feature is accounted for at fair value with changes in fair value recognized in the consolidated statements of comprehensive income (loss) in each reporting period. When the holder of a convertible debenture converts its interest into REIT A Units, the host instrument and conversion feature are reclassified to unitholders' equity in proportion to the units converted over the total equivalent units outstanding.

Deferred trust units and the subsidiary redeemable units are measured at amortized cost as they are settled in REIT A Units and REIT B Units, respectively, which in accordance with IAS 32 are considered liabilities. Consequently, the deferred trust units and subsidiary redeemable units are remeasured each reporting period based on the fair value of REIT Units, with changes in the liabilities recorded in the consolidated statements of comprehensive income (loss). Distributions paid and payable on subsidiary redeemable units are recorded as interest expense in the consolidated statements of comprehensive income (loss).

Financial liabilities are derecognized when the obligation under the liabilities are discharged, cancelled or expired and their associated unamortized financing costs and unamortized fair value adjustments on assumed debt are written off and included in consolidated statements of comprehensive income (loss).

### Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and subsequently remeasured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument and, if so, the nature of the item being hedged. The Trust has designated its interest rate swaps as a hedge of the interest under the term loan facility.

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

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income (loss). The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statements of comprehensive income (loss).

Amounts accumulated in equity are reclassified to other comprehensive income (loss) in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gains or losses existing in equity at that time are recognized in the consolidated statements of comprehensive income (loss) immediately.

### Interest on debt

Interest on debt includes coupon interest, amortization of premiums allocated to the conversion features of the convertible debentures, amortization of ancillary costs incurred in connection with the arrangement of borrowings and amortization of fair value adjustments on assumed debt. Finance costs are amortized to interest expense.

### Equity

The Trust presents REIT Units as equity, notwithstanding the fact that the Trust's REIT Units meet the definition of a financial liability. Under IAS 32, the REIT Units are considered a puttable financial instrument because of the holder's option to redeem REIT Units, generally at any time, subject to certain restrictions, at a redemption price per unit equal to the lesser of 90% of a 20-day weighted average closing price prior to the redemption date or 100% of the closing market price on the redemption date. The total amount payable by Dream Office REIT in any calendar month will not exceed \$50 unless waived by Dream Office REIT's Board of Trustees at their sole discretion. The Trust has determined the REIT Units can be presented as equity and not financial liabilities because the REIT Units have all of the following features, as defined in IAS 32 (hereinafter referred to as the "puttable exemption"):

- REIT Units entitle the holder to a pro rata share of the Trust's net assets in the event of its liquidation. Net assets are those assets that remain after deducting all other claims on the assets.
- REIT Units are the class of instruments that are subordinate to all other classes of instruments as they have no priority over other claims to the assets of the Trust on liquidation, and do not need to be converted into another instrument before they are in the class of instruments that is subordinate to all other classes of instruments.
- All instruments in the class of instruments that is subordinate to all other classes of instruments have identical features.
- Apart from the contractual obligation for the Trust to redeem the REIT Units for cash or another financial asset, the REIT Units do not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Trust, and it is not a contract that will or may be settled in the Trust's own instruments.
- The total expected cash flows attributable to the REIT Units over their lives are based substantially on the profit or loss, and the change in the recognized net assets and unrecognized net assets of the Trust over the life of the REIT Units.
- REIT Units are initially recognized at the fair value of the consideration received by the Trust. Any transaction costs arising on the issuance of REIT Units are recognized directly in unitholders' equity as a reduction of the proceeds received.

### Provisions

Provisions for legal claims are recognized when the Trust has a present legal or constructive obligation as a result of past events; it is probable an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

### 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.

## Foreign currencies

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Trust and the presentation currency for the consolidated financial statements.

Assets and liabilities related to properties held in a foreign entity with a functional currency other than the Canadian dollar are translated at the rate of exchange at the consolidated balance sheet dates. Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the dates of the transactions are used. The resulting foreign currency translation adjustments are recognized in other comprehensive income (loss).

## Note 4

### **CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS IN APPLYING ACCOUNTING POLICIES**

Preparing the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported. Management bases its judgments and estimates on historical experience and other factors it believes to be reasonable under the circumstances, but which are inherently uncertain and unpredictable, the result of which forms the basis of the carrying amounts of assets and liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

### **Critical accounting judgments**

The following are the critical accounting judgments used in applying the Trust's accounting policies that have the most significant effect on the amounts in the consolidated financial statements:

#### **Investment properties**

Critical judgments are made in respect of the fair values of investment properties and the investment properties held in equity accounted investments. The fair values of these investments are reviewed at least quarterly by management with reference to independent property appraisals and market conditions existing at the reporting date, using generally accepted market practices. The independent appraisers are experienced, nationally recognized and qualified in the professional valuation of office buildings in their respective geographic areas. Judgment is also applied in determining the extent and frequency of independent appraisals. At each reporting period, a select number of properties, determined on a rotational basis, are valued by appraisals. For properties not subject to independent appraisals, valuations are prepared internally during each reporting period.

Critical assumptions used in estimating the fair values of investment properties include cap rates, discount rates that reflect current market uncertainties, terminal cap rates and market rents. Other key assumptions relating to the estimates of fair values of investment properties include components of stabilized NOI, leasing costs and vacancy rates. The Trust examines the critical and key assumptions at the end of each reporting period and updates these assumptions based on recent leasing activity and external market data available at that time. If there is any change in these assumptions or regional, national or international economic conditions, the fair value of investment properties may change materially.

The Trust makes judgments with respect to whether lease incentives provided in connection with a lease enhance the value of the leased space, which determines whether or not such amounts are treated as tenant improvements and added to investment properties. Lease incentives, such as cash, rent-free periods and lessee- or lessor-owned improvements, may be provided to lessees to enter into an operating lease. Lease incentives that do not provide benefits beyond the initial lease term are included in the carrying amount of investment properties and are amortized as a reduction of rental revenue on a straight-line basis over the term of the lease.

Judgment is also applied in determining whether certain costs are additions to the carrying amount of the investment property.

## Impairment

The Trust assesses the possibility and amount of any impairment loss or write-down as it relates to the investment in Dream Industrial REIT, amounts receivable, property and equipment, external management contracts and goodwill.

IAS 39, “Financial Instruments: Recognition and Measurement”, requires management to use judgment in determining if the Trust’s financial assets are impaired. In making this judgment, the Trust evaluates, among other factors, the duration and extent to which the fair value of the investment is less than its carrying amount; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology, and operational and financing cash flows.

IAS 36, “Impairment of Assets” (“IAS 36”), requires management to use judgment in determining the recoverable amount of assets and equity accounted investments that are tested for impairment, including goodwill, the investment in Dream Industrial REIT and the investment in joint ventures. Judgment is involved in estimating the fair value less cost to sell or value-in-use of the cash-generating units to which goodwill has been allocated, including estimates of growth rates, discount rates and terminal rates. Judgment is also involved in estimating the value-in-use of the investment in Dream Industrial REIT, including estimates of future cash flows, discount rates and terminal rates. The values assigned to these key assumptions reflect past experience and are consistent with external sources of information.

The Trust’s goodwill balance is allocated to the office properties group of CGUs by geographic segment (herein referred to as the goodwill CGU). The recoverable amount of the Trust’s goodwill CGU is determined based on the value-in-use approach. For the purpose of this impairment test, the Trust uses cash flow projections forecasted out for a ten-year period, consistent with the internal financial budgets approved by management on a property-by-property basis. The key assumptions used in determining the value-in-use of the goodwill CGU are the estimated growth rate, discount rate and terminal rate. In arriving at the growth rate, the Trust considers past experience and inflation, as well as industry trends. The Trust utilizes weighted average cost of capital (“WACC”) to determine the discount rate and terminal rate. The WACC reflects specific risks that would be attributable to the Trust. As the Trust is not subject to taxation, no adjustment is required to adjust the WACC on a pre-tax basis.

## Estimates and assumptions

The Trust makes estimates and assumptions that affect the carrying amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amount of earnings for the reporting period. Actual results could differ from these estimates. The estimates and assumptions that are critical in determining the amounts reported in the consolidated financial statements relate to the following:

### Valuation of financial instruments

The Trust makes estimates and assumptions relating to the fair value measurement of the subsidiary redeemable units, the deferred trust units, the convertible debenture conversion feature, interest rate swaps and the fair value disclosure of the mortgages, term loan facility, convertible debentures, and debentures. The critical assumptions underlying the fair value measurements and disclosures include the market price of REIT A Units, market interest rates for mortgages, term loan facility and unsecured debentures, and assessment of the effectiveness of hedging relationships.

For certain financial instruments, including cash and cash equivalents, amounts receivable, other receivables, amounts payable and accrued liabilities, deposits and distributions payable, the carrying amounts approximate fair values due to their immediate or short-term maturity. The fair values of mortgages, loan facility and interest rate swaps are determined based on discounted cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. The fair value of convertible debentures is determined by reference to quoted market prices from an active market.

## Note 5

### **CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**

The Trust has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2016. These changes were made in accordance with the applicable transitional provisions.

#### **Presentation of financial statements**

IAS 1, "Presentation of Financial Statements" ("IAS 1"), was amended by the IASB to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and disclosure of accounting policies. The amendment gives guidance that information within the consolidated balance sheets and statements of comprehensive income should not be aggregated or disaggregated in a manner that obscures useful information, and that disaggregation may be required in the statement of comprehensive income in the form of additional subtotals as they are relevant to understanding the entity's financial position or performance. This amendment did not result in a material impact to the consolidated financial statements.

#### **Acquisitions of interests in joint operations**

IFRS 11, "Joint Arrangements" ("IFRS 11"), has been amended to require the application of IFRS 3, "Business Combinations", to transactions where an investor obtains an interest in a joint operation that constitutes a business. This amendment did not result in a material impact to the consolidated financial statements.

## Note 6

### **FUTURE ACCOUNTING POLICY CHANGES**

#### **Statement of cash flows**

IAS 7, "Cash Flow Statements" – ("IAS 7"), has been amended by the IASB to introduce additional disclosure that will allow users to understand changes in liabilities arising from financing activities. This amendment to IAS 7 is effective for annual periods beginning on or after January 1, 2017. The Trust does not anticipate this amendment to have a material impact to the consolidated financial statements.

#### **Revenue recognition**

IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"), provides a comprehensive five-step revenue recognition model for all contracts with customers. The IFRS 15 revenue recognition model requires management to exercise significant judgment and make estimates that affect revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Trust is currently evaluating the impact of adopting this standard on the consolidated financial statements.

#### **Financial instruments**

The final version of IFRS 9, "Financial Instruments" ("IFRS 9"), was issued by the IASB in July 2014 and will replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 introduces a model for classification and measurement, a single, forward-looking "expected loss" impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of an entity's own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. The entity's own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments. Lastly, a third measurement category for financial assets, "fair value through other comprehensive income", will exist. IFRS 9 is effective for annual periods beginning on or after January 1, 2018; however, it is available for early adoption. The Trust is currently evaluating the impact of adopting this standard on the consolidated financial statements.

#### **Financial instruments – disclosures**

IFRS 7, "Financial Instruments: Disclosures" ("IFRS 7"), has been amended by the IASB to require additional disclosures on transition from IAS 39 to IFRS 9. The amendment to IFRS 7 is effective for annual periods beginning on or after January 1, 2018. The Trust is currently evaluating the impact of adopting this standard on the consolidated financial statements.

## Leases

IFRS 16, “Leases” (“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 Trust is currently evaluating the impact of adopting this standard on the consolidated financial statements.

## Share-based payments

IFRS 2, “Share-Based Payments” (“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 Trust is currently assessing the impact of IFRS 2 on the consolidated financial statements.

## Note 7

### INVESTMENT PROPERTIES

	Note	Year ended December 31, 2016	Year ended December 31, 2015
<b>Balance, beginning of year</b>		\$ 5,899,131	\$ 6,172,452
Additions:			
Building improvements		38,093	51,937
Lease incentives and initial direct leasing costs		74,259	66,416
Recognition of investment properties related to joint operations	9	663,705	—
Other		4,070	—
<b>Total additions to investment properties</b>		<b>780,127</b>	<b>118,353</b>
Dispositions and assets held for sale:			
Investment properties and land disposed of during the year		(386,679)	(30,034)
Investment properties classified as held for sale during the year	19	(536,125)	(159,547)
<b>Total investment properties and land disposed of and classified as held for sale</b>		<b>(922,804)</b>	<b>(189,581)</b>
Losses included in net loss:			
Fair value adjustments to investment properties		(898,800)	(207,000)
Amortization of lease incentives		(16,092)	(13,032)
Change in straight-line rent		(1,764)	(772)
<b>Total losses included in net loss</b>		<b>(916,656)</b>	<b>(220,804)</b>
Gains (losses) included in other comprehensive income (loss):			
Foreign currency translation gain (loss) and other		(3,443)	18,711
<b>Total gains (losses) included in other comprehensive income (loss)</b>		<b>(3,443)</b>	<b>18,711</b>
<b>Balance, end of year</b>		<b>\$ 4,836,355</b>	<b>\$ 5,899,131</b>
<b>Change in unrealized losses included in net loss for the year</b>			
Change in fair value of investment properties		\$ (898,747)	\$ (195,866)

Investment properties includes \$30,772 (December 31, 2015 – \$32,536) related to straight-line rent receivables.

Investment properties with a fair value of \$3,778,650 as at December 31, 2016 (December 31, 2015 – \$4,406,289) are pledged as security for the mortgages.

Investment properties with a fair value of \$826,563 as at December 31, 2016 (December 31, 2015 – \$912,227) are pledged as security for the demand revolving credit facilities and the term loan facility.



### Valuations of externally appraised properties

For the year ended December 31, 2016, the Trust valued 46 investment properties by qualified external valuation professionals with an aggregate fair value of \$2,014,068 representing 42% of the total investment property values (for the year ended December 31, 2015 – 59 investment properties including investment in joint ventures with an aggregate fair value of \$2,992,179, representing 42% of the total investment property values including investment in joint ventures).

### Assumptions used in the valuation of investment properties (excluding Alberta)

As at December 31, 2016, the Trust's investment properties, excluding investment properties in Alberta, investment in joint ventures and assets held for sale were valued using the cap rate method. The critical valuation metrics as at December 31, 2016 and December 31, 2015 are set out below:

	December 31, 2016		December 31, 2015	
	Range (%)	Weighted average (%) <sup>(1)</sup>	Range (%)	Weighted average (%)
Cap rates <sup>(2)</sup>	4.90–8.25	5.74	5.00–8.25	6.04

(1) Excludes certain properties where bids were received by the Trust.

(2) Excludes investment properties in Alberta, investment in joint ventures and assets held for sale.

For the year ended December 31, 2016, the Trust recorded a fair value loss in investment properties, excluding investment properties in Alberta, investment in joint ventures and assets held for sale of \$129,900 (year ended December 31, 2015 – fair value gain of \$15,500).

### Sensitivities on assumptions

Generally, an increase in stabilized net operating income (“NOI”) will result in an increase to the fair value of an investment property. An increase in the cap rate will result in a decrease to the fair value of an investment property. The cap rate magnifies the effect of a change in stabilized NOI, with a lower rate resulting in a greater impact to the fair value of an investment property than a higher rate.

If the weighted average cap rate were to increase by 25 basis points (“bps”), the value of investment properties (excluding investment properties in Alberta, investment in joint ventures, assets held for sale and certain properties where bids were received by the Trust) would decrease by \$151,037. If the cap rate were to decrease by 25 bps, the value of investment properties (excluding investment properties in Alberta, investment in joint ventures and assets held for sale) would increase by \$238,515.

### Assumptions used in the valuation of investment properties in Alberta

Given the prominence of the oil and gas industry in Alberta, the office market of this province has been significantly impacted by the price of oil. Throughout 2016, economic conditions have remained the same or deteriorated. The combination of vacancy rates increasing significantly, reduced number of office workers and increased supply of new office buildings indicates that the recovery of demand for office space and increase in occupancy rates and rental rates are further delayed in Alberta. As at December 31, 2016, the Trust continues to note a prolonged deterioration in leasing volume as well as key operating metrics such as market rents, leasing costs and vacancy rates relative to the Trust's expectations over the past year. These observations are consistent with external market data points as at December 31, 2016. Based on the continued challenges in the Alberta office sector, the Trust continued to revisit all assumptions used in valuing the Alberta investment properties to reflect the continued slump.

The critical valuation metrics as at December 31, 2016 and December 31, 2015 are set out below and exclude investment in joint ventures and assets held for sale:

	December 31, 2016		December 31, 2015	
	Range (%) <sup>(1)</sup>	Weighted average (%) <sup>(1)</sup>	Range (%)	Weighted average (%)
Discount rates <sup>(2)</sup>	7.50–8.75	7.98	7.00–8.25	7.56
Terminal cap rates <sup>(2)</sup>	6.63–8.25	7.31	6.25–7.75	6.93
Market rents <sup>(2)(3)</sup>	\$ 11.00–16.50	\$ 14.22	\$ 14.00–24.00	\$ 18.38

(1) Excludes certain properties where bids were received by the Trust.

(2) Excludes investment in joint ventures and assets held for sale.

(3) Market rents represent year one rates in the discounted cash flow model. Market rents include office space only and exclude retail space.

In addition to the critical assumptions noted above, the Trust has also updated its key assumptions for leasing costs and vacancy rates throughout the year. In particular, the leasing cost assumptions for new and renewed leases were within the range of \$25 to \$60 per square foot, with vacancy rate assumptions in years one to four at a range of 15% and 20%, and returning to normalized vacancy rates of 5% beyond year four.

For the year ended December 31, 2016, the Trust recorded a fair value loss in the Alberta investment properties, excluding investment in joint ventures and assets held for sale, of \$768,900 (year ended December 31, 2015 – fair value loss of \$222,500) as a result of the changes made to the critical and key assumptions used in the discounted cash flow model.

The fair value of the investment properties as at December 31, 2016 represents the Trust's best estimate based on the internally and externally available information as at the end of the reporting period. If there are any changes in the critical and key assumptions used in valuing the investment properties, or regional, national or international economic conditions, the fair value of investment properties may change materially.

### Sensitivities on assumptions

The following sensitivity table outlines the potential impact on the value of investment properties in Alberta, excluding investment in joint ventures and assets held for sale, assuming a change in the weighted average discount rates and terminal rates by a respective 25 bps.

	Impact of change to weighted average discount rates		Impact of change to weighted average terminal rates	
	+25 bps	-25 bps	+25 bps	-25 bps
Increase (decrease) in value	\$ (8,242)	\$ 8,445	\$ (9,209)	\$ 9,880

The following sensitivity table outlines the potential impact on the value of investment properties in Alberta, excluding investment in joint ventures and assets held for sale, assuming the market rental rates were to change by \$1 per square foot and if the leasing costs per square foot were to change by \$5 per square foot.

	Impact of change to market rental rates		Impact of change to leasing costs per square foot	
	+\$1.00	-\$1.00	+\$5.00	-\$5.00
Increase (decrease) in value	\$ 25,089	\$ (22,197)	\$ (11,560)	\$ 11,561

Generally, a decrease in vacancy rate assumptions will result in an increase to the value of investment properties in Alberta, excluding investment in joint ventures and assets held for sale, while an increase in vacancy rate assumptions will result in a decrease to the value of investment properties in Alberta, excluding investment in joint ventures and assets held for sale.

### Note 8

#### INVESTMENT IN DREAM INDUSTRIAL REIT

Dream Industrial REIT is an unincorporated, open-ended real estate investment trust listed on the Toronto Stock Exchange under the symbol "DIR.UN". Dream Industrial REIT owns a portfolio of 213 primarily light industrial properties comprising approximately 16.2 million square feet of gross leasable area.

During the fourth quarter of 2016, the Trust purchased 747,190 Dream Industrial REIT Units for a total cost of \$5,851. These units purchased were enrolled in Dream Industrial REIT's distribution reinvestment plan effective for the December 2016 distribution. In addition, the Trust enrolled its 18,551,855 Dream Industrial LP Class B limited partnership units into Dream Industrial REIT's distribution reinvestment plan effective for the November 2016 distribution and elected to reinvest the distributions received in Dream Industrial REIT Units. For the year ended December 31, 2016, the Trust purchased Dream Industrial REIT Units through its distribution reinvestment plan totalling 135,283 Dream Industrial REIT Units for a total cost of \$1,115 (December 31, 2015 – \$nil).

As at December 31, 2016 and December 31, 2015, the Trust's ownership was 24.9% and 24.0%, respectively. The net change in the Trust's ownership was as a result of the Trust's purchase of Dream Industrial REIT Units during 2016 and as part of Dream Industrial REIT's issuance of additional units through Dream Industrial REIT's distribution reinvestment plan, deferred unit incentive plan, and unit purchase plan during the years ended December 31, 2016 and December 31, 2015.

	Year ended December 31, 2016	Year ended December 31, 2015
<b>Balance as at beginning of year</b>	<b>\$ 184,817</b>	<b>\$ 191,691</b>
Dream Industrial REIT units purchased during the year	5,851	—
Dream Industrial REIT units purchased through distribution reinvestment plan	1,115	—
Distributions received on LP Class B limited partnership units	(13,050)	(12,986)
Distributions received on Dream Industrial REIT Units	(65)	—
Share of net income from investment in Dream Industrial REIT	8,467	6,112
Accretion loss	(381)	—
<b>Balance as at end of year</b>	<b>\$ 186,754</b>	<b>\$ 184,817</b>
Dream Industrial REIT Units held, end of year	882,473	—
Dream Industrial LP Class B limited partnership units held, end of year	18,551,855	18,551,855
Total Dream Industrial REIT Units and Dream Industrial LP Class B limited partnership units held, end of year	19,434,328	18,551,855
Ownership %, end of year	24.9%	24.0%

The fair value of the Trust's interest in Dream Industrial REIT of \$165,775 (December 31, 2015 – \$133,202) was determined using the Dream Industrial REIT closing unit price of \$8.53 per unit at year-end multiplied by the number of units held by the Trust as at December 31, 2016.

Pursuant to the reorganization of the Trust's management structure (see Note 25), the Trust has granted Dream Asset Management Corporation ("DAM"), a subsidiary of Dream Unlimited Corp., a right of first offer to purchase up to 18,551,855 Dream Industrial LP Class B limited partnership units, in the event the Trust sells its interest in Dream Industrial REIT.

External market conditions have caused a decline in the unit price of Dream Industrial REIT since the second quarter of 2013, resulting in the carrying value to be above the market value. Under IAS 39, a significant or prolonged decline in the fair value of an investment in an equity instrument above its cost is an indicator of impairment. As a result, the Trust performed an impairment test as at December 31, 2016, by comparing the recoverable amount of its investment in Dream Industrial REIT using the value-in-use approach to its carrying value. Based on the impairment test performed, the Trust concluded that no impairment existed as at December 31, 2016.

The following amounts represent 100% of the Trust's ownership interest in the assets, liabilities, revenues, expenses and cash flows of Dream Industrial REIT:

	At 100%		At % ownership interest	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Non-current assets	\$ 1,638,031	\$ 1,701,307	\$ 408,225	\$ 413,110
Current assets	20,045	19,613	4,996	4,762
<b>Total assets</b>	<b>\$ 1,658,076</b>	<b>\$ 1,720,920</b>	<b>\$ 413,221</b>	<b>\$ 417,872</b>
Non-current liabilities	956,389	900,326	357,157	319,475
Current liabilities	110,577	193,711	27,557	46,782
<b>Total liabilities</b>	<b>\$ 1,066,966</b>	<b>\$ 1,094,037</b>	<b>\$ 384,714</b>	<b>\$ 366,257</b>
<b>Net assets</b>	<b>\$ 591,110</b>	<b>\$ 626,883</b>	<b>\$ 28,507</b>	<b>\$ 51,615</b>
Add-back:				
Subsidiary redeemable units			158,247	133,202
<b>Investment in Dream Industrial REIT</b>			<b>\$ 186,754</b>	<b>\$ 184,817</b>

	At 100%		At % ownership interest	
	Year ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Net rental income	\$ 117,387	\$ 119,446	\$ 28,073	\$ 29,004
Other income and expenses, fair value adjustments, other items, and income taxes	(120,077)	(84,257)	(57,701)	(12,874)
<b>Net income (loss) before the undernoted adjustments</b>	<b>\$ (2,690)</b>	<b>\$ 35,189</b>	<b>\$ (29,628)</b>	<b>\$ 16,130</b>
Add-back:				
Interest on subsidiary redeemable units			13,050	12,986
Fair value adjustments to subsidiary redeemable units			25,045	(23,004)
<b>Share of net income from investment in Dream Industrial REIT</b>			<b>\$ 8,467</b>	<b>\$ 6,112</b>
Add (deduct):				
Accretion loss			(381)	—
<b>Share of net income and accretion loss from investment in Dream Industrial REIT</b>			<b>\$ 8,086</b>	<b>\$ 6,112</b>

## Note 9

### JOINT ARRANGEMENTS

#### Investment in joint ventures

The Trust participates in partnerships (“joint ventures”) with other parties that own investment properties and accounts for its interests using the equity method.

On June 30, 2016, four limited partnerships jointly controlled by the Trust and H&R REIT completed the sale of a 50% undivided interest in each of Scotia Plaza and 100 Yonge Street to KingSett Canadian Real Estate Income Fund LP (“KingSett”) and Alberta Investment Management Corporation (“AIMCo”) for gross proceeds, net of adjustments, totalling \$663,705. The Trust’s share of the sale represented one-third of the 50% or 16.7%, for gross proceeds, net of adjustments, totalling \$221,235. The Trust’s share of the gross proceeds, net of adjustments were satisfied by cash consideration of \$113,518, debt assumed by KingSett and AIMCo with a carrying value of \$104,474 and other adjustments of \$3,243. The Trust’s share of the costs related to the sale, including debt settlement costs, totalled \$4,370 and was included within share of net loss from investment in joint ventures in the consolidated statements of comprehensive loss during the year.

Concurrently on June 30, 2016, the Trust terminated the joint venture agreement with H&R REIT and entered into a co-ownership agreement with KingSett and AIMCo. As a result of this change, the Trust derecognized its investment in joint ventures of Scotia Plaza and 100 Yonge Street at its combined carrying amount of \$329,104 and recognized the Trust’s remaining 50% interest in the assets and liabilities amounting to \$664,144 and \$345,303, respectively, of Scotia Plaza and 100 Yonge Street on a combined basis in the consolidated balance sheet. This resulted in the Trust recognizing a loss of \$10,263 in the consolidated statements of comprehensive loss related to the initial recognition at fair value of the Trust’s remaining 50% share of the assets and liabilities compared to the carrying values of the joint ventures (see Note 32). The newly formed co-ownership entered into a property management agreement with a wholly owned subsidiary of the Trust to provide property management services to Scotia Plaza and 100 Yonge Street.

Property	Location	Ownership interest (%)	
		December 31, 2016	December 31, 2015
Scotia Plaza <sup>(1)</sup>	Toronto	—	66.7
Other joint ventures:			
100 Yonge Street <sup>(1)</sup>	Toronto	—	66.7
F1RST Tower	Calgary	50.0	50.0

(1) On June 30, 2016 the Trust derecognized its investment in the joint ventures of Scotia Plaza and 100 Yonge Street and recognized the Trust’s remaining 50% interest in the assets, liabilities, revenues and expenses of these investment properties in the consolidated financial statements.

Net assets at % ownership interest

Property	December 31,	
	2016	2015
Scotia Plaza <sup>(1)</sup>	\$ —	\$ 491,603
Other joint ventures <sup>(1)</sup>	15,189	103,600
<b>Total net assets</b>	<b>\$ 15,189</b>	<b>\$ 595,203</b>

(1) On June 30, 2016 the Trust derecognized its investment in the joint ventures of Scotia Plaza and 100 Yonge Street and recognized the Trust's remaining 50% interest in the assets and liabilities of these investment properties in the consolidated financial statements.

Share of net income (loss) at % ownership interest for the year ended December 31,

Property	2016		2015	
	Scotia Plaza <sup>(1)</sup>	\$ (79,104)	\$ 46,465	
Other joint ventures <sup>(1)</sup>	(75,196)	6,671		
<b>Share of net income (loss) from investment in joint ventures</b>	<b>\$ (154,300)</b>	<b>\$ 53,136</b>		

(1) On June 30, 2016 the Trust derecognized its investment in the joint ventures of Scotia Plaza and 100 Yonge Street and recognized the Trust's remaining 50% interest in the revenues and expenses of these investment properties in the consolidated financial statements.

The following amounts represent 100% of the Trust's ownership interest in the assets, liabilities, revenues, expenses and cash flows in the equity accounted investments in which the Trust participates, excluding the interest in Dream Industrial REIT, which is disclosed separately in Note 8.

	Scotia Plaza <sup>(1)</sup> At 100%		Scotia Plaza <sup>(1)</sup> At 66.7%	
	December 31,	December 31,	December 31,	December 31,
	2016	2015	2016	2015
Non-current assets	\$ —	\$ 1,367,333	\$ —	\$ 911,555
Current assets	—	17,661	—	11,774
<b>Total assets</b>	<b>\$ —</b>	<b>\$ 1,384,994</b>	<b>\$ —</b>	<b>\$ 923,329</b>
Non-current liabilities	—	585,380	—	390,253
Current liabilities	—	62,210	—	41,473
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ 647,590</b>	<b>\$ —</b>	<b>\$ 431,726</b>
<b>Net assets</b>	<b>\$ —</b>	<b>\$ 737,404</b>	<b>\$ —</b>	<b>\$ 491,603</b>

(1) On June 30, 2016, the Trust derecognized its investment in the joint venture of Scotia Plaza and recognized the Trust's remaining 50% interest in the assets and liabilities of this investment property in the consolidated financial statements.

	Scotia Plaza <sup>(1)</sup> At 100%		Scotia Plaza <sup>(1)</sup> At 66.7%	
	Year ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Net rental income	\$ 35,211	\$ 70,813	\$ 23,474	\$ 47,209
Other income and expenses, fair value adjustments, net losses on transactions and other activities	(153,867)	(1,116)	(102,578)	(744)
<b>Net income (loss) for the year</b>	<b>\$ (118,656)</b>	<b>\$ 69,697</b>	<b>\$ (79,104)</b>	<b>\$ 46,465</b>

(1) On June 30, 2016, the Trust derecognized its investment in the joint venture of Scotia Plaza and recognized the Trust's remaining 50% interest in the revenues and expenses of this investment property in the consolidated financial statements.

	Scotia Plaza <sup>(1)</sup>		Scotia Plaza <sup>(1)</sup>	
	At 100%		At 66.7%	
	Year ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Cash flows generated from (utilized in):				
Operating activities	\$ 20,433	\$ 51,426	\$ 13,622	\$ 34,284
Investing activities	301,837	(32,900)	95,749	(21,933)
Financing activities	(323,696)	(20,298)	(110,321)	(13,532)
<b>Decrease in cash and cash equivalents</b>	<b>\$ (1,426)</b>	<b>\$ (1,772)</b>	<b>\$ (950)</b>	<b>\$ (1,181)</b>

(1) On June 30, 2016, the Trust derecognized its investment in the joint venture of Scotia Plaza and recognized the Trust's remaining 50% interest in the cash flows from operating, investing and financing activities of this investment property in the consolidated financial statements.

	Other joint ventures <sup>(1)</sup>		Other joint ventures <sup>(1)</sup>	
	At 100%		At proportionate share	
	December 31,	December 31,	December 31,	December 31,
	2016	2015	2016	2015
Non-current assets	\$ 120,014	\$ 356,618	\$ 60,007	\$ 192,304
Current assets	3,866	5,009	1,933	2,733
<b>Total assets</b>	<b>\$ 123,880</b>	<b>\$ 361,627</b>	<b>\$ 61,940</b>	<b>\$ 195,037</b>
Non-current liabilities	79,770	31,605	39,885	21,070
Current liabilities	13,732	139,871	6,866	70,367
<b>Total liabilities</b>	<b>\$ 93,502</b>	<b>\$ 171,476</b>	<b>\$ 46,751</b>	<b>\$ 91,437</b>
<b>Net assets</b>	<b>\$ 30,378</b>	<b>\$ 190,151</b>	<b>\$ 15,189</b>	<b>\$ 103,600</b>

(1) On June 30, 2016, the Trust derecognized its investment in the joint venture of 100 Yonge Street and recognized the Trust's remaining 50% interest in the assets and liabilities of this investment property in the consolidated financial statements.

	Other joint ventures <sup>(1)</sup>		Other joint ventures <sup>(1)</sup>	
	At 100%		At proportionate share	
	Year ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Net rental income	\$ 13,533	\$ 23,727	\$ 7,147	\$ 12,582
Other income and expenses, fair value adjustments, net losses on transactions and other activities	(162,887)	(13,882)	(82,343)	(5,911)
<b>Net income (loss) for the year</b>	<b>\$ (149,354)</b>	<b>\$ 9,845</b>	<b>\$ (75,196)</b>	<b>\$ 6,671</b>

(1) On June 30, 2016, the Trust derecognized its investment in the joint venture of 100 Yonge Street and recognized the Trust's remaining 50% interest in the revenues and expenses of this investment property in the consolidated financial statements.

	Other joint ventures <sup>(1)</sup>		Other joint ventures <sup>(1)</sup>	
	At 100%		At proportionate share	
	Year ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Cash flows generated from (utilized in):				
Operating activities	\$ 8,675	\$ 23,330	\$ 4,501	\$ 12,135
Investing activities	23,731	8,730	7,779	1,916
Financing activities	(36,594)	(30,422)	(14,416)	(12,847)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>\$ (4,188)</b>	<b>\$ 1,638</b>	<b>\$ (2,136)</b>	<b>\$ 1,204</b>

(1) On June 30, 2016, the Trust derecognized its investment in the joint venture of 100 Yonge Street and recognized the Trust's remaining 50% interest in the cash flows from operating, investing and financing activities of this investment property in the consolidated financial statements.

## Co-owned investment properties

The Trust's interests in co-owned investment properties are accounted for based on the Trust's share of interest in the assets, liabilities, revenues and expenses of the investment properties.

Property	Location	Ownership interest (%)	
		December 31, 2016	December 31, 2015
Scotia Plaza <sup>(1)</sup>	Toronto, Ontario	50.0	—
100 Yonge Street <sup>(1)</sup>	Toronto, Ontario	50.0	—
10199 - 101st Street North West	Edmonton, Alberta	50.0	50.0
680 Broadway Street (Tillsonburg Gateway Centre)	Tillsonburg, Ontario	49.9	49.9
2810 Matheson Boulevard East	Mississauga, Ontario	49.9	49.9
50 & 90 Burnhamthorpe Road West (Sussex Centre)	Mississauga, Ontario	49.9	49.9
300, 302 & 304 The East Mall (Valhalla Executive Centre)	Mississauga, Ontario	49.9	49.9
185, 191, 195 The West Mall	Toronto, Ontario	49.9	49.9
2261 Keating Cross Road	Victoria, British Columbia	40.0	40.0
350–450 Lansdowne Street	Kamloops, British Columbia	40.0	40.0
55 Norfolk Street South	Simcoe, Ontario	40.0	40.0
275 Dundas Street West (London City Centre)	London, Ontario	40.0	40.0
6501–6523 Mississauga Road	Mississauga, Ontario	40.0	40.0
6531–6559 Mississauga Road	Mississauga, Ontario	40.0	40.0
10 Lower Spadina Avenue <sup>(2)</sup>	Toronto, Ontario	40.0	40.0
49 Ontario Street <sup>(2)</sup>	Toronto, Ontario	40.0	40.0
401 & 405 The West Mall (Commerce West)	Toronto, Ontario	40.0	40.0
80 Whitehall Drive	Markham, Ontario	40.0	40.0
219 Laurier Avenue West	Ottawa, Ontario	40.0	40.0
460 Two Nations Crossing	Fredericton, New Brunswick	40.0	40.0
117 Kearney Lake Road	Halifax, Nova Scotia	35.0	35.0
Centre 70	Calgary, Alberta	15.0	15.0
2010 Winston Park Drive <sup>(3)</sup>	Oakville, Ontario	—	40.0

(1) On June 30, 2016, the Trust derecognized its investment in the joint ventures of Scotia Plaza and 100 Yonge Street and recognized the Trust's remaining 50% interest in the assets, liabilities, revenues and expenses of these investment properties in the consolidated financial statements.

(2) On January 10, 2017, the Trust completed the sale of its 40% interest in 10 Lower Spadina Avenue and 49 Ontario Street in Toronto, Ontario to the co-owner.

(3) On April 1, 2016, the Trust completed the sale of its 40% interest in 2010 Winston Park Drive in Oakville (see Note 19).

The following amounts represent the Trust's ownership interest in the assets, liabilities, revenues and expenses of the co-owned properties in which the Trust participates.

	Net assets at % ownership interest	
	December 31, 2016 <sup>(1)</sup>	December 31, 2015
Non-current assets	\$ 1,058,636	\$ 446,827
Current assets	12,716	4,804
Assets held for sale	22,784	—
<b>Total assets</b>	<b>\$ 1,094,136</b>	<b>\$ 451,631</b>
Non-current liabilities	423,902	191,617
Current liabilities	96,121	29,828
Liabilities related to assets held for sale	9,090	—
<b>Total liabilities</b>	<b>\$ 529,113</b>	<b>\$ 221,445</b>
<b>Net assets</b>	<b>\$ 565,023</b>	<b>\$ 230,186</b>

(1) On June 30, 2016, the Trust derecognized its investment in the joint ventures of Scotia Plaza and 100 Yonge Street and recognized the Trust's remaining 50% interest in the assets and liabilities of these investment properties in the consolidated financial statements.

	Share of net income (loss) at % ownership interest for the year ended December 31,	
	2016 <sup>(1)</sup>	2015
Net rental income	\$ 40,017	\$ 24,433
Other income and expenses, fair value adjustments, net losses on transactions and other activities	(52,681)	(15,629)
<b>Share of net income (loss) from co-owned properties</b>	<b>\$ (12,664)</b>	<b>\$ 8,804</b>

(1) On June 30, 2016, the Trust derecognized its investment in the joint ventures of Scotia Plaza and 100 Yonge Street and recognized the Trust's remaining 50% interest in the revenues and expenses of these investment properties in the consolidated financial statements.

## Note 10

### OTHER NON-CURRENT ASSETS

	December 31, 2016	December 31, 2015
Property and equipment, net of accumulated depreciation of \$8,753 (December 31, 2015 – \$6,471)	\$ 6,783	\$ 6,190
Restricted cash	1,357	1,458
External management contracts, net of accumulated amortization of \$6,331 (December 31, 2015 – \$5,040)	6,671	7,962
Deposits and other	1,745	1,838
Goodwill	—	—
<b>Total</b>	<b>\$ 16,556</b>	<b>\$ 17,448</b>

The Trust leases various vehicles and machinery under non-cancellable finance lease agreements. The remaining term of these leases is one year. These finance lease arrangements are included in property and equipment.

Deposits largely represent amounts provided by the Trust in connection with utility deposits. Restricted cash primarily represents tenant rent deposits and cash held as security for certain mortgages.

As a result of the Trust's disposition of assets during the year ended December 31, 2015 (see Note 19), goodwill associated with the cash-generating unit of \$874 was derecognized and included in the determination of the net loss on sale of investment properties.



## External management contracts and goodwill

	External management contracts	Goodwill
<b>Balance as at January 1, 2015</b>	\$ 9,253	\$ 52,086
Amortization of external management contracts	(1,291)	—
Derecognition of goodwill due to investment properties disposed of during the year	—	(874)
Impairment of goodwill	—	(51,212)
<b>Balance as at December 31, 2015</b>	7,962	—
Amortization of external management contracts	(1,291)	—
<b>Balance as at December 31, 2016</b>	\$ 6,671	\$ —

The Trust performed its annual goodwill impairment test as at December 31, 2015 in accordance with the methodology set out in IAS 36, by comparing the recoverable amount of the goodwill CGU using the value-in-use approach to its carrying amount. The carrying amount of goodwill associated with each geographic segment was:

Western Canada	\$ 10,225
Calgary downtown	8,517
Calgary suburban	1,301
Toronto downtown	16,735
Toronto suburban	6,848
Eastern Canada	7,586
<b>Total goodwill</b>	<b>\$ 51,212</b>

For the purpose of this impairment test, management used projected financial forecasts for a period of ten years. The key assumptions used included weighted average cost of capital, estimated growth, discount and terminal rates. The weighted average cost of capital, discount and terminal rates used in this impairment test ranged from 7.06% to 8.96% depending on the geographic segment.

Based on the impairment test performed on each of the geographic segments, the Trust concluded that goodwill for each of the geographic segments was impaired as at December 31, 2015. As a result, the Trust has recognized a goodwill impairment loss of \$51,212 in the consolidated statements of comprehensive loss for the year ended December 31, 2015. The goodwill impairment was mainly attributable to the significant increase in the weighted average cost of capital of the Trust during the fourth quarter of 2015, resulting from the unfavourable external market conditions.

### Note 11

#### AMOUNTS RECEIVABLE

Amounts receivable are net of credit adjustments aggregating \$10,081 (December 31, 2015 – \$6,674).

	Note	December 31, 2016	December 31, 2015
Trade receivables		\$ 3,442	\$ 4,932
Less: Provision for impairment of trade receivables		(1,803)	(1,615)
Trade receivables, net		1,639	3,317
Other amounts receivable	25	16,147	6,941
<b>Total</b>		<b>\$ 17,786</b>	<b>\$ 10,258</b>

The movement in the provision for impairment of trade receivables during the year ended December 31 was as follows:

	Year ended December 31,	
	2016	2015
<b>Balance at beginning of year</b>	\$ 1,615	\$ 2,419
Provision for impairment of trade receivables	2,301	1,785
Reversal of provision for previously impaired trade receivables	(408)	(869)
Receivables written off during the year as uncollectible	(1,272)	(1,720)
Provision for impairment of trade receivables re-classified as held for sale during the year	(433)	—
<b>Balance at end of year</b>	\$ 1,803	\$ 1,615

The carrying value of amounts receivable approximates fair value due to their current nature. As at December 31, 2016, trade receivables of approximately \$1,634 (December 31, 2015 – \$2,785) were past due but not considered impaired, as the Trust has ongoing relationships with these tenants and the aging of these trade receivables is not indicative of expected default. The Trust leases office properties to tenants under operating leases. Minimum rental commitments, including joint operations, on non-cancellable tenant operating leases over their remaining terms are as follows:

	December 31, 2016
No more than 1 year	\$ 270,429
1–5 years	772,505
5+ years	443,988
	\$ 1,486,922

## Note 12

### DEBT

	December 31, 2016	December 31, 2015
Mortgages <sup>(1)(2)</sup>	\$ 2,027,172	\$ 2,244,161
Demand revolving credit facilities <sup>(2)(3)</sup>	173,790	49,500
Debentures <sup>(4)</sup>	448,828	483,174
Term loan facility <sup>(2)</sup>	—	182,990
Convertible debentures	—	50,923
Total	2,649,790	3,010,748
Less: Current portion	328,260	609,644
<b>Non-current debt</b>	\$ 2,321,530	\$ 2,401,104

(1) Net of financing costs of \$6,925 (December 31, 2015 – \$8,248).

(2) Secured by charges on specific investment properties (see Note 7).

(3) Net of financing costs of \$4,210 (December 31, 2015 – \$nil).

(4) Net of financing costs of \$1,172 (December 31, 2015 – \$1,957).

## Continuity of debt

The following tables provide a continuity of debt for the year ended December 31, 2016 and year ended December 31, 2015:

	Year ended December 31, 2016						
	Note	Mortgages	Demand revolving credit facilities	Debentures	Term loan facility	Convertible debentures	Total
<b>Balance as at January 1, 2016</b>		\$ 2,244,161	\$ 49,500	\$ 483,174	\$ 182,990	\$ 50,923	\$ 3,010,748
Borrowings		191,434	930,309	—	—	—	1,121,743
Principal repayments		(61,336)	—	—	—	—	(61,336)
Lump sum repayments		(254,283)	(801,809)	(35,000)	(183,453)	(50,628)	(1,325,173)
Financing costs additions		(1,370)	(5,710)	—	—	—	(7,080)
Lump sum repayments on property dispositions		(83,141)	—	—	—	—	(83,141)
Debt assumed by purchaser on disposal of investment properties		(52,788)	—	—	—	—	(52,788)
Debt classified as liabilities related to assets held for sale	19	(274,761)	—	—	—	—	(274,761)
Recognition of debt related to joint operations	9	313,422	—	—	—	—	313,422
Foreign exchange adjustments		(2,064)	—	—	—	—	(2,064)
Other adjustments <sup>(1)(2)</sup>		7,898	1,500	654	463	(295)	10,220
<b>Balance as at December 31, 2016</b>		\$ 2,027,172	\$ 173,790	\$ 448,828	\$ —	\$ —	\$ 2,649,790

(1) Other adjustments includes amortization of financing costs and amortization of fair value adjustments.

(2) As a result of the recognition of debt related to joint operations, the Trust recognized \$9,145 of fair value adjustments on June 30, 2016.

	Year ended December 31, 2015						
	Note	Mortgages	Demand revolving credit facilities	Debentures	Term loan facility	Convertible debentures	Total
<b>Balance as at January 1, 2015</b>		\$ 2,380,708	\$ —	\$ 482,700	\$ 182,260	\$ 51,160	\$ 3,096,828
Borrowings		282,708	289,920	—	—	—	572,628
Principal repayments		(63,687)	—	—	—	—	(63,687)
Lump sum repayments		(272,213)	(240,420)	—	—	—	(512,633)
Financing costs additions		(1,987)	—	—	—	—	(1,987)
Lump sum repayments on property dispositions		(15,280)	—	—	—	—	(15,280)
Debt classified as liabilities related to assets held for sale	19	(75,703)	—	—	—	—	(75,703)
Foreign exchange adjustments		12,069	—	—	—	—	12,069
Other adjustments <sup>(1)</sup>		(2,454)	—	474	730	(237)	(1,487)
<b>Balance as at December 31, 2015</b>		\$ 2,244,161	\$ 49,500	\$ 483,174	\$ 182,990	\$ 50,923	\$ 3,010,748

(1) Other adjustments include amortization of financing costs and amortization of fair value adjustments.

## Demand revolving credit facilities

On March 1, 2016, the Trust entered into an \$800,000 formula-based demand revolving credit facility. The demand revolving credit facility bears interest at the bankers' acceptance ("BA") rate plus 1.70% and/or at the bank's prime rate (2.70% as at December 31, 2016) plus 0.70%. The demand revolving credit facility is secured by first-ranking mortgages on 22 properties and matures on March 1, 2019. The formula-based amount available under this facility was \$763,333 less \$178,000 drawn and less \$16,461 in the form of letters of credit as at December 31, 2016.

The amounts available and drawn under the demand revolving credit facilities as at December 31, 2016 and December 31, 2015 are as follows:

		December 31, 2016						
	Maturity date	Interest rates on drawings	Secured investment properties	Face interest rate	Borrowing capacity	Drawings	Letters of credit	Amount available
Formula-based maximum not to exceed \$800,000	March 1, 2019	BA + 1.70% or Prime + 0.70%	22	2.61%	\$ 763,333	\$ (178,000)	\$ (16,461)	\$ 568,872
Formula-based maximum not to exceed \$45,000	April 30, 2018	BA + 2.00% or Prime + 0.85%	4	3.55%	45,000	—	(358)	44,642
			26		\$ 808,333	\$ (178,000)	\$ (16,819)	\$ 613,514

		December 31, 2015						
	Maturity date	Interest rates on drawings	Secured investment properties	Face interest rate	Borrowing capacity	Drawings	Letters of credit	Amount available
Formula-based maximum not to exceed \$171,500	March 5, 2016	BA + 1.75% or Prime + 0.75%	8	2.62%	\$ 171,500	\$ (15,000)	—	\$ 156,500
Formula-based maximum not to exceed \$27,690	April 30, 2016	BA + 1.85% or Prime + 0.85%	2	3.55%	27,690	—	(443)	27,247
Formula-based maximum not to exceed \$15,000	November 1, 2016	BA + 1.70% or Prime + 0.70%	2	3.40%	15,000	(14,500)	(150)	350
Formula-based maximum not to exceed \$55,000	November 1, 2016	BA + 1.70% or Prime + 0.70%	2	2.54%	55,000	(20,000)	(32,602)	2,398
			14		\$ 269,190	\$ (49,500)	\$ (33,195)	\$ 186,495

On March 1, 2016, the Trust's \$171,500 formula-based demand revolving credit facility was repaid in full and terminated.

On April 30, 2016, the Trust's \$27,690 formula-based demand revolving credit facility matured and was subsequently renewed to April 30, 2018 with an increased formula-based credit limit to \$45,000. The renewed facility bears interest at the BA rate plus 2.00% and/or at the bank's prime rate (2.70% as at December 31, 2016) plus 0.85%.

On September 30, 2016 and November 1, 2016, respectively, the Trust's \$55,000 and \$15,000 formula-based demand revolving credit facilities were repaid in full and terminated.

## Debentures

### Series A Debentures

On June 13, 2013, the Trust completed the issuance of \$175,000 aggregate principal amount of Series A senior unsecured debentures ("Series A Debentures"). The Series A Debentures bear interest at a coupon rate of 3.424% per annum with a maturity date of June 13, 2018. Interest on the Series A Debentures is payable semi-annually on June 13 and December 13, with the first payment commencing on December 13, 2013. Costs related to the issuance of the Series A Debentures totalled \$1,590.

The Trust has the option to redeem the Series A Debentures at a redemption price equal to the greater of the Canada Yield Price and par plus any accrued and unpaid interest. The Canada Yield Price is defined as the amount that would return a yield on investment for the remaining term to maturity equal to the Canada bond rate with equal term to maturity plus a spread of 0.475%.

### Series B Debentures

On October 9, 2013, the Trust completed the issuance of \$125,000 aggregate principal amount of Series B floating senior unsecured debentures ("Series B Debentures"). The Series B Debentures bear interest at a three-month Canadian Dealer Offered Rate ("CDOR") rate plus 1.7% per annum with a maturity date of January 9, 2017. Interest on the Series B Debentures is payable quarterly in arrears on January 9, April 9, July 9 and October 9, with the first payment commencing on January 9, 2014. Costs related to the issuance of the Series B Debentures totalled \$720.

On January 9, 2017, subsequent to year-end, the Trust repaid Series B Debentures with an aggregate principal amount of \$125,000.

### Series C Debentures

On January 21, 2014, the Trust completed the issuance of \$150,000 aggregate principal amount of Series C senior unsecured debentures (“Series C Debentures”). The Series C Debentures bear interest at a rate of 4.074% with a maturity date of January 21, 2020. Interest on the Series C Debentures is payable semi-annually on January 21 and July 21, with the first payment commencing on July 21, 2014. Costs related to the issuance of the Series C Debentures totalled \$1,400.

The Trust has the option to redeem the Series C Debentures at a redemption price equal to the greater of the Canada Yield Price and par plus any accrued and unpaid interest. The Canada Yield Price is defined as the amount that would return a yield on investment for the remaining term to maturity equal to the Canada bond rate with equal term to maturity plus a spread of 0.525%.

### Series K and Series L Debentures

The Series K and Series L Debentures are redeemable at the Trust’s option, subject to certain terms and conditions. Interest is payable monthly.

On April 26, 2016, the Trust repaid Series K Debentures with an aggregate principal amount of \$25,000 at maturity.

On September 30, 2016, the Trust repaid Series L Debentures with an aggregate principal amount of \$10,000 at maturity.

### Debentures

The principal amount outstanding and the carrying value for each series of debentures are as follows:

Debentures	Date issued	Maturity date	Original principal	Face interest rate	December 31, 2016		December 31, 2015	
					Outstanding principal	Carrying value	Outstanding principal	Carrying value
Series A Debentures	June 13, 2013	June 13, 2018	\$ 175,000	3.42%	\$ 175,000	\$ 174,536	\$ 175,000	\$ 174,218
Series B Debentures	October 9, 2013	January 9, 2017	125,000	2.60% <sup>(1)</sup>	125,000 <sup>(2)</sup>	124,999	125,000	124,778
Series C Debentures	January 21, 2014	January 21, 2020	150,000	4.07%	150,000	149,293	150,000	149,047
Series K Debentures	April 26, 2011	April 26, 2016	35,000	5.95%	—	—	25,000	25,097
Series L Debentures	August 8, 2011	September 30, 2016	10,000	5.95%	—	—	10,000	10,034
			\$ 495,000		\$ 450,000	\$ 448,828	\$ 485,000	\$ 483,174

(1) Variable interest rate at three-month CDOR plus 1.7%.

(2) On January 9, 2017, the Trust repaid the Series B Debentures with an aggregate principal amount of \$125,000.

### Term loan facility

On August 15, 2011, the Trust entered into a term loan facility for \$188,000 in the form of rolling one-month BA rates. The term loan facility bears interest at BA rates plus 1.85% payable monthly. The term loan facility was originally secured by first-ranking collateral mortgages on nine properties. On August 15, 2012, the Trust repaid \$4,547 on the term loan facility as one of the properties securing the facility was sold. At December 31, 2015, \$183,453 was outstanding on the term loan facility, secured by first-ranking collateral mortgages on eight properties.

On August 15, 2011, the Trust entered into two interest rate swap agreements to modify the interest rate profile of the current variable rate debt on the \$188,000 term loan facility, without an exchange of the underlying principal amounts. The first interest rate swap agreement is for a five-year term on a notional balance of \$133,000, fixing interest at a BA rate of 1.67% plus a spread of 185 bps and the second interest rate swap agreement is for a three-year term on a notional balance of \$55,000, fixing interest at a BA rate of 1.28% plus a spread of 185 bps. On August 15, 2014, the three-year interest rate swap expired and was not subsequently renewed. On December 31, 2015, the notional amount of interest rate swap agreement hedged against the term loan facility was \$129,783. The Trust has applied hedge accounting to this relationship, whereby the change in fair value of the effective portion of the hedging derivative is recognized in other comprehensive income. Settlement of both the fixed and variable portions of the interest rate swaps occurs on a monthly basis.

The principal amount and carrying value for the term loan facility is as follows:

	Date issued	Maturity date	Original principal issued	Weighted average face interest rate	Outstanding principal amount		Carrying value	
					December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
					Term loan facility	August 15, 2011	August 15, 2016	\$ 188,000

On March 1, 2016, the Trust repaid in full the outstanding principal amount of \$183,453 prior to the maturity date of August 15, 2016. As a result of the early repayment, the Trust wrote off \$280 of associated unamortized financing cost into net loss during the first quarter of 2016.

On March 1, 2016, the associated five-year interest rate swap agreement on the notional balance of \$129,783 was terminated prior to its maturity date of August 15, 2016. As a result, the Trust reclassified the unrealized loss of \$561 included in accumulated other comprehensive income into net loss during the first quarter of 2016.

## Convertible debentures

### 5.5% Series H Debentures

The 5.5% Series H Debentures are convertible at the request of the holder, subject to certain terms and conditions, into 27.25648 REIT A Units per \$1,000 of face value, representing a conversion price of \$36.69 per unit. The 5.5% Series H Debentures are redeemable at the principal amount at the Trust's option, subject to certain terms and conditions, from March 31, 2015, and prior to March 31, 2016, provided the 20-day weighted average trading price of the Units is at least \$45.87, and on and after March 31, 2016 at their principal amount. Interest on the 5.5% Series H Debentures is payable semi-annually on March 31 and September 30.

For the years ended December 31, 2016 and December 31, 2015, no debentures were converted.

The principal amount and carrying value for the convertible debentures is as follows:

	Date issued	Maturity date	Original principal issued	Face interest rate	Outstanding principal amount		Carrying value	
					December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
					5.50% Series H Debentures	December 9, 2011	March 31, 2017	\$ 51,650

### Principal redemptions

On March 31, 2016 (the "Redemption Date"), the Trust completed the redemption of its remaining 5.50% Series H Debentures, in accordance with the provisions of the indenture and supplemental indenture related to the redeemed 5.50% Series H Debentures. The redemption price was paid in cash and was equal to the aggregate of (i) \$1 for each \$1 principal amount of 5.50% Series H Debentures issued and outstanding on the Redemption Date and (ii) all accrued and unpaid interest on the 5.50% Series H Debentures up to but excluding the Redemption Date. The aggregate principal amount redeemed on the Redemption Date for 5.50% Series H Debentures was \$50,628. As a result of the redemption, the Trust (i) wrote off the conversion feature on the convertible debentures of \$38, and (ii) wrote off the fair value adjustments of \$233, all into net loss during the first quarter of 2016.

## Debt weighted average effective interest rates and maturities

	Weighted average effective interest rates <sup>(1)</sup>		Maturity dates	Debt amount	
	December 31, 2016	December 31, 2015		December 31, 2016	December 31, 2015
<b>Fixed rate</b>					
Mortgages	3.86%	4.38%	2017–2028	\$ 1,989,222	\$ 2,205,183
Debentures	3.93%	4.04%	2018–2020	323,829	358,396
Term loan facility <sup>(2)</sup>	—	3.83%	—	—	129,459
Convertible debentures	—	3.80%	—	—	50,923
<b>Total fixed rate debt</b>	<b>3.87%</b>	<b>4.30%</b>		<b>2,313,051</b>	<b>2,743,961</b>
<b>Variable rate</b>					
Mortgages	3.05%	2.98%	2018	37,950	38,978
Demand revolving credit facilities	3.02%	2.82%	2019	173,790	49,500
Series B Debentures	3.09%	3.09%	2017	124,999	124,778
Term loan facility <sup>(3)</sup>	—	3.83%	—	—	53,531
<b>Total variable rate debt</b>	<b>3.05%</b>	<b>3.21%</b>		<b>336,739</b>	<b>266,787</b>
<b>Total debt</b>	<b>3.76%</b>	<b>4.20%</b>		<b>\$ 2,649,790</b>	<b>\$ 3,010,748</b>

(1) The effective interest rate method includes the impact of fair value adjustments on assumed debt and financing costs.

(2) Prior to repayment, the Trust entered into an interest rate swap agreement to fix the interest rate of a portion of the term loan facility: a five-year interest rate swap on a notional balance of \$129,783, fixing interest at a BA rate of 1.67% plus a spread of 185 bps.

(3) Prior to repayment, the notional balance of \$53,670 bore interest at the one-month BA rate plus 185 bps.

The following table summarizes the aggregate of the scheduled principal repayments and debt maturities:

	Mortgages	Demand revolving credit facilities	Debentures	Term loan facility	Convertible debentures	Total
2017	\$ 203,137	\$ —	\$ 125,000	\$ —	\$ —	\$ 328,137
2018	207,248	—	175,000	—	—	382,248
2019	381,478	178,000	—	—	—	559,478
2020	262,012	—	150,000	—	—	412,012
2021	313,771	—	—	—	—	313,771
2022–2028	655,377	—	—	—	—	655,377
	2,023,023	178,000	450,000	—	—	2,651,023
Financing costs	(6,925)	(4,210)	(1,172)	—	—	(12,307)
Fair value adjustments	11,074	—	—	—	—	11,074
	\$ 2,027,172	\$ 173,790	\$ 448,828	\$ —	\$ —	\$ 2,649,790

## Interest rate swap

The following table summarizes the details of the interest rate swap that is outstanding at December 31, 2016:

Transaction date	Term loan facility principal amount (notional)	Fixed interest rate	Maturity date	Financial instrument classification	Fair value
August 15, 2011	\$ 129,783	3.52%	August 15, 2016	Cash flow hedge	\$ —

For the interest rate swap designated as cash flow hedge, the Trust has assessed that there is no ineffectiveness in the hedge of its interest rate exposure. The effectiveness of the hedging relationship is reviewed on a quarterly basis. As an effective hedge, unrealized gains or losses on the interest rate swap agreements are recognized in other comprehensive income. The associated unrealized gains or losses that are recognized in other comprehensive income will be reclassified into net income in the same period or periods during which the interest payments on the hedged item affect net income.

On August 15, 2014, the three-year interest rate swap on the notional balance of \$53,670 expired and was not subsequently renewed. As a result, the associated unrealized loss of \$8 included in accumulated other comprehensive income was reclassified into net income during 2014.

On March 1, 2016, the associated five-year interest rate swap agreement on the notional balance of \$129,783 was terminated prior to its maturity date of August 15, 2016. As a result, the Trust reclassified the unrealized loss of \$561 included in accumulated other comprehensive income into net loss during the first quarter of 2016.

At December 31, 2016, the fair value of the remaining interest rate swap amounted to a \$nil financial liability (December 31, 2015 – \$770 financial liability).

### Short form base shelf prospectus

On April 27, 2015, the Trust filed a short form base shelf prospectus, which is valid for a 25-month period, during which time the Trust may offer and issue, from time to time, debt securities, with an aggregate offering price of up to \$2.0 billion. For the years ended December 31, 2016 and December 31, 2015, no debt securities have been issued under the short form base shelf prospectus.

### Note 13

#### SUBSIDIARY REDEEMABLE UNITS

The Trust has the following subsidiary redeemable units outstanding:

	Note	Year ended December 31, 2016		Year ended December 31, 2015	
		Number of units issued and outstanding	Amount	Number of units issued and outstanding	Amount
<b>Balance at beginning of year</b>		<b>5,233,823</b>	<b>\$ 90,912</b>	602,434	\$ 15,151
Units issued pursuant to the Reorganization	25	—	—	4,850,000	127,313
Subsidiary redeemable units surrendered		—	—	(218,611)	(5,795)
Remeasurement of carrying value of subsidiary redeemable units	21	—	<b>11,409</b>	—	(45,757)
<b>Balance at end of year</b>		<b>5,233,823</b>	<b>\$ 102,321</b>	5,233,823	\$ 90,912

During the year ended December 31, 2016, the Trust incurred \$8,174 (December 31, 2015 – \$9,171) in distributions on the subsidiary redeemable units, which is included as interest expense in the consolidated statements of comprehensive loss (see Note 20).

Dream Office LP, a subsidiary of Dream Office REIT, is authorized to issue an unlimited number of LP Class B limited partnership units. These units have been issued in two series: subsidiary redeemable units and LP Class B Units, Series 2. The subsidiary redeemable units, together with the accompanying Special Trust Units, have economic and voting rights equivalent in all material respects to REIT A Units. Generally, each subsidiary redeemable unit entitles the holder to a distribution equal to distributions declared on REIT Units, Series B, or if no such distribution is declared, on REIT Units, Series A. Subsidiary redeemable units may be surrendered or indirectly exchanged on a one-for-one basis at the option of the holder, generally at any time subject to certain restrictions, for REIT Units, Series B.

Holders of the LP Class B Units, Series 2 are entitled to vote at meetings of the limited partners of Dream Office LP and each Unit entitles the holder to a distribution equal to distributions on the subsidiary redeemable units. As at December 31, 2016 and December 31, 2015, all issued and outstanding LP Class B Units, Series 2 are owned indirectly by the Trust and have been eliminated in the consolidated balance sheets.

On May 25, 2015, one of the holders surrendered 218,611 subsidiary redeemable units and received 218,611 REIT B Units. On the same day, such REIT B Units were converted by the holder into 218,611 REIT A Units. The exchanges were valued based on the carrying amount of the subsidiary redeemable units on the day prior to the surrender.

On April 2, 2015, the Trust acquired a subsidiary of DAM which was a party to the Asset Management Agreement with the Trust, resulting in the elimination of the Trust's obligation to pay asset management, acquisition and capital expenditure fees to DAM (the "Reorganization"). In consideration for the Reorganization, the Trust issued 4,850,000 subsidiary redeemable units at \$26.25 per unit to DAM, representing total consideration of \$127,313.

Special Trust Units are issued in connection with subsidiary redeemable units. The Special Trust Units are not transferable separately from the subsidiary redeemable units to which they relate and will be automatically redeemed for a nominal amount and cancelled on surrender or exchange of such subsidiary redeemable units. Each Special Trust Unit entitles the holder to the number of votes at any meeting of unitholders that is equal to the number of REIT B Units that may be obtained on the surrender or exchange of the subsidiary redeemable units to which they relate.

As at December 31, 2016 and December 31, 2015, 5,233,823 Special Trust Units were issued and outstanding.



Note 14

**DEFERRED UNIT INCENTIVE PLAN**

The Deferred Unit Incentive Plan (“DUIP”) provides for the grant of deferred trust units to trustees, officers and employees as well as employees of affiliates. Deferred trust units are granted at the discretion of the trustees and earn income deferred trust units based on the payment of distributions. Once granted, each deferred trust unit and the related distribution of income deferred trust units vest evenly over a three- or five-year period on the anniversary date of the grant. Subject to an election option available for certain participants to postpone receipt of REIT A Units, such units will be issued immediately on vesting. As at December 31, 2016, up to a maximum of 2.55 million (December 31, 2015 – 1.75 million) deferred trust units are issuable under the DUIP.

The movement in the DUIP balance was as follows:

	Note	Year ended December 31, 2016	Year ended December 31, 2015
<b>Balance at beginning of year</b>		\$ 12,596	\$ 17,082
Compensation expense		2,750	2,638
REIT A Units issued for vested deferred trust units		(2,696)	(3,269)
Remeasurements of carrying value of deferred trust units	21	2,146	(3,855)
<b>Balance at end of year</b>		\$ 14,796	\$ 12,596

Of the \$2,750 of deferred compensation expense incurred during the year ended December 31, 2016, \$2,551 was recorded and included in general and administrative (“G&A”) expenses (December 31, 2015 – \$2,638). For the same period, a fair value loss of \$2,146 (December 31, 2015 – fair value gain of \$3,855) was recognized, representing the remeasurement of the DUIP liability during the year.

	Year ended December 31, 2016	Year ended December 31, 2015
<b>Outstanding and payable at beginning of year</b>	847,071	791,299
Granted	144,636	131,833
Income deferred trust units	82,233	79,652
REIT A Units issued	(154,507)	(137,233)
Fractional Units paid in cash	—	(6)
Cancelled	(6,292)	(18,474)
<b>Outstanding and payable at end of year</b>	913,141	847,071
<b>Vested but not issued at end of year</b>	471,455	421,649

For the year ended December 31, 2016, 144,636 deferred trust units were granted to trustees, officers and employees as well as employees of affiliates with the grant price ranging from \$16.27 to \$20.31 per unit. Of the units granted, 72,636 units relate to key management personnel. For the year ended December 31, 2015, 131,833 deferred trust units were granted to trustees, officers and employees as well as employees of affiliates with the grant price ranging from \$17.59 to \$27.34 per unit. Of the units granted, 79,433 units relate to key management personnel.

For the year ended December 31, 2016, 6,292 deferred trust units were cancelled (December 31, 2015 – 18,474).

Note 15

**OTHER NON-CURRENT LIABILITIES**

	December 31, 2016	December 31, 2015
Tenant security deposits	\$ 14,988	\$ 19,319
Finance leases	68	233
Other financial instruments – net liabilities	—	732
<b>Total</b>	\$ 15,056	\$ 20,284

Note 16

**AMOUNTS PAYABLE AND ACCRUED LIABILITIES**

	Note	December 31, 2016	December 31, 2015
Trade payables		\$ 1,313	\$ 3,460
Accrued liabilities and other payables	25	63,414	59,662
Accrued interest		10,775	13,603
Rent received in advance		16,394	15,797
Distributions payable	17	13,101	20,458
<b>Total</b>		<b>\$ 104,997</b>	<b>\$ 112,980</b>

Note 17

**DISTRIBUTIONS**

Dream Office REIT's Declaration of Trust endeavours to maintain monthly distribution payments to unitholders payable on or about the 15th day of the following month. The Trust determines the distribution rate by, among other considerations, its assessment of cash flow as determined using adjusted cash flows from operating activities, which includes cash flows from operating activities of our investments in joint ventures that are equity accounted and excludes the fluctuations in non-cash working capital, transaction costs on business combinations and investment in lease incentives and initial direct leasing costs. Adjusted cash flows from operating activities is not a measure defined by IFRS and therefore may not be comparable to similar measures presented by other real estate investment trusts. The distribution rate is determined by the trustees, at their sole discretion, based on what they consider appropriate given the circumstances of the Trust. Distributions may be adjusted for amounts paid in prior periods if the actual adjusted cash flows from operating activities for those prior periods is greater or less than the estimates used for those prior periods. In addition, the trustees may declare distributions out of the income, net realized capital gains, net recapture income and capital of the Trust, to the extent such amounts have not already been paid, allocated or distributed.

On February 18, 2016, the Trust announced a reduction to its monthly cash distribution from \$0.18666 per REIT A Unit to \$0.125 per REIT A Unit, or \$1.50 per REIT A Unit on an annualized basis, effective for the month of February 2016 distribution.

The following table summarizes distribution payments for the years ended December 31, 2016 and December 31, 2015:

	Year ended December 31,	
	2016	2015
Paid in cash	\$ 159,782	\$ 151,945
Paid by way of reinvestment in REIT A Units	17,034	93,122
Less: Payable at December 31, 2015 (December 31, 2014)	(20,458)	(20,393)
Plus: Payable at December 31, 2016 (December 31, 2015)	13,101	20,458
<b>Total</b>	<b>\$ 169,459</b>	<b>\$ 245,132</b>

On December 19, 2016, the Trust announced a cash distribution of \$0.125 per REIT A Unit for the month of December 2016. The December 2016 distribution was paid in cash on January 15, 2017, totalling \$13,101.

On January 20, 2017, the Trust announced a cash distribution of \$0.125 per REIT A Unit for the month of January 2017. The January 2017 distribution was paid in cash on February 15, 2017, totalling \$13,095.

On February 16, 2017, the Trust announced a cash distribution of \$0.125 per REIT A Unit for the month of February 2017. The February 2017 distribution will be payable on March 15, 2017 to unitholders of record at February 28, 2017.

The Trust declared monthly distributions of \$0.18666 per unit for January 2016 and \$0.125 per unit for the remainder of the year, or \$1.56 per unit for the year ended December 31, 2016. During 2015, the Trust declared monthly distributions of \$0.18666 per unit, or \$2.24 per unit for the year ended December 31, 2015.

## Note 18

### EQUITY

	Note	December 31, 2016		December 31, 2015	
		Number of REIT A Units	Amount	Number of REIT A Units	Amount
REIT A Units		104,806,724	\$ 3,108,424	107,860,638	\$ 3,168,915
Retained earnings (deficit)		—	(747,840)	—	301,324
Accumulated other comprehensive income	27	—	11,181	—	11,575
<b>Total</b>		<b>104,806,724</b>	<b>\$ 2,371,765</b>	<b>107,860,638</b>	<b>\$ 3,481,814</b>

#### Dream Office REIT Units

Dream Office REIT is authorized to issue an unlimited number of REIT Units and an unlimited number of Special Trust Units. The REIT Units are divided into and issuable in two series: REIT Units, Series A and REIT Units, Series B. The Special Trust Units may only be issued to holders of subsidiary redeemable units.

REIT Units, Series A and REIT Units, Series B represent an undivided beneficial interest in Dream Office REIT and in distributions made by Dream Office REIT. No REIT Unit, Series A or REIT Unit, Series B has preference or priority over any other. Each REIT Unit, Series A and REIT Unit, Series B entitles the holder to one vote at all meetings of unitholders.

#### Distribution Reinvestment and Unit Purchase Plan

The Distribution Reinvestment Plan (“DRIP”) allows holders of REIT A Units or subsidiary redeemable units, other than unitholders who are resident of or present in the U.S., to elect to have all cash distributions from Dream Office REIT reinvested in additional units. Unitholders who participate in the DRIP receive an additional distribution of units equal to 4% of each cash distribution that was reinvested. The price per unit is calculated by reference to a five-day weighted average closing price of the REIT A Units on the TSX preceding the relevant distribution date, which typically is on or about the 15th day of the month following the declaration.

For the year ended December 31, 2016, 1,122,411 REIT A Units were issued under the DRIP for \$17,034 (December 31, 2015 – 4,040,965 REIT A Units for \$93,122).

On February 18, 2016, the Trust announced the suspension of its DRIP until further notice effective for the February 2016 distribution.

The Unit Purchase Plan feature of the DRIP facilitates the purchase of additional REIT A Units by existing unitholders. Participation in the Unit Purchase Plan is optional and subject to certain limitations on the maximum number of additional REIT A Units that may be acquired. The price per unit is calculated in the same manner as the DRIP. No commission, service charges or brokerage fees are payable by participants in connection with either the reinvestment or purchase features of the DRIP. For the year ended December 31, 2016, 362 REIT A Units were issued under the Unit Purchase Plan for \$6 (December 31, 2015 – 13,727 REIT A Units for \$343).

#### Debenture conversions

For the years ended December 31, 2016 and December 31, 2015, no debentures were converted. There are no convertible debentures remaining as at December 31, 2016.

#### Exchange of REIT B Units for REIT A Units

On May 25, 2015, 218,611 REIT B Units were exchanged for 218,611 REIT A Units totalling \$5,795. The exchange was valued based on the carrying amount of the subsidiary redeemable units on the day prior to the exchange for REIT B Units.

#### Normal course issuer bid

On June 22, 2016, the Trust renewed its normal course issuer bid (the “Bid”) which expired on June 21, 2016. The Bid will remain in effect until the earlier of June 21, 2017 or the date on which the Trust has purchased the maximum number of REIT A Units permitted under the Bid. Under the Bid, the Trust has the ability to purchase for cancellation up to a maximum of 10,732,867 REIT A Units (representing 10% of the Trust’s public float of 107,328,675 REIT A Units at the time of entering the bid through the facilities of the TSX). Daily purchases are limited to 81,907 REIT A Units, other than purchases pursuant to applicable block purchase exceptions.

For the year ended December 31, 2016, 4,331,194 REIT A Units had been purchased and subsequently cancelled under the Bid for a total cost of \$80,174 (for the year ended December 31, 2015 – 4,486,473 REIT A Units cancelled for \$105,114).

Subsequent to year-end, the Trust purchased an additional 90,500 REIT A Units under the normal course issuer bid for cancellation for a cost of \$1,741.

Note 19

**ASSETS HELD FOR SALE AND DISPOSITIONS**

**Assets held for sale**

As at December 31, 2016 and December 31, 2015, the Trust classified certain properties as assets held for sale totalling \$321,355 and \$44,914, respectively, and its associated liabilities totalling \$217,056 and \$24,502, respectively. As at December 31, 2016 and December 31, 2015, management had committed to a plan of sale of the underlying properties and the sales were considered to be highly probable. As a result, these properties were classified as assets held for sale as at December 31, 2016 and December 31, 2015 and certain properties were subsequently sold during 2016 and in Q1 2017 (see Note 34).

	December 31, 2016	December 31, 2015
Non-current assets	\$ 321,232	\$ 44,732
Current assets	123	182
<b>Total assets</b>	<b>\$ 321,355</b>	<b>\$ 44,914</b>
Non-current liabilities	212,278	24,268
Current liabilities	4,778	234
<b>Total liabilities</b>	<b>\$ 217,056</b>	<b>\$ 24,502</b>
<b>Net assets</b>	<b>\$ 104,299</b>	<b>\$ 20,412</b>

**Investment properties held for sale**

	Year ended December 31, 2016	Year ended December 31, 2015
<b>Balance at beginning of year</b>	<b>\$ 44,712</b>	<b>\$ —</b>
Add (deduct):		
Building improvements	128	—
Lease incentives and initial direct leasing costs	671	—
Investment properties disposed of during the year	(259,327)	(120,805)
Investment properties classified as held for sale during the year	536,125	159,547
Fair value adjustment to investment properties	(300)	5,970
Amortization of lease incentives and other	(777)	—
<b>Balance at end of year</b>	<b>\$ 321,232</b>	<b>\$ 44,712</b>

**Debt related to investment properties held for sale**

	Year ended December 31, 2016	Year ended December 31, 2015
<b>Balance at beginning of year</b>	<b>\$ 24,245</b>	<b>\$ —</b>
Add (deduct):		
Principal repayments	(478)	(125)
Lump sum repayment on property dispositions	(50,776)	(29,395)
Debt assumed by purchaser on disposal of investment properties	(37,899)	(21,959)
Debt classified as liabilities related to assets held for sale	274,761	75,703
Other adjustments <sup>(1)</sup>	(625)	21
<b>Balance at end of year</b>	<b>\$ 209,228</b>	<b>\$ 24,245</b>

(1) Other adjustments include amortization of financing costs and amortization of fair value adjustments.

## Dispositions

For the year ended December 31, 2016, the Trust disposed of the following properties:

	Ownership (%)	Sales price <sup>(1)</sup>	Date disposed
2450 Girouard Street West & 455 Saint Joseph Avenue (Intact Tower), Saint-Hyacinthe	100%		February 26, 2016
8550 Newman Boulevard, Montréal	100%		March 1, 2016
1305 Chemin Sainte-Foy, Québec City	100%		March 1, 2016
1 Riverside Drive, Windsor	100%		March 10, 2016
2010 Winston Park Drive, Oakville	40%		April 1, 2016
4259–4299 Canada Way, Burnaby	100%		April 27, 2016
960 Quayside Drive, New Westminster	100%		April 29, 2016
625 Cochrane Drive and Valleywood Corporate Centre, Markham	100%		May 2, 2016
30 Eglinton Ave. West, Mississauga	100%		May 18, 2016
887 Great Northern Way, Vancouver	100%		June 10, 2016
100 Gough Road, Markham	100%		July 25, 2016
Suburban Ottawa & Gatineau Portfolio <sup>(2)</sup>	100%		July 29, 2016
Seven Capella Court, Ottawa	100%		August 2, 2016
4370 & 4400 Dominion Street, Burnaby	100%		September 16, 2016
2665 Renfrew Street, Vancouver	100%		November 16, 2016
Kitchener Portfolio <sup>(3)</sup>	100%		December 29, 2016
<b>Total dispositions for the year ended December 31, 2016</b>		<b>\$ 648,919</b>	

(1) Sales price reflects gross proceeds net of adjustments and before transaction costs.

(2) Includes four properties in suburban Ottawa and Gatineau: 2625 Queensview Drive, Gateway Business Park, 1125 Innovation Drive and 22 Varennes Street.

(3) Includes seven properties in Kitchener: Market Square, 101 Frederick Street (Galleria), 50 Queen Street North, 55 King Street West, 235 King Street East, 22 Frederick Street, and 70 King Street East.

On December 29, 2016, the Trust completed the sale of the Kitchener Portfolio consisting of seven properties for gross proceeds, net of adjustments, totalling \$119,273 and was satisfied by cash consideration of \$40,000, vendor takeback mortgage ("VTB Mortgage") of \$78,775 and other adjustments of \$498. The VTB Mortgage bears interest at the bank's prime rate (2.70% as at December 31, 2016) plus 0.2277% per annum and interest is payable monthly. The VTB Mortgage is secured by the seven properties and matures on March 28, 2017. The VTB Mortgage has been included in prepaid expenses and other receivables in the consolidated balance sheets.

For the year ended December 31, 2015, the Trust disposed of the following properties:

	Ownership (%)	Sales price <sup>(1)</sup>	Date disposed
8100 Granville Avenue, Vancouver	100%		July 15, 2015
2200–2204 Walkley Road, Ottawa	100%		August 27, 2015
Québec City Portfolio <sup>(2)</sup>	100%		October 30, 2015
<b>Total dispositions for the year ended December 31, 2015</b>		<b>\$ 151,791</b>	

(1) Sales price reflects gross proceeds net of adjustments and before transaction costs.

(2) Includes four properties in Québec City: 900 Place D'Youville, 580 Rue Grand Allée, 200 Chemin Sainte-Foy and 141 Saint-Jean Street.

On April 30, 2015, a parcel of land at 60 Columbia Way, Markham, was expropriated by the City of Markham to build a highway off-ramp, for total gross proceeds of \$2,674. The gross proceeds represented fair market value. In addition to the gross proceeds, the Trust recorded a one-time compensation income of \$600 for the expropriation of the parcel of land.

On March 12, 2015, the Trust disposed of its 25% interest in an investment property of Capital Centre, Edmonton (an investment in joint venture) for total gross proceeds of \$2,340. As a result of the sale, the Trust recognized a net loss of \$121, which was included in share of net income from investment in joint ventures.

## Note 20

### INTEREST

#### Interest on debt

Interest on debt incurred and charged to the consolidated statements of comprehensive loss is recorded as follows:

	Year ended December 31,	
	2016	2015
Interest expense incurred, at contractual and hedged rate of debt	\$ 119,151	\$ 132,818
Amortization of financing costs	3,867	3,060
Amortization of fair value adjustments on assumed debt	(3,498)	(4,060)
<b>Interest expense on debt</b>	<b>119,520</b>	<b>131,818</b>
Add (deduct):		
Amortization of financing costs	(3,867)	(3,060)
Amortization of fair value adjustments on assumed debt	3,498	4,060
Change in accrued interest	(1,389)	545
<b>Cash interest paid</b>	<b>\$ 117,762</b>	<b>\$ 133,363</b>

Certain debts assumed in connection with acquisitions have been adjusted to fair value using the estimated market interest rate at the time of the acquisition ("fair value adjustments"). Fair value adjustments are amortized to interest expense over the expected life of the debt using the effective interest rate method. Non-cash adjustments to interest expense are recorded as a change in non-cash working capital in the consolidated statements of cash flows.

#### Interest on subsidiary redeemable units

Interest payments charged to comprehensive income are recorded as follows:

	Year ended December 31,	
	2016	2015
Paid in cash	\$ 8,497	\$ 8,306
Less: Interest payable at December 31, 2015 (December 31, 2014)	(977)	(112)
Plus: Interest payable at December 31, 2016 (December 31, 2015)	654	977
<b>Interest expense on subsidiary redeemable units</b>	<b>\$ 8,174</b>	<b>\$ 9,171</b>

## Note 21

### FAIR VALUE ADJUSTMENTS TO FINANCIAL INSTRUMENTS

	Note	Year ended December 31,	
		2016	2015
Remeasurement of conversion feature on convertible debentures		\$ —	\$ (722)
Remeasurement of carrying value of subsidiary redeemable units	13	(11,409)	45,757
Remeasurement of carrying value of deferred trust units	14	(2,146)	3,855
		<b>\$ (13,555)</b>	<b>\$ 48,890</b>

Note 22

**INCOME TAXES**

The Trust is subject to taxation in the U.S. on the taxable income earned by its investment properties located in the U.S. at a rate of approximately 39.49% (December 31, 2015 – 38.46%). A deferred tax asset arises from the loss carry-forwards of the U.S. subsidiaries, and is recognized only to the extent that it is realizable. A deferred tax liability arises from the temporary differences between the carrying value and the tax basis of the net assets of the U.S. subsidiaries.

The tax effects of temporary differences arise from investment properties. As at December 31, 2016, the Trust had a deductible temporary difference of \$4,823 (December 31, 2015 – \$4,434) that was not recognized as a deferred tax asset as it did not meet the probable recognition criteria under IAS 12, “Income Taxes”. However, the deductible temporary difference can be carried forward indefinitely.

The loss carry-forwards and the tax effects of temporary differences that give rise to the recognition of deferred tax assets and liabilities are presented below:

	December 31, 2016	December 31, 2015
<b>Deferred tax assets</b>		
Deferred financing costs	\$ 269	\$ 331
Financial instruments	1,121	1,375
Loss carry-forwards	1,097	1,292
	<b>2,487</b>	<b>2,998</b>
<b>Deferred tax liabilities</b>		
Investment properties	(13,222)	(12,036)
<b>Deferred tax liabilities, net</b>	<b>\$ (10,735)</b>	<b>\$ (9,038)</b>

A reconciliation between the expected income taxes based upon the 2016 and 2015 statutory rates and the income tax expense recognized during the years ended December 31, 2016 and December 31, 2015 is as follows:

	December 31, 2016	December 31, 2015
Income taxes computed at the statutory rate of nil that is applicable to the Trust	\$ —	\$ —
Deferred income tax expense on U.S. properties	1,953	1,695
	<b>\$ 1,953</b>	<b>\$ 1,695</b>

As part of the deferred tax balance, \$256 is a result of foreign exchange differences for the U.S. properties (for the year ended December 31, 2015 – \$1,160). This amount is included as part of other comprehensive income under unrealized foreign currency translation gain (loss).

## Note 23

### SEGMENTED INFORMATION

For the years ended December 31, 2016 and December 31, 2015, the Trust's reportable operating segments of its investment properties and results of operations were segmented geographically, namely B.C./Saskatchewan/N.W.T., Alberta, Toronto downtown, Toronto suburban and Eastern Canada. Corporate amounts, lease termination fees, bad debt expense, straight-line rent and amortization of lease incentives, and revenue and expenses related to properties held for redevelopment, sold properties and assets held for sale at period-end, were included in "Other" for segment disclosure. The Trust did not allocate interest expense to these segments since leverage is viewed as a corporate function. The decision as to where to incur the debt is largely based on minimizing the cost of debt and is not specifically related to the segments. Similarly, other income, other expenses, fair value adjustments to financial instruments, net losses on transactions and other activities, and deferred income taxes were not allocated to the segments.

For the years ended December 31, 2016 and December 31, 2015, the segments include the Trust's proportionate share of its joint ventures. The column entitled "Reconciliation" adjusts the segmented results to account for these joint ventures using the equity method of accounting as applied in these consolidated financial statements.

Year ended December 31, 2016	B.C./ Saskatchewan/ N.W.T.	Alberta	Toronto downtown	Toronto suburban	Eastern Canada	Segment total <sup>(1)</sup>	Other <sup>(2)</sup>	Reconciliation <sup>(1)</sup>	Total
<b>Operations</b>									
Investment properties revenues	\$ 75,272	\$ 104,719	\$ 236,941	\$ 91,711	\$ 78,799	\$ 587,442	\$ 135,851	\$ (59,002)	\$ 664,291
Investment properties operating expenses	(28,160)	(43,609)	(105,596)	(44,752)	(34,052)	(256,169)	(67,925)	28,381	(295,713)
<b>Net rental income (segment income)</b>	<b>47,112</b>	<b>61,110</b>	<b>131,345</b>	<b>46,959</b>	<b>44,747</b>	<b>331,273</b>	<b>67,926</b>	<b>(30,621)</b>	<b>368,578</b>
Other income (loss)	—	—	—	—	—	—	11,386	(154,342)	(142,956)
Other expenses	—	—	—	—	—	—	(152,064)	8,891	(143,173)
Fair value adjustments, net losses on transactions and other activities	(63,000)	(477,600)	(44,300)	(37,400)	(38,800)	(661,100)	(475,173)	176,072	(960,201)
<b>Income (loss) before income taxes</b>	<b>(15,888)</b>	<b>(416,490)</b>	<b>87,045</b>	<b>9,559</b>	<b>5,947</b>	<b>(329,827)</b>	<b>(547,925)</b>	<b>—</b>	<b>(877,752)</b>
Deferred income taxes	—	—	—	—	—	—	(1,953)	—	(1,953)
<b>Net income (loss) for the year</b>	<b>\$ (15,888)</b>	<b>\$ (416,490)</b>	<b>\$ 87,045</b>	<b>\$ 9,559</b>	<b>\$ 5,947</b>	<b>\$ (329,827)</b>	<b>\$ (549,878)</b>	<b>\$ —</b>	<b>\$ (879,705)</b>

Year ended December 31, 2016	B.C./ Saskatchewan/ N.W.T.	Alberta	Toronto downtown	Toronto suburban	Eastern Canada	Segment total <sup>(1)</sup>	Other <sup>(3)</sup>	Reconciliation <sup>(1)(4)</sup>	Total
Capital expenditures <sup>(5)</sup>	\$ 7,037	\$ 25,225	\$ 36,943	\$ 17,860	\$ 13,816	\$ 100,881	\$ 27,876	\$ (16,405)	\$ 112,352
Investment properties	\$ 644,552	\$ 562,206	\$ 2,289,463	\$ 768,559	\$ 630,575	\$ 4,895,355	\$ 322,232	\$ (381,232)	\$ 4,836,355

(1) Includes the Trust's proportionate share of its joint ventures, accounted for using the equity method of accounting.

(2) Includes fair value adjustments on sold properties and assets classified as held for sale at period-end, and corporate amounts, lease termination fees, bad debt expense, straight-line rent and amortization of lease incentives and revenue and expenses related to properties held for redevelopment, sold properties and assets held for sale at year-end.

(3) Includes properties held for redevelopment, sold properties and assets held for sale at year-end.

(4) Includes assets held for sale at year-end.

(5) Includes building improvements and initial direct leasing costs and lease incentives.



Year ended December 31, 2015	B.C./ Saskatchewan/ N.W.T.	Alberta	Toronto downtown	Toronto suburban	Eastern Canada	Segment total <sup>(1)</sup>	Other <sup>(3)</sup>	Reconciliation <sup>(1)</sup>	Total
<b>Operations</b>									
Investment properties revenue	\$ 75,371	\$ 114,803	\$ 234,393	\$ 92,782	\$ 79,941	\$ 597,290	\$ 205,156	\$ (111,484)	\$ 690,962
Investment properties operating expenses	(27,459)	(47,141)	(105,960)	(44,010)	(34,584)	(259,154)	(95,988)	51,693	(303,449)
<b>Net rental income (segment income)</b>	<b>47,912</b>	<b>67,662</b>	<b>128,433</b>	<b>48,772</b>	<b>45,357</b>	<b>338,136</b>	<b>109,168</b>	<b>(59,791)</b>	<b>387,513</b>
Other income	—	—	—	—	—	—	9,185	53,068	62,253
Other expenses	—	—	—	—	—	—	(173,471)	17,337	(156,134)
Fair value adjustments, net losses on transactions and other activities	10,800	(227,100)	83,200	(28,500)	(16,000)	(177,600)	(158,762)	(10,614)	(346,976)
<b>Income (loss) before income taxes</b>	<b>58,712</b>	<b>(159,438)</b>	<b>211,633</b>	<b>20,272</b>	<b>29,357</b>	<b>160,536</b>	<b>(213,880)</b>	<b>—</b>	<b>(53,344)</b>
Deferred income taxes	—	—	—	—	—	—	(1,695)	—	(1,695)
<b>Net income (loss) for the year</b>	<b>\$ 58,712</b>	<b>\$ (159,438)</b>	<b>\$ 211,633</b>	<b>\$ 20,272</b>	<b>\$ 29,357</b>	<b>\$ 160,536</b>	<b>\$ (215,575)</b>	<b>\$ —</b>	<b>\$ (55,039)</b>

Year ended December 31, 2015	B.C./ Saskatchewan/ N.W.T.	Alberta	Toronto downtown	Toronto suburban	Eastern Canada	Segment total <sup>(1)</sup>	Other <sup>(6)</sup>	Reconciliation <sup>(1)(4)</sup>	Total
Capital expenditures <sup>(5)</sup>	\$ 8,322	\$ 39,734	\$ 52,645	\$ 21,610	\$ 19,773	\$ 142,084	\$ 1,786	\$ (25,517)	\$ 118,353
Investment properties	\$ 893,007	\$ 1,665,106	\$ 2,554,098	\$ 955,327	\$ 922,882	\$ 6,990,420	\$ 56,474	\$ (1,147,763)	\$ 5,899,131

(1) Includes the Trust's proportionate share of its joint ventures, accounted for using the equity method of accounting.

(2) Includes fair value adjustments on sold properties and assets classified as held for sale at period-end, and corporate amounts, lease termination fees, bad debt expense, straight-line rent and amortization of lease incentives and revenue and expenses related to properties held for redevelopment, sold properties and assets held for sale at year-end.

(3) Includes properties held for redevelopment, sold properties and assets held for sale at December 31, 2015.

(4) Includes assets held for sale at year-end.

(5) Includes building improvements and initial direct leasing costs and lease incentives.

(6) Includes properties held for redevelopment, sold properties and assets held for sale at December 31, 2015.

## Note 24

### GENERAL AND ADMINISTRATIVE EXPENSES

	Note	Year ended December 31,	
		2016	2015
Management Services Agreement	25	\$ (661)	\$ (435)
Asset management fees	25	—	(4,338)
Salaries		(1,902)	(346)
Deferred compensation expense	14	(2,551)	(2,638)
Other <sup>(1)</sup>		(6,792)	(4,439)
<b>General and administrative expenses</b>		<b>\$ (11,906)</b>	<b>\$ (12,196)</b>

(1) Other comprises public reporting, professional service fees, corporate sponsorships, donations and overhead related costs.

## Note 25

### RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

From time to time, Dream Office REIT and its subsidiaries enter into transactions with related parties that are conducted under normal commercial terms.

At December 31, 2016, DAM held 3,858,153 REIT A Units and 5,233,823 subsidiary redeemable units (December 31, 2015 – 773,939 REIT A Units and 5,233,823 subsidiary redeemable units).

#### Agreements with DAM

On August 24, 2007, Dream Office REIT had an asset management agreement (the "Asset Management Agreement") with DAM pursuant to which DAM provided certain asset management services to Dream Office REIT and its subsidiaries. On April 2, 2015, the Trust acquired a subsidiary of DAM which was a party to the Asset Management Agreement with the Trust, resulting in the elimination of the Trust's obligation to pay asset management, acquisition and capital expenditure fees to DAM. In consideration for the Reorganization, the Trust issued 4,850,000 subsidiary redeemable units to DAM, representing total consideration of \$127,313 using the closing price of REIT A Units at the date of the transaction. The total consideration of \$127,313 and costs related to the Reorganization totalling \$819 were charged to net income in the consolidated statement of comprehensive income.

On April 2, 2015, the Trust and DAM also entered into a Management Services Agreement pursuant to which DAM will provide strategic oversight of the Trust and the services of a Chief Executive Officer as requested on a cost recovery basis. In accordance with the termination provisions of the Management Services Agreement, the Trust is subject to an incentive fee payable which is based on 15% of the Trust's Aggregate Adjusted Funds from Operations (as defined in the Management Services Agreement), including the net gain on sale of any properties during the term of the agreement, and the deemed sale of the remaining portfolio upon termination, in excess of \$2.65 per REIT A Unit. As the termination of the Management Services Agreement for the first three years is solely at the discretion of the Trust and the Trust currently has no intention to terminate the Management Services Agreement, the Trust has determined that it is not probable that the incentive fee is payable and accordingly, no amounts related to the incentive fee have been recorded in the consolidated financial statements as at December 31, 2016.

On December 1, 2013, Dream Office REIT and DAM entered into a Shared Services and Cost Sharing Agreement. Pursuant to the Reorganization, the Trust and DAM amended the existing Shared Services and Cost Sharing Agreement as of April 2, 2015. According to the terms of the amended arrangement, DAM will continue to provide administrative and support services on an as-needed basis and will receive an annual fee to reimburse it for all expenses incurred. The Trust will continue to reimburse DAM for any shared costs allocated in each calendar year. This amended agreement provides for the automatic reappointment of DAM for additional one-year terms commencing on January 1 unless and until terminated in accordance with its terms or by mutual agreement of the parties.

Dream Office REIT, Dream Office Management LP (a wholly owned subsidiary of Dream Office LP) and DAM were parties to an administrative services agreement (the "Services Agreement with DAM"). Effective April 2, 2015, as part of the Reorganization, the existing Services Agreement with DAM was terminated and Dream Office Management Corp. ("DOMC"), a wholly owned subsidiary of Dream Office Management LP, and DAM entered into an amended Administrative Services Agreement pursuant to which DOMC will continue to provide certain administrative and support services to DAM. The terms of the agreement provide for DOMC to be reimbursed by DAM for the actual costs incurred by it in carrying out these activities on behalf of DAM. This agreement is for one-year terms unless and until terminated in accordance with its terms or by mutual agreement of the parties.

On October 25, 2016, the Trust and DAM jointly implemented a cost reduction program to simplify and to establish more dedicated services on a cost-efficient basis of the Trust's operating and shared service platform. On a go forward basis, the portion of the cost reduction program that relates to the shared service platform will impact the costs being allocated to related parties in accordance with the Shared Services, Cost Sharing, Administrative Services and Services Agreements currently in place. As a result of implementing this program, the Trust incurred a charge of \$3,923 for the year ended December 31, 2016, which is included in net losses on transactions and other activities (see Note 32).

### Management Services Agreement with DAM

The following is a summary of fees incurred for the years ended December 31, 2016 and December 31, 2015:

	Year ended December 31,	
	2016	2015
Senior management compensation (included in G&A expenses)	\$ (661)	\$ (435)
Expense reimbursements related to financing arrangements (included in debt)	(753)	(359)
Expense reimbursements related to disposition arrangements (included in cost on sale of investment properties)	(876)	(300)
<b>Total incurred under the Management Services Agreement</b>	<b>\$ (2,290)</b>	<b>\$ (1,094)</b>

### Asset Management Agreement with DAM

The Asset Management Agreement provided for a broad range of asset management services for the following fees:

- base annual management fee calculated and payable on a monthly basis, equal to 0.25% of the gross asset value of properties, defined as the fair value of the properties at August 23, 2007 (the date of the sale of our portfolio of properties in Eastern Canada) plus the purchase price of properties acquired subsequent to that date, adjusted for any properties sold;
- incentive fee equal to 15% of Dream Office REIT's adjusted funds from operations per unit (as defined in the Asset Management Agreement) in excess of \$2.65 per unit;
- capital expenditures fee equal to 5% of all hard construction costs incurred on each capital project with costs in excess of \$1,000, excluding work done on behalf of tenants or any maintenance capital expenditures;

- acquisition fee calculated over a fiscal year based on the anniversary date of the Asset Management Agreement, equal to: (i) 1.0% of the purchase price of a property on the first \$100,000 of properties acquired; (ii) 0.75% of the purchase price of a property on the next \$100,000 of properties acquired; and (iii) 0.50% of the purchase price of a property acquired in excess of \$200,000 of properties acquired; and
- financing fee equal to the lesser of actual expenses incurred by DAM in supplying services relating to financing transactions and 0.25% of the debt and equity of all financing transactions completed on behalf of Dream Office REIT.

The following is a summary of fees incurred for the years ended December 31, 2016 and December 31, 2015 prior to the elimination of the Asset Management Agreement with DAM as part of the Reorganization on April 2, 2015:

	Year ended December 31,	
	2016	2015
Base annual management fee (included in G&A expenses)	\$ —	\$ (4,338)
Expense reimbursements related to financing arrangements (included in debt)	—	—
<b>Total incurred under the Asset Management Agreement</b>	<b>\$ —</b>	<b>\$ (4,338)</b>

### Shared Services and Cost Sharing Agreement with DAM

Effective January 1, 2016, the Shared Services and Cost Sharing Agreement with DAM was amended such that future funding costs in respect of technology personnel and technology related platforms ceased. There were no other material changes to the agreement.

Effective January 1, 2016, Dream Technology Ventures LP (“DTV LP”), a limited partnership, was established by a wholly owned subsidiary of DAM acting as general partner and Dream Office LP (a wholly owned subsidiary of the Trust), DAM, Dream Industrial LP, Dream Global REIT, and Dream Alternatives Master LP as the limited partners. Each of the limited partners, including the Trust, will contribute capital to DTV LP to fund costs incurred relating to technology personnel and technology related platforms. In addition, the Trust will be party to a licensing agreement in respect of the use of the developed technology. The Trust accounts for its investment in DTV LP using the equity method and has included the equity accounted investment in other non-current assets, and the associated results have been included in interest and other income within the consolidated statements of comprehensive loss for the year ended December 31, 2016.

As a result of the cost reduction program implemented on October 25, 2016, the Trust accelerated payment of the remaining outstanding commitments under the Shared Services and Cost Sharing Agreement to DAM totalling \$1,169 which has been included in the charge on cost reduction program within net losses on transaction and other activities for the year ended December 31, 2016 (see Note 32).

The following is a summary of fees billed by DAM for the years ended December 31, 2016 and December 31, 2015. Amounts billed by DAM prior to April 2, 2015 are included pursuant to the original agreement:

	Year ended December 31,	
	2016	2015
Business transformation costs	\$ (1,219)	\$ (1,490)
Strategic services and other	(871)	(889)
<b>Total costs incurred under the Shared Services and Cost Sharing Agreement</b>	<b>\$ (2,090)</b>	<b>\$ (2,379)</b>

### Administrative Services Agreement with DAM

The following is a summary of fees received from or paid to DAM and costs incurred by DAM or the Trust on behalf of the other party for the years ended December 31, 2016 and December 31, 2015. Amounts incurred prior to April 2, 2015 are included pursuant to the original agreement:

	Year ended December 31,	
	2016	2015
Shared services and costs processed on behalf of DAM	\$ 7,220	\$ 5,560
Operating and administration costs of regional offices processed on behalf of DAM	615	2,979
<b>Total costs processed on behalf of DAM under the Administrative Services Agreement</b>	<b>\$ 7,835</b>	<b>\$ 8,539</b>
<b>Total costs processed by DAM on behalf of the Trust under the Administrative Services</b>	<b>\$ (568)</b>	<b>\$ (610)</b>

## Services Agreement with Dream Industrial REIT

Effective October 4, 2012, DOMC and Dream Industrial REIT entered into a Services Agreement, pursuant to which DOMC provides certain services to Dream Industrial REIT on a cost recovery basis.

The following is a summary of the cost recoveries from Dream Industrial REIT for the years ended December 31, 2016 and December 31, 2015:

	Year ended December 31,	
	2016	2015
<b>Total cost recoveries from Dream Industrial REIT</b>	<b>\$ 3,682</b>	<b>\$ 3,471</b>

## Amounts due from (to) related parties

	December 31,	December 31,
	2016	2015
Amounts due from DAM		
Administrative Services Agreement with DAM	\$ 1,077	\$ 552
Parking revenue received on behalf of the Trust	—	260
<b>Total amounts due from DAM</b>	<b>\$ 1,077</b>	<b>\$ 812</b>

	December 31,	December 31,
	2016	2015
Amounts due to DAM		
Various agreements with DAM <sup>(1)</sup>	\$ (825)	\$ (2,536)
Distributions payable to DAM <sup>(2)</sup>	(482)	(144)
Subsidiary redeemable interest payable to DAM <sup>(3)</sup>	(654)	(977)
<b>Total amounts due to DAM</b>	<b>\$ (1,961)</b>	<b>\$ (3,657)</b>

(1) Includes Management Services Agreement, Asset Management Agreement, Shared Services and Cost Sharing Agreement, and Administrative Services Agreement.

(2) Distributions payable is in relation to the 3,858,153 REIT A Units held by DAM.

(3) Subsidiary redeemable interest payable is in relation to the 5,233,823 subsidiary redeemable units held by DAM.

	December 31,	December 31,
	2016	2015
Amounts due from (to) Dream Industrial REIT		
Service Agreement with Dream Industrial REIT	\$ 429	\$ 256
Distributions from Dream Industrial REIT	1,168	1,082
<b>Total amounts due from Dream Industrial REIT</b>	<b>\$ 1,597</b>	<b>\$ 1,338</b>
<b>Total amounts due to Dream Industrial REIT related to Dream Industrial REIT properties</b>	<b>\$ —</b>	<b>\$ (135)</b>

## Compensation of key management personnel and trustees

Compensation of key management personnel and trustees for the years ended December 31, 2016 and December 31, 2015 is as follows:

	Year ended December 31,	
	2016	2015
Compensation and benefits	\$ 1,189	\$ 666
Unit-based awards <sup>(1)</sup>	1,298	1,793
<b>Total</b>	<b>\$ 2,487</b>	<b>\$ 2,459</b>

(1) Deferred trust units granted to officers and trustees vest over a five-year period with one-fifth of the deferred trust units vesting each year. Amounts are determined based on the grant date fair value of deferred trust units multiplied by the number of deferred trust units granted in the year.

Note 26

**SUPPLEMENTARY CASH FLOW INFORMATION**

The components of amortization and depreciation under operating activities include:

	Note	Year ended December 31,	
		2016	2015
Amortization of lease incentives		\$ 17,064	\$ 13,032
Amortization of external management contracts		1,291	1,291
Amortization of financing costs	20	3,867	3,060
Amortization of fair value adjustments on assumed debt	20	(3,498)	(4,060)
Depreciation on property and equipment		2,282	1,658
<b>Total amortization and depreciation</b>		<b>\$ 21,006</b>	<b>\$ 14,981</b>

The components of changes in other adjustments under operating activities include:

	Note	Year ended December 31,	
		2016	2015
Debt settlement costs, net	32	\$ 9,899	\$ 1,999
Costs on sale of investment properties	32	12,250	3,652
Deferred unit compensation expense	14	2,750	2,638
Straight-line rent adjustment		(1,512)	(2,313)
Deferred income taxes	22	1,953	1,695
Loss on recognition of net assets of joint operations	9, 32	10,263	—
Cost on Reorganization and other	25, 32	43	127,313
Impairment of goodwill	10	—	51,212
<b>Total other adjustments</b>		<b>\$ 35,646</b>	<b>\$ 186,196</b>

The components of the changes in non-cash working capital under operating activities include:

		Year ended December 31,	
		2016	2015
Decrease (increase) in amounts receivable		\$ (3,965)	\$ 6,155
Decrease (increase) in prepaid expenses and other receivables		2,078	(481)
Decrease in other non-current assets		188	287
Increase (decrease) in amounts payable and accrued liabilities		(12,160)	2,026
Increase (decrease) in non-current liabilities		(4,562)	216
<b>Change in non-cash working capital</b>		<b>\$ (18,421)</b>	<b>\$ 8,203</b>

The following amounts were paid on account of interest:

	Note	Year ended December 31,	
		2016	2015
Interest:			
Debt	20	\$ 117,762	\$ 133,363
Subsidiary redeemable units	20	8,497	8,306

Note 27

**ACCUMULATED OTHER COMPREHENSIVE INCOME**

	Year ended December 31,					
	2016			2015		
	Opening balance January 1	Net change during the year	Closing balance December 31	Opening balance January 1	Net change during the year	Closing balance December 31
Realized and unrealized gain (loss) on interest rate swaps, net of taxes	\$ (1,141)	\$ 813	\$ (328)	\$ (1,002)	\$ (139)	\$ (1,141)
Unrealized foreign currency translation gain (loss), net of taxes	12,716	(1,207)	11,509	5,230	7,486	12,716
<b>Accumulated other comprehensive income</b>	<b>\$ 11,575</b>	<b>\$ (394)</b>	<b>\$ 11,181</b>	<b>\$ 4,228</b>	<b>\$ 7,347</b>	<b>\$ 11,575</b>

Note 28

**COMMITMENTS AND CONTINGENCIES**

Dream Office REIT and its operating subsidiaries are contingently liable under guarantees that are issued in the normal course of business, on certain debt assumed by purchasers of investment properties, 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 Office REIT.

In 2015, a subsidiary of the Trust received notices of reassessment from both the Canada Revenue Agency and the Alberta Minister of Finance with respect to its 2007, 2008 and 2010 taxation years. These reassessments relate to the deductibility of certain tax losses claimed by the subsidiary prior to its acquisition by the Trust. These federal and provincial reassessments if upheld could increase total current taxes payable, including interest and penalties by \$11,208. No cash payment is expected to be made unless it is ultimately established that the Trust has an obligation to make one. Management is of the view that there is a strong case to support the position as filed and has contested both the federal and provincial reassessments. Since management believes that it is more likely than not that its position will be sustained, no amounts related to these reassessments have been recorded in the consolidated financial statements as of December 31, 2016 and December 31, 2015.

At December 31, 2016, Dream Office REIT's future minimum commitments under operating leases, finance leases, and fixed price contracts to purchase electricity and steam are as follows:

	Minimum payments due			
	< 1 year	1–5 years	> 5 years	Total
Operating lease payments	\$ 3,243	\$ 7,503	\$ 100,738	\$ 111,484
Finance lease payments	68	—	—	68
Fixed price contracts – steam	315	1,576	4,096	5,987
<b>Total</b>	<b>\$ 3,626</b>	<b>\$ 9,079</b>	<b>\$ 104,834</b>	<b>\$ 117,539</b>

Operating leases include ground leases on certain properties totalling \$108,541, payable over the next 73 years.

During the year ended December 31, 2016, the Trust paid \$3,208 (December 31, 2015 – \$817) in minimum lease payments, which has been included in the consolidated statements of comprehensive loss for the year.

The Trust has entered into lease agreements that may require tenant improvement costs of approximately \$42,575 (December 31, 2015 – \$37,825).

As at December 31, 2016, the Trust's share of contingent liabilities for the obligation of the other owners of co-owned properties was \$5,330 (December 31, 2015 – \$6,354).

The Trust is contingently liable under guarantees that are issued on certain debt assumed by purchasers of investment properties totalling \$74,380 (December 31, 2015 – \$nil).

## Note 29

### **CAPITAL MANAGEMENT**

The primary objectives of the Trust's capital management are to ensure it remains within its quantitative banking covenants and to improve its credit rating. The Trust has a credit rating of BBB (low) with a stable trend as part of the Series A, Series B and Series C Debentures offerings.

The Trust's capital consists of debt, including mortgages, demand revolving credit facilities, debentures, term loan facility, convertible debentures, subsidiary redeemable units and unitholders' equity. The Trust's objectives in managing capital are to ensure adequate operating funds are available to maintain consistent and sustainable unitholder distributions, to fund leasing costs and capital expenditure requirements, and to provide for resources needed to acquire new properties. The Trust's maximum credit exposure is equal to the trade receivables at December 31, 2016.

Various debt, equity and earnings distribution ratios are used to ensure capital adequacy and to monitor capital requirements. The primary ratios used for assessing capital management are the interest coverage ratio and net debt-to-gross carrying value. Other significant indicators include weighted average interest rate, average term to maturity of debt and variable debt as a portion of total debt. These indicators assist the Trust in assessing whether the debt level maintained is sufficient to provide adequate cash flows for unitholder distributions, leasing costs, and capital expenditures, and for evaluating the need to raise funds for further expansion. Various mortgages have debt covenant requirements that are monitored by the Trust to ensure there are no defaults. These covenants include loan-to-value ratios, cash flow coverage ratios, interest coverage ratios and debt service coverage ratios. These covenants are measured at the subsidiary limited partnership level, and all have been complied with in all material respects.

The Trust's equity consists of REIT Units, in which the carrying value is impacted by earnings and unitholder distributions. Amounts retained in excess of the distributions are used to fund leasing costs, capital expenditures and working capital requirements. Management monitors distributions to ensure adequate resources are available by comparing total distributions to adjusted cash flows from operating activities, a non-IFRS measure.

During the year, there were no events of default on any of the Trust's obligations under its credit facilities or mortgage loans.

## Note 30

### **FINANCIAL INSTRUMENTS**

#### **Risk management**

IFRS 7, "Financial Instruments: Disclosures" ("IFRS 7"), places emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Trust manages those risks, including market, credit and liquidity risks.

Market risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk consists of interest rate risk, currency risk and other market price risk. The Trust has exposure to interest rate risk primarily as a result of its variable rate debt. In addition, there is interest rate risk associated with the Trust's fixed rate debt due to the expected requirement to refinance such debts in the year of maturity. The Trust is exposed to the variability in market interest rates and credit spreads on maturing debt to be renewed. Variable rate debt at December 31, 2016 was 12.7% of the Trust's total debt (December 31, 2015 – 8.9%). In order to manage exposure to interest rate risk, the Trust endeavours to maintain an appropriate mix of fixed and variable rate debt, manage maturities of fixed rate debt and match the nature of the debt with the cash flow characteristics of the underlying asset.

The following interest rate sensitivity table outlines the potential impact of a 1% change in the interest rate on variable rate financial assets and liabilities for the prospective 12-month period. A 1% change is considered a reasonable level of fluctuation on variable rate financial assets and liabilities.

	Amount	Interest rate risk			
		-1%		+1%	
		Income	Equity	Income	Equity
<b>Financial assets</b>					
Cash and cash equivalents <sup>(1)</sup>	\$ 7,667	\$ (77)	\$ (77)	\$ 77	\$ 77
<b>Financial liabilities</b>					
Fixed rate debt due to mature in 2017 and total variable debt	\$ 490,776	\$ 4,908	\$ 4,908	\$ (4,908)	\$ (4,908)

(1) Cash and cash equivalents are short-term investments with an original maturity of three months or less, and exclude cash subject to restrictions that prevent the Trust's use for current purposes. These balances generally receive interest income at the bank's prime rate less 1.85%. Cash and cash equivalents are short term in nature and the current balance may not be representative of the balance for the rest of the year.

The Trust is not exposed to significant foreign exchange risks.

The Trust's assets mainly consist of investment properties. Credit risk arises from the possibility that tenants in investment properties may not fulfill their lease or contractual obligations. The Trust mitigates its credit risks by attracting tenants of sound financial standing and by diversifying its mix of tenants. It also monitors tenant payment patterns and discusses potential tenant issues with property managers on a regular basis. Cash and cash equivalents, deposits and restricted cash carry minimal credit risk as all funds are maintained with highly reputable financial institutions.

Liquidity risk is the risk the Trust will encounter difficulty in meeting obligations associated with the maturity of financial obligations. The Trust manages maturities of the fixed rate debts, and monitors the repayment dates to ensure sufficient capital will be available to cover obligations as they become due.

### Derivatives and hedging activities

There were no interest rate swaps or conversion feature on the convertible debentures remaining as at December 31, 2016.

#### Note 31

### FAIR VALUE MEASUREMENT

#### Fair value of financial instruments

Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Trust 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. The Trust's policy is to recognize transfers in and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between Levels 1, 2 and 3 during the year.



The following tables summarize fair value measurements recognized in the consolidated financial statements by class of asset or liability and categorized by level according to the significance of the inputs used in making the measurements.

	Note	Carrying value as at December 31, 2016	Fair value as at December 31, 2016		
			Level 1	Level 2	Level 3
<b>Recurring measurements</b>					
Non-financial assets					
Investment properties	7	\$ 4,836,355	\$ —	\$ —	\$ 4,836,355
Investment properties classified as held for sale	19	\$ 321,232	\$ —	\$ —	\$ 321,232

	Note	Carrying value as at December 31, 2015	Fair value as at December 31, 2015		
			Level 1	Level 2	Level 3
<b>Recurring measurements</b>					
Non-financial assets					
Investment properties	7	\$ 5,899,131	\$ —	\$ —	\$ 5,899,131
Financial liabilities (assets)					
Interest rate swaps		\$ 770	\$ —	\$ 770	\$ —
Conversion feature on the convertible debentures		\$ (38)	\$ —	\$ (38)	\$ —

Financial instruments carried at amortized cost where the carrying value does not approximate fair value are noted below:

	Note	Carrying value as at December 31, 2016	Fair value as at December 31, 2016		
			Level 1	Level 2	Level 3
<b>Fair values disclosed</b>					
Mortgages	12	\$ 2,027,172	\$ —	\$ —	\$ 2,047,635
Mortgages related to properties held for sale	12	209,228	—	—	211,845
Debentures	12	448,828	450,000	—	—
Investment in Dream Industrial REIT	8	186,754	—	165,775	—

	Note	Carrying value as at December 31, 2015	Fair value as at December 31, 2015		
			Level 1	Level 2	Level 3
<b>Fair values disclosed</b>					
Mortgages	12	\$ 2,244,161	\$ —	\$ —	\$ 2,325,458
Debentures	12	483,174	485,000	—	—
Term loan facility	12	182,990	—	—	185,009
Convertible debentures	12	50,923	50,628	—	—
Investment in Dream Industrial REIT	8	184,817	—	133,202	—

Amounts receivable, cash and cash equivalents, tenant security deposits, amounts payable and accrued liabilities, and distributions payable are carried at amortized cost which approximates fair value due to their short-term nature. Subsidiary redeemable units and the Deferred Unit Incentive Plan are carried at amortized cost, which approximates fair value as they are readily redeemable financial instruments.

### Investment properties

The Trust's accounting policy as indicated in Note 3 is applied to fair value investment properties using the income approach, which is derived from two methods: overall capitalization rate method and discounted cash flow method, which result in these measurements being classified as Level 3 in the fair value hierarchy. Valuations of investment properties are most sensitive to changes in discount rates and capitalization rates. In applying the overall cap rate method the stabilized NOI of each property is divided by any appropriate cap rate.

The critical and key assumptions in the valuation of investment properties are as follows:

#### **Cap rate method**

- Cap rates – based on actual location, size and quality of the properties and taking into account any available market data at the valuation date.
- Stabilized NOI – normalized property operating revenues less property operating expenses.

#### **Discounted cash flow method**

- Discount and terminal rates – reflecting current market assessments of the return expectations.
- Market rents – reflecting management’s best estimates with reference to recent leasing activity and external market data.
- Leasing costs – reflecting recent leasing activity and external market data.
- Vacancy rates – reflecting recent leasing activity and external market data.

In accordance with IFRS 5, “Non-Current Assets Held for Sale and Discontinued Operations”, as at December 31, 2016, the Trust classified certain investment properties as assets held for sale totalling \$321,232 and its associated liabilities totalling \$209,228. The fair value of the assets held for sale approximates the carrying value of the assets.

Investment properties are valued on a highest-and-best-use basis. For all of the Trust’s investment properties the current use is considered the highest and best use.

#### **Investment properties valuation process**

The Trust is responsible for determining the fair value measurements included in the consolidated financial statements. At the end of each reporting period, the Trust determines the fair value of investment properties by:

- 1) considering current contracted sales prices for properties that are available for sale;
- 2) obtaining appraisals from qualified external professionals applying the income approach on a rotational basis for select properties; and
- 3) using internally prepared valuations applying the income approach.

The fair values of these investments are reviewed at least quarterly by management with reference to independent property appraisals and market conditions existing at the reporting date, using generally accepted market practices. The independent appraisers are experienced, nationally recognized and qualified in the professional valuation of office buildings in their respective geographic areas. Judgment is also applied in determining the extent and frequency of independent appraisals. At each reporting period, a select number of properties, determined on a rotational basis, are valued by appraisals. For properties not subject to independent appraisals, valuations are prepared internally during each reporting period.

#### **Convertible debentures and interest rate swaps**

Up until March 31, 2016 and for all of 2015, the Trust held the 5.50% Series H Convertible Debentures. There were no interest rate swaps or convertible features on the convertible debentures remaining as at December 31, 2016.

The 5.50% Series H Convertible Debentures have two components of value – a conventional bond and a call on the equity of the Trust through conversion. Based on its terms (see Note 12), the conversion feature is an embedded derivative and has been separated from the host contract and classified as a financial liability or asset through profit and loss.

The fair value of the conversion feature, categorized in Level 2, is calculated based on a market-based methodology. In this model, a convertible bond consists of two components, an equity component and a debt component, and these components have different default risks. The equity component is discounted at the risk-free rate. The equity component has no default risk since the Trust can always issue its own units. The debt component is discounted at the risk-free rate plus a credit spread.

The fair value of the conversion feature on the convertible debentures was determined using a number of inputs. The critical inputs are the unit price, the units’ distribution yield, the underlying unit volatility, the risk-free rate and the assumed credit spread, all of which are observable.

A qualified independent consultant calculates the fair value measurement for the financial liability classified as Level 2. The valuation processes and results are determined and reviewed by senior management. The inputs and processes used in the valuation and the results thereof are reviewed by senior management and discussed with the qualified independent consultant to ensure conformity with IFRS.

The significant observable inputs used in the fair value measurement of the conversion feature as at December 31, 2015 were as follows:

- Volatility: Historical volatility as at December 31, 2015 was derived from the historical prices of the Trust with maturity equal to the term to maturity of the convertible debentures.
- Credit spread: The credit spread of the convertible debentures was imputed from the trade price of the convertible debentures as at December 31, 2015.

5.5% Series H Debentures	December 31,	
	2016	2015
Credit spread	—	4.55%
Volatility	—	15.64%

A higher volatility will increase the value of the conversion option. A lower credit spread will decrease the value of the conversion option.

The following table shows the changes in fair value of the conversion option from a 5% increase or decrease in volatility and a 100 basis points (“bps”) increase or decrease in credit spread, holding all other inputs constant as at December 31, 2015.

	Impact of change to volatility		Impact of change to credit spread	
	+5%	-5%	+100 bps	-100 bps
Increase (decrease) in fair value as at December 31, 2015	\$ —	\$ —	\$ 38	\$ (460)

The Trust also uses the following techniques in determining the fair value disclosed for the following financial liabilities classified as Level 1, 2 and 3:

#### **Mortgages and term loan facility**

The fair value of mortgages and term loan facility as at December 31, 2016 is determined by discounting the expected cash flows of each mortgage and term loan facility using market discount rate. The discount rates are determined using the Government of Canada benchmark bond yield for instruments of similar maturity adjusted for the Trust’s specific credit risk. In determining the adjustment for credit risk, the Trust considers market conditions, the value of the investment properties that the mortgages and term loan facility are secured by and other indicators of the Trust’s creditworthiness.

#### **Convertible debentures**

The fair value of convertible debentures as at December 31, 2015 was based on the convertible debentures’ trading price on or about December 31, 2015.

#### **Debentures**

The fair value of debentures that are traded as at December 31, 2016 and December 31, 2015 are based on the debentures’ trading price on or about December 31, 2016 and December 31, 2015, respectively. The fair values of debentures that are non-trading as at December 31, 2016 and December 31, 2015 are based on the debentures’ par value.

#### **Demand revolving credit facilities**

The fair value of the demand revolving credit facilities as at December 31, 2016 and December 31, 2015 approximates their carrying value due to their short-term nature.

## Note 32

### NET LOSSES ON TRANSACTIONS AND OTHER ACTIVITIES

	Note	Year ended December 31,	
		2016	2015
Debt settlement costs, net		\$ (9,899)	\$ (1,999)
Costs on sale of investment properties		(12,250)	(3,652)
Internal leasing costs		(8,695)	(8,951)
Business transformation costs	25	(1,219)	(1,490)
Loss on recognition of net assets related to joint operations	9	(10,263)	—
Charge on cost reduction program	25	(3,923)	—
Cost on Reorganization	25	—	(128,132)
Impairment of goodwill	10	—	(51,212)
Other		(1,297)	600
<b>Total</b>		<b>\$ (47,546)</b>	<b>\$ (194,836)</b>

Net debt settlement costs comprise fees related to the discharge of mortgages prior to the original maturity dates during the year, offset by the write-off of associated fair value adjustments and financing costs.

On October 25, 2016, the Trust and DAM jointly implemented a cost reduction program to simplify and to establish more dedicated services on a cost-efficient basis of the Trust's operating and shared service platform. On a go forward basis, the portion of the cost reduction program that relates to the shared service platform will impact the costs being allocated to related parties in accordance with the Shared Services, Cost Sharing, Administrative Services and Services Agreements currently in place. As a result of implementing this program, the Trust incurred a charge of \$3,923 for the year ended December 31, 2016.

On June 30, 2016, the Trust terminated the joint venture agreement with H&R REIT and entered into a co-ownership agreement with KingSett and AIMCo. As a result of this change, the Trust recognized a loss of \$10,263 in the consolidated statements of comprehensive income (loss) related to the initial recognition at fair value of the Trust's remaining 50% share of the assets and liabilities compared to the carrying values of the joint ventures (see Note 9).

In consideration for the Reorganization, the Trust issued 4,850,000 subsidiary redeemable units to DAM, representing total consideration of \$127,313. The total consideration of \$127,313 and costs related to the Reorganization totalling \$819 were charged to net losses on transactions and other activities in the consolidated statements of comprehensive loss (see Note 25).

## Note 33

### COMPARATIVE FIGURES

Certain comparative figures included in the consolidated financial statements have been reclassified to conform to the current year presentation.

## Note 34

### SUBSEQUENT EVENTS

On January 9, 2017, the Trust repaid Series B Debentures with an aggregate principal amount of \$125,000 at maturity.

Subsequent to year-end, the Trust completed the sale of 15 properties located in Calgary and Toronto totalling approximately 1.6 million square feet, for gross proceeds (net of adjustments) totalling approximately \$228,330.

## Trustees

### **Detlef Bierbaum**<sup>Ind.,1,2</sup>

Köln, Germany  
Corporate Director

### **Donald K. Charter**<sup>Ind.,3,4</sup>

Toronto, Ontario  
Corporate Director

### **Michael J. Cooper**<sup>2,5</sup>

Toronto, Ontario  
President and Chief Responsible Officer  
Dream Unlimited Corp.

### **Joanne Ferstman**<sup>Ind.,1,2</sup>

Toronto, Ontario  
Corporate Director

### **Robert Goodall**<sup>Ind.,4</sup>

Toronto, Ontario  
President  
Canadian Mortgage Capital Corporation

### **Duncan Jackman**<sup>Ind.,3</sup>

Toronto, Ontario  
Chairman, President and CEO  
E-L Financial Corporation Limited

### **The Hon. Dr. Kellie Leitch**<sup>Ind.,3</sup>

Creemore, Ontario  
Member of Parliament for Simcoe-Grey

### **Karine MacIndoe**<sup>Ind.,1,4</sup>

Toronto, Ontario  
Corporate Director

Ind. Independent

- 1 Member of the Audit Committee
- 2 Member of the Investment Committee
- 3 Member of the Governance and Nominating Committee
- 4 Member of the Compensation, Health and Environmental Committee
- 5 Chair of the Board of Trustees

## Corporate Information

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(for change of address, registration or other unitholder enquiries)

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### STOCK EXCHANGE LISTING

**The Toronto Stock Exchange**  
**Listing Symbol:**  
REIT Units, Series A: D.UN



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