





36 Toronto Street
Toronto, ON



dream office REIT

Dream Office REIT owns well-located, high-quality central business district office properties in major urban centres across Canada, with a focus on downtown Toronto.

Letter to Unitholders

It is very exciting to end the restructuring and strategic plan phase as we enter 2019. Even though we have been making progress on developments, intensification and increasing our rents, we believe that with the occupancy at 438 University Avenue in December, we are in a different era.

We expect growing comparative property income for the year with the major source of growth coming from our downtown Toronto assets, which now account for over two-thirds of our portfolio in value. The market continues to be very strong as people want to live and work in downtown Toronto more than anywhere else. We are seeing a significant shift to office space being a benefit to employees. This is a major shift as office space historically was just an expense and provided very little differentiation. Now office space is making a significant difference on companies' ability to hire and retain employees who have become the scarcest resource for most businesses.

Our downtown Toronto buildings are uniquely positioned for upgrading into luxury boutique office buildings that can provide tenants with space they are excited about and proud of with abundant amenities. In 2019, we are focusing our creativity and capital to create the Bay Street Village which is composed of our eight buildings centred around Bay Street and Temperance Street. Not only do we believe that we can achieve returns on our capital that is exceptional, but we also believe that our efforts will help define our new business model and will drive rents higher in all of our other buildings in downtown Toronto.

Effectively, we believe that the downtown Toronto market will outperform the rest of Canada and will maintain and increase value based on cash flow growth. In addition, we believe that there will be a further value premium for

having a portfolio of 3.4 million square feet in one of the best office markets globally based on the quality of life and the growth in population, income and tech jobs we are experiencing.

Although there is new competition from buildings under development, the demand appears to exceed the new supply and our buildings are further protected from the new supply as we appeal to smaller tenants who want smaller luxury space in the middle of everything.

All of our employees are working together to create unique buildings with unique experiences for our tenants. We have seen tenant satisfaction improve and our colleagues are bringing creativity to our buildings resulting in continual improvements to the buildings, increased value from the money spent on operating costs and much higher quality buildings. Our team is not only focused on the exciting changes to our portfolio, they are also focused on how to improve how we run our platform by continuing to find ways to do more with less. This allows us to keep our best people fully engaged and reduce costs.

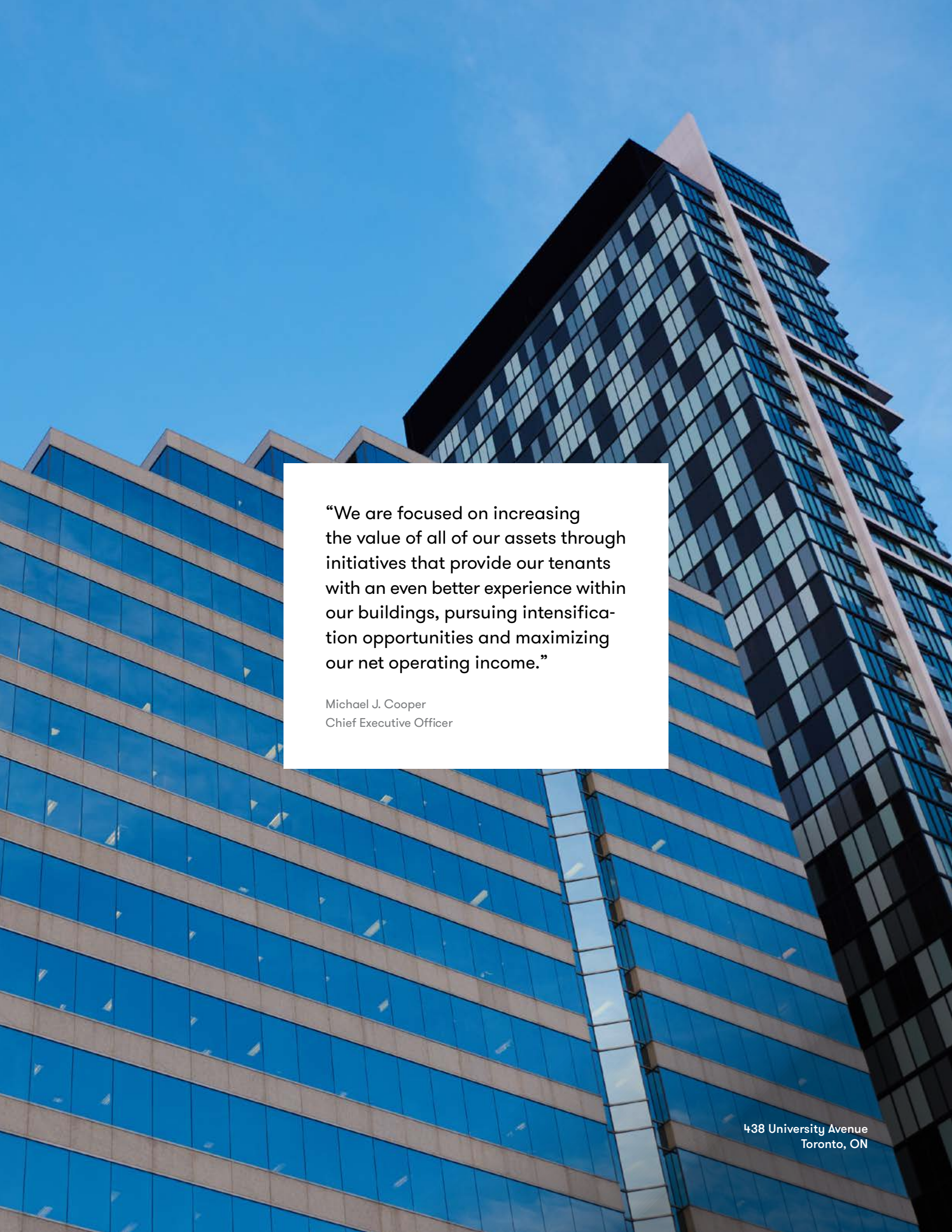
Our portfolio of assets and capital structure today is well positioned to deliver attractive value and returns for all of our unitholders. We thank you for your continued support in Dream Office REIT and look forward to delivering on our goals in 2019.

Sincerely,



Michael J. Cooper
Chief Executive Officer

February 21, 2019



“We are focused on increasing the value of all of our assets through initiatives that provide our tenants with an even better experience within our buildings, pursuing intensification opportunities and maximizing our net operating income.”

Michael J. Cooper
Chief Executive Officer

438 University Avenue
Toronto, ON

Dream Office REIT

At a Glance

\$3.1 Billion

TOTAL ASSETS

45.0%

NET TOTAL DEBT-TO-NET TOTAL ASSETS

\$24.97

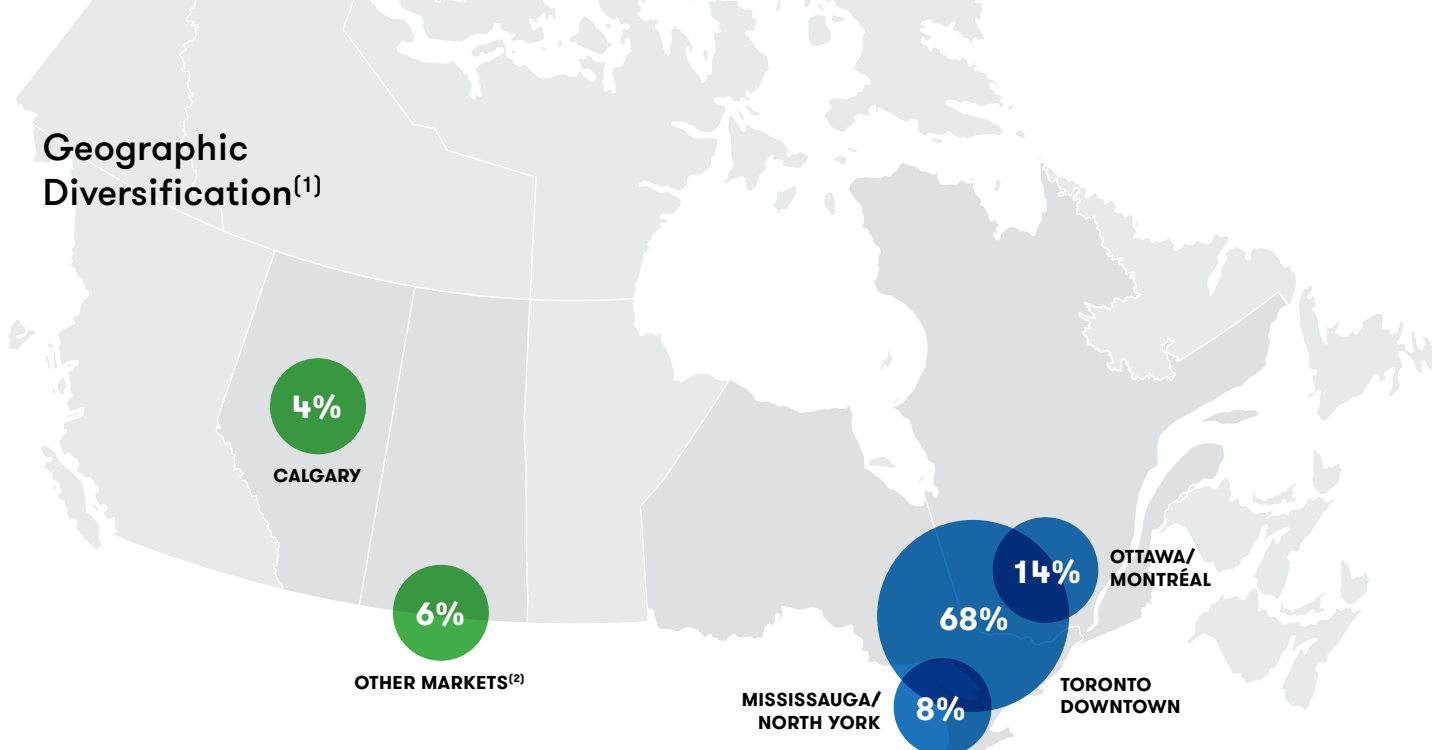
NET ASSET VALUE PER UNIT

93.0%

OCCUPANCY
(INCLUDING COMMITTED)

Adelaide Place
Toronto, ON

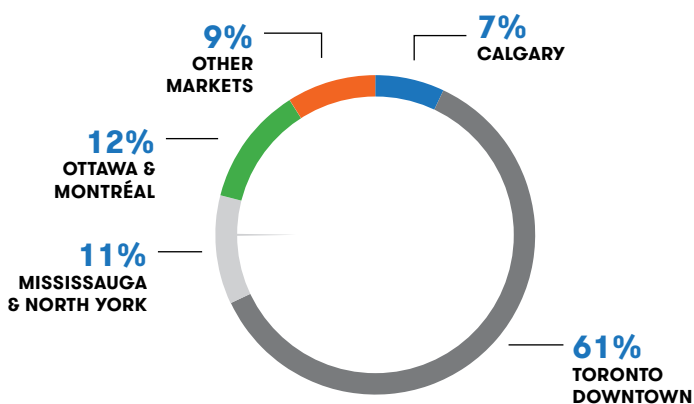
Geographic Diversification⁽¹⁾



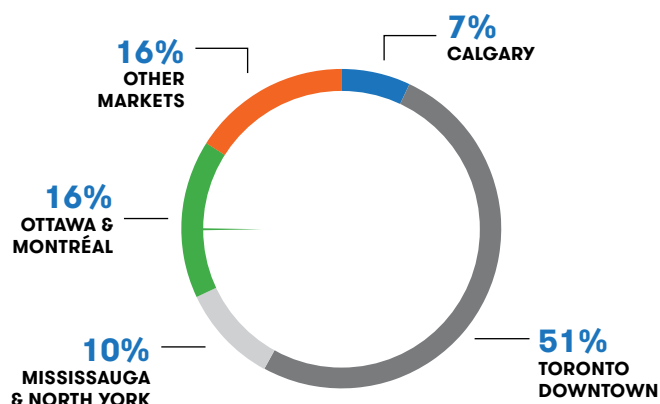
Top 10 Tenants with Weighted Average Lease Term of 4.3 Years

TENANT	GROSS RENTAL REVENUE (%)	OWNED AREA (THOUSANDS OF SQ. FT.)	OWNED AREA (%)	CREDIT RATING ⁽³⁾
Government of Canada	11.2	620	9.4	AAA/A-1+
Government of Ontario	9.3	613	9.3	A+/A-1
State Street Trust Company	4.2	219	3.3	AA-/A/A-1+
Government of Québec	2.7	198	3.0	AA-/A-1+
National Bank of Canada	2.7	237	3.6	A/A-1
AON Canada Inc.	2.5	152	2.3	A-/A-2
International Financial Data Services	2.5	137	2.1	N/R
U.S Bank National Association	1.8	185	2.8	AA-/A-1+
Medcan Health Management Inc.	1.7	81	1.2	N/R
TD Canada Trust	1.4	125	1.9	AA-/A-1+
Total	40.0	2,567	38.9	

Comparative Properties NOI by Region⁽⁴⁾



Gross Leasable Area by Region⁽⁵⁾



(1) This chart illustrates the fair value of investment properties by region, excluding investment properties for future redevelopment and properties under development, as at December 31, 2018. (2) Other markets include 1% of S.W. Ontario, 2% U.S. and 3% Saskatchewan based on investment property fair value. (3) Credit ratings are obtained from Standard & Poor's and may reflect the parent's or guarantor's credit rating. N/R – not rated. (4) For the three months ended December 31, 2018. (5) This chart illustrates the GLA of investment properties by region, excluding investment properties for future redevelopment and properties under development, as at December 31, 2018.

A photograph of a city street with tall buildings and trees. The image shows a wide street with several cars and a van in the foreground. On the right side, there are large, leafy green trees. In the background, there are several tall buildings, including a prominent one with a curved facade and another with a grid of windows. The sky is clear and blue.

Our Values

Integrity

Teamwork

Dealing with stakeholders

Social responsibility

Opportunities

Fun

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

Building Better Communities

Our ambition is to integrate sustainability objectives throughout our business. We set quantitative and qualitative targets to help focus on reaching our goals.

Our aim is to directly tie sustainability to our corporate values, our culture and the way in which we conduct our business.



Sustainability

Commitment to sustainability

At Dream Office REIT, we have been integrating best practices into our environmental platform since 2011. We've been working hard to reduce our environmental footprint by minimizing resource consumption and greenhouse gas emissions. Reducing our energy and water usage as well as decreasing or diverting our waste benefits the environment, our tenants, and future generations.

Tenants are becoming more aware of the energy performance, carbon footprint and associated costs of buildings. Developing and maintaining high-quality, energy efficient buildings has become a differentiating factor that allows us to appeal to a broader range of tenants and sustain high occupancy rates – an environmentally sound building is a desirable building.

At Dream, we also recognize the value of green buildings. That is why 100% of all Canadian properties over 100,000 square feet in Dream Office REIT are BOMA BEST certified with operating standards requiring smart management of energy, water and waste. The ongoing monitoring of resource consumption, environmental regulations, and continued retro-commissioning of our buildings help us to better position our assets for the future. At the end of 2017, 12% of Dream Office REIT's properties were LEED certified, with an additional 4% in progress.

Improving energy efficiency is an important part of our operational strategy for our buildings. It reduces costs and decreases our contribution to carbon emissions and

climate change. Our initiatives have resulted in a 10% reduction in energy consumption and a 9% reduction in water use in our portfolio from 2014 to 2017. Further, we have reduced our greenhouse gas emissions by over 18,000 tonnes in that same period.

We enable energy efficiency and conservation through capital investments, process changes and modifying behaviours. Accordingly, we have completed energy audits throughout the portfolio, identifying areas for improvement and incorporating them into our ten-year capital plan.

Another example of Dream Office REIT's commitment to sustainability was demonstrated by Dream's head office at 30 Adelaide Street East in Toronto winning BOMA's Race2Reduce CREST Award for Energy Management Leadership. This award recognizes those who have demonstrated their commitment to improve the energy efficiency and operational best practices in their building.

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

We continue to implement strategies to improve sustainability practices throughout our organization and portfolio and have highlighted a few examples over the next few pages.



Dream Office REIT Partners with Tesla Motors

In 2018, Tesla Motors partnered with Dream Office REIT to provide electric vehicle chargers in several parking facilities in Dream Office REIT's properties throughout downtown Toronto. Tesla provided full turn-key service for the installation of 80 chargers and one of every four is equipped with an adapter that will work for any type of electric vehicle.

The partnership is mutually beneficial as Tesla was looking to expand the presence of its charging stations in downtown Toronto and Dream Office REIT is always looking for ways to lessen our environmental impact.

Sussex Centre to be Fitwel Certified

Sussex Centre is in the process of becoming Fitwel certified. Fitwel is a high impact building certification designed to support healthier workplace environments and improve occupant health and productivity.

Items to highlight that contribute to Sussex Centre's soon-to-be success are its close proximity to multiple parks, including Kariya Park – a Japanese-inspired gardens providing a therapeutic landscape amenity that improves employee mental health, reduces stress levels and improves productivity. A Walk Score of 70+ adds to improved health by increasing opportunities for regular physical activity, social interaction, and access to amenities. The site also has secure, sheltered bicycle parking to increase and encourage cycling to work. For more information on the certification please visit www.fitwel.org





Energy audits

Dream Office REIT recently completed portfolio-wide energy audits with the goal of putting together an energy efficiency improvement roadmap to optimize the way we operate and manage our buildings.

The audit resulted in recommendations such as LED retrofits, heating and air conditioning upgrades and retro-commissioning (a process that seeks to improve how building equipment and systems function together). These recommendations were added to the ten-year capital plan enabling Dream Office REIT to be aware of and plan for future upgrades, thereby capturing economies of scale.



Dream head office recognized for Energy Management Leadership

30 Adelaide Street East

As a proud participant in BOMA's Race2Reduce, Dream's head office at 30 Adelaide Street East in Toronto was recognized for best-in-class Energy Management Leadership for the Commercial Real Estate Sustainability Trailblazer (CREST) Award.

Dream was presented with the Energy Management Leadership award in the 250,000–500,000 square foot category. The award recognizes those that have demonstrated commitment to improve the energy efficiency and operational best practices in their building. The success is measured by percentage reduction in energy use intensity from a 2016 baseline.

Race2Reduce is an unprecedented collaboration between owners, managers and tenants to promote energy efficiency and operational excellence across the commercial real estate industry.

Sustainability Highlights

Environmental*



Reduced energy consumption by **10%** from 2014 to 2017



Reduced greenhouse gas emissions by **18,500 tonnes** (equivalent to removing over 4,100 cars from the road for one year)



Reduced water consumption by **9%** from 2014 to 2017



12% LEED certified, with 4% underway



100% of all Canadian properties over 100,000 square feet are **BOMA BEST** certified

Governance



43% of Dream Office REIT Board members and the majority of the senior executives of Dream's public companies are women



71% of Dream Office REIT Board members are independent



Embedded elements of sustainability in Board mandates

Social**



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



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



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



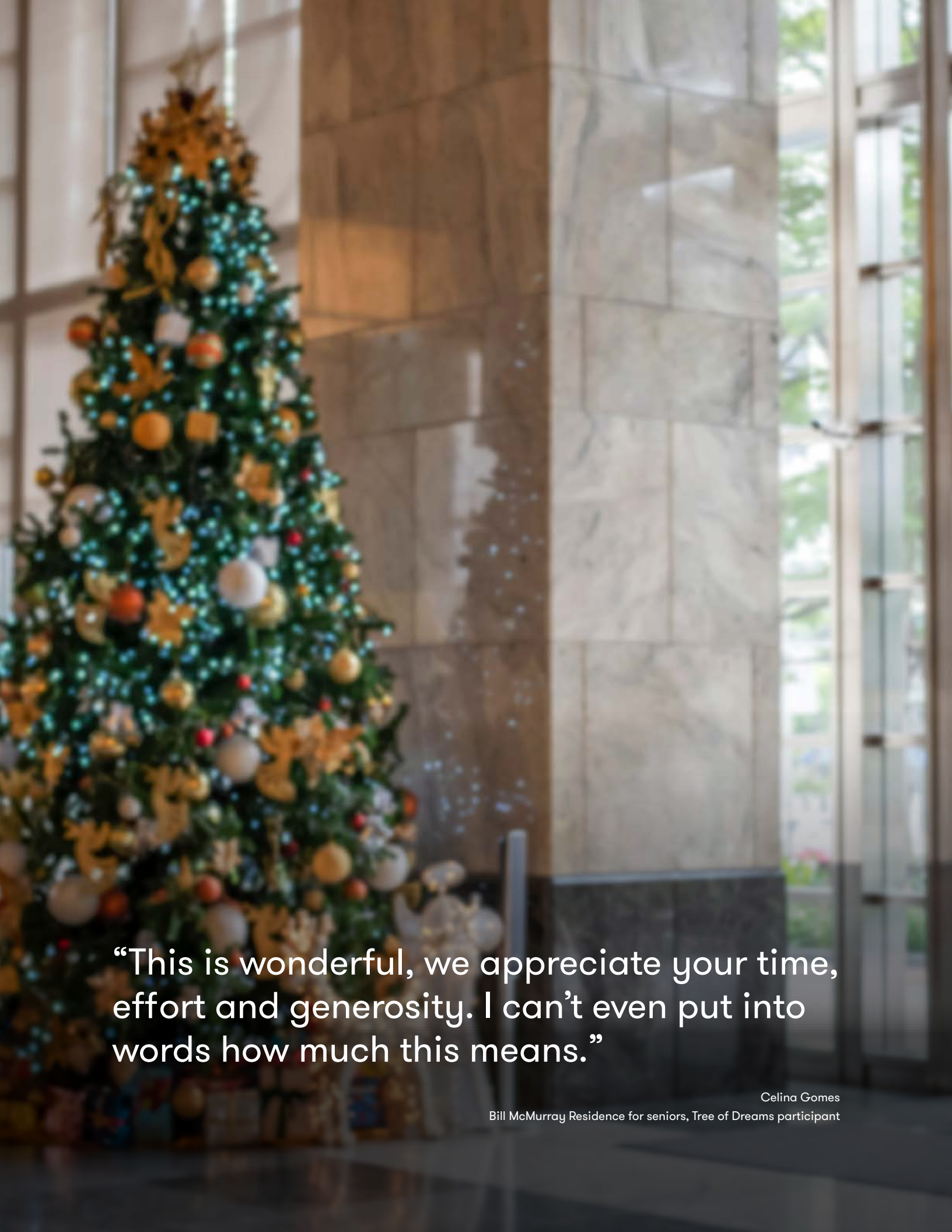
National sponsor of The Shoebox Project for Womens Shelters and partner with Women's College Hospital



420 gifts were donated to seniors by Dream Office REIT and its tenants through the Tree of Dreams

* Environmental highlights are based on 2017

** Social highlights are based on all Dream entities combined



“This is wonderful, we appreciate your time, effort and generosity. I can’t even put into words how much this means.”

Celina Gomes
Bill McMurray Residence for seniors, Tree of Dreams participant



Tree of Dreams

For the fourth consecutive year, Dream Office REIT hosted the Tree of Dreams campaign, in support of local charities that care for underprivileged seniors. Through this campaign, Dream Office REIT and its tenants can send gifts to seniors in our communities who might otherwise not receive gifts or visits during the holidays. With your help, we distributed over **400 gifts** to seniors in need, right here in our community.

Table of Contents

Section I

Key Performance Indicators at a glance	1
Basis of Presentation	2
Forward-looking Disclaimer	3
Our Objectives	3
Financial Overview	4

Section II

Our Properties	6
Comparative portfolio owned gross leasable area and fair value by region	6
Top ten tenants	6
Our Operations	7
Comparative portfolio occupancy	7
Comparative portfolio rental rates	9
Net rental income	10
Comparative portfolio leasing costs and lease incentives	12
Comparative portfolio lease maturity profile, lease commitments and expiring net rental rates	13
Our Results of Operations	14

Section III

Investment Properties	20
Investment property continuity	20
Properties under development	21
Valuations of externally appraised properties	22
Fair value adjustments to investment properties	22

Assumptions used in the valuation of investment properties using the capitalization rate method	23	Key portfolio, leasing, financing and other capital information	39
Assumptions used in the valuation of investment properties using the discounted cash flow method	23	Results of operations	39
Building improvements	23	Reconciliation between net income (loss) and funds from operations	40
Dispositions update	24		
Investment in Dream Industrial REIT	25	Section V	
Our Financing	26	Disclosure Controls & Procedures	41
Debt summary	26		
Liquidity & capital resources	26	Section VI	
Financing activities during the quarter and year	27	Risks & Our Strategy to Manage	42
Demand revolving credit facilities	27		
Debt maturity profile	27	Section VII	
Commitments & contingencies	28	Critical Accounting Policies	46
Our Equity	28		
Total equity	28	Section VIII	
NAV per unit	29	Asset Listing	48
Outstanding equity	29	Consolidated Financial Statements	50
Normal course issuer bid (“NCIB”)	30	Independent auditor’s report	51
Substantial issuer bid (“SIB”)	30	Consolidated balance sheets	54
Weighted average number of units	30	Consolidated statements of comprehensive income	55
Distribution policy	31	Consolidated statements of changes in equity	56
Cash flows from operating activities & distributions declared	31	Consolidated statements of cash flows	57
Selected Annual Information	32	Notes to the consolidated financial statements	58
Section IV		Trustees and Management Team	IBC
Non-GAAP Measures & Other Disclosures	33	Corporate Information	IBC
Quarterly Information	39		

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, or unless otherwise stated)

SECTION I

KEY PERFORMANCE INDICATORS AT A GLANCE

Performance is measured by these and other key indicators:

	As at		
	December 31, 2018	September 30, 2018	December 31, 2017
Total portfolio⁽¹⁾			
Number of properties	37	37	43
Investment properties value	\$ 2,778,826	\$ 2,732,200	\$ 2,919,438
Gross leasable area ("GLA") ⁽²⁾	7.3	7.3	8.6
Comparative portfolio⁽³⁾			
Occupancy rate – including committed (period-end)	93.0%	94.2%	94.6%
Occupancy rate – in-place (period-end)	91.5%	88.3%	89.7%
Average in-place and committed net rent per square foot (period-end)	\$ 20.97	\$ 20.87	\$ 20.86
Weighted average lease term ("WALT") (years)	5.2	5.0	5.1

	Three months ended			Year ended	
	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Operating results					
Net income	\$ 58,489	\$ 41,382	\$ 100,731	\$ 157,778	\$ 134,786
Net rental income	35,692	37,365	41,655	154,965	261,930
Comparative properties net operating income ("NOI") ⁽⁴⁾	36,240	35,306	35,502	142,971	146,073
Funds from operations ("FFO") ⁽⁵⁾	25,736	26,688	32,235	115,796	197,869
EBITDAFV ⁽⁶⁾	40,260	42,370	46,239	167,436	274,011
Distributions					
Total distributions ⁽⁷⁾	\$ 16,207	\$ 16,342	\$ 19,927	\$ 68,591	\$ 122,422
Per unit amounts					
Distribution rate ⁽⁸⁾	\$ 0.25	\$ 0.25	\$ 0.25	\$ 1.00	\$ 1.25
FFO (diluted) ⁽⁵⁾⁽⁹⁾	0.39	0.40	0.40	1.66	2.03

	As at		
	December 31, 2018	September 30, 2018	December 31, 2017
Financing			
Weighted average face rate of interest on debt (period-end) ⁽¹⁰⁾	4.06%	3.94%	3.90%
Interest coverage ratio (times) ⁽¹¹⁾⁽¹²⁾	2.8	2.8	3.2
Net total debt-to-adjusted EBITDAFV (years) ⁽¹¹⁾	9.0	9.1	7.1
Level of debt (net total debt-to-net total assets) ⁽¹¹⁾	45.0%	46.2%	39.6%
Level of debt (net secured debt-to-net total assets) ⁽¹¹⁾	40.2%	41.4%	30.6%
Average term to maturity on debt (years)	3.8	4.0	4.5
Unencumbered assets ⁽¹³⁾	\$ 140,000	\$ 140,000	\$ 299,000
Available liquidity ⁽¹⁴⁾	\$ 163,908	\$ 232,826	\$ 493,627
Capital (period-end)			
Total number of REIT A Units and LP B Units (in millions) ⁽¹⁵⁾	64.6	65.3	78.9
Net asset value ("NAV") per unit ⁽¹⁶⁾	\$ 24.97	\$ 24.40	\$ 23.46

(1) Total portfolio excludes properties held for sale at the end of each period.

(2) In millions of square feet.

(3) Current and comparative periods exclude properties sold, properties held for future redevelopment and properties under development as at December 31, 2018.

- (4) Comparative properties NOI (non-GAAP measure) is defined and reconciled to net rental income in the section “Non-GAAP Measures and Other Disclosures” under the heading “Comparative properties NOI”.
- (5) FFO (non-GAAP measure) – The reconciliation of FFO to net income (loss) can be found in the section “Non-GAAP Measures and Other Disclosures” under the heading “Funds from operations (“FFO”)”.
- (6) EBITDAFV (non-GAAP measure) – The reconciliation of EBITDAFV to net income (loss) can be found in the section “Non-GAAP Measures and Other Disclosures” under the heading “Earnings before interest, taxes, depreciation, amortization and fair value adjustments (“EBITDAFV”)”.
- (7) Total distributions (non-GAAP measure) – The reconciliation of total distributions paid and payable to total distributions paid and payable on REIT A Units can be found in the section “Non-GAAP Measures and Other Disclosures” under the heading “Total distributions paid and payable”.
- (8) Effective with the July 2017 distribution, the Trust revised its monthly distribution to \$0.08333 per unit, or \$1.00 on an annualized basis.
- (9) A description of the determination of diluted amounts per unit can be found in the section “Our Equity” under the heading “Weighted average number of units”.
- (10) Weighted average face rate of interest on debt is calculated as the weighted average face rate of all interest bearing debt balances.
- (11) The calculation of the following non-GAAP measures – interest coverage ratio, net total debt-to-adjusted EBITDAFV and levels of debt – are included in the section “Non-GAAP Measures and Other Disclosures”.
- (12) Interest coverage ratio has been restated in the December 31, 2017 comparative period to conform to current period presentation. For further details, please refer to the “Non-GAAP Measures and Other Disclosures” section under the heading “Interest coverage ratio”.
- (13) Unencumbered assets (non-GAAP measure) is defined in the section “Non-GAAP Measures and Other Disclosures” under the heading “Unencumbered assets”.
- (14) Available liquidity (non-GAAP measure) is defined in the section “Non-GAAP Measures and Other Disclosures” under the heading “Available liquidity”.
- (15) Total number of REIT A Units and LP B Units includes 5.2 million LP B Units which are classified as a liability under IFRS.
- (16) NAV per unit (non-GAAP measure) is defined in the section “Non-GAAP Measures and Other Disclosures” under the heading “NAV per unit” and the reconciliation of NAV per unit to equity (as per consolidated financial statements) can be found in the section “Our Equity”.

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 and the consolidated financial statements of Dream Office REIT for the years ended December 31, 2017 and December 31, 2018, respectively.

This management’s discussion and analysis (“MD&A”) is dated as at February 21, 2019.

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

Market rents disclosed throughout the MD&A are management’s estimates 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 available public information. We have not verified any such information independently.

FORWARD-LOOKING DISCLAIMER

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, stability of NOI at our properties, 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, renewal and leasing assumptions, future leasing costs and lease incentives, litigation and the real estate industry in general (including statements regarding our disposition targets, the timing of proposed dispositions, use of proceeds from asset sales, redevelopment and intensification plans and timelines, expected capital requirements and cost to complete development projects, anticipated income and yield from properties under development, the future composition of our portfolio, future NAV growth, cash flows, debt levels, liquidity and leverage and our future capital requirements and ability to meet those requirements), 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 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 "Financial Overview". 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; costs to complete development activities; NOI from development properties on completion; 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 21, 2019. 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 the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. Certain filings are also available on our website at www.dreamofficereit.ca.

OUR OBJECTIVES

We have been and remain committed to:

- Managing our business and assets to provide both yield and growth over the longer term;
- Driving superior risk-adjusted returns and NAV growth by investing in our assets through upgrades, intensification and redevelopment, and selectively disposing of assets with lower long-term return potential;
- Building and maintaining a strong, flexible and resilient balance sheet; 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.

FINANCIAL OVERVIEW

- **Net income for the quarter and year:** For the three months ended December 31, 2018, the Trust generated net income of \$58.5 million, consisting of net rental income of \$35.7 million, fair value adjustments to investment properties of \$20.2 million, share of income from our investment in Dream Industrial REIT of \$12.7 million and fair value adjustments to financial instruments of \$11.2 million, which was offset by interest expense on debt and subsidiary redeemable units of \$16.3 million, general and administrative expenses of \$3.0 million and leasing, net losses on transactions and debt settlement costs of \$2.0 million.

For the year ended December 31, 2018, the Trust generated net income of \$157.8 million, consisting of net rental income of \$155.0 million, share of income from our investment in Dream Industrial REIT of \$43.1 million and fair value adjustments to investment properties of \$47.5 million, which was offset by interest expense on debt and subsidiary redeemable units of \$66.0 million, general and administrative expenses of \$12.5 million, leasing, net losses on transactions and debt settlement costs of \$7.2 million, fair value adjustments to financial instruments of \$1.4 million and cumulative other items of \$0.7 million.

- **Diluted FFO per unit⁽¹⁾ for the quarter and year:** Diluted FFO per unit for the three months ended December 31, 2018 was \$0.39 (\$0.40 excluding debt settlement costs on early mortgage refinancing included in FFO), compared to \$0.40 at Q3 2018 and \$0.40 at Q4 2017. Diluted FFO per unit for the year ended December 31, 2018 was \$1.66 (\$1.59 excluding debt settlement costs on early mortgage refinancing, lease termination fees and other non-recurring items) compared to \$2.03 (\$1.97 excluding lease termination fees and other non-recurring items) in the prior year comparative period.

The quarter-over-quarter diluted FFO per unit decreased slightly to \$0.39, primarily driven by decreased NOI from sold properties, offset by increased comparative properties NOI⁽¹⁾ and interest savings.

The year-over-year decrease in diluted FFO per unit for the three months and year ended December 31, 2018 was mainly due to asset sales (partially offset by unit buybacks and debt reduction) (-\$0.02 and -\$0.36, respectively), debt settlement costs on early mortgage refinancing (-\$0.01 in both periods), changes in comparative properties NOI⁽¹⁾ (+\$0.01 and -\$0.04, respectively) and increase in share of FFO from investment in Dream Industrial REIT (+\$0.01 and +\$0.04, respectively).

- **NAV per unit⁽¹⁾:** As at December 31, 2018, our NAV per unit was \$24.97, compared to \$24.40 at September 30, 2018 and \$23.46 at December 31, 2017, up \$0.57 or 2.3% and \$1.51 or 6.4%, respectively.

The quarter-over-quarter and year-over-year increase in NAV per unit of \$0.57 and \$1.51, respectively, were mainly due to the fair value gains on properties in the Toronto downtown region, unit buybacks and retention of cash flow from operating activities.

NAV per unit is considered one of the Trust's key metrics and has increased for seven consecutive quarters since Q2 2017.

- **Comparative properties NOI⁽¹⁾ for the quarter and year:** For the three months ended December 31, 2018, comparative properties NOI increased 2.6%, or \$0.9 million, when compared with the prior quarter, mainly driven by higher occupancy in the Toronto downtown region, most notably the new government lease commencement (191 thousand square feet) at 438 University Avenue on December 1, 2018, along with 55 thousand square feet of positive leasing absorption across the region during the quarter at higher rental rates. The gains in the Toronto downtown region were partially offset by the continuing leasing challenges in Calgary and Saskatchewan within the Other markets region.

For the three months ended December 31, 2018, comparative properties NOI increased by 2.1%, or \$0.7 million, over the prior year comparative quarter, mainly driven by higher occupancy and rental rates in Toronto downtown, partially offset by lower occupancy and rental rates in the Other markets and Ottawa and Montréal regions.

For the year ended December 31, 2018, comparative properties NOI decreased by 2.1%, or \$3.1 million, over the prior year, primarily driven by previously known large vacancies in downtown Toronto (438 University Ave.) and downtown Montréal (700 De la Gauchetière St. W.) ("700 DLG").

- **In-place occupancy:** Comparative portfolio in-place occupancy on a quarter-over-quarter basis increased to 91.5% when compared to 88.3% at Q3 2018. The increase in in-place occupancy was mainly driven by positive leasing absorption in the Toronto downtown, Mississauga and North York and Ottawa and Montréal regions, partially offset by negative leasing absorptions in Calgary and Saskatchewan within the Other markets region.

Comparative portfolio in-place occupancy on a year-over-year basis increased to 91.5% when compared to 89.7% at Q4 2017. The increase in in-place occupancy was largely due to positive leasing absorption in the Toronto downtown and Mississauga and North York regions, partially offset by negative leasing absorption in the rest of the regions.

At December 31, 2018, vacant space committed for future occupancy was approximately 96 thousand square feet, bringing our overall comparative portfolio in-place and committed occupancy to 93.0%. Substantially all of the Trust's future committed occupancy is scheduled to take occupancy through 2019.

- **Leasing activity:** For the three months ended December 31, 2018, approximately 687 thousand square feet of leases commenced, of which approximately 335 thousand square feet were renewals. The overall retention ratio for the quarter was 72%. For the year ended December 31, 2018, approximately 1.8 million square feet of leases commenced, of which approximately 1.1 million were renewed. The overall retention ratio for the year was 70%

To today's date, we have secured 2019 lease commitments totalling approximately 0.7 million square feet in our comparative portfolio, representing over 84% of our expected 2019 lease maturities.

Leasing momentum in downtown Toronto remains robust, given low vacancy rates, which remain amongst the lowest in North America. To date, we have completed over 90% of our 2019 lease maturities in the Toronto downtown region. During the current quarter, the net rents for lease renewals that commenced in Toronto downtown were approximately 2.8% above expiring net rents, mainly driven by the commencement of a few large leases which were negotiated in 2016. Further, as at December 31, 2018, Toronto downtown market rents are estimated to be approximately 23% higher than our in-place and committed net rents. As a result of when leases are executed, there is typically a lag between leasing spreads relative to our estimates of the spread between estimated market rents and average in-place and committed net rental rates.

- **Dispositions update for the quarter and year:** For the three months ended December 31, 2018, the Trust sold four properties located in Calgary for \$99.5 million or approximately \$163 per square foot. For the year ended December 31, 2018, the Trust sold ten properties located in Alberta and Saskatchewan totalling \$302.2 million or approximately \$180 per square foot.
- **REIT A Units repurchased for cancellation for the quarter and year:** For the three months and year ended December 31, 2018, the Trust purchased for cancellation approximately 668 thousand REIT A Units (\$23.59 per unit for a cost of \$15.7 million) and 14.5 million REIT A Units (\$23.54 per unit for a cost of \$340.7 million), respectively, pursuant to its normal course issuer bid ("NCIB") and pursuant to its substantial issuer bid to purchase for cancellation up to 10 million REIT A Units at a price of \$24.00 per REIT A Unit ("SIB").

Subsequent to quarter-end, the Trust purchased for cancellation an additional 381,313 REIT A Units under the NCIB at a cost of approximately \$8.5 million or \$22.20 per unit.

- **Sound capital structure with ample liquidity:** The Trust ended the quarter with a level of debt (net total debt-to-net total assets ratio⁽¹⁾) of 45.0%, net total debt-to-adjusted EBITDAFV⁽¹⁾ of 9.0 years and interest coverage ratio⁽¹⁾ of 2.8 times. The Trust's available liquidity⁽¹⁾ of approximately \$164 million comprises undrawn demand revolving credit facilities totalling approximately \$155 million and \$9 million of cash and cash equivalents on hand as at December 31, 2018. The overall level of debt (net total debt-to-net total assets) ratio⁽¹⁾ has declined 120 basis points ("bps") from 46.2% in Q3 2018 to 45.0% this quarter from debt repayment with net proceeds from dispositions and fair value increases in investment properties.

As at December 31, 2018, variable rate debt as a percentage of total debt was 26.3%, a slight increase from Q3 2018, due to the repayment of fixed rate debt on sold properties. On January 2, 2019, the Trust completed a portfolio mortgage totalling \$105 million secured by five investment properties in Toronto. The net proceeds were partially used to make lump sum repayments on five mortgages prior to their original maturity date and the balance of the net proceeds were used to pay down drawings on the Trust's demand revolving credit facilities, reducing our variable rate debt percentage of total debt to 22.9%. We expect leverage and the variable rate debt as a percentage of total debt to further decline using net proceeds from future asset sales and refinancings.

(1) Diluted FFO per unit, comparative properties NOI, NAV per unit, level of debt (net total debt-to-net total assets), net total debt-to-adjusted EBITDAFV, interest coverage ratio and available liquidity are non-GAAP measures used by management in evaluating operating and financial performance. Interest coverage ratio, level of debt (net total debt-to-net total assets), and level of debt (net secured debt-to-net total assets) have been restated in the comparative periods to conform to current period presentation. Please refer to the "Non-GAAP Measures and Other Disclosures" section of the MD&A for a full description of these non-GAAP measures and a reconciliation, where available, to the consolidated financial statements.

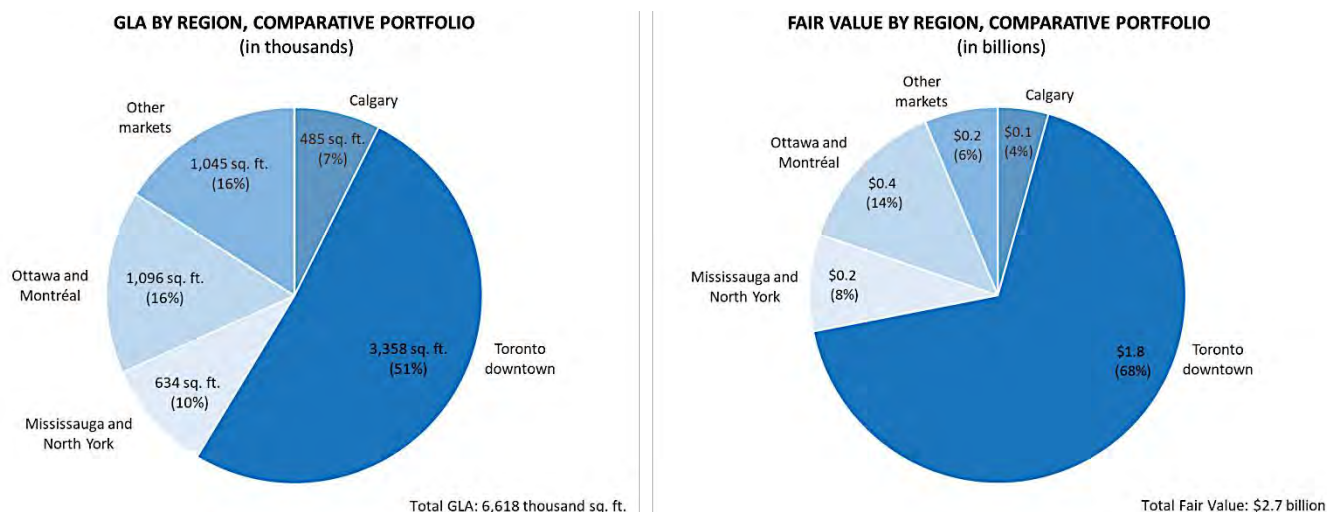
SECTION II

OUR PROPERTIES

At December 31, 2018, our ownership interests included 7.3 million square feet of GLA across 37 properties, which comprise 34 office properties (6.6 million square feet), two properties under development (0.3 million square feet) and one property held for future redevelopment (0.4 million square feet).

Comparative portfolio owned gross leasable area and fair value by region

The following pie charts illustrate the Trust's total GLA and the fair value of investment properties by region, excluding investment properties held for future redevelopment and properties under development, as at December 31, 2018.



Top ten tenants

Our external 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 small- to medium-sized businesses across Canada. With 641 tenants and an average tenant size of approximately 11 thousand square feet in our portfolio, excluding properties held for future redevelopment and properties under development, our risk of exposure to any single large lease or tenant is mitigated. The following table outlines the contributions to total gross rental revenue of our ten largest external tenants. Our ten largest tenants have a weighted average lease term of 4.3 years.

Tenant	Gross rental revenue (%)	Owned area (thousands of sq. ft.)	Owned area (%)	Credit rating ⁽¹⁾
1 Government of Canada	11.2	620	9.4	AAA/A-1+
2 Government of Ontario	9.3	613	9.3	A+/A-1
3 State Street Trust Company	4.2	219	3.3	AA-/A/A-1+
4 Government of Québec	2.7	198	3.0	AA-/A-1+
5 National Bank of Canada	2.7	237	3.6	A/A-1
6 AON Canada Inc.	2.5	152	2.3	A-/A-2
7 International Financial Data Services	2.5	137	2.1	N/R
8 U.S. Bank National Association	1.8	185	2.8	AA-/A-1+
9 Medcan Health Management Inc.	1.7	81	1.2	N/R
10 TD Canada Trust	1.4	125	1.9	AA-/A-1+
Total	40.0	2,567	38.9	

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

N/R – not rated

OUR OPERATIONS

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

Performance indicators	December 31, 2018 ⁽¹⁾	September 30, 2018 ⁽¹⁾	December 31, 2017 ⁽¹⁾
Comparative portfolio			
Occupancy rate – including committed (period-end)	93.0%	94.2%	94.6%
Occupancy rate – in-place (period-end)	91.5%	88.3%	89.7%
Average in-place and committed net rental rates (per sq. ft.) (period-end)	\$ 20.97	\$ 20.87	\$ 20.86
WALT (years)	5.2	5.0	5.1

(1) Current and comparative periods exclude properties sold, properties held for future redevelopment and properties under development at the end of Q4 2018.

Comparative portfolio occupancy

The following table details our comparative portfolio in-place and committed occupancy and in-place occupancy rates, by geographic segment at December 31, 2018, September 30, 2018 and December 31, 2017. Our in-place and committed occupancy rates include lease commitments for space that is currently being readied for occupancy but for which rent is not yet being recognized.

Comparative portfolio (percentage)	In-place and committed occupancy rate			In-place occupancy rate		
	December 31, 2018 ⁽¹⁾	September 30, 2018 ⁽¹⁾	December 31, 2017 ⁽¹⁾	December 31, 2018 ⁽¹⁾	September 30, 2018 ⁽¹⁾	December 31, 2017 ⁽¹⁾
Occupancy rate						
Calgary	88.8	94.2	91.4	85.1	90.3	89.0
Toronto downtown	97.8	98.1	97.3	96.9	89.6	89.5
Mississauga and North York	94.7	95.6	94.5	94.2	93.2	92.6
Ottawa and Montréal	91.1	90.0	93.6	90.0	85.9	92.1
Other markets	80.6	85.1	88.6	77.1	82.8	86.1
Total	93.0	94.2	94.6	91.5	88.3	89.7

(1) Current and comparative periods exclude properties sold, properties held for future redevelopment and properties under development at the end of Q4 2018.

Comparative portfolio in-place occupancy on a quarter-over-quarter basis increased to 91.5% when compared to 88.3% at Q3 2018. The major driver of the increase in in-place occupancy was the new government lease commencement (191 thousand square feet) at 438 University Avenue in the Toronto downtown region on December 1, 2018, along with 55 thousand square feet of positive leasing absorption across the region during the quarter. In addition, the Trust saw positive leasing absorption of 45 thousand square feet in the Ottawa and Montréal region. Partially offsetting this positive leasing absorption were negative leasing absorptions of 27 thousand square feet and 59 thousand square feet, respectively, in Calgary and Saskatchewan within the Other markets region.

The increase in the comparative portfolio in-place occupancy on a year-over-year basis was largely due to the same reasons noted above for the Toronto downtown region. The year-over-year decline in the Ottawa and Montréal region was mainly due to Bell Canada vacating approximately 0.2 million square feet of space at 700 DLG in the second quarter of 2018 that was partially offset by 98 thousand square feet from a tenant which took occupancy immediately and a further 35 thousand square feet of leasing in Q4 2018. The declines in the Calgary and Other markets regions were mainly due to a 27 thousand square foot tenant departure at the 444 – 7th Building during the quarter, 31 thousand square feet of negative absorption at London City Centre during the year and 67 thousand square feet of negative absorption in Saskatchewan during the year.

At December 31, 2018, vacant space committed for future occupancy approximated 96 thousand square feet, bringing our overall comparative portfolio in-place and committed occupancy to 93.0%. Substantially all of the future committed occupancy is scheduled to take occupancy some time in 2019.

The following table details the change in occupancy (including committed) for the three months and year ended December 31, 2018:

	Three months ended December 31, 2018			Year ended December 31, 2018		
	Weighted average net rents per sq. ft.	Thousands of sq. ft. ⁽¹⁾	As a percentage of total GLA ⁽¹⁾	Weighted average net rents per sq. ft.	Thousands of sq. ft. ⁽¹⁾	As a percentage of total GLA ⁽¹⁾
Occupancy (including vacancy committed for future leases) – beginning of period		6,233	94.2%		7,399	90.4%
Vacancy committed for future leases		(387)	(5.9%)		(347)	(4.3%)
Occupancy in-place at beginning of period		5,846	88.3%		7,052	86.1%
Occupancy related to sold properties, properties held for sale and future redevelopment and properties under development		—			(1,120)	
Remeasurements/reclassifications		(2)			1	
Occupancy at beginning of period – adjusted		5,844	88.3%		5,933	89.6%
Expiries	\$ (24.25)	(468)	(7.1%)	\$ (21.14)	(1,602)	(24.2%)
Early terminations and bankruptcies	(24.46)	(6)	(0.1%)	(24.37)	(29)	(0.4%)
Temporary leases	—	7	0.1%	3.74	30	0.5%
New leases	21.79	345	5.2%	20.29	604	9.1%
Renewals	25.42	335	5.1%	20.87	1,121	16.9%
Occupancy in-place – December 31, 2018		6,057	91.5%		6,057	91.5%
Vacancy committed for future leases		96	1.5%		96	1.5%
Occupancy (including vacancy committed for future leases) – December 31, 2018		6,153	93.0%		6,153	93.0%

(1) Excludes properties held for future redevelopment and properties under development at period-end.

The table below summarizes the retention ratio with comparison to the renewal and expiring rates for renewals that commenced for the three months and year ended December 31, 2018. As a result of the timing of lease executions, the renewal rates shown below were based on commitments signed in previous periods and may not be reflective of the renewal rates on leases executed during the quarter for future commitments.

	Three months ended December 31, 2018	Year ended December 31, 2018
Tenant retention ratio	71.6%	70.0%
Renewal rate (per sq. ft.)	\$ 25.42	\$ 20.87
Expiring rents on renewed space (per sq. ft.)	24.82	21.18
Renewal to expiring rent spread (per sq. ft.)	0.60	(0.31)
Renewal to expiring rent spread	2.4%	(1.5%)

For the three months ended December 31, 2018, the renewal to expiring rent spread was \$0.60 per square foot, or 2.4% higher than expiring rents on renewed space. This was mainly driven by positive spreads on tenant renewals in the Toronto downtown region, partially offset by lower rents on tenant renewals in the Ottawa and Montréal region. The Toronto downtown region had an overall renewal rate of 92% at rates that were \$0.70 per square foot or 2.8% higher than expiring net rents on renewed space. The renewal spreads during the fourth quarter were narrowed by the effect of two large renewals negotiated in 2016 when market rents in Toronto downtown were significantly lower than at present.

The negative renewal to expiring rent spread for the year ended December 31, 2018 was mainly driven by lower rents on tenant renewals in the Other markets region. Partially offsetting this are positive spreads on tenant renewals in the Toronto downtown and Mississauga and North York regions. While leasing headwinds in Saskatchewan within our Other markets region put downward pressure on our renewal rates for the year, the Toronto downtown region had an overall renewal rate of 81% at rates that were \$1.31 per square foot or 5.4% higher than expiring net rents for the year.

Comparative portfolio rental rates

Average in-place and committed net rents across our comparative portfolio increased steadily throughout the year to \$20.97 per square foot at December 31, 2018, compared to \$20.87 per square foot at September 30, 2018 and \$20.86 per square foot at December 31, 2017.

The overall increase in our comparative portfolio average in-place and committed net rents on a quarter-over-quarter basis was mainly driven by the positive renewal to expiring rent spread in Toronto downtown where in-place and committed net rents rose by \$0.21 per square foot. This increase was partially offset by lower in-place and committed net rents in the Calgary region due to higher net rents rolling off upon expiry and decreases in the Ottawa and Montréal region due to negative spreads on renewals. All other regions saw modest increases on a quarter-over-quarter basis.

The overall increase in our comparative portfolio average in-place and committed net rents on a year-over-year basis was primarily driven by the Toronto downtown region with net rents increasing \$0.62, or 2.7%. This increase was partially offset by declines in net rents in the rest of the regions.

The following table details the average in-place and committed net rental rates in our comparative portfolio as at December 31, 2018, September 30, 2018 and December 31, 2017:

Comparative portfolio (per sq. ft.)	Average in-place and committed net rent		
	December 31, 2018 ⁽¹⁾	September 30, 2018 ⁽¹⁾	December 31, 2017 ⁽¹⁾
Calgary	\$ 19.61	\$ 20.15	\$ 21.33
Toronto downtown	23.74	23.53	23.12
Mississauga and North York	20.44	20.40	20.67
Ottawa and Montréal	16.73	16.84	17.48
Other markets	16.23	16.13	16.48
Total	\$ 20.97	\$ 20.87	\$ 20.86

(1) Current and comparative periods exclude temporary leases, properties sold, properties held for future redevelopment and properties under development at the end of Q4 2018.

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 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 the Calgary region presented in the table below are based on the best available information as at the current period and may vary significantly from period to period given the changing economic conditions in that particular region.

As a result of when leases are executed, there is typically a lag between leasing spreads relative to our estimates of the spread between estimated market rents and average in-place and committed net rental rates.

The following table compares market rents in our comparative portfolio to the average in-place and committed net rent as at December 31, 2018:

Comparative portfolio (per sq. ft.)	December 31, 2018 ⁽¹⁾		
	Market rent ⁽²⁾	Average in-place and committed net rent	Market rent/ average in-place and committed net rent (%)
Calgary	\$ 15.31	\$ 19.61	(21.9)
Toronto downtown	29.28	23.74	23.3
Mississauga and North York	20.02	20.44	(2.1)
Ottawa and Montréal	19.87	16.73	18.8
Other markets	16.65	16.23	2.6
Total	\$ 24.15	\$ 20.97	15.2

(1) Excludes temporary leases, properties held for future redevelopment and properties under development at period-end.

(2) Market rents include office and retail space.

Net rental income

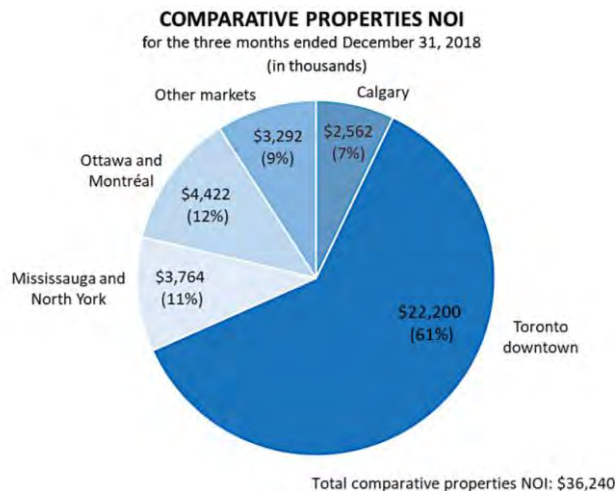
Net rental income is defined by the Trust as the total investment property revenue less investment property operating expenses plus property management and other service fees.

For a detailed discussion about investment properties revenue and expenses for the three months and year ended December 31, 2018, refer to the “Our Results of Operations” section.

Comparative properties NOI⁽¹⁾

Comparative properties NOI is a non-GAAP measure. Comparative properties NOI includes net rental income 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, if any; bad debt expenses; NOI of sold properties, properties held for sale and future redevelopment, and properties under development; property management and other service fees; straight-line rent and amortization of lease incentives.

The following pie chart illustrates comparative properties NOI by region for the three months ended December 31, 2018.



For the three months ended December 31, 2018, comparative properties NOI increased by 2.1%, or \$0.7 million, over the prior year comparative quarter, mainly driven by higher occupancy and rental rates in Toronto downtown, partially offset by lower occupancy and rental rates in the Other markets and Ottawa and Montréal regions.

The Toronto downtown region saw a \$2.2 million, or 11.3%, increase in comparative properties NOI over the prior year comparative quarter due to the new government lease commencement (191 thousand square feet) at 438 University Avenue on December 1, 2018, along with 57 thousand square feet of positive leasing absorption across the region during the year at higher rental rates.

The Other markets region saw a \$1.4 million, or 29.1%, decrease in comparative properties NOI over the prior year comparative quarter, largely due to a \$0.8 million gross free rent period which commenced in Q3 2018 and ended during the current quarter for a tenant at Victoria Tower in Regina and 94 thousand square feet of negative leasing absorption in the Saskatchewan region during the year.

The Ottawa and Montréal region saw a \$0.2 million, or 5.1%, decrease in comparative properties NOI over the prior year comparative quarter, primarily driven by the previously known departure of Bell Canada at 700 DLG in Montréal vacating 185 thousand square feet at the beginning of Q2 2018, of which 98 thousand square feet took occupancy immediately. The Trust leased a further 37 thousand square feet at 700 DLG during the quarter and is currently marketing the balance of the vacant space.

For the year ended December 31, 2018, comparative properties NOI decreased by 2.1%, or \$3.1 million, over the prior year, mainly driven by the large vacancy at 438 University Ave. in Toronto downtown for most of the year until the new government tenant took occupancy on December 1, 2018, the above mentioned large vacancy at 700 DLG in Montréal, and vacancies in Saskatchewan within the Other markets region, partially offset by higher occupancy in the Calgary region.

(1) Comparative properties NOI (non-GAAP measure) – The reconciliation of comparative properties NOI to net rental income can be found in the section “Non-GAAP Measures and Other Disclosures” under the heading “Comparative properties NOI”. Comparative properties NOI is an important measure used by management in evaluating the performance of properties owned by the Trust in the current and comparative periods presented; however, it is not defined by IFRS, does not have a standardized meaning and may not be comparable with similar measures presented by other REITs.

Lease termination fees and other are not necessarily of a recurring nature and the amounts may vary year-over-year. For the three months and year ended December 31, 2018, lease termination fees and other adjustments amounted to income of \$45 thousand and \$5.9 million, respectively. The significant lease termination and other fees for the year ended December 31, 2018 was largely attributable to the one-time lease termination fee received from a tenant located at 700 DLG in Montréal in Q1 2018.

In Q3 2018, we reclassified 357 Bay St. in Toronto downtown and 1900 Sherwood Place in Regina from properties held for future redevelopment to properties under development, as we secured two long-term leases at these properties. As we destabilize and revitalize these properties in the next couple of years, NOI at these properties is expected to be volatile and will stabilize upon completion of these development projects. In addition to these properties, the Trust has a 15 acre site in Scarborough located at the north-west corner of Eglinton Ave. E. and Birchmount Rd. classified as a property held for future redevelopment. In Q3 2017, Aviva Canada Inc., the major tenant at the Scarborough site, had vacated the premises upon expiry of its lease totalling approximately 0.3 million square feet, driving NOI to be negative for this site relative to the prior year.

	December 31, 2018	December 31, 2017	Three months ended		Change in weighted average occupancy %	In-place net rent change %
			Change			
			Amount	%		
Calgary	\$ 2,562	\$ 2,552	\$ 10	0.4	0.3	(5.3)
Toronto downtown	22,200	19,952	2,248	11.3	4.7	2.1
Mississauga and North York	3,764	3,694	70	1.9	1.1	(1.5)
Ottawa and Montréal	4,422	4,658	(236)	(5.1)	(4.3)	(6.1)
Other markets	3,292	4,646	(1,354)	(29.1)	(8.2)	(7.2)
Comparative properties NOI⁽¹⁾	36,240	35,502	738	2.1	0.5	(0.2)
Lease termination fees and other	45	(127)	172			
Properties under development	279	819	(540)			
Properties held for future redevelopment	(211)	(727)	516			
Straight-line rent	249	261	(12)			
Amortization of lease incentives ⁽²⁾	(2,967)	(2,726)	(241)			
Property management and other service fees	665	282	383			
Sold properties	1,392	8,371	(6,979)			
Net rental income	\$ 35,692	\$ 41,655	\$ (5,963)			

(1) Comparative properties NOI (non-GAAP measure) – The reconciliation of comparative properties NOI to net rental income can be found in the section “Non-GAAP Measures and Other Disclosures” under the heading “Comparative properties NOI”.

(2) For the three months ended December 31, 2018 and December 31, 2017, amortization of lease incentives included \$0.2 million and \$0.6 million, respectively, related to properties held for future redevelopment, properties under development and sold properties.

	December 31, 2018	December 31, 2017	Year ended		Change in weighted average occupancy %	In-place net rent change %
			Change			
			Amount	%		
Calgary	\$ 11,191	\$ 9,209	\$ 1,982	21.5	9.4	(3.7)
Toronto downtown	82,276	82,880	(604)	(0.7)	(2.7)	4.2
Mississauga and North York	14,720	14,563	157	1.1	0.9	(1.8)
Ottawa and Montréal	17,926	20,353	(2,427)	(11.9)	(5.8)	(8.2)
Other markets	16,858	19,068	(2,210)	(11.6)	(6.1)	1.1
Comparative properties NOI⁽¹⁾	142,971	146,073	(3,102)	(2.1)	(2.5)	1.1
Lease termination fees and other	5,870	5,933	(63)			
Properties under development	1,550	4,174	(2,624)			
Properties held for future redevelopment	(1,665)	2,265	(3,930)			
Straight-line rent	538	2,397	(1,859)			
Amortization of lease incentives ⁽²⁾	(11,767)	(14,587)	2,820			
Property management and other service fees	1,703	4,271	(2,568)			
Sold properties	15,765	111,404	(95,639)			
Net rental income	\$ 154,965	\$ 261,930	\$ (106,965)			

(1) Comparative properties NOI (non-GAAP measure) – The reconciliation of comparative properties NOI to net rental income can be found in the section “Non-GAAP Measures and Other Disclosures” under the heading “Comparative properties NOI”.

(2) For the year ended December 31, 2018 and December 31, 2017, amortization of lease incentives included \$1.7 million and \$7.0 million, respectively, related to properties held for future redevelopment, properties under development and sold properties.

Comparative properties NOI prior quarter comparison

For the three months ended December 31, 2018, comparative properties NOI increased 2.6%, or \$0.9 million, when compared with the prior quarter, mainly driven by Toronto downtown and modest increases in the Mississauga and North York and Ottawa and Montréal regions. The increases were partially offset by declines in the Other markets and Calgary regions.

Toronto downtown saw a \$2.2 million, or 10.8%, increase in comparative properties NOI over the prior quarter due to strong leasing in the region, most notably the new government lease commencement (191 thousand square feet) at 438 University Avenue on December 1, 2018, along with 55 thousand square feet of positive leasing absorption across the region during the quarter at higher rental rates.

The Other markets region experienced a decrease in comparative properties NOI of \$1.2 million, or 26.4%, over the prior quarter, mainly due to a gross free rent period that took place during the quarter for a tenant at Victoria Tower in Regina and 59 thousand square feet of negative leasing absorption in the Saskatchewan region during the quarter.

Lease termination fees and other are not necessarily of a recurring nature and the amounts may vary from quarter-to-quarter. For the three months ended December 31, 2018, lease termination fees and other amounted to income of \$45 thousand (three months ended September 30, 2018 – income of \$180 thousand).

	December 31, 2018	September 30, 2018	Three months ended		Change in weighted average occupancy %	In-place net rent change %
			Amount	Change %		
Calgary	\$ 2,562	\$ 2,896	\$ (334)	(11.5)	(3.4)	(6.3)
Toronto downtown	22,200	20,036	2,164	10.8	4.0	—
Mississauga and North York	3,764	3,604	160	4.4	0.4	0.4
Ottawa and Montréal	4,422	4,295	127	3.0	2.3	0.9
Other markets	3,292	4,475	(1,183)	(26.4)	(4.8)	(9.0)
Comparative properties NOI⁽¹⁾	36,240	35,306	934	2.6	1.5	(0.9)
Lease termination fees and other	45	180	(135)			
Properties under development	279	434	(155)			
Properties held for future redevelopment	(211)	(494)	283			
Straight-line rent	249	114	135			
Amortization of lease incentives ⁽²⁾	(2,967)	(3,207)	240			
Property management and other service fees	665	548	117			
Sold properties ⁽³⁾	1,392	4,484	(3,092)			
Net rental income	\$ 35,692	\$ 37,365	\$ (1,673)			

(1) Comparative properties NOI (non-GAAP measure) – The reconciliation of comparative properties NOI to net rental income can be found in the section “Non-GAAP Measures and Other Disclosures” under the heading “Comparative properties NOI”.

(2) For the three months ended December 31, 2018 and September 30, 2018, amortization of lease incentives included \$0.2 million and \$0.4 million, respectively, related to properties held for future redevelopment, properties under development and sold properties.

(3) For the three months ended September 30, 2018, NOI from sold properties included post-close adjustments totalling \$1.1 million from properties sold in prior periods that were not previously recorded.

Comparative portfolio 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, cash allowances and landlord works. 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, 2018, approximately \$13.8 million and \$27.8 million, respectively, of initial direct leasing costs and lease incentives were attributable to leases that commenced in our comparative portfolio during the respective periods. Average initial direct leasing costs and lease incentives on a comparative portfolio basis for the three months and year ended December 31, 2018 were \$2.83 and \$2.87 per square foot per year leased in both periods, representing a decrease of \$3.44 per square foot and \$1.23 per square foot, respectively, over the prior year comparative quarter and period. The reduction in leasing costs per square foot per year relative to the prior year respective periods was primarily due to higher renewal rates across the portfolio, especially in the Toronto downtown region. The average lease term improved to 7.2 years for leases that commenced during the quarter mainly driven by a 0.2 million square feet lease commencement in Toronto downtown for a seven-year term. We expect leasing costs and lease incentives to remain elevated in areas such as the Calgary region and Saskatchewan within the Other markets region, given the current competitive office leasing environment in those particular regions.

Performance indicators	Three months ended December 31,		Year ended December 31,	
	2018 ⁽¹⁾	2017 ⁽¹⁾	2018 ⁽¹⁾	2017 ⁽¹⁾
Leases that commenced during the period				
Leases that commenced during the period (in thousands of sq. ft.)	680	160	1,725	1,115
Average lease term (years)	7.2	6.4	5.6	6.1
Initial direct leasing costs and lease incentives:				
In thousands of dollars	\$ 13,788	\$ 6,431	\$ 27,758	\$ 27,672
Per square foot	\$ 20.28	\$ 40.22	\$ 16.10	\$ 24.83
Per square foot per year	\$ 2.83	\$ 6.27	\$ 2.87	\$ 4.10

(1) Current period and comparative periods exclude temporary leases, properties sold, properties held for future redevelopment and properties under development at the end of Q4 2018.

Comparative portfolio lease maturity profile, lease commitments and expiring net rental rates

The following table details our in-place lease maturity profile, lease commitments and expiring net rental rates by geographic segment and by year, and excludes properties held for future redevelopment and properties under development as at December 31, 2018.

(in thousands of square feet)	Temporary leases	2019	2020	2021	2022	2023	2024+
Calgary							
Expiries	—	(34)	(27)	(18)	(27)	(12)	(295)
Expiring net rents	— \$	21.47 \$	24.80 \$	18.44 \$	17.25 \$	17.58 \$	20.27
Commencements	n/a	28	28	2	—	—	—
Commencements as a percentage of expiries	n/a	82%	104%	11%	—	—	—
Toronto downtown							
Expiries	(35)	(413)	(155)	(723)	(605)	(461)	(863)
Expiring net rents	— \$	22.65 \$	24.46 \$	23.03 \$	25.89 \$	25.74 \$	25.80
Commencements	n/a	327	13	30	12	191	1
Commencements as a percentage of expiries	n/a	79%	8%	4%	2%	41%	0%
Mississauga and North York							
Expiries	—	(262)	(57)	(82)	(19)	(49)	(128)
Expiring net rents	— \$	23.67 \$	17.80 \$	19.00 \$	19.61 \$	19.73 \$	19.21
Commencements	n/a	230	—	—	7	—	—
Commencements as a percentage of expiries	n/a	88%	—	—	37%	—	—
Ottawa and Montréal							
Expiries	—	(58)	(223)	(18)	(208)	(26)	(453)
Expiring net rents	— \$	14.39 \$	13.44 \$	29.60 \$	22.24 \$	21.35 \$	20.90
Commencements	n/a	13	—	—	6	—	—
Commencements as a percentage of expiries	n/a	22%	—	—	3%	—	—
Other markets							
Expiries	(7)	(109)	(285)	(22)	(70)	(23)	(290)
Expiring net rents	— \$	23.19 \$	17.66 \$	17.92 \$	19.75 \$	16.60 \$	12.39
Commencements	n/a	53	16	—	5	—	—
Commencements as a percentage of expiries	n/a	49%	6%	—	7%	—	—
Total							
Expiries	(42)	(876)	(747)	(863)	(929)	(571)	(2,029)
Expiring net rents	— \$	22.43 \$	18.07 \$	22.56 \$	24.23 \$	24.49 \$	21.56
Commencements	n/a	651	57	32	30	191	1
Commencements as a percentage of expiries	n/a	74%	8%	4%	3%	33%	0%

n/a – not applicable

OUR RESULTS OF OPERATIONS

Consolidated statement of comprehensive income

(in thousands of Canadian dollars)	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Investment properties revenue	\$ 66,800	\$ 79,022	\$ 285,207	\$ 474,046
Investment properties operating expenses	(31,108)	(37,367)	(130,242)	(212,116)
Net rental income	35,692	41,655	154,965	261,930
Other income				
Share of income from investment in Dream Industrial REIT	12,717	3,409	43,125	9,440
Interest and fee income	255	782	1,674	1,841
	12,972	4,191	44,799	11,281
Other expenses				
General and administrative	(2,973)	(2,556)	(12,476)	(10,644)
Interest:				
Debt	(14,971)	(15,209)	(60,718)	(86,560)
Subsidiary redeemable units	(1,309)	(1,307)	(5,234)	(6,542)
Amortization and write-off of intangible assets and depreciation on property and equipment	(509)	(616)	(2,199)	(6,921)
	(19,762)	(19,688)	(80,627)	(110,667)
Fair value adjustments, leasing, net losses on transactions and debt settlement costs				
Fair value adjustments to investment properties	20,160	78,663	47,533	23,116
Fair value adjustments to financial instruments	11,172	(7,063)	(1,371)	(16,771)
Leasing, net losses on transactions and debt settlement costs	(1,989)	(1,632)	(7,179)	(37,930)
	29,343	69,968	38,983	(31,585)
Income before income taxes	58,245	96,126	158,120	130,959
Current and deferred income taxes recovery (expense), net	244	4,605	(342)	3,827
Net income	58,489	100,731	157,778	134,786
Other comprehensive income (loss)				
Items reclassified to net income:				
Reclassified realized gain on foreign currency translation, net of taxes	—	(5,905)	—	(5,905)
Items that will be reclassified subsequently to net income (loss):				
Unrealized gain on interest rate swaps and other, net of taxes	11	12	46	45
Unrealized gain (loss) on foreign currency translation, net of taxes	1,194	110	1,192	(3,115)
Share of other comprehensive income (loss) from investment in Dream Industrial REIT	1,786	(260)	3,311	(260)
	2,991	(6,043)	4,549	(9,235)
Comprehensive income	\$ 61,480	\$ 94,688	\$ 162,327	\$ 125,551

Net income

For the three months ended December 31, 2018, the Trust generated net income of \$58.5 million, consisting of net rental income of \$35.7 million, fair value adjustments to investment properties of \$20.2 million, share of income from our investment in Dream Industrial REIT of \$12.7 million and fair value adjustments to financial instruments of \$11.2 million, which was offset by interest expense on debt and subsidiary redeemable units of \$16.3 million, general and administrative expenses of \$3.0 million and leasing, net losses on transactions and debt settlement costs of \$2.0 million.

For the year ended December 31, 2018, the Trust generated net income of \$157.8 million, consisting of net rental income of \$155.0 million, share of income from our investment in Dream Industrial REIT of \$43.1 million and fair value adjustments to investment properties of \$47.5 million, which was offset by interest expense on debt and subsidiary redeemable units of \$66.0 million, general and administrative expenses of \$12.5 million, leasing, net losses on transactions and debt settlement costs of \$7.2 million, fair value adjustments to financial instruments of \$1.4 million and cumulative other items of \$0.7 million.

Investment properties revenue

Investment properties revenue includes base rent from investment properties, recovery of operating costs and property taxes from tenants, parking services revenue, the impact of straight-line rent adjustments, lease termination fees and other adjustments as well as fees earned from property management and other service fees, including management, leasing and construction fees. Leasing, construction and 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 was \$66.8 million compared to \$79.0 million in the prior year comparative quarter. For the year ended December 31, 2018, investment properties revenue was \$285.2 million compared to \$474.0 million in the prior year. Overall, the decreases over the prior year comparative periods were primarily driven by dispositions during the current and prior year and lower weighted average in-place occupancies.

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 for the quarter was \$31.1 million compared to \$37.4 million in the prior year comparative quarter. For the year ended December 31, 2018, investment properties operating expenses was \$130.2 million compared to \$212.1 million in the prior year. Overall, the decrease over the prior year comparative periods was mainly driven by dispositions during the current and prior year and lower weighted average in-place occupancies.

Share of income from investment in Dream Industrial REIT

Share of income from our investment in Dream Industrial REIT for the quarter was \$12.7 million, which comprises our share of net income of \$13.7 million, net of an accretion loss of \$1.0 million, compared to our share of net income of \$4.4 million, net of an accretion loss of \$1.0 million in the prior year comparative quarter (for the year ended December 31, 2018 – \$43.1 million, which comprises our share of net income of \$45.1 million, net of an accretion loss of \$2.0 million, compared to our share of net income of \$13.5 million, net of an accretion loss of \$4.1 million in the prior year). The increase year-over-year for the respective periods was primarily driven by higher net rental income and fair value gains to investment properties.

Interest and fee income

Interest and fee income mainly comprises mark-to-market adjustments on marketable securities and interest earned on bank accounts. 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 for the quarter was \$0.3 million, a decrease of \$0.5 million when compared to the prior year comparative quarter. The decrease in interest and fee income was mainly due to dividends in the prior year comparative quarter on marketable securities sold during the year and reduced interest income on cash balances, offset by the interest earned on vendor takeback mortgage receivables in the current period of \$0.4 million.

For the year ended December 31, 2018, interest and fee income was \$1.7 million, a decrease of \$0.2 million when compared to the prior year, due to the same reasons noted above.

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,	
	2018	2017	2018	2017
Salaries and benefits	\$ (1,046)	\$ (320)	\$ (3,693)	\$ (1,521)
Deferred compensation expense	(606)	(621)	(3,415)	(3,128)
Professional services fees	(609)	(312)	(1,702)	(1,265)
Management Services Agreement with Dream Asset Management Corporation (“DAM”)	(154)	(176)	(464)	(830)
Other ⁽¹⁾	(558)	(1,127)	(3,202)	(3,900)
General and administrative expenses	\$ (2,973)	\$ (2,556)	\$ (12,476)	\$ (10,644)

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

General and administrative (“G&A”) expenses for the quarter was \$3.0 million, an increase of \$0.4 million over the prior year comparative quarter, mainly attributable to increases in salaries and benefits and professional services fees, partially offset by a decrease in charges from DAM pursuant to the Management Services Agreement. The increase in salaries and benefits was primarily driven by a realignment of certain teams from leasing to corporate roles and the internalization of the Chief Executive Officer’s (“CEO”) compensation partway during Q1 2018, which have replaced the chargebacks from DAM for the CEO’s compensation through the Management Services Agreement.

For the year ended December 31, 2018, G&A expenses were \$12.5 million, an increase of \$1.8 million over the prior year for the same reasons discussed above along with deferred compensation expense increasing on a year-to-date basis mainly due to units vesting at a higher unit price over the period.

Interest expense – debt

Interest expense on debt for the quarter was \$15.0 million compared to \$15.2 million in the prior year comparative quarter. For the year ended December 31, 2018, interest expense on debt was \$60.7 million compared to \$86.6 million in the prior year comparative period.

Overall, the decreases in interest expense on debt over the prior year comparative periods were mainly due to the discharge of debt related to sold properties, discharge of certain maturing debts (including the 3.424% Series A senior unsecured debentures of the Trust (“Series A Debentures”) during the second quarter of 2018) in the current and prior year and refinancing of maturing debt at lower interest rates during the prior year. This was offset by interest incurred on net drawings of our demand revolving credit facilities to repay the Series A Debentures and to fund the SIB during Q2 2018.

Interest expense – subsidiary redeemable units

Interest expense on subsidiary redeemable units for the quarter was \$1.3 million, flat when compared to the prior year comparative quarter. For the year ended December 31, 2018, interest expense on subsidiary redeemable units was \$5.2 million, a decrease of \$1.3 million over the prior year. The decrease relative to the prior year was due to the reduction in monthly cash distribution from \$0.125 per unit to \$0.08333 per unit, or \$1.00 per unit on an annualized basis, commencing with the month of July 2017 distribution.

Amortization and write-off of intangible assets and depreciation on property and equipment

Amortization and write-off of intangible assets and depreciation on property and equipment expense for the quarter was \$0.5 million, a decrease of \$0.1 million when compared to the prior year comparative quarter (for the year ended December 31, 2018 – \$2.2 million, a decrease of \$4.7 million over the prior year comparative period), primarily driven by the one-time write-off of intangible assets of \$3.9 million related to certain co-owned properties disposed of during the prior year.

Fair value adjustments to investment properties

Refer to the section “Investment Properties” under the heading “Fair value adjustments to investment properties” for a discussion of fair value changes for the three months and year ended December 31, 2018.

Fair value adjustments to financial instruments

Fair value adjustments to financial instruments include remeasurements of the carrying value of subsidiary redeemable units and deferred trust units.

The \$11.2 million fair value gain and \$1.4 million fair value loss recorded during the three months and year ended December 31, 2018, respectively, were mainly due to the remeasurement of the carrying value of subsidiary redeemable units and deferred trust units during the quarter and year as a result of changes in the Trust's unit price over the respective periods.

Leasing, net losses on transactions and debt settlement costs

The following table summarizes the nature of expenses and gains included in leasing, net losses on transactions and debt settlement costs:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Internal leasing costs	\$ (512)	\$ (1,308)	\$ (2,683)	\$ (5,237)
Gain (loss) on sale of investment properties, net ⁽¹⁾	455	(1,665)	(2,347)	(20,057)
Debt settlement costs, net ⁽²⁾	(1,932)	(3,968)	(1,932)	(16,255)
Realized foreign exchange gain on the sale of investment property	—	5,905	—	5,905
Charge on cost reduction program	—	(43)	—	(1,616)
Loss on recognition of net assets related to joint operations	—	—	—	(117)
Other	—	(553)	(217)	(553)
Total	\$ (1,989)	\$ (1,632)	\$ (7,179)	\$ (37,930)

(1) Net gain (loss) on sale of investment properties comprise transaction costs, commissions and other expenses incurred and adjustments in relation to the disposal of investment properties. Included in gain (loss) on sale of investment properties for the three months and year ended December 31, 2018 was a one-time favourable gain of \$1.9 million due to the write-off of net working capital payable related to investment properties disposed of in prior years.

(2) Net debt settlement costs comprise expenses and gains on early discharge of mortgages and the write-off of associated mark-to-market adjustments and deferred financing costs.

For the three months ended December 31, 2018, leasing, net losses on transactions and debt settlement costs was slightly higher than the prior year comparative quarter mainly due to the one-time foreign exchange gain on sale of a U.S. investment property in the prior year, partially offset by lower debt settlement costs and gain (loss) on sale of investment properties as a result of fewer dispositions in the current quarter and savings in internal leasing costs due to the change in roles and responsibilities of certain individuals.

For the year ended December 31, 2018, the decrease in leasing, net losses on transactions and debt settlement costs over the prior year was largely due to the same reasons noted above.

Current and deferred income taxes expense, net

Net current and deferred income taxes recovery for the three months ended December 31, 2018 was \$0.2 million (for the year ended December 31, 2018 – expense of \$0.3 million). The net tax recovery in the current quarter is as a result of timing differences on deductible interest in the Trust's U.S. subsidiary. The net tax expense for the year was primarily due to final tax assessments in Q3 2018 relating to the sale of an investment property in the United States during 2017.

Other comprehensive income

Other comprehensive income comprises amortization of an unrealized gain on an interest rate swap, unrealized foreign currency translation gain related to the investment property located in the United States and the Trust's share of Dream Industrial REIT's other comprehensive income. For the three months and year ended December 31, 2018, other comprehensive income amounted to \$3.0 million and \$4.5 million, respectively. The changes in overall comprehensive income for the respective periods were mainly driven by foreign exchange translation adjustments and the Trust's share of Dream Industrial REIT's other comprehensive income, which was mainly as a result of foreign exchange translation gains on its U.S. investment property.

Related party transactions

From time to time, Dream Office REIT and its subsidiaries enter into transactions with related parties that are generally conducted on a cost recovery basis or under normal commercial terms.

On April 2, 2015, the Trust and DAM entered into a Management Services Agreement pursuant to which DAM provides strategic oversight of the Trust and the services of senior management 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. This agreement gives DAM the right to terminate the agreement upon 180 days' notice (any time after April 2, 2018) and the Trust has the right to terminate the agreement upon 60 days' notice. As no

incentive fee would currently be payable in the case of termination of the agreement, no amounts related to the incentive fee have been recorded in the consolidated financial statements as at December 31, 2018 and December 31, 2017.

On December 1, 2013, Dream Office REIT and DAM entered into a Shared Services Agreement and a Cost Sharing Agreement. Pursuant to the Reorganization, the Trust and DAM amended the existing Shared Services and Cost Sharing Agreements as of April 2, 2015. According to the terms of the amended arrangements, 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. The amended agreements provide for the automatic reappointment of DAM for additional one-year terms commencing on January 1 unless and until terminated in accordance with their terms or by mutual agreement of the parties.

Dream Office Management Corp. (“DOMC”), a wholly owned subsidiary of Dream Office Management LP, and DAM entered into an Administrative Services Agreement on April 2, 2015. Under this Administrative Services Agreement, DOMC provides certain administrative and support services to DAM. The terms of this agreement provide that DOMC will be reimbursed by DAM for the actual costs incurred by it in carrying out these activities on behalf of DAM. This agreement automatically renews 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. As a result of implementing this program, the Trust incurred charges of \$nil and \$1.6 million for the years ended December 31, 2018 and December 31, 2017, which are included in leasing, net losses on transactions and debt settlement costs.

During the year ended December 31, 2018, the Trust, along with DAM, entered into a strategic partnership focused on the property technology market. The Trust and DAM each hold a 25% interest in the partnership, included in equity accounted investment in other non-current assets. As at December 31, 2018, the Trust had funded \$1,541 into the partnership.

The following tables summarize our related party transactions for the three months and years ended December 31, 2018 and December 31, 2017.

Management Services Agreement with DAM

The following is a summary of cost recoveries charged to the Trust by DAM for the three months and years ended December 31, 2018 and December 31, 2017:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Senior management compensation (included in G&A expenses)	\$ (47)	\$ (176)	\$ (357)	\$ (830)
Expense reimbursements related to financing arrangements (included in debt)	(72)	(142)	(333)	(576)
Expense reimbursements related to disposition arrangements (included in gain (loss) on sale of investment properties)	(46)	(138)	(280)	(702)
Professional services and other (included in investment properties and G&A expenses)	(96)	(352)	(1,300)	(848)
Total costs incurred under the Management Services Agreement	\$ (261)	\$ (808)	\$ (2,270)	\$ (2,956)

Partway through Q1 2018, the Trust internalized the CEO’s compensation, which has replaced the chargebacks from DAM for the CEO’s compensation through the Management Services Agreement.

Administrative Services and Shared Services Agreements with DAM

The following is a summary of total costs processed on behalf of DAM and total costs processed by DAM on behalf of the Trust for the years ended December 31, 2018 and December 31, 2017.

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Shared services and costs processed on behalf of DAM	\$ 1,626	\$ 1,668	\$ 6,107	\$ 5,742
Operating and administration costs of regional offices processed on behalf of DAM	64	74	284	287
Total costs processed on behalf of DAM under the Administrative Services Agreement	\$ 1,690	\$ 1,742	\$ 6,391	\$ 6,029
Total costs processed by DAM on behalf of the Trust under the Shared Services Agreement	\$ (367)	\$ (221)	\$ (1,207)	\$ (966)

Services Agreement with Dream Industrial REIT

Effective October 4, 2012, Dream Office Management Corp. and Dream Industrial REIT entered into a Services Agreement, pursuant to which the Trust 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, 2018 and December 31, 2017:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Total cost recoveries from Dream Industrial REIT	\$ 919	\$ 728	\$ 3,304	\$ 2,726

Agreements with Dream Hard Asset Alternatives Trust (“DHAAT”)

DOMC provides property management services to the two co-owned investment properties with DHAAT which are accounted for as joint operations.

Effective July 8, 2014, DOMC and DHAAT entered into a Services Agreement, in which the Trust provides certain services to DHAAT on a cost recovery basis.

The following is a summary of the amounts that were charged to DHAAT for the three months and years ended December 31, 2018 and December 31, 2017:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Amounts charged to DHAAT under the Services Agreement	\$ 103	\$ 64	\$ 330	\$ 257
Costs processed on behalf of DHAAT related to co-owned properties	882	640	3,139	5,106
Total amount charged back to DHAAT⁽¹⁾	\$ 985	\$ 704	\$ 3,469	\$ 5,363

(1) Includes Services Agreement with DHAAT and Property Management Agreements for various co-owned and managed DHAAT properties.

SECTION III

INVESTMENT PROPERTIES

Investment property continuity

Changes in the value of our investment properties by region for the three months ended December 31, 2018 are summarized in the following table:

	Three months ended					
	September 30, 2018 ⁽¹⁾	Assets held for sale/sold properties	Building improvement, initial direct leasing costs and lease incentives ⁽²⁾	Fair value adjustments	Amortization of lease incentives, foreign exchange and other adjustments	December 31, 2018
Calgary	\$ 135,793	\$ —	\$ 1,339	\$ (21,190)	\$ (359)	\$ 115,583
Toronto downtown	1,734,182	—	12,362	53,821	(1,637)	1,798,728
Mississauga and North York	221,466	—	936	(790)	(148)	221,464
Ottawa and Montréal	357,877	—	4,457	(4,408)	(48)	357,878
Other markets	165,375	—	3,127	(2,826)	2,252	167,928
Total comparative portfolio	2,614,693	—	22,221	24,607	60	2,661,581
Add:						
Properties under development	74,844	—	3,970	(4,174)	(55)	74,585
Properties held for future redevelopment	42,663	—	916	(919)	—	42,660
Properties classified as assets held for sale/sold properties	99,080	(99,493)	(43)	646	(190)	—
Total portfolio	\$ 2,831,280	\$ (99,493)	\$ 27,064	\$ 20,160	\$ (185)	\$ 2,778,826
Less: Properties classified as assets held for sale	99,080	(99,493)	(43)	646	(190)	—
Total amounts included in consolidated balance sheets	\$ 2,732,200	\$ —	\$ 27,107	\$ 19,514	\$ 5	\$ 2,778,826

(1) Opening balances have been reclassified to exclude sold properties, properties held for sale and future redevelopment and properties under development during the period.

(2) Includes interest capitalized to properties under development.

Changes in the value of our investment properties by region for the year ended December 31, 2018 are summarized in the following table:

	Year ended					
	January 1, 2018 ⁽¹⁾	Assets held for sale/sold properties	Building improvement, initial direct leasing costs and lease incentives ⁽²⁾	Fair value adjustments	Amortization of lease incentives, foreign exchange and other adjustments	December 31, 2018
Calgary	\$ 135,056	\$ —	\$ 4,750	\$ (22,848)	\$ (1,375)	\$ 115,583
Toronto downtown ⁽³⁾	1,683,817	—	35,670	93,752	(14,511)	1,798,728
Mississauga and North York	216,400	—	5,509	88	(533)	221,464
Ottawa and Montréal	355,687	—	8,308	(5,953)	(164)	357,878
Other markets	169,780	—	10,459	(14,904)	2,593	167,928
Total comparative portfolio	2,560,740	—	64,696	50,135	(13,990)	2,661,581
Add:						
Properties under development	66,193	—	6,985	1,569	(162)	74,585
Properties held for future redevelopment	40,599	—	3,805	(1,748)	4	42,660
Properties classified as assets held for sale/sold properties	303,436	(302,194)	2,990	(2,423)	(1,809)	—
Total portfolio	\$ 2,970,968	\$ (302,194)	\$ 78,476	\$ 47,533	\$ (15,957)	\$ 2,778,826
Less: Properties classified as assets held for sale	51,530	(52,198)	491	574	(397)	—
Total amounts included in consolidated balance sheets	\$ 2,919,438	\$ (249,996)	\$ 77,985	\$ 46,959	\$ (15,560)	\$ 2,778,826

(1) Opening balances have been reclassified to exclude sold properties, properties held for sale and future redevelopment and properties under development during the period.

(2) Includes interest capitalized to properties under development.

(3) Included in fair value and other adjustments within the Toronto downtown region is the impact of a one-time reversal in Q3 2018 of the land transfer tax accrual of \$8.4 million related to past asset acquisitions that are no longer required.

Properties under development

Last quarter, we excluded 357 Bay St. in Toronto downtown and 1900 Sherwood Place in Regina from our comparative portfolio and presented them separately as properties held for future redevelopment as we were in the process of upgrading these properties to better serve our future tenants. During the quarter, we secured two long-term leases at these properties that will require a major revitalization program in the next couple of years to meet tenant requirements in each of the properties. Accordingly, these two properties have met the IFRS criteria for presentation as properties under development within the investment properties note of the consolidated financial statements.

At 357 Bay St. in Toronto downtown, we secured a lease for the entire building with WeWork for approximately 65 thousand square feet commencing in the second half of 2020 for a term of 15 years, with net rental rates starting at \$45 per square foot, with annual rent escalators. The Trust intends to invest approximately \$29 million into the asset over the next two years, which includes a complete reconstruction of the building interior, all associated capital improvements and fit-outs and tenant allowances for fixtures. Upon completion, 357 Bay St. will transform into a best-in-class boutique office building in downtown Toronto. WeWork is a U.S.-based company that operates a global network of real estate solutions and services ranging from flexible, community-oriented workspace for entrepreneurs to more complex global solutions for Fortune 500 companies. WeWork has over 400,000 members spanning 400 locations across 99 cities in 26 countries⁽¹⁾. 357 Bay St. will be the first property that is entirely dedicated to WeWork in Canada and will serve as its headquarter and national flagship location.

(1) Source: WeWork 2018 Economic Impact Report.

At 1900 Sherwood Place in Regina, we secured a lease with the Co-operators for approximately 114 thousand square feet, commencing in the second half of 2021 for a term of 18 years. The building will be renamed as “The Co-operators Place” and serve as a hub for the Co-operators’ life and health insurance operations for over 650 employees. As part of the lease, we will be investing approximately \$26 million in leasing and value-add capital into the property over the next three years, which includes a 13 thousand square foot expansion to the building, adding substantially more parking space, replacing the heating, ventilation and air conditioning system, curtain wall upgrades at the building entrance and exterior and common area updates. These capital initiatives will enhance the overall experience for the new tenant as well as the existing tenants at the building once complete.

The table below summarizes select financial information related to the two properties under development as at December 31, 2018.

(in millions of Canadian dollars)						
Property	Carrying value at time of reclassification	Capital invested to date	Estimated capital remaining	Estimated NOI ⁽¹⁾	Estimated yield on cost and original carrying value	
357 Bay Street, Toronto	\$ 24.1	\$ 1.0	\$ 28	\$ 2.9	5.5%	
1900 Sherwood Place, Regina	42.2	5.6	20	5.4	8.0%	

(1) Does not include contractual annual escalators over the term of the leases.

Properties held for future redevelopment

As at December 31, 2018, we have a 15 acre site at the north-west corner of Eglinton Ave. E. and Birchmount Rd. in Scarborough held for future redevelopment. During the third quarter of 2018, we filed an Official Plan Amendment application, with a view towards redevelopment for mixed use, either in the form of a major overhaul of the property or as a ground up development. At this time, this property does not meet the IFRS criteria for presentation as a separate asset class and, accordingly, has not been reclassified in the consolidated financial statements. However, management anticipates that this property held for future redevelopment will meet the IFRS criteria as the development project advances in subsequent periods.

Valuations of externally appraised properties

For the year ended December 31, 2018, there were 11 investment properties valued by qualified external valuation professionals with a fair value of \$759.9 million representing 27% of the total investment property values, excluding properties classified as assets held for sale (for the year ended December 31, 2017 – 27 investment properties with an aggregate fair value of \$2.2 billion, representing 76% of the total investment property values, excluding properties classified as assets held for sale).

Fair value adjustments to investment properties

For the three months ended December 31, 2018, the Trust recorded a fair value gain of \$20.2 million, mainly driven by fair value gains of \$53.8 million in the Toronto downtown region, reflecting higher stabilized NOI to account for the higher market rent assumptions on select properties due to leasing activity during the quarter. The fair value gains were partially offset by fair value losses in Calgary, Ottawa and Montréal and Other markets arising from the write-off of recurring capital expenditures during the period and higher discount rates used in discounted cash flow model valuations in Calgary.

For the year ended December 31, 2018, the Trust recorded a fair value gain of \$47.5 million, primarily due to the same reasons noted above, as well as a fair value gain of \$1.6 million on our properties under development mainly driven by the favourable terms of the two long-term leases secured during Q3 2018. Fair value gains for the year ended December 31, 2018 were partially offset by fair value losses in Calgary, Ottawa and Montréal and Other markets, primarily due to the same reasons noted above.

Assumptions used in the valuation of investment properties using the capitalization rate method

As at December 31, 2018, the Trust's comparative portfolio, excluding investment properties in Alberta, sold properties, properties held for sale and future redevelopment, properties under development and certain properties where bids were received by the Trust, was valued using the capitalization rate ("cap rate") method. The critical valuation metrics as at December 31, 2018, September 30, 2018 and December 31, 2017 are set out in the table below by region:

	Capitalization rates					
	December 31, 2018 ⁽¹⁾		September 30, 2018 ⁽¹⁾		December 31, 2017 ⁽¹⁾	
	Range (%)	Weighted average (%)	Range (%)	Weighted average (%)	Range (%)	Weighted average (%)
Toronto downtown	4.50–6.00	4.82	4.50–6.00	4.82	4.50–6.00	4.82
Mississauga and North York	5.75–6.25	5.97	5.75–6.25	5.97	5.75–6.25	5.96
Ottawa and Montréal	5.50–6.50	5.60	5.50–6.50	5.60	5.50–6.50	5.60
Other markets	6.00–8.00	7.65	6.00–8.00	7.64	6.00–8.00	7.62
Total comparative portfolio (excluding Alberta)	4.50–8.00	5.19	4.50–8.00	5.19	4.50–8.00	5.19

(1) Excludes certain properties where bids were received by the Trust, sold properties, properties held for future redevelopment and properties under development in the current period.

Assumptions used in the valuation of investment properties using the discounted cash flow method

As at December 31, 2018, the Trust continues to value its investment properties in Alberta, excluding sold properties, properties held for sale and certain properties where bids were received by the Trust and assets held for sale, using the discounted cash flow method in light of the ongoing challenges in that region's office sector. The critical valuation metrics as at December 31, 2018, September 30, 2018 and December 31, 2017 are set out below:

	December 31, 2018 ⁽¹⁾		September 30, 2018 ⁽¹⁾		December 31, 2017 ⁽¹⁾	
	Range	Weighted average	Range	Weighted average	Range	Weighted average
	Discount rates (%)	8.00–8.75	8.05	7.63–8.75	7.82	7.63–8.75
Terminal cap rates (%)	7.00–8.25	7.13	6.63–8.25	6.89	6.63–8.25	6.88
Market rents ⁽²⁾	\$12.00–16.50	\$ 15.33	\$12.00–16.50	\$ 15.35	\$12.00–16.50	\$ 15.36

(1) Excludes certain properties where bids were received by the Trust and sold properties in the current period.

(2) 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, leasing cost assumptions for new and renewed leasing were within the range of \$25.00 to \$60.00 per square foot, with weighted average stabilized vacancy rate assumptions of 5%.

Building improvements

Building improvements represent investments made to our investment properties to ensure optimal building performance, to improve the experience of 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 of 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, 2018 and December 31, 2017.

Building improvements	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Recoverable	\$ 3,954	\$ 4,446	\$ 11,647	\$ 16,199
Value-add	1,853	846	4,253	1,357
Non-recoverable	339	577	760	1,198
Total comparative portfolio⁽¹⁾	6,146	5,869	16,660	18,754
Add:				
Properties under development	3,229	42	3,787	174
Interest capitalized to properties under development	24	—	24	—
Properties held for future redevelopment	146	—	931	100
Properties classified as assets held for sale/sold properties	—	202	272	8,641
Total portfolio	\$ 9,545	\$ 6,113	\$ 21,674	\$ 27,669
Less: Properties classified as assets held for sale	—	—	60	3,162
Total amounts included in consolidated financial statements	\$ 9,545	\$ 6,113	\$ 21,614	\$ 24,507

(1) Excludes sold properties, properties held for future redevelopment and properties under development during the period.

For the three months and year ended December 31, 2018, we incurred \$9.5 million and \$21.7 million, respectively, in expenditures 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, 2018 were \$4.0 million and \$11.6 million, respectively, and included safety enhancements, heating, ventilation and air conditioning upgrades, elevator modernization and recoverable lobby and common area upgrades.

For the three months and year ended December 31, 2018, value-add additions were \$1.9 million and \$4.3 million, respectively, the majority of which were invested in pre-development and value enhancing capital at certain properties located in the Toronto downtown region.

For the three months and year ended December 31, 2018, non-recoverable building improvements were \$0.3 million and \$0.8 million, respectively, which include costs for structural and building enhancements.

Dispositions update

For the year ended December 31, 2018, the Trust completed the sale of investment properties totalling approximately 1.7 million square feet, for gross proceeds (net of adjustments) totalling \$302.2 million.

Date disposed	Property	Ownership (%)	Disposed share of GLA (000s sq. ft.)	Sales price ⁽¹⁾	Debt related to dispositions
January 3, 2018	Morgex Building, Edmonton	100.0%	53		
January 18, 2018	340–450 3rd Avenue N., Saskatoon	100.0%	132		
February 1, 2018	2891 Sunridge Way, Calgary	100.0%	87		
February 7, 2018	1914 Hamilton Street, Regina	100.0%	82		
April 10, 2018	F1RST Tower, Calgary	50.0%	354		
August 31, 2018	IBM Corporate Park, Calgary	100.0%	358		
November 14, 2018	Life Plaza and Joffre Place, Calgary	100.0%	344		
November 22, 2018	Rocky Mountain Plaza, Calgary	100.0%	205		
December 27, 2018	14505 Bannister Road, SE, Calgary	100.0%	61		
Total dispositions for the year ended December 31, 2018			1,676	\$ 302,194	\$ (90,697)

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

For the three months ended December 31, 2018, the Trust sold four properties in Calgary for \$99.5 million or approximately \$163 per square foot. For the year ended December 31, 2018, the Trust sold ten properties located in Alberta and Saskatchewan totalling \$302.2 million or approximately \$180 per square foot.

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”.

	December 31, 2018	December 31, 2017
Investment in Dream Industrial REIT	\$ 266,583	\$ 220,796
Dream Industrial REIT Units held, end of year	7,200,736	5,431,141
Dream Industrial LP Class B limited partnership units held, end of year	18,551,855	18,551,855
Total Dream Industrial REIT units held, end of year	25,752,591	23,982,996
Ownership %, end of year	23.3%	25.6%

On June 29, 2018, Dream Industrial REIT completed an equity offering of 13.9 million units of Dream Industrial REIT (“Dream Industrial REIT Units”) at a price of \$10.35 per unit for gross proceeds of \$144.0 million, including 1.8 million Dream Industrial REIT Units issued pursuant to the exercise of the over-allotment option granted to the underwriters, to fund acquisitions, partially fund the redemption of its outstanding 5.25% convertible debentures and for general trust purposes.

On February 13, 2019, Dream Industrial REIT completed a public offering of 13.8 million Dream Industrial REIT Units at a price of \$10.45 per unit for gross proceeds of \$144.2 million, including 1.8 million Dream Industrial REIT Units issued pursuant to the exercise of the over-allotment option granted to the underwriters. The net proceeds are to be used to partially fund the acquisition of a portfolio of 21 industrial properties located in the United States.

For the three months and year ended December 31, 2018, the Trust purchased Dream Industrial REIT Units through its distribution reinvestment plan totalling 468,373 and 1,769,595 Dream Industrial REIT Units, respectively, for a total cost of \$4.6 million and \$17.3 million, respectively. The Trust’s ownership was 23.3% at December 31, 2018, 23.0% at September 30, 2018 and 25.6% at December 31, 2017. The marginal increase in the Trust’s ownership over the prior quarter was mainly driven by our participation in Dream Industrial REIT’s distribution reinvestment plan, and the decreases when compared to December 31, 2017 were primarily as a result of an equity offering by Dream Industrial REIT during the second quarter of 2018 as well as Dream Industrial REIT’s deferred unit incentive plan and unit purchase plan, which collectively diluted our ownership, partially offset by our participation in Dream Industrial REIT’s distribution reinvestment plan.

The fair value of the Trust’s interest in Dream Industrial REIT of \$245.2 million (December 31, 2017 – \$211.1 million) was determined using the Dream Industrial REIT closing unit price of \$9.52 per unit at period-end multiplied by the number of units held by the Trust as at December 31, 2018.

OUR FINANCING

Our discussion of financing activities is based on the debt balance, which includes 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.

Debt summary

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

	December 31, 2018	September 30, 2018	December 31, 2017
Financing and liquidity metrics			
Weighted average face rate of interest on debt (period-end) ⁽¹⁾	4.06%	3.94%	3.90%
Interest coverage ratio (times) ⁽²⁾⁽³⁾	2.8	2.8	3.2
Net total debt-to-adjusted EBITDAFV (years) ⁽²⁾	9.0	9.1	7.1
Level of debt (net total debt-to-net total assets) ⁽²⁾	45.0%	46.2%	39.6%
Level of debt (net secured debt-to-net total assets) ⁽²⁾	40.2%	41.4%	30.6%
Average term to maturity on debt (years)	3.8	4.0	4.5
Variable rate debt as percentage of total debt	26.3%	25.3%	8.3%
Unencumbered assets ⁽⁴⁾	\$ 140,000	\$ 140,000	\$ 299,000
Available liquidity ⁽²⁾			
Cash and cash equivalents	\$ 8,769	\$ 12,309	\$ 96,960
Undrawn demand revolving credit facilities	155,139	220,517	396,667
Available liquidity	\$ 163,908	\$ 232,826	\$ 493,627

(1) Weighted average face rate of interest on debt is calculated as the weighted average face rate of all interest bearing debt balances.

(2) The calculation of the following non-GAAP measures – interest coverage ratio, net total debt-to-adjusted EBITDAFV, level of debt (net total debt-to-net total assets), level of debt (net secured debt-to-net total assets) and available liquidity – are included in the “Non-GAAP Measures and Other Disclosures” section of the MD&A.

(3) Interest coverage ratio has been restated in the December 31, 2017 comparative periods to conform to current period presentation. For further details, please refer to the “Non-GAAP Measures and Other Disclosures” section under the heading “Interest coverage ratio”.

(4) Unencumbered assets (non-GAAP measure) is defined in the section “Non-GAAP Measures and Other Disclosures” under the heading “Unencumbered assets”.

We ended the quarter with a net total debt-to-net total assets ratio of 45.0%, net total debt-to-adjusted EBITDAFV of 9.0 years, and interest coverage ratio of 2.8 times. Our available liquidity of approximately \$164 million comprises undrawn demand revolving credit facilities totalling approximately \$155 million and \$9 million of cash and cash equivalents on hand as at December 31, 2018. The overall net total debt-to-net total assets ratio has declined 120 bps from 46.2% in Q3 2018 to 45.0% this quarter, mainly driven by a reduction in our drawings on our credit facilities with net proceeds from dispositions.

As at December 31, 2018, variable rate debt as a percentage of total debt was 26.3%. On January 2, 2019, the Trust completed a portfolio mortgage totalling \$105 million. The net proceeds were partially used to pay down drawings on the Trust’s demand revolving credit facilities, reducing our variable rate debt percentage of total debt to 22.9%. We expect leverage and the variable rate debt as a percentage of total debt to further decline using net proceeds from future asset sales.

Liquidity and capital resources

Dream Office REIT’s primary sources of capital are cash generated from operating activities, net proceeds from investment property dispositions, demand revolving credit facilities, and mortgage financing and refinancing. 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, interest payments and repurchases of REIT A Units. We expect to meet all of our ongoing obligations with current cash and cash equivalents on hand, cash flows generated from operations, net proceeds from investment property dispositions, demand revolving credit facilities and conventional mortgage refinancing.

In our consolidated financial statements as at December 31, 2018, our current liabilities exceeded our current assets by \$131.0 million. Typically, real estate entities seek to address liquidity needs by having a balanced debt maturity schedule and undrawn demand revolving credit facilities. We are able to use our demand revolving 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 (including debt related to assets held for sale) that are due within one year include debt maturities of \$91.6 million, 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 and capital expenditures incurred, as well as the impact of transaction costs incurred on dispositions completed during the reporting period.

We continue to maintain high levels of liquidity for capital expenditures to improve the value of our portfolio.

Financing activities during the quarter and year

For the three months and year ended December 31, 2018, the Trust discharged \$50.7 million and \$99.9 million, respectively, of mortgage debt. The Trust did not enter into any new mortgages for the three months and year ended December 31, 2018. On June 13, 2018, the Trust repaid its Series A Debentures with an aggregate principal amount of \$140.8 million.

On January 2, 2019, the Trust completed a portfolio mortgage totalling \$105 million, secured by five investment properties in Toronto, Ontario. The portfolio mortgage is interest-only and bears interest at 3.96%, compounded semi-annually, and matures on January 2, 2029. The net proceeds were used to make lump sum repayments on five mortgages prior to their original maturity dates totalling \$56.6 million, and the balance of the net proceeds were used to pay down drawings on the Trust's demand revolving credit facilities. During the three months ended December 31, 2018, the Trust accrued \$0.8 million of debt settlement costs once it was committed to the refinancing.

Demand revolving credit facilities

Refer to Note 11 of the consolidated financial statements for details of our demand revolving credit facilities as at December 31, 2018.

On December 21, 2018, the Trust reduced its existing demand revolving credit facility to \$500 million from \$575 million. The Trust had previously increased the facility from \$400 million to \$575 million and extended the maturity to March 1, 2021 on April 25, 2018. The interest rate remained in the form of rolling one-month bankers' acceptances ("BA") bearing interest at the BA rate plus 170 bps or at the bank's prime rate plus 70 bps. As at December 31, 2018, the amended demand revolving credit facility is secured by seven of the Trust's investment properties and the Trust's 18,551,855 Dream Industrial LP Class B limited partnership units. As at December 31, 2018, the amount available under the \$500 million facility was \$432.3 million less \$287.5 million in drawings and \$2.5 million in the form of letters of credit.

On May 4, 2018, the Trust reduced its existing demand revolving credit facility from \$45 million to \$20 million and extended the maturity date to March 31, 2021. The interest rate remained in the form of rolling BAs bearing interest at the BA rate plus 200 bps or at the bank's prime rate plus 85 bps. The amended demand revolving credit facility is secured by 4,800,587 of the Trust's Dream Industrial REIT Units. As at December 31, 2018, the amount available under the \$20 million facility was \$20.0 million less \$7.2 million in drawings.

Continuity of debt

Refer to Note 11 of the consolidated financial statements for details of the changes in our debt balances for the year ended December 31, 2018.

Debt maturity profile

Our current debt profile is balanced with staggered maturities over the next nine years. The following table summarizes our debt maturity profile as at December 31, 2018:

	Mortgages		Demand revolving credit facilities		Debentures		Total	
	Outstanding balance due at maturity	Weighted average interest rate	Outstanding balance due at maturity	Weighted average interest rate	Outstanding balance due at maturity	Weighted average interest rate	Outstanding balance due at maturity	Weighted average interest rate
Debt maturities								
2019	\$ 72,991	4.08%	\$ —	—	\$ —	—	\$ 72,991	4.08%
2020	21,170	4.44%	—	—	150,000	4.07%	171,170	4.12%
2021	111,555	5.10%	—	—	—	—	111,555	5.10%
2022	184,014	4.14%	—	—	—	—	184,014	4.14%
2023	109,951	4.47%	—	—	—	—	109,951	4.47%
2024–2027	333,563	3.60%	—	—	—	—	333,563	3.60%
Subtotal before undernoted items	\$ 833,244	4.10%	\$ —	—	\$ 150,000	4.07%	\$ 983,244	4.09%
Demand revolving credit facilities (2021)	—	—	294,702	3.99%	—	—	294,702	3.99%
Scheduled principal repayments on non-matured debt	134,182	—	—	—	—	—	134,182	—
Subtotal before undernoted items	\$ 967,426	4.08%	\$ 294,702	3.99%	\$ 150,000	4.07%	\$ 1,412,128	4.06%
Financing costs	(3,463)		(3,016)		(231)		(6,710)	
Fair value adjustments	795		—		—		795	
Debt per consolidated financial statements	\$ 964,758	4.15%	\$ 291,686	4.41%	\$ 149,769	4.25%	\$ 1,406,213	4.21%

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 the Trust as at December 31, 2018.

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 \$11.7 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 at December 31, 2018.

At December 31, 2018, Dream Office REIT's future minimum commitments under operating leases and fixed price contracts to purchase steam are as follows:

	Minimum payments due			
	Within 1 year	1–5 years	> 5 years	Total
Operating lease payments	\$ 2,688	\$ 4,759	\$ 9,412	\$ 16,859
Fixed price contracts	151	604	1,815	2,570
Total	\$ 2,839	\$ 5,363	\$ 11,227	\$ 19,429

Operating leases include a ground lease at one investment property totalling \$4.3 million, payable in equal annual amounts over the next 27 years.

The Trust has entered into lease agreements that may require tenant improvement costs of approximately \$1.4 million (December 31, 2017 – \$14.4 million).

The Trust has committed US\$6.1 million to fund investments in real estate technologies.

The Trust is contingently liable under guarantees that are issued on certain debt assumed by purchasers of investment properties totalling \$148.7 million (December 31, 2017 – \$173.2 million) with a weighted average term to maturity of 4.0 years.

OUR EQUITY

Total 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, 2018		Unitholders' equity December 31, 2017	
	Number of Units	Amount	Number of Units	Amount
Unitholders' equity	59,369,278	\$ 2,124,760	73,705,285	\$ 2,462,611
Deficit	—	(634,513)	—	(728,934)
Accumulated other comprehensive income	—	6,495	—	1,946
Equity per consolidated financial statements	59,369,278	1,496,742	73,705,285	1,735,623
Add: LP B Units	5,233,823	116,662	5,233,823	115,981
Total equity (including LP B Units)⁽¹⁾	64,603,101	\$ 1,613,404	78,939,108	\$ 1,851,604
Net asset value ("NAV") per unit ⁽²⁾		\$ 24.97		\$ 23.46

(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 or subsidiary redeemable units)".

(2) NAV per unit (non-GAAP measure) is defined in this section under the heading "NAV per unit" and in the section "Non-GAAP Measures and Other Disclosures" under the heading "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, 2018, DAM held 9,284,938 REIT A Units and 5,233,823 LP B Units for a total ownership interest of approximately 22.5%.

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.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”, the table below reconciles the major components of NAV per unit to total equity (as per consolidated financial statements).

	Total	Per unit	GLA (in millions of sq. ft.)	Occupancy – in-place and committed (%)	WALT (years)
Investment properties					
Calgary	\$ 115,583	\$ 1.79	0.5	88.8%	6.8
Toronto downtown	1,798,728	27.84	3.4	97.8%	5.0
Mississauga and North York	221,464	3.43	0.6	94.7%	4.6
Ottawa and Montréal	357,878	5.54	1.1	91.1%	5.7
Other markets	167,928	2.60	1.0	80.6%	4.7
Total comparative portfolio investment properties	2,661,581	41.20	6.6	93.0%	5.2
Mortgages	(933,864)	(14.46)			
Total comparative portfolio investment properties, net of mortgages	1,727,717	26.74			
Properties under development, net of mortgages	43,691	0.68			
Properties held for future redevelopment	42,660	0.66			
Investment in Dream Industrial REIT	266,583	4.13			
Unsecured debentures	(149,769)	(2.32)			
Demand revolving credit facilities	(291,686)	(4.52)			
Other items	(25,792)	(0.40)			
Net asset value	\$ 1,613,404	\$ 24.97			
Less: LP B Units	116,662				
Total equity per consolidated financial statements	\$ 1,496,742				

Outstanding equity

The following table summarizes the changes in our outstanding equity:

For the three months ended December 31, 2018	REIT A Units	LP B Units	Total
Total units issued and outstanding at October 1, 2018	60,037,435	5,233,823	65,271,258
Percentage of all units	92.0%	8.0%	100.0%
Cancellation of REIT A Units under NCIB	(668,157)	—	(668,157)
Total units issued and outstanding at December 31, 2018	59,369,278	5,233,823	64,603,101
Percentage of all units	91.9%	8.1%	100.0%

For the year ended December 31, 2018	REIT A Units	LP B Units	Total
Total units issued and outstanding at January 1, 2018	73,705,285	5,233,823	78,939,108
REIT A Units issued pursuant to Deferred Unit Incentive Plan (“DUIP”)	139,657	—	139,657
Cancellation of REIT A Units under NCIB	(4,475,664)	—	(4,475,664)
Cancellation of REIT A Units under SIB	(10,000,000)	—	(10,000,000)
Total units issued and outstanding at December 31, 2018	59,369,278	5,233,823	64,603,101
Percentage of all units	91.9%	8.1%	100.0%

Subsequent to quarter-end, the Trust purchased for cancellation an additional 381,313 REIT A Units under the NCIB at a cost of approximately \$8.5 million or \$22.20 per unit.

As at December 31, 2018, there were 903,571 deferred trust units and income deferred trust units outstanding (December 31, 2017 – 889,301) under the Trust’s DUIP.

Normal course issuer bid (“NCIB”)

On February 13, 2018, the NCIB covering the period from August 15, 2017 to August 14, 2018 expired as the Trust purchased the maximum number of REIT A Units permitted under this NCIB. On August 15, 2018, the Toronto Stock Exchange accepted a notice filed by the Trust to renew its prior normal course issuer bid for a one-year period. Under the bid, the Trust will have the ability to purchase for cancellation up to a maximum of 4,954,869 of its REIT A Units (representing 10% of the Trust’s public float of 49,548,697 REIT A Units) through the facilities of the Toronto Stock Exchange. The renewed bid commenced on August 17, 2018 and will remain in effect until the earlier of August 16, 2019 or the date on which the Trust has purchased the maximum number of REIT A Units permitted under the bid. Daily purchases will be limited to 48,257 REIT A Units, which equals 25% of the average daily trading volume during the prior six calendar months (being 193,028 REIT A Units per day), other than purchases pursuant to applicable block purchase exceptions.

On October 23, 2018, the Trust entered into an automatic securities repurchase plan (the “Repurchase Plan”) with its designated broker in order to facilitate purchases of its REIT A Units under the NCIB. The Repurchase Plan allows for purchases by Dream Office REIT of REIT A Units at any time including, without limitation, when the Trust would ordinarily not be permitted to make purchases due to regulatory restrictions or self-imposed blackout periods. Purchases will be made by the Trust’s broker based upon the parameters prescribed by the TSX and the terms of the parties’ written agreement. Outside of such restricted or blackout periods, the REIT A Units may also be purchased in accordance with management’s discretion. The Repurchase Plan will terminate on August 16, 2019.

For the three months and year ended December 31, 2018, the Trust purchased for cancellation 668,157 REIT A Units and 4,475,664 REIT A Units, respectively, under the NCIB, at a cost of approximately \$15.7 million and \$100.7 million, respectively (December 31, 2017 – 10,348,734 REIT A Units cancelled for \$209.2 million).

Subsequent to quarter-end, the Trust purchased for cancellation an additional 381,313 REIT A Units under the NCIB at a cost of approximately \$8.5 million or \$22.20 per unit.

Substantial issuer bid (“SIB”)

On March 22, 2018, the Trust announced the offer to purchase for cancellation up to 10,000,000 of its outstanding REIT A Units at a purchase price of \$24.00 per REIT A Unit.

On May 7, 2018, the Trust took up and paid for 10,000,000 REIT A Units at a price of \$24.00 per REIT A Unit for an aggregate cost of \$240 million, excluding fees and expenses relating to the SIB. The REIT A Units purchased for cancellation under the SIB represented approximately 14% of the issued and outstanding REIT A Units and 13% of all outstanding units immediately prior to the expiry of the SIB.

Weighted average number of units

The diluted 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, vested and unvested deferred trust units and the associated income deferred trust units.

Weighted average number of units (in thousands)	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Diluted	65,839	80,943	69,775	97,531

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.

On June 22, 2017, the Trust announced a revision to its monthly cash distribution from \$0.125 per unit to \$0.08333 per unit, or \$1.00 per unit on an annualized basis, commencing with the July 2017 distribution in order to maintain a conservative payout ratio relative to FFO, resulting in higher levels of liquidity for capital expenditures to improve the value of our portfolio.

For the three months and year ended December 31, 2018, total distributions amounted to \$16.2 million and \$68.6 million, respectively, with a decrease of \$3.7 million over the prior year comparative quarter and a decrease of \$53.8 million over the prior year. The decrease mainly reflects the cancellation of REIT A Units under the NCIB and SIB in the current and prior year and to a lesser extent the reduction in the monthly cash distribution from \$0.125 per unit to \$0.08333 per unit, or \$1.00 per unit on an annualized basis, commencing with the month of July 2017 distribution.

Cash flows from operating activities and distributions declared

The Trust anticipates that future cash flows generated from (utilized in) operating activities may be less than total distributions (non-GAAP measure). With a conservative balance sheet, significant liquidity and a plan to stabilize our portfolio's operating performance in the foreseeable future, the Trust does not anticipate cash distributions will be suspended.

To the extent that there are shortfalls in cash flows generated from (utilized in) operating activities when compared to total distributions (non-GAAP measure), the Trust will fund the shortfalls with cash and cash equivalents on hand and with our existing demand revolving credit facilities. The use of the demand revolving credit facilities may involve risks compared with using cash and cash equivalents on hand as a source of funding, such as the risk that interest rates may rise in the future which may make it more expensive for the Trust to borrow under the demand revolving credit facilities, and the risk associated with increasing the overall indebtedness of the Trust. In the event that shortfalls exist, the Trust does not anticipate cash distributions will be suspended in the foreseeable future but does expect that there could be timing differences as a result of our disposition program and our intensification and redevelopment plans on certain assets within our portfolio. Accordingly, to the extent there are shortfalls, distributions may be considered an economic return of capital. The Trust determines the distribution rate by, among other considerations, its assessment of cash flows generated from (utilized in) operating activities. In light of the fact that the Trust is substantially through its disposition program and expects cash flows from operating activities to be lower as a result, the Trust reduced its monthly cash distribution from \$0.125 per unit to \$0.08333 per unit, or \$1.00 per unit on an annualized basis, commencing with the July 2017 distribution. Management reviews the estimated annual distributable cash flows with the Board of Trustees periodically to assist the Board in determining the targeted distribution rate.

In any given period, the Trust anticipates that net income will continue to vary from total distributions (non-GAAP measure) as net income includes non-cash items such as fair value adjustments to investment properties and financial instruments and costs related to our disposition program such as debt settlement costs and gain (loss) on sale of investment properties. Accordingly, the Trust does not use net income as a proxy for determining distributions.

In any given period, actual cash flows generated from (utilized in) operating activities may differ from total distributions (non-GAAP measure), primarily due to 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 demand revolving credit facilities.

The following table summarizes net income, cash flows generated from (utilized in) operating activities (included in consolidated financial statements) and total distributions (non-GAAP measure) for the three months and year ended December 31, 2018 and December 31, 2017:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Net income for the period	\$ 58,489	\$ 100,731	\$ 157,778	\$ 134,786
Cash flows generated from (utilized in) operating activities (included in consolidated financial statements) for the period	1,048	10,177	46,529	79,820
Total distributions ⁽¹⁾ for the period	\$ 16,207	\$ 19,927	\$ 68,591	\$ 122,422

(1) Total distributions (non-GAAP measure) is defined in the section "Non-GAAP Measures and Other Disclosures" under the heading "Total distributions paid and payable".

As required by National Policy 41-201, “Income Trusts and Other Indirect Offerings”, the following table outlines the difference between net income and total distributions, as well as the difference between cash flows generated from (utilized in) operating activities (included in consolidated financial statements) and total distributions, in accordance with the guidelines.

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Excess of net income over total distributions ⁽¹⁾	\$ 42,282	\$ 80,804	\$ 89,187	\$ 12,364
Shortfall of cash flows generated from (utilized in) operating activities (included in consolidated financial statements) over total distributions ⁽¹⁾	(15,159)	(9,750)	(22,062)	(42,602)

(1) Total distributions (non-GAAP measure) is defined in the section “Non-GAAP Measures and Other Disclosures” under the heading “Total distributions paid and payable”.

For the three months and year ended December 31, 2018, net income exceeded total distributions by \$42.3 million and \$89.2 million, respectively, primarily as a result of non-cash items such as fair value adjustments to investment properties and financial instruments and the pick-up of our share of income from investment in Dream Industrial REIT during the respective periods. For the three months and year ended December 31, 2017, net income exceeded total distributions by \$80.8 million and \$12.4 million, respectively, primarily as a result of fair value adjustments to investment properties.

For the three months and year ended December 31, 2018, total distributions exceeded cash flows generated from (utilized in) operating activities (included in consolidated financial statements) by \$15.2 million and \$22.1 million, respectively. The shortfall of cash flows generated from (utilized in) operating activities (included in consolidated financial statements) over total distributions is due to 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. For the three months and year ended December 31, 2017, total distributions exceeded cash flows generated from (utilized in) operating activities (included in consolidated financial statements) by \$9.8 million and \$42.6 million, respectively, for the same reasons noted in the current year. Furthermore, for the three months and year ended December 31, 2018, the Trust received monthly distributions from its investment in Dream Industrial REIT totalling \$4.6 million and \$17.9 million, respectively (for the three months and year ended December 31, 2017 – \$3.8 million and \$14.6 million, respectively), which the Trust has currently elected to reinvest through Dream Industrial REIT’s distribution reinvestment plan. Had the Trust not reinvested the distributions received from Dream Industrial REIT, management is of the view such distributions could be used to partially fund any shortfalls of cash flows generated from (utilized in) operating activities (included in consolidated financial statements) over total distributions, even though distributions received from Dream Industrial REIT would be included as part of cash flows generated from (utilized in) investing activities in the consolidated financial statements. Additionally, the Trust has included distributions received from Dream Industrial REIT as part of its calculation of EBITDAFV (a non-GAAP measurement), consistent with management’s view of the characterization of such cash flows as operating in nature as opposed to investing activities.

SELECTED ANNUAL INFORMATION

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

	2018	2017	2016
Investment properties revenue	\$ 285,207	\$ 474,046	\$ 667,994
Net income (loss)	157,778	134,786	(879,705)
Total assets	3,122,931	3,321,983	5,486,516
Non-current debt	1,314,646	1,160,689	2,321,530
Total debt	1,406,213	1,367,650	2,649,790
Total distributions	68,591	122,422	177,633
Distribution rate (per unit)	\$ 1.00	\$ 1.25 ⁽¹⁾	\$ 1.56 ⁽²⁾
Units outstanding:			
REIT Units, Series A	59,369,278	73,705,285	104,806,724
LP Class B Units, Series 1	5,233,823	5,233,823	5,233,823

(1) The Trust announced on June 22, 2017 a reduction to its monthly cash distribution from \$0.125 per unit to \$0.08333 per unit, or \$1.00 per unit on an annualized basis, commencing with the month of July 2017 distribution.

(2) 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, commencing with the month of February 2016 distribution.

SECTION IV

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.

Available liquidity

Available liquidity is defined as the sum of cash and cash equivalents and undrawn demand revolving credit facilities at period-end. Management believes that available liquidity, a non-GAAP measurement, is an important measure in determining our resources available to meet all of our ongoing obligations. This non-GAAP measure 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", available liquidity has been reconciled to cash and cash equivalents in the table below:

	As at		
	December 31, 2018	September 30, 2018	December 31, 2017
Cash and cash equivalents (per consolidated financial statements)	\$ 8,769	\$ 12,309	\$ 96,960
Undrawn demand revolving credit facilities (per consolidated financial statements)	155,139	220,517	396,667
Available liquidity	\$ 163,908	\$ 232,826	\$ 493,627

Total equity (including LP B Units or subsidiary redeemable 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 (LP B) 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" under the heading "Total equity" reconciles total equity (including LP B Units) to equity (as per consolidated financial statements).

Total distributions paid and payable

Total distributions paid and payable is calculated as the sum of the distributions paid and payable on REIT A Units and subsidiary redeemable units (LP B Units) interest expense per consolidated financial statements. Because management considers the subsidiary redeemable units to be a component of the Trust's equity, management considers the interest paid on the subsidiary redeemable units to be a component of total distributions paid to unitholders. However, total distributions paid and payable 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", total distributions paid and payable has been reconciled to total distributions paid and payable on REIT A Units (included in consolidated financial statements) in the table below:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Total distributions paid and payable on REIT A Units (included in consolidated financial statements)	\$ 14,898	\$ 18,620	\$ 63,357	\$ 115,880
Add: interest on subsidiary redeemable units (included in consolidated financial statements)	1,309	1,307	5,234	6,542
Total distributions paid and payable	\$ 16,207	\$ 19,927	\$ 68,591	\$ 122,422

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.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", the table within the section "Our Equity" under the heading "NAV per unit" reconciles NAV per unit to equity (as per consolidated financial statements).

Unencumbered assets

Unencumbered assets is the value of investment properties, not including properties held for sale, which have not been pledged as collateral for the Trust's demand revolving credit facilities or mortgages. This non-GAAP measurement is used by management in assessing the borrowing capacity available to 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 (including diluted FFO per unit) 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 flows generated from (utilized in) operating activities, as defined by IFRS, and is not necessarily indicative of cash available to fund Dream Office REIT's needs.

In February 2018, REALPAC issued a white paper on Funds From Operations and Adjusted Funds from Operations for IFRS. The Trust has reviewed the REALPAC FFO white paper guidelines and its determination of FFO is substantially aligned with the REALPAC FFO white paper guidelines with the exception of the treatment of debt settlement costs due to disposals of investment properties. These debt settlement costs are primarily funded from net proceeds from dispositions and not from cash flows from operating activities. Thus, the Trust is of the view that debt settlement costs due to disposals of investment properties should not be included in the determination of FFO.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”, FFO has been reconciled to net income in the table below:

	Three months ended			Year ended	
	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Net income for the period	\$ 58,489	\$ 41,382	\$ 100,731	\$ 157,778	\$ 134,786
Add (deduct):					
Share of income from investment in Dream Industrial REIT	(12,717)	(5,599)	(3,409)	(43,125)	(9,440)
Share of FFO from investment in Dream Industrial REIT ⁽¹⁾	5,572	4,217	5,063	21,467	18,765
Depreciation, amortization and write-off of intangible assets	3,477	3,717	3,344	13,966	21,509
Loss (gain) on sale of investment properties	(455)	919	1,665	2,347	20,057
Interest expense on subsidiary redeemable units	1,309	1,308	1,307	5,234	6,542
Fair value adjustments to investment properties	(20,160)	(24,823)	(78,663)	(47,533)	(23,116)
Fair value adjustments to financial instruments and DUIP included in G&A expenses	(11,066)	4,493	7,075	1,656	16,673
Debt settlement costs due to disposals of investment properties, net	1,070	—	3,968	1,070	16,255
Internal leasing costs	512	630	1,308	2,683	5,237
Deferred income taxes expense (recovery)	(288)	(276)	(8,728)	(452)	(7,950)
Taxes attributable to dispositions	—	625	4,369	625	4,369
Foreign exchange gain attributable to dispositions	—	—	(5,717)	—	(5,905)
Loss on recognition of net assets related to joint operations	—	—	—	—	117
Other	(7)	95	(78)	80	(30)
FFO	\$ 25,736	\$ 26,688	\$ 32,235	\$ 115,796	\$ 197,869
FFO per unit – diluted ⁽²⁾	\$ 0.39	\$ 0.40	\$ 0.40	\$ 1.66	\$ 2.03

(1) Included in the Q3 2018 FFO was a \$(1.0) million one-time true-up adjustment to our share of FFO from investment in Dream Industrial REIT. Excluding the adjustment, our share of FFO from investment in Dream Industrial REIT for Q3 2018 was \$5.2 million.

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

Comparative properties NOI

Comparative properties NOI includes the net rental income of the same properties owned by the Trust in (i) the current and prior year comparative periods and (ii) the current and prior quarter, and excludes: external property management and lease termination fees; one-time property adjustments, if any; bad debt expenses; NOI of sold properties, properties held for sale and properties held for future redevelopment; straight-line rent; amortization of lease incentives; and property management and other service fees. 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 periods and prior quarter as presented. This non-GAAP measure 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”, comparative properties NOI for the respective periods have been reconciled to net rental income in the table below:

	Three months ended			Year ended	
	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Net rental income (included in consolidated financial statements)	\$ 35,692	\$ 37,365	\$ 41,655	\$ 154,965	\$ 261,930
Less: Property management and other service fees	665	548	282	1,703	4,271
Less: Lease termination fees and other	45	180	(127)	5,870	5,933
Less: Properties under development	279	434	819	1,550	4,174
Less: Properties held for future redevelopment	(211)	(494)	(727)	(1,665)	2,265
Less: Straight-line rent	249	114	261	538	2,397
Less: Amortization of lease incentives	(2,967)	(3,207)	(2,726)	(11,767)	(14,587)
Less: NOI from sold properties	1,392	4,484	8,371	15,765	111,404
Comparative properties NOI	\$ 36,240	\$ 35,306	\$ 35,502	\$ 142,971	\$ 146,073

Earnings before interest, taxes, depreciation, amortization and fair value adjustments (“EBITDAFV”)

EBITDAFV is defined by the Trust 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 income from investment in Dream Industrial REIT, distributions received from Dream Industrial REIT, interest expense on debt and subsidiary redeemable units, amortization and write-off of intangible assets and depreciation on property and equipment, leasing, net loss on transactions and debt settlement costs, and net current and deferred income taxes. 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 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”, EBITDAFV has been reconciled to net income in the table below:

	Three months ended			Year ended	
	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Net income for the period	\$ 58,489	\$ 41,382	\$ 100,731	\$ 157,778	\$ 134,786
Add (deduct):					
Lease termination fees and other	(45)	(180)	127	(5,870)	(5,933)
Non-cash items included in investment properties revenue ⁽¹⁾	2,718	3,093	2,465	11,229	12,190
Fair value adjustments to investment properties	(20,160)	(24,823)	(78,663)	(47,533)	(23,116)
Fair value adjustments to financial instruments	(11,172)	4,410	7,063	1,371	16,771
Share of income from investment in Dream Industrial REIT	(12,717)	(5,599)	(3,409)	(43,125)	(9,440)
Distributions received from Dream Industrial REIT	4,613	4,529	3,766	17,914	14,627
Interest – debt	14,971	15,841	15,209	60,718	86,560
Interest – subsidiary redeemable units	1,309	1,308	1,307	5,234	6,542
Amortization and write-off of intangible assets and depreciation on property and equipment	509	511	616	2,199	6,921
Leasing, net losses on transactions and debt settlement costs	1,989	1,549	1,632	7,179	37,930
Current and deferred income taxes expense (recovery), net	(244)	349	(4,605)	342	(3,827)
EBITDAFV for the period	\$ 40,260	\$ 42,370	\$ 46,239	\$ 167,436	\$ 274,011

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

Level of debt (net total debt-to-net total assets and net secured debt-to-net total assets)

Management believes that level of debt (net total debt-to-net total assets and net secured debt-to-net total assets) are important non-GAAP measures in the management of our debt levels. These non-GAAP measures do not have standard meanings and may not be comparable with similar measures presented by other income trusts. Net total debt-to-net total assets as shown below is determined as total debt less cash on hand (which includes debt related to assets held for sale), all divided by net total assets (being determined as total assets, less cash on hand). Net secured debt-to-net total assets as shown below is determined as total debt less cash on hand (which includes debt related to assets held for sale) and less unsecured debt, all divided by net total assets (being determined as total assets, less cash on hand). Effective December 31, 2017, the Trust revised its calculation of net total debt-to-total assets and net secured debt-to-total assets to exclude the reversal of accumulated depreciation of property and equipment as management is of the view that such exclusion is more representative of the current debt levels. Accordingly, the level of debt (net total debt-to-total assets and net secured debt-to-total assets) for comparative periods have been restated to conform to current period presentation.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”, the following table calculates the level of debt (net total debt-to-net total assets and net secured debt-to-net total assets) as at December 31, 2018 and December 31, 2017:

	Amounts included in consolidated financial statements as at	
	December 31, 2018	December 31, 2017
Non-current debt	\$ 1,314,646	\$ 1,160,689
Current debt	91,567	206,961
Total debt	1,406,213	1,367,650
Less: Cash on hand ⁽¹⁾	(2,263)	(86,474)
Net total debt	1,403,950	1,281,176
Less: Unsecured debt	(149,769)	(290,140)
Net total secured debt	\$ 1,254,181	\$ 991,036
Total assets	3,122,931	3,321,983
Less: Cash on hand ⁽¹⁾	(2,263)	(86,474)
Net total assets	\$ 3,120,668	\$ 3,235,509
Net total debt-to-net total assets	45.0%	39.6%
Net secured debt-to-net total assets	40.2%	30.6%

(1) Cash on hand represents cash on hand at period-end, excluding cash held in co-owned properties.

Interest coverage ratio

Management believes that interest coverage ratio, a non-GAAP measurement, is an important measure in determining our ability to cover interest expense based on our operating performance. This non-GAAP measurement does not have a standardized meaning and may not be comparable with similar measures presented by other income trusts. Effective January 1, 2018, the Trust has chosen to revise its calculation of interest coverage ratio to be calculated as EBITDAFV divided by interest expense on total debt, as management is of the view that such revision will align the earnings metric with other non-GAAP measures such as net total debt-to-adjusted EBITDAFV used by the Trust. Accordingly, the interest coverage ratios for comparative periods have been restated to conform to current period presentation.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”, the following table calculates the interest coverage ratio for the years ended December 31, 2018 and December 31, 2017:

	December 31, 2018	December 31, 2017
EBITDAFV ⁽¹⁾	\$ 167,436	\$ 274,011
Interest expense – debt	\$ 60,718	\$ 86,560
Interest coverage ratio (times)	2.8	3.2

(1) EBITDAFV (a non-GAAP measure) has been reconciled to net income (loss) under the heading “Earnings before interest, taxes, depreciation, amortization and fair value adjustments (“EBITDAFV”)” within this section.

Net total debt-to-adjusted EBITDAFV

Management believes that net total debt-to-adjusted EBITDAFV, a 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. This non-GAAP measurement does not have a standardized meaning and may not be comparable with similar measures presented by other income trusts.

Net total debt-to-adjusted EBITDAFV as shown below is calculated as total debt (net of cash on hand), which includes debt related to assets held for sale, divided by adjusted EBITDAFV – annualized. Adjusted EBITDAFV – annualized is calculated as annualized quarterly EBITDAFV less NOI of disposed properties for the quarter. EBITDAFV – annualized is calculated as annualized 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 income from investment in Dream Industrial REIT, distributions received from Dream Industrial REIT, interest expense, amortization and write-off of intangible assets and depreciation on property and equipment, leasing, net losses on transactions and debt settlement costs, and income taxes.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”, the following table calculates the annualized net total debt-to-adjusted EBITDAFV for the years ended December 31, 2018 and December 31, 2017:

	Amounts included in consolidated financial statements as at	
	December 31, 2018	December 31, 2017
Non-current debt	\$ 1,314,646	\$ 1,160,689
Current debt	91,567	206,961
Debt before undernoted items	1,406,213	1,367,650
Less: Cash on hand ⁽¹⁾	(2,263)	(86,474)
Net total debt	\$ 1,403,950	\$ 1,281,176
EBITDAFV⁽²⁾ – quarterly	\$ 40,260	\$ 46,239
Less: NOI of disposed properties for the quarter	(1,392)	(1,040)
Adjusted EBITDAFV – quarterly	\$ 38,868	\$ 45,199
Adjusted EBITDAFV – annualized	\$ 155,472	\$ 180,796
Net total debt-to-adjusted EBITDAFV (years)	9.0	7.1

(1) Cash on hand represents cash on hand at period-end, excluding cash held in co-owned properties.

(2) EBITDAFV (a non-GAAP measure) has been reconciled to net income (loss) under the heading “Earnings before interest, taxes, depreciation, amortization and fair value adjustments (“EBITDAFV”)” within this section.

QUARTERLY INFORMATION

The following tables show quarterly information since January 1, 2017.

Key portfolio, leasing, financing and other capital information

	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Portfolio⁽¹⁾								
Number of properties	37	37	41	42	43	47	51	107
GLA (millions of sq. ft.)	7.3	7.3	8.1	8.3	8.6	9.0	9.0	15.4
Leasing – total portfolio⁽²⁾								
Occupancy rate – including committed (period-end)	93.0%	94.2%	91.8%	91.3%	90.4%	90.3%	91.5%	88.6%
Occupancy rate – in-place (period-end)	91.5%	88.3%	86.4%	86.3%	86.1%	87.4%	89.0%	86.5%
Tenant retention ratio	71.6%	88.8%	53.0%	54.3%	29.2%	43.3%	57.1%	51.6%
Average in-place and committed net rent per square foot (period-end)	\$ 20.97	\$ 20.87	\$ 21.03	\$ 21.13	\$ 21.02	\$ 20.64	\$ 19.90	\$ 19.61
Financing								
Weighted average face rate of interest on debt (period-end) ⁽³⁾	4.06%	3.94%	3.85%	3.92%	3.90%	3.93%	3.82%	3.77%
Interest coverage ratio (times) ⁽⁴⁾⁽⁵⁾	2.8	2.8	2.8	3.0	3.2	3.2	3.3	3.3
Net total debt-to-adjusted EBITDAFV (years) ⁽⁴⁾	9.0	9.1	9.3	7.6	7.1	6.5	7.6	7.9
Level of debt (net total debt-to-net total assets) ⁽⁴⁾⁽⁵⁾	45.0%	46.2%	48.1%	40.7%	39.6%	39.7%	47.6%	49.8%
Capital								
Total number of REIT A Units and LP B Units (in millions) ⁽⁶⁾	64.6	65.3	65.4	75.4	78.9	81.1	103.4	108.6
NAV per unit ⁽⁴⁾	\$ 24.97	\$ 24.40	\$ 23.95	\$ 23.81	\$ 23.46	\$ 22.40	\$ 22.25	\$ 22.15

(1) Excludes properties held for sale at the end of each period.

(2) Excludes properties held for sale, properties under development and properties held for future redevelopment at the end of each period.

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

(4) The calculation of the following non-GAAP measures – interest coverage ratio, net total debt-to-adjusted EBITDAFV, level of debt (net total debt-to-net total assets) and NAV per unit – are included in the “Non-GAAP Measures and Other Disclosures” section of the MD&A.

(5) Interest coverage ratio and level of debt (net total debt-to-net total assets) have been restated for the periods prior to January 1, 2018 to conform to current period presentation. For further details, please refer to the “Non-GAAP Measures and Other Disclosures” section under the headings “Interest coverage ratio” and “Level of debt (net total debt-to-net total assets and net secured debt-to-net total assets)”.

(6) Total number of REIT A Units and LP B Units includes 5.2 million LP B Units which are classified as a liability under IFRS.

Results of operations

(in thousands of Canadian dollars)

	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Investment properties revenue	\$ 66,800	\$ 69,743	\$ 67,989	\$ 80,675	\$ 79,022	\$ 111,323	\$ 130,446	\$ 153,254
Investment properties operating expenses	(31,108)	(32,378)	(30,667)	(36,089)	(37,367)	(50,278)	(56,709)	(67,762)
Net rental income	35,692	37,365	37,322	44,586	41,655	61,045	73,737	85,492
Other income	12,972	6,362	9,555	15,910	4,191	4,421	668	2,002
Other expenses	(19,762)	(20,860)	(20,819)	(19,186)	(19,688)	(27,123)	(31,623)	(32,233)
Fair value adjustments, leasing, net losses on transactions and debt settlement costs	29,343	18,864	(558)	(8,666)	69,968	(38,878)	(7,969)	(54,706)
Income (loss) before income taxes	58,245	41,731	25,500	32,644	96,126	(535)	34,813	555
Current and deferred income taxes recovery (expense), net	244	(349)	(114)	(123)	4,605	(102)	(257)	(419)
Net income (loss) for the period	58,489	41,382	25,386	32,521	100,731	(637)	34,556	136
Other comprehensive income (loss)	2,991	(771)	1,135	1,194	(6,043)	(1,740)	(1,127)	(325)
Comprehensive income (loss) for the period	\$ 61,480	\$ 40,611	\$ 26,521	\$ 33,715	\$ 94,688	\$ (2,377)	\$ 33,429	\$ (189)

Reconciliation between net income (loss) and funds from operations

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

	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net income (loss) for the period	\$ 58,489	\$ 41,382	\$ 25,386	\$ 32,521	\$ 100,731	\$ (637)	\$ 34,556	\$ 136
Add (deduct):								
Share of income from investment in Dream Industrial REIT	(12,717)	(5,599)	(8,932)	(15,877)	(3,409)	(4,009)	(557)	(1,465)
Share of FFO from investment in Dream Industrial REIT ⁽¹⁾	5,572	4,217	6,204	5,474	5,063	4,826	4,683	4,193
Depreciation, amortization and write-offs of intangible assets	3,477	3,717	3,502	3,270	3,344	4,890	7,377	5,898
Loss (gain) on sale of investment properties	(455)	919	415	1,468	1,665	6,050	6,268	6,074
Interest expense on subsidiary redeemable units	1,309	1,308	1,309	1,308	1,307	1,309	1,963	1,963
Fair value adjustments to investment properties	(20,160)	(24,823)	(1,777)	(773)	(78,663)	21,009	(6,337)	40,875
Fair value adjustments to financial instruments and DUIP included in G&A expenses	(11,066)	4,493	853	7,376	7,075	9,086	2,122	(1,610)
Debt settlement costs due to disposals of investment properties, net	1,070	—	—	—	3,968	957	3,939	7,391
Internal leasing costs	512	630	924	617	1,308	1,111	1,312	1,506
Deferred income taxes expense (recovery)	(288)	(276)	21	91	(8,728)	102	257	419
Taxes attributable to dispositions	—	625	—	—	4,369	—	—	—
Foreign exchange gain attributable to dispositions	—	—	—	—	(5,717)	—	—	—
Loss on recognition of net assets related to joint operations	—	—	—	—	—	—	—	117
Other	(7)	95	7	(15)	(78)	(41)	103	(14)
FFO⁽²⁾	\$ 25,736	\$ 26,688	\$ 27,912	\$ 35,460	\$ 32,235	\$ 44,653	\$ 55,686	\$ 65,483
FFO per unit – diluted ⁽³⁾	\$ 0.39	\$ 0.40	\$ 0.40	\$ 0.46	\$ 0.40	\$ 0.48	\$ 0.53	\$ 0.59
Weighted average units outstanding⁽⁴⁾								
Diluted (in thousands)	65,839	66,286	70,228	76,881	80,943	93,213	105,880	110,303

(1) Included in the Q3 2018 FFO was a \$(1.0) million one-time true-up adjustment to our share of FFO from investment in Dream Industrial REIT. Excluding the adjustment, our share of FFO from investment in Dream Industrial REIT for that quarter was \$5.2 million.

(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.

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

(4) A description of the determination of diluted amounts per unit can be found in the section “Our Equity” under the heading “Weighted average number of units”.

SECTION V

DISCLOSURE CONTROLS AND PROCEDURES

At December 31, 2018, the 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. Using the framework established in “2013 Committee of Sponsoring Organizations (COSO) Internal Control Framework”, published by the Committee of Sponsoring Organizations of the Treadway Commission, the Certifying Officers, together with other members of management, have evaluated the design and operation of 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, 2018.

There were no changes in Dream Office REIT’s internal control over financial reporting during the financial year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, Dream Office REIT’s internal control over financial reporting.

SECTION VI – 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 at www.sedar.com.

REAL ESTATE OWNERSHIP

Real estate ownership is generally subject to numerous factors and risks, including changes in general economic conditions (including market interest rates and the availability 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.

DEVELOPMENT RISK

The Trust's current, prospective and future development projects are subject to development risks. These risks include delays and cost overruns arising from permitting delays, changing engineering and design requirements, the performance of contractors, labour disruptions, adverse weather conditions and the availability of financing and other factors. Other development risks include the failure of prospective tenants to occupy their space upon project completion and inability to achieve forecasted rates of return.

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, with a concentration in Toronto, Ontario and, as a result, are impacted by economic and other factors specifically affecting the real estate markets in Toronto, Ontario and the rest of 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 Toronto, Ontario and the rest of 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.

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. We have insurance and other policies and procedures in place to review and monitor environmental exposure, which we believe mitigates these risks to an acceptable level. 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 may be, from time to time, 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 rental 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 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, 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.

CYBER SECURITY RISKS

As we continue to increase our dependence on information technologies to conduct our operations, the risks associated with cyber security also increase. We rely on management information systems and computer control systems. Business disruptions, utility outages and information technology system and network disruptions due to cyber-attacks could seriously harm our operations and materially adversely affect our operating results. Cyber security risks include attacks on information technology and infrastructure by hackers, damage or loss of information due to viruses, the unintended disclosure of confidential information, the misuse or loss of control over computer control systems, and breaches due to employee error. Our exposure to cyber security risks includes exposure through third parties on whose systems we place significant reliance for the conduct of our business. We have implemented security procedures and measures in order to protect our systems and information from being vulnerable to cyber-attacks. However, we may not have the resources or technical sophistication to anticipate, prevent, or recover from rapidly evolving types of cyber-attacks. Compromises to our information and control systems could have severe financial and other business implications.

SECTION VII – 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. 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 obtaining independent appraisals. At each reporting period, a select number of properties, determined on a rotational basis, are valued by independent appraisers. 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. For properties under development, the Trust exercises judgment in determining when development activities have commenced, when and how much borrowing costs are to be capitalized to the development project, and the point of practical completion.

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 and other equity accounted investments, amounts receivable, property and equipment and intangible assets.

IFRS 9, "Financial Instruments: Recognition and Measurement" ("IFRS 9"), 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 credit risk of the counterparty, whether there are indicators that credit risk on a financial instrument has changed significantly since initial recognition or the last reassessment of credit risk. Where the credit risk of a financial asset has increased significantly since initial recognition, the Trust records a loss allowance equal to the lifetime expected credit losses arising from that financial asset.

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 the investment in Dream Industrial REIT and other equity accounted investments. Judgment is also involved in estimating the value-in-use of the investment in Dream Industrial REIT and other equity accounted investments, 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.

FUTURE ACCOUNTING POLICY CHANGES

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 has not early adopted IFRS 16.

The Trust has formed an internal working group which is responsible for overseeing the Trust’s transition to IFRS 16. The working group performed an in-depth assessment of IFRS 16 and the impact the adoption of the standard will have on the Trust’s consolidated financial statements. The working group reviewed the Trust’s various agreements and identified certain properties with contractual arrangements that qualified as a lease under IFRS 16 and quantified the right-of-use assets and lease liabilities to be approximately \$4.5 million. These right-of-use assets and lease liabilities will be recognized in the consolidated balance sheet effective January 1, 2019 along with additional disclosures.

Income taxes

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

Business combinations

The IASB published an amendment to the requirements of IFRS 3 in relation to whether a transaction meets the definition of a business combination. The amendment clarifies the definition of a business and provides additional illustrative examples, including those relevant to the real estate industry. A significant change in the amendment is the option for an entity to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If such a concentration exists, the transaction is not viewed as an acquisition of a business and no further assessment of the business combination guidance is required. This will be relevant where the value of the acquired entity is concentrated in one property, or a group of similar properties. The amendment is effective for periods beginning on or after January 1, 2020 with earlier application permitted. There will be no impact on transition since the amendments are effective for business combinations for which the acquisition date is on or after the transition date.

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.

SECTION VIII

ASSET LISTING

The following table includes supplementary information on our portfolio as at December 31, 2018.

Property	Ownership	Owned share of total GLA (in thousands of square feet)	No. of tenants	Average tenant size (in thousands of square feet)	Average remaining lease term (in years)	In-place and committed occupancy
444 – 7th Building, Calgary	100.0%	261	10	23	7.8	87.9%
606 – 4th Building & Barclay Parkade, Calgary	100.0%	126	14	8	6.0	91.8%
Kensington House, Calgary	100.0%	78	20	4	5.4	93.3%
Centre 70, Calgary ⁽¹⁾	15.0%	20	23	4	3.0	63.7%
Calgary		485	67	7	6.8	88.8%
Adelaide Place, Toronto	100.0%	657	69	9	5.8	97.5%
State Street Financial Centre, Toronto	100.0%	414	6	69	5.8	99.7%
438 University Avenue, Toronto	100.0%	323	17	19	7.0	97.9%
655 Bay Street, Toronto	100.0%	301	25	12	3.6	99.7%
74 Victoria Street/137 Yonge Street, Toronto	100.0%	266	5	53	5.1	100.0%
720 Bay Street, Toronto	100.0%	248	1	248	2.0	100.0%
36 Toronto Street, Toronto	100.0%	214	39	5	4.5	98.2%
330 Bay Street, Toronto	100.0%	164	42	4	3.7	89.6%
20 Toronto Street/33 Victoria Street, Toronto	100.0%	158	24	7	7.3	99.9%
250 Dundas Street West, Toronto	100.0%	122	17	7	5.8	98.8%
Victory Building, Toronto	100.0%	101	41	2	3.1	83.0%
425 Bloor Street East, Toronto ⁽²⁾	100.0%	84	8	10	6.4	100.0%
212 King Street West, Toronto	100.0%	73	10	7	3.7	100.0%
360 Bay Street, Toronto	100.0%	58	16	4	3.4	100.0%
67 & 69 Richmond Street West, Toronto	100.0%	54	5	10	5.4	93.3%
350 Bay Street, Toronto	100.0%	53	12	4	4.0	100.0%
366 Bay Street, Toronto	100.0%	36	12	3	1.9	91.5%
56 Temperance Street, Toronto	100.0%	32	9	3	4.1	89.4%
Toronto downtown		3,358	358	9	5.0	97.8%
50 & 90 Burnhamthorpe Road West, Mississauga (Sussex Centre) ⁽¹⁾	49.9%	325	61	10	5.5	90.1%
5001 Yonge Street, North York	100.0%	309	20	15	3.8	99.6%
Mississauga and North York		634	81	11	4.6	94.7%
700 De la Gauchetière Street West, Montréal ⁽³⁾	100.0%	986	45	20	5.7	90.8%
150 Metcalfe Street, Ottawa	100.0%	110	23	4	5.3	93.3%
Ottawa and Montréal		1,096	68	15	5.7	91.1%
Saskatoon Square, Saskatoon	100.0%	228	13	13	3.5	71.5%
275 Dundas Street West, London (London City Centre) ⁽¹⁾	40.0%	216	20	21	5.8	77.3%
12800 Foster Street, Overland Park, U.S.	100.0%	185	1	185	1.9	100.0%
Victoria Tower, Regina	100.0%	144	2	72	9.4	100.0%
Princeton Tower, Saskatoon	100.0%	134	12	9	4.8	78.3%
Financial Building, Regina	100.0%	66	2	4	1.2	10.9%
Preston Centre, Saskatoon	100.0%	62	13	5	2.8	100.0%
234 – 1st Avenue South, Saskatoon	100.0%	10	4	2	3.5	83.4%
Other markets		1,045	67	16	4.7	80.6%
Total comparative portfolio⁽⁴⁾		6,618	641	11	5.2	93.0%

Property	Ownership	Owned share of total GLA (in thousands of square feet)	No. of tenants	Average tenant size (in thousands of square feet)	Average remaining lease term (in years)	In-place and committed occupancy
1900 Sherwood Place, Regina	100.0%	207	6	34	11.8	99.4%
357 Bay Street, Toronto	100.0%	64	11	2	1.2	38.8%
Total – properties under development		271	17	14	10.7	85.1%
15 acre site (Eglinton Ave. East & Birchmount Rd.), Toronto	100.0%	443	10	29	8.1	65.7%
Total – properties held for future redevelopment		443	10	29	8.1	65.7%
Total portfolio		7,332	668	11	5.5	91.1%

(1) Co-owned property.

(2) Property subject to a ground lease.

(3) Includes both an office and a co-owned retail component.

(4) Excludes properties under development and properties held for future redevelopment as at December 31, 2018.

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.

"Michael J. Cooper"
Michael J. Cooper
Chief Executive Officer

"Jay Jiang"
Jay Jiang
Chief Financial Officer

Toronto, Ontario, February 21, 2019



Independent auditor's report

To the Unitholders of Dream Office Real Estate Investment Trust

Our opinion

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

What we have audited

The Trust's consolidated financial statements comprise:

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

Basis for opinion

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

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

Independence

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

Other information

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

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215



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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from



error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Trust to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
February 21, 2019

Consolidated balance sheets

(in thousands of Canadian dollars)	Note	December 31, 2018	December 31, 2017
Assets			
NON-CURRENT ASSETS			
Investment properties	5	\$ 2,778,826	\$ 2,919,438
Investment in Dream Industrial REIT	6	266,583	220,796
Other non-current assets	8	42,500	9,544
		3,087,909	3,149,778
CURRENT ASSETS			
Amounts receivable	9	20,005	14,826
Prepaid expenses and other assets	10	6,248	8,889
Cash and cash equivalents		8,769	96,960
		35,022	120,675
Assets held for sale	10	—	51,530
Total assets		\$ 3,122,931	\$ 3,321,983
Liabilities			
NON-CURRENT LIABILITIES			
Debt	11	\$ 1,314,646	\$ 1,160,689
Subsidiary redeemable units	12	116,662	115,981
Deferred Unit Incentive Plan	13	18,180	17,280
Deferred tax liabilities, net	14	1,957	2,214
Tenant security deposits		8,694	9,558
		1,460,139	1,305,722
CURRENT LIABILITIES			
Debt	11	91,567	206,961
Amounts payable and accrued liabilities	15	74,483	73,677
		166,050	280,638
Total liabilities		1,626,189	1,586,360
Equity			
Unitholders' equity	16	2,124,760	2,462,611
Deficit	16	(634,513)	(728,934)
Accumulated other comprehensive income	16, 17	6,495	1,946
Total equity		1,496,742	1,735,623
Total liabilities and equity		\$ 3,122,931	\$ 3,321,983

See accompanying notes to the consolidated financial statements.

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

"Karine MacIndoe"
KARINE MACINDOE
 Trustee

"Michael J. Cooper"
MICHAEL J. COOPER
 Trustee

Consolidated statements of comprehensive income

(in thousands of Canadian dollars)	Note	Year ended December 31,	
		2018	2017
Investment properties revenue	19	\$ 285,207	\$ 474,046
Investment properties operating expenses		(130,242)	(212,116)
Net rental income		154,965	261,930
Other income			
Share of income from investment in Dream Industrial REIT	6	43,125	9,440
Interest and fee income		1,674	1,841
		44,799	11,281
Other expenses			
General and administrative	20	(12,476)	(10,644)
Interest:			
Debt	21	(60,718)	(86,560)
Subsidiary redeemable units	21	(5,234)	(6,542)
Amortization and write-off of intangible assets and depreciation on property and equipment	10	(2,199)	(6,921)
		(80,627)	(110,667)
Fair value adjustments, leasing, net losses on transactions and debt settlement costs			
Fair value adjustments to investment properties	5, 10	47,533	23,116
Fair value adjustments to financial instruments	22	(1,371)	(16,771)
Leasing, net losses on transactions and debt settlement costs	23	(7,179)	(37,930)
		38,983	(31,585)
Income before income taxes		158,120	130,959
Current and deferred income taxes recovery (expense), net	14	(342)	3,827
Net income for the year		157,778	134,786
Other comprehensive income (loss)			
Items reclassified to net income:			
Reclassified realized gain on foreign currency translation, net of taxes	17	—	(5,905)
Items that will be reclassified subsequently to net income:			
Unrealized gain on interest rate swaps and other, net of taxes	17	46	45
Unrealized gain (loss) on foreign currency translation, net of taxes	17	1,192	(3,115)
Share of other comprehensive income (loss) from investment in Dream Industrial REIT	6, 17	3,311	(260)
		4,549	(9,235)
Comprehensive income for the year		\$ 162,327	\$ 125,551

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, 2018	Note	Attributable to unitholders of the Trust				
		Number of REIT A Units	Unitholders' equity	Deficit	Accumulated other comprehensive income	Total equity
Balance at January 1, 2018		73,705,285	\$ 2,462,611	\$ (728,934)	\$ 1,946	\$ 1,735,623
Net income for the year		—	—	157,778	—	157,778
Distributions paid and payable	18	—	—	(63,357)	—	(63,357)
Deferred trust units exchanged for REIT A Units	13	139,657	3,205	—	—	3,205
Cancellation of REIT A Units under NCIB	16	(4,475,664)	(100,716)	—	—	(100,716)
Cancellation of REIT A Units under SIB	16	(10,000,000)	(240,000)	—	—	(240,000)
Issue and cancellation costs		—	(340)	—	—	(340)
Other comprehensive income	17	—	—	—	4,549	4,549
Balance at December 31, 2018		59,369,278	\$ 2,124,760	\$ (634,513)	\$ 6,495	\$ 1,496,742

Year ended December 31, 2017	Note	Attributable to unitholders of the Trust				
		Number of REIT A Units	Unitholders' equity	Deficit	Accumulated other comprehensive income (loss)	Total equity
Balance at January 1, 2017		104,806,724	\$ 3,108,424	\$ (747,840)	\$ 11,181	\$ 2,371,765
Net income for the year		—	—	134,786	—	134,786
Distributions paid and payable	18	—	—	(115,880)	—	(115,880)
Deferred trust units exchanged for REIT A Units	13	199,675	3,863	—	—	3,863
Cancellation of REIT A Units under NCIB	16	(10,348,734)	(209,178)	—	—	(209,178)
Cancellation of REIT A Units under SIB	16	(20,952,380)	(440,000)	—	—	(440,000)
Issue and cancellation costs		—	(498)	—	—	(498)
Other comprehensive loss	17	—	—	—	(9,235)	(9,235)
Balance at December 31, 2017		73,705,285	\$ 2,462,611	\$ (728,934)	\$ 1,946	\$ 1,735,623

See accompanying notes to the consolidated financial statements.

Consolidated statements of cash flows

(in thousands of Canadian dollars)	Note	Year ended December 31,	
		2018	2017
Generated from (utilized in) operating activities			
Net income for the year		\$ 157,778	\$ 134,786
Non-cash items:			
Share of income from investment in Dream Industrial REIT	6	(43,125)	(9,440)
Amortization and depreciation	24	16,588	22,087
Fair value adjustments to investment properties	5, 10	(47,533)	(23,116)
Fair value adjustments to financial instruments	22	1,371	16,771
Other adjustments	24	5,870	22,925
Investment in lease incentives and initial direct leasing costs		(41,506)	(58,750)
Interest expense on subsidiary redeemable units	21	5,234	6,542
Change in non-cash working capital	24	(8,148)	(31,985)
		46,529	79,820
Generated from (utilized in) investing activities			
Investment in building improvements		(17,627)	(28,310)
Investment in properties under development		(3,471)	—
Investment in property and equipment		(406)	(390)
Investment in equity accounted investment		(1,532)	—
Net proceeds from disposal of investment properties		261,330	1,664,271
Net proceeds from sale of marketable securities		5,157	—
Distributions from investment in Dream Industrial REIT		378	48
Purchase of Dream Industrial REIT units		—	(25,008)
Distributions from investment in joint ventures		—	1,544
Change in restricted cash		(165)	275
		243,664	1,612,430
Generated from (utilized in) financing activities			
Principal repayments	10, 11	(19,472)	(40,013)
Borrowings	11	837,479	1,144,885
Lump sum repayments	10, 11	(692,757)	(1,603,887)
Lump sum repayments on property dispositions	10, 11	(90,697)	(297,102)
Financing cost additions	11	(1,391)	(2,393)
Distributions paid on REIT A Units	18	(64,552)	(122,839)
Interest paid on subsidiary redeemable units	24	(5,234)	(6,760)
Cancellation of REIT A Units under NCIB	16	(100,716)	(209,178)
Cancellation of REIT A Units under SIB	16	(240,000)	(440,000)
Debt settlement and REIT A Units issue and cancellation costs		(1,166)	(25,242)
		(378,506)	(1,602,529)
Increase (decrease) in cash and cash equivalents		(88,313)	89,721
Foreign exchange gain (loss) on cash held in foreign currency		122	(428)
Cash and cash equivalents, beginning of year		96,960	7,667
Cash and cash equivalents, end of year		\$ 8,769	\$ 96,960

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 primarily owns central business district office properties in major urban centres across Canada. 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, Ontario, 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 the year ended December 31, 2018 were authorized for issuance by the Board of Trustees on February 21, 2019, 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 significant accounting policies used in the preparation of these consolidated financial statements are described below:

Basis of presentation and statement of compliance

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

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 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.

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 and properties that are being constructed or developed for future use as investment properties. 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 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. Properties under development are measured using the discounted cash flow method, net of costs to complete, as of the consolidated balance sheet dates. Development sites in the planning phases are measured using comparable market prices for similar assets.

Building improvements are added to the carrying amount of investment properties only when it is probable that future economic benefits associated with the expenditure will flow to the Trust and the cost of the item can be measured reliably. Repairs and maintenance costs are recorded in investment properties operating expenses when incurred.

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.

Borrowing costs associated with direct expenditures on properties under development are capitalized during the period of active development. The amount of capitalized borrowing costs is determined first by reference to project-specific borrowings, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures after adjusting for borrowings associated with other specific developments. Where borrowings are associated with specific developments, the amount capitalized is the gross cost incurred on those borrowings less any investment income arising on their temporary investment. Borrowing costs are capitalized from the commencement of active construction until the date of practical completion when the property is substantially ready for its intended use. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. Practical completion is when the property is capable of operating in the manner intended by management. Generally, this occurs on completion of construction and receipt of all necessary occupancy and other material permits.

If the Trust has pre-leased space at or prior to the start of the development, and the lease requires tenant improvements that enhance the value of the property, practical completion is considered to occur when such improvements are completed.

Investment properties and investment properties held for sale 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 are included in the consolidated statements of comprehensive income during the reporting period the asset is derecognized.

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

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.

Other non-current assets

Other non-current assets include a vendor takeback mortgage receivable, property and equipment, deposits, restricted cash, an equity accounted investment and intangible assets. 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 four 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 purchase 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 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 during the reporting period the asset is derecognized.

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 is included in other non-current assets (see Note 8).

Financial instruments

Effective January 1, 2018, the Trust has adopted IFRS 9, “Financial Instruments” (“IFRS 9”) prospectively (see Note 3). The comparative period is reported under IAS 39, “Financial Instruments” (“IAS 39”). The adoption has no impact on the carrying amount of the Trust’s financial instruments. Primary changes as a result of the adoption include: new classification categories for financial assets and liabilities and the implementation of a forward-looking “expected loss” impairment model.

Classification and measurement of financial instruments

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

	IFRS 9 – Classification and measurement	IAS 39 – Classification and measurement
Financial assets		
Amounts receivable	Financial asset at amortized cost	Loans and receivables at amortized cost
Vendor takeback mortgage receivable ⁽¹⁾	Financial asset at amortized cost	Loans and receivables at amortized cost
Marketable securities ⁽²⁾	Financial asset at fair value through profit or loss	Financial asset at fair value through profit or loss
Restricted cash and deposits ⁽²⁾	Financial asset at amortized cost	Loans and receivables at amortized cost
Cash and cash equivalents	Financial asset at amortized cost	Loans and receivables at amortized cost
Financial liabilities		
Amounts payable and accrued liabilities	Financial liability at amortized cost	Other liabilities at amortized cost
Tenant security deposits	Financial liability at amortized cost	Other liabilities at amortized cost
Deferred Unit Incentive Plan	Financial liability at amortized cost	Other liabilities at amortized cost
Subsidiary redeemable units	Financial liability at amortized cost	Other liabilities at amortized cost
Mortgages ⁽³⁾	Financial liability at amortized cost	Other liabilities at amortized cost
Demand revolving credit facilities ⁽³⁾	Financial liability at amortized cost	Other liabilities at amortized cost
Debentures ⁽³⁾	Financial liability at amortized cost	Other liabilities at amortized cost

(1) Included within other non-current assets in the consolidated balance sheets.

(2) Included within prepaid expenses and other assets in the consolidated balance sheets.

(3) Included within debt in the consolidated balance sheets.

Financial assets

Classification (IFRS 9)

The Trust classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortized cost.

The classification depends on the Trust’s business model for managing the financial assets and the contractual terms of the cash flows.

Measurement (IFRS 9)

At initial recognition, the Trust initially measures a financial asset at its fair value, less any related transaction costs. Subsequent measurement depends on the Trust’s business model for managing the financial assets and the contractual terms of the cash flows. There are three measurement categories in which the Trust classifies its financial assets:

- Amortized cost: Assets that are held for the collection of contractual cash flows and those cash flows represent solely payments of principal and interest;
- Fair value through other comprehensive income: Assets that are held for the collection of contractual cash flows and for selling the financial assets, and those cash flows represent solely payments of principal and interest; and
- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income.

Impairment

IFRS 9: The Trust recognizes an allowance for expected credit losses for all financial assets not held at fair value through profit or loss. For amounts receivable, the Trust applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized upon initial recognition of the receivables. To measure the expected credit losses, the Trust has established a provision matrix that is based on its historical credit loss experience based on days past due, adjusted for forward-looking factors specific to the tenant and the economic environment. The Trust considers a financial asset in default when contractual payment is over 90 days past due. However, in certain cases, the Trust may also consider a financial asset to be in default when internal or external information indicates that it is unlikely to receive the outstanding contractual amounts in full.

IAS 39: A provision for impairment is established when there is objective evidence that collection will not be possible under the original terms of the contract. Indicators of impairment include delinquency of payment and significant financial difficulty of the tenant. Trade receivables that are less than three months past due are not considered impaired unless there is evidence that collection is not possible. A provision for impairment is recorded through an allowance account, and the amount of the loss is recognized in comprehensive income 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 comprehensive income.

Derecognition

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

Classification (IFRS 9)

The Trust classifies its financial liabilities in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortized cost.

Measurement (IFRS 9)

At initial measurement, financial liabilities are recognized at fair value, less any related transaction costs.

For financial liabilities measured subsequently at fair value, the liability is remeasured at fair value each reporting period, with changes in fair value recognized in comprehensive income.

For financial liabilities measured subsequently at amortized cost, the liability is amortized using the effective interest method. Under the effective interest method, any transaction fees, costs, discounts and premiums directly related to the financial liabilities are recognized in comprehensive income over the expected life of the obligation.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

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; and
- 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.

Distributions

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

Unit-based compensation plan

As described in Note 13, 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 as a fair value adjustment to financial instruments. Deferred trust units and income deferred units are only settled in REIT A Units.

Revenue recognition

Effective January 1, 2018, the Trust has adopted IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") on a modified retrospective basis with no restatement of comparatives (see Note 3). Base rental income and property tax recoveries earned from leases ("rental income") is outside the scope of IFRS 15 and is therefore not impacted by the new standard. The prior comparative period was reported under IAS 18, "Revenue" ("IAS 18"). The adoption has no impact on the timing and amount of revenue recognized.

Rental income

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. Lease revenue from investment properties includes base rents, recoveries of property taxes, percentage participation rents and lease termination fees. 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. Property tax recoveries are recognized as revenues in the period in which the corresponding obligation arises and collectability is reasonably assured. Percentage participation rents are recognized on an accrual basis once tenant sales revenues exceed contractual thresholds. All other lease revenues are recorded as earned.

IAS 18: The above discussion also applies to recoveries of operating expenses in the 2017 fiscal year.

Revenue from contracts with customers (IFRS 15)

The Trust has obligations to provide ongoing services related to its leases. These services include common area maintenance services, utilities and other services at its properties (collectively "CAM services"). The Trust's performance obligations on CAM services are satisfied over time as services are provided during the period which tenants occupy the premises. When providing CAM services, the Trust is entitled to recoveries from tenants to the extent of costs incurred to provide such services. The Trust recognizes revenue as the CAM services are provided over time, at the best estimate of the amounts earned for those services, which reflects actual costs incurred. Tenants are billed monthly based on estimates. To the extent that costs exceed billings, a receivable is recognized; if the billings exceed costs, a payable is recognized. These current assets or liabilities are settled with tenants annually.

The Trust provides parking services to its properties' tenants and visitors. Tenant parking revenue is recognized evenly over the terms of the related contract. Transient parking revenue is recognized as the parking service is used.

The consideration received from tenants under the lease arrangements is allocated between the leased premises, CAM services and parking services, if applicable, based on relative stand-alone selling prices.

Pursuant to certain property management agreements, the Trust has an obligation to provide property management services to third parties and Dream Hard Asset Alternatives Trust (“DHAAT”). The Trust recognizes revenue over time as it provides property management services calculated as a percentage of the related property revenues for that period.

Pursuant to the Administrative Services Agreement with Dream Asset Management Corporation (“DAM”) and the Services Agreements with Dream Industrial REIT and DHAAT, the Trust arranges for administrative and support services to be provided to related parties on a cost-recovery basis. The Trust has determined that it is acting as an agent for these services and the fees are netted against the related expenses with the exception of fees related to the occupation of office space. In providing office space to related parties, the Trust is acting as the principal in the arrangement and the revenues and related expenses are presented separately in the consolidated statements of comprehensive income. The Trust recognizes revenues monthly in accordance with the terms of the agreement.

For all revenue streams from contracts with customers, revenue is measured at the best estimate of the amount the Trust expects to receive for performing the services. Revenue is recognized only to the extent that it is highly probable that a significant amount of the cumulative revenue recognized for a contract will not be reversed. The Trust is obligated to continue to provide CAM services over the remaining term of each lease contract. The Trust will recognize revenue on these remaining performance obligations based on the actual cost incurred to fulfill the CAM services in the period.

Any receivables arising from revenue contracts with customers are tested for impairment using the same model as for amounts receivable as described below.

Significant judgments in applying IFRS 15

The application of IFRS 15 requires the Trust to make the following significant judgments:

Estimation of transaction prices

The Trust exercises judgment in estimating the transaction price for contract revenues with customers. The Trust exercises judgment with regards to the amount and timing of the revenue recognized for CAM service contracts which are satisfied over time. The amount of revenue recognized for CAM services with variable consideration is constrained by the actual costs incurred and any restrictions in lease agreements. The revenues related to these obligations are recorded over time as the obligation of the Trust is to provide the CAM services on an as needed basis throughout the contract period. The Trust considers this to be a faithful depiction of the transfer of services.

Scoping of revenues

The Trust exercises judgment in determining which of its revenue streams that arise from lease agreements are in scope of IFRS 15 and which are not. Specifically, the Trust considers whether a revenue stream related to a lease agreement is for the lease of an asset or is for the provision of a distinct service. Revenues of the latter type are determined to be in scope of IFRS 15, while the former are in scope of IAS 17, “Leases”.

Principal versus agent determination

The Trust exercises judgment in determining whether it is acting as a principal or an agent in providing services under the Administrative Services Agreement with DAM and the Services Agreements with Dream Industrial REIT and DHAAT. In making this determination, the Trust considers which party controls the service and the nature of the obligation that the Trust has to DAM, Dream Industrial REIT and DHAAT. In making this determination, the Trust considers whether it is primarily responsible for fulfilling the promise to provide the service; whether it bears inventory risk; and whether it has discretion to set the price for the service.

Interest on debt

Interest on debt includes coupon interest, amortization of ancillary costs incurred in connection with the arrangement of borrowings and amortization of fair value adjustments on assumed debt. Financing costs are amortized to interest expense.

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.

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.

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, property and equipment and intangible assets.

IAS 28, "Investments in Associates and Joint Ventures" ("IAS 28"), requires management to use judgment in determining the recoverable amount of equity accounted investments that are tested for impairment, including the investment in Dream Industrial REIT. 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.

Segment reporting

A reportable operating segment is a distinguishable component of the Trust that is engaged either in providing related products or services (business 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. 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.

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).

Critical accounting judgments, estimates and assumptions

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. 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 obtaining independent appraisals. At each reporting period, a select number of properties, determined on a rotational basis, are valued by independent appraisers. 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. For properties under development, the Trust exercises judgment in determining when development activities have commenced, when and how much borrowing costs are to be capitalized to the development project, and the point of practical completion.

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 and other equity accounted investments, amounts receivable, property and equipment and intangible assets.

IFRS 9 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 credit risk of the counterparty, whether there are indicators that credit risk on a financial instrument has changed significantly since initial recognition or the last reassessment of credit risk. Where the credit risk of a financial asset has increased significantly since initial recognition, the Trust records a loss allowance equal to the lifetime expected credit losses arising from that financial asset.

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 the investment in Dream Industrial REIT and other equity accounted investments. Judgment is also involved in estimating the value-in-use of the investment in Dream Industrial REIT and other equity accounted investments, 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.

Note 3

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Trust has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2018. These changes were made in accordance with the applicable transitional provisions as described below.

Revenue from contracts with customers

Effective January 1, 2018, the Trust has applied IFRS 15. The IFRS 15 revenue recognition model requires management to exercise significant judgment and make estimates that affect revenue recognition.

The Trust has adopted IFRS 15 on a modified retrospective basis effective January 1, 2018. In applying IFRS 15, the Trust used the practical expedient in the standard that permits contracts which were completed prior to the transition date to not be assessed.

As a result of adopting IFRS 15, there were no adjustments to the consolidated balance sheets as at January 1, 2018. The accounting policies applied under the new standard are disclosed in Note 2.

Financial instruments

IFRS 9, "Financial Instruments" ("IFRS 9"), was issued by the IASB and replaced IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39").

The Trust performed an in-depth assessment of IFRS 9 to determine the impact of the adoption of the standard on the Trust's consolidated financial statements. The Trust determined that all financial assets, with the exception of marketable securities, meet the test that the resulting cash flows are payments on specified dates that are solely payments of principal and interest and held in accordance with the Trust's business model of holding them for collecting contractual cash flows. Consequently, the Trust is continuing to carry these assets at amortized cost. Marketable securities continue to be carried at fair value through profit or loss. The Trust has not modified any of its existing borrowings in prior periods. As a consequence, there was no need to retrospectively restate the carrying amount of the borrowings for changes to the accounting for revaluation gains or losses. There was no dollar impact on the carrying value of the Trust's trade receivables or to the classification and measurement of its financial assets.

Investment properties

IAS 40, "Investment Properties" ("IAS 40"), was amended to clarify when an entity should transfer property, including property under construction or development, between investment properties and other categories such as inventories or own-use properties. The revised standard states that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments to IAS 40 were adopted effective January 1, 2018. This amendment did not have an impact on the Trust's 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 were adopted effective January 1, 2018. This amendment did not have an impact on the Trust's consolidated financial statements.

Note 4

FUTURE ACCOUNTING POLICY CHANGES

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 has not early adopted IFRS 16.

The Trust has formed an internal working group which is responsible for overseeing the Trust's transition to IFRS 16. The working group performed an in-depth assessment of IFRS 16 and the impact the adoption of the standard will have on the Trust's consolidated financial statements. The working group reviewed the Trust's various agreements and identified certain properties with contractual arrangements that qualified as a lease under IFRS 16 and quantified the right-of-use assets and lease liabilities to be approximately \$4,500. These right-of-use assets and lease liabilities will be recognized in the consolidated balance sheet effective January 1, 2019 along with additional disclosures.

Income taxes

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

Business combinations

The International Accounting Standards Board published an amendment to the requirements of IFRS 3, "Business Combinations" ("IFRS 3"), in relation to whether a transaction meets the definition of a business combination. The amendment clarifies the definition of a business and provides additional illustrative examples, including those relevant to the real estate industry. A significant change in the amendment is the option for an entity to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If such a concentration exists, the transaction is not viewed as an acquisition of a business and no further assessment of the business combination guidance is required. This will be relevant where the value of the acquired entity is concentrated in one property, or a group of similar properties. The amendment is effective for periods beginning on or after January 1, 2020, with earlier application permitted. There will be no impact on transition since the amendments are effective for business combinations for which the acquisition date is on or after the transition date.

Note 5

INVESTMENT PROPERTIES

	Note	Year ended December 31,			
		2018		2017	
		Active properties	Properties under development	Investment properties	Investment properties
Balance, beginning of year		\$ 2,919,438	\$ —	\$ 2,919,438	\$ 4,836,355
Additions:					
Building improvements		18,143	3,447	21,590	24,507
Lease incentives and initial direct leasing costs		53,219	3,152	56,371	50,871
Capitalized interest		—	24	24	—
Recognition of investment properties related to joint operations	7	—	—	—	60,000
Total additions to investment properties		71,362	6,623	77,985	135,378
Transfers, dispositions, assets held for sale and other:					
Active properties transferred to properties under development		(66,348)	66,348	—	—
Investment properties disposed of during the year		(97,418)	—	(97,418)	(70,852)
Investment properties classified as held for sale during the year	10	(152,578)	—	(152,578)	(2,004,150)
Other		(8,393)	—	(8,393)	—
Total transferred, disposed, classified as held for sale and other		(324,737)	66,348	(258,389)	(2,075,002)
Changes included in net income:					
Fair value adjustments to investment properties		45,266	1,693	46,959	38,443
Change in straight-line rent		546	(11)	535	2,845
Amortization and write-off of lease incentives		(11,422)	(68)	(11,490)	(13,044)
Total changes included in net income		34,390	1,614	36,004	28,244
Change included in other comprehensive income (loss):					
Foreign currency translation adjustment		3,788	—	3,788	(5,537)
Total change included in other comprehensive income (loss)		3,788	—	3,788	(5,537)
Balance, end of year		\$ 2,704,241	\$ 74,585	\$ 2,778,826	\$ 2,919,438
Change in unrealized income included in net income for the year					
Change in fair value of investment properties		\$ 48,264	\$ 1,693	\$ 49,957	\$ 50,425

Investment properties includes \$18,893 (December 31, 2017 – \$21,530) related to straight-line rent receivables.

Investment properties excluding assets held for sale with a fair value of \$2,030,937 as at December 31, 2018 (December 31, 2017 – \$2,084,942) are pledged as security for mortgages.

Investment properties excluding assets held for sale with a fair value of \$607,624 as at December 31, 2018 (December 31, 2017 – \$535,198) are pledged as security for the demand revolving credit facilities.

Valuations of externally appraised properties

For the year ended December 31, 2018, there were 11 investment properties valued by qualified external valuation professionals with a fair value of \$759,868 representing 27% of the total investment property values (for the year ended December 31, 2017 – 27 investment properties with an aggregate fair value of \$2,207,640, representing 76% of the total investment property values).

Fair value adjustments to investment properties

For the year ended December 31, 2018, the Trust recorded a fair value gain in our investment properties totalling \$46,959 and a fair value gain of \$574 recorded in our investment properties classified as assets held for sale (see Note 10). During the year, a previous land transfer tax accrual of \$8,393 that had been included in property transaction costs was reversed as payment was no longer probable. As a result of this adjustment to transaction costs, the fair value adjustment to investment properties recorded in the year was correspondingly increased.

For the year ended December 31, 2017, the Trust recorded a fair value gain in our investment properties totalling \$38,443, partially offset by a fair value loss of \$15,327 recorded in our investment properties classified as assets held for sale (see Note 10).

The fair value of the investment properties as at December 31, 2018 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.

Assumptions used in the valuation of investment properties using the capitalization rate method

As at December 31, 2018, the Trust's investment properties, excluding investment properties in Alberta, properties under development, assets held for sale and certain properties where bids were received during the quarter, were valued using the capitalization rate ("cap rate") method. The critical valuation metrics as at December 31, 2018 and December 31, 2017 are set out below:

	December 31, 2018		December 31, 2017	
	Range (%)	Weighted average (%)	Range (%)	Weighted average (%)
Cap rates ⁽¹⁾	4.50–8.00	5.19	4.50–8.00	5.23

(1) Excludes investment properties in Alberta, properties under development, assets held for sale and certain properties where bids were received by the Trust at the end of each period.

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 fair value of investment properties (excluding investment properties in Alberta, assets held for sale and certain properties where bids were received by the Trust) would decrease by \$116,300. If the cap rate were to decrease by 25 bps, the fair value of investment properties (excluding investment properties in Alberta, assets held for sale and certain properties where bids were received by the Trust) would increase by \$128,520.

Assumptions used in the valuation of investment properties using the discounted cash flow method

As at December 31, 2018, the Trust's investment properties in Alberta were valued using the discounted cash flow method. The critical valuation metrics as at December 31, 2018 and December 31, 2017 are set out below:

	December 31, 2018		December 31, 2017	
	Range	Weighted average	Range	Weighted average
Discount rates (%) ⁽¹⁾	8.00–8.75	8.05	7.50–8.75	8.07
Terminal cap rates (%) ⁽¹⁾	7.00–8.25	7.13	6.63–8.25	7.09
Market rents (in dollars per square foot) ⁽¹⁾⁽²⁾	\$ 12.00–16.50	\$ 15.33	\$ 10.00–16.50	\$ 14.46

(1) Excludes assets held for sale and certain properties where bids were received by the Trust at the end of each period.

(2) 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, leasing cost assumptions for new and renewed leasing were within the range of \$25.00 and \$60.00 per square foot, with a weighted average vacancy rate assumption of 5%.

Sensitivities on assumptions

The following sensitivity table outlines the potential impact on the fair value of investment properties in Alberta, excluding assets held for sale, assuming a change in the weighted average discount rates and terminal cap rates by a respective 25 bps as at December 31, 2018.

	Impact of change to weighted average discount rates		Impact of change to weighted average terminal cap rates	
	+25 bps	-25 bps	+25 bps	-25 bps
Increase (decrease) in value	\$ (2,132)	\$ 2,183	\$ (2,226)	\$ 2,389

The following sensitivity table outlines the potential impact on the fair value of investment properties in Alberta, excluding assets held for sale, assuming the market rental rates were to change by \$1.00 per square foot and if the leasing costs per square foot were to change by \$5.00 per square foot as at December 31, 2018.

	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	\$ 3,443	\$ (3,446)	\$ (1,274)	\$ 1,274

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

Note 6

INVESTMENT IN DREAM INDUSTRIAL REIT

Dream Industrial Real Estate Investment Trust (“Dream Industrial REIT”) is an unincorporated, open-ended real estate investment trust listed on the Toronto Stock Exchange under the symbol “DIR.UN”.

On June 29, 2018, Dream Industrial REIT completed an equity offering of 13,915,000 units of Dream Industrial REIT (“Dream Industrial REIT Units”) at a price of \$10.35 per unit for gross proceeds of \$144,020, including 1.8 million Dream Industrial REIT Units issued pursuant to the exercise of the over-allotment option granted to the underwriters.

On November 21, 2017, Dream Industrial REIT completed an \$86,538 equity offering to partially fund the acquisition of a portfolio of four light industrial properties located in the United States. Concurrently with the equity offering, the Trust subscribed for 2,858,000 Dream Industrial REIT units through a private placement totalling \$25,008.

On February 13, 2019, Dream Industrial REIT completed a public offering of 13,800,000 Dream Industrial REIT Units at a price of \$10.45 per unit for gross proceeds of \$144,210, including 1,800,000 REIT Units issued pursuant to the exercise of the over-allotment option granted to the underwriters. The net proceeds will be used to partially fund the acquisition of a portfolio of 21 industrial properties located in the United States.

For the year ended December 31, 2018, the Trust purchased Dream Industrial REIT Units through its distribution reinvestment plan totalling 1,769,595 Dream Industrial REIT Units for a total cost of \$17,265 (for the year ended December 31, 2017 – 1,690,668 Dream Industrial REIT Units for a total cost of \$14,481).

	Year ended December 31,	
	2018	2017
Balance, beginning of year	\$ 220,796	\$ 186,754
Dream Industrial REIT Units purchased during the year	—	25,008
Dream Industrial REIT Units purchased through distribution reinvestment plan	17,265	14,481
Distributions received on Dream Industrial LP Class B limited partnership units	(13,376)	(13,473)
Distributions received on Dream Industrial REIT Units	(4,538)	(1,154)
Share of net income	45,091	13,567
Net accretion loss	(1,966)	(4,127)
Share of other comprehensive income (loss)	3,311	(260)
Balance, end of year	\$ 266,583	\$ 220,796
Dream Industrial REIT Units held, end of year ⁽¹⁾	7,200,736	5,431,141
Dream Industrial LP Class B limited partnership units held, end of year ⁽²⁾	18,551,855	18,551,855
Total Dream Industrial REIT units held, end of year	25,752,591	23,982,996
Ownership %, end of year	23.3%	25.6%

(1) 4,800,587 Dream Industrial REIT Units are pledged as security for the \$20,000 demand revolving credit facility.

(2) 18,551,855 Dream Industrial LP Class B limited partnership units are pledged as security for the \$500,000 demand revolving credit facility.

The fair value of the Trust’s interest in Dream Industrial REIT of \$245,165 (December 31, 2017 – \$211,050) was determined using the Dream Industrial REIT closing unit price of \$9.52 per unit at period-end multiplied by the number of units held by the Trust as at December 31, 2018.

Pursuant to the Management Services Agreement between the Trust and DAM (see Note 26), the Trust granted DAM 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.

Under IAS 28, "Investments in Associates and Joint Ventures", a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is an indicator of impairment. While the original cost of the Trust's investment in Dream Industrial REIT exceeded the market value of the units as at December 31, 2018, the Trust does not consider the difference to be significant or prolonged, and no impairment test was performed.

The following amounts represent 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,		December 31,	
	2018	2017	2018	2017
Non-current assets	\$ 2,141,907	\$ 1,729,622	\$ 489,730	\$ 436,200
Current assets	18,668	78,129	4,268	19,704
Total assets	\$ 2,160,575	\$ 1,807,751	\$ 493,998	\$ 455,904
Non-current liabilities	1,059,289	957,650	378,430	363,597
Current liabilities	111,961	137,855	25,598	34,767
Total liabilities	\$ 1,171,250	\$ 1,095,505	\$ 404,028	\$ 398,364
Net assets	\$ 989,325	\$ 712,246	\$ 89,970	\$ 57,540
Add-back: Subsidiary redeemable units			176,613	163,256
Investment in Dream Industrial REIT			\$ 266,583	\$ 220,796

	At 100%		At % ownership interest	
	Year ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Net rental income	\$ 133,744	\$ 116,778	\$ 32,729	\$ 29,867
Other revenue and expenses, fair value adjustments and other items	23,784	(82,119)	(14,371)	(34,685)
Net income (loss)	157,528	34,659	18,358	(4,818)
Other comprehensive income (loss)	12,082	(266)	3,311	(260)
Comprehensive income (loss) before the undernoted adjustments	169,610	34,393	21,669	(5,078)
Add-back:				
Interest on subsidiary redeemable units			\$ 13,376	\$ 13,376
Fair value adjustments to subsidiary redeemable units			13,357	5,009
Share of comprehensive income from investment in Dream Industrial REIT			48,402	13,307
Add (deduct):				
Net accretion loss			(1,966)	(4,127)
Share of other comprehensive income (loss) from investment in Dream Industrial REIT			(3,311)	260
Share of income from investment in Dream Industrial REIT			\$ 43,125	\$ 9,440

Note 7

JOINT ARRANGEMENTS

On January 1, 2017, the Trust and H&R REIT terminated the joint venture agreement and entered into a co-ownership agreement. As a result of this change, the Trust derecognized its investment in the joint venture of F1RST Tower on January 1, 2017 at its carrying amount of \$15,189 and recognized the Trust's 50% interest in the assets and liabilities amounting to \$61,940 and \$46,868, respectively, of F1RST Tower in the consolidated balance sheet. This resulted in the Trust recognizing a loss on January 1, 2017 of \$117 in the consolidated statements of comprehensive income related to the initial recognition at fair value of the Trust's 50% share of the assets and liabilities compared to the carrying values of the joint ventures (see Note 23). The newly formed co-ownership entered into a property management agreement with H&R REIT to provide property management services to F1RST Tower.

On April 10, 2018, the Trust completed the sale of its 50% interest in F1RST Tower in Calgary (see Note 10) and derecognized the Trust's 50% interest in the assets and liabilities amounting to \$53,493 and \$40,000, respectively, of F1RST Tower in the consolidated balance sheets.

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, 2018	December 31, 2017
700 De la Gauchetière Street West – retail	Montréal, Québec	79.2	79.2
50 & 90 Burnhamthorpe Road West (Sussex Centre) ⁽¹⁾	Mississauga, Ontario	49.9	49.9
275 Dundas Street West (London City Centre) ⁽¹⁾	London, Ontario	40.0	40.0
Centre 70	Calgary, Alberta	15.0	15.0
F1RST Tower ⁽²⁾	Calgary, Alberta	—	50.0

(1) The Trust co-owns these two investment properties with DHAAT, a related party of the Trust (see Note 26).

(2) On January 1, 2017, the Trust derecognized its investment in the joint venture of F1RST Tower and recognized the Trust's 50% interest in the assets, liabilities, revenues and expenses of this investment property in the consolidated financial statements. On April 10, 2018, the Trust completed the sale of its 50% interest in F1RST Tower in Calgary (see Note 10).

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, 2018 ⁽¹⁾	December 31, 2017 ⁽²⁾
Non-current assets	\$ 143,939	\$ 195,493
Current assets	2,859	5,073
Total assets	146,798	200,566
Non-current liabilities	78,170	78,001
Current liabilities	3,654	44,392
Total liabilities	81,824	122,393
Net assets	\$ 64,974	\$ 78,173

(1) On April 10, 2018, the Trust completed the sale of its 50% interest in F1RST Tower in Calgary (see Note 10).

(2) On January 1, 2017, the Trust derecognized its investment in the joint venture of F1RST Tower and recognized the Trust's 50% interest in the assets and liabilities of this investment property in the consolidated financial statements.

	Share of net income at % ownership interest for the year ended December 31,	
	2018 ⁽¹⁾	2017 ⁽²⁾
Net rental income	\$ 8,558	\$ 36,811
Other income and expenses, fair value adjustments, leasing, net losses on transactions and debt settlement costs	(4,079)	(2,415)
Share of net income from co-owned properties	\$ 4,479	\$ 34,396

(1) On April 10, 2018, the Trust completed the sale of its 50% interest in F1RST Tower in Calgary (see Note 10).

(2) On January 1, 2017, the Trust derecognized its investment in the joint venture of F1RST Tower and recognized the Trust's 50% interest in the revenues and expenses of this investment property in the consolidated financial statements.

Note 8

OTHER NON-CURRENT ASSETS

	Note	December 31, 2018	December 31, 2017
Vendor takeback mortgage receivable	10	\$ 34,100	\$ —
Property and equipment, net of accumulated depreciation of \$12,136 (December 31, 2017 – \$10,433)		3,767	5,500
Restricted cash		1,247	1,082
Intangible assets, net of accumulated amortization of \$3,454 (December 31, 2017 – \$3,008)		1,416	1,862
Equity accounted investment, deposits and other	26	1,970	1,100
Total		\$ 42,500	\$ 9,544

On April 10, 2018, the Trust completed the sale of its 50% interest in F1RST Tower in Calgary (see Note 10). As partial consideration for the sale, the Trust received a vendor takeback mortgage (“VTB mortgage”) receivable of \$34,100. This interest-only VTB mortgage receivable bears interest at 4.5%, matures on April 10, 2022 with an option to extend to April 10, 2023, may be repaid at any time and is secured by a first-ranking charge on the property. The expected credit loss for the VTB mortgage is nominal as a result of the value of the secured property.

Property and equipment primarily includes leasehold improvements, information and technology hardware, and furniture and fixtures. Restricted cash primarily represents tenant rent deposits and cash held as security for certain mortgages. Intangible assets represent the value attributed to the remaining co-ownership management contracts at the time of the Whiterock Real Estate Investment Trust business combination in 2012, net of accumulated amortization. Equity accounted investment, deposits and other comprise amounts provided by the Trust in connection with an equity accounted investment in real estate technologies and utility deposits.

Note 9

AMOUNTS RECEIVABLE

As at December 31, 2018, amounts receivable are net of credit adjustments aggregating to \$3,044 (December 31, 2017 – \$6,532).

	Note	December 31, 2018	December 31, 2017
Trade receivables		\$ 8,590	\$ 7,159
Less: Provision for impairment of trade receivables		(923)	(1,486)
Trade receivables, net		7,667	5,673
Other amounts receivable	26	12,338	9,153
Total		\$ 20,005	\$ 14,826

The carrying value of amounts receivable approximates fair value due to their current nature. Amounts receivable are written off when it is ultimately determined that the probability of collection is remote based on lease terms, the tenant's financial condition and other factors.

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, 2018
No more than 1 year	\$ 129,240
1–5 years	449,815
5+ years	192,780
	<u>\$ 771,835</u>

Note 10

ASSETS HELD FOR SALE AND DISPOSITIONS

Assets held for sale

As at December 31, 2018 and December 31, 2017, the Trust classified certain properties as assets held for sale totalling \$nil and \$51,530, respectively.

As at December 31, 2017, 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, 2017.

Investment properties held for sale

	Note	Year ended December 31,	
		2018	2017
Balance, beginning of year		\$ 51,530	\$ 321,232
Add (deduct):			
Building improvements		60	3,162
Lease incentives and initial direct leasing costs		431	9,322
Investment properties disposed of during the year		(204,776)	(2,268,720)
Investment properties classified as held for sale during the year	5	152,578	2,004,150
Fair value adjustment to investment properties		574	(15,327)
Amortization of lease incentives and other		(397)	(1,966)
Foreign currency translation adjustment		—	(323)
Balance, end of year		\$ —	\$ 51,530

As at December 31, 2018, assets held for sale includes \$nil (December 31, 2017 – \$302) related to straight-line rent receivables.

As at December 31, 2018, held for sale investment properties with a fair value of \$nil (December 31, 2017 – \$30,977) are pledged as security for the demand revolving credit facilities.

Debt related to investment properties held for sale

	Note	Year ended December 31,	
		2018	2017
Balance, beginning of year		\$ —	\$ 209,228
Cash items:			
Principal repayments		—	(4,274)
Lump sum repayments		—	(13,956)
Lump sum repayment on property dispositions		(90,697)	(264,168)
Non-cash items:			
Debt classified as liabilities related to assets held for sale ⁽¹⁾	11	90,697	799,762
Debt assumed by purchaser on disposal of investment properties		—	(720,990)
Foreign currency translation adjustment		—	(236)
Other adjustments ⁽²⁾		—	(5,366)
Balance, end of year		\$ —	\$ —

(1) Debt classified as liabilities related to investment properties held for sale includes \$264 of unamortized deferred financing costs.

(2) Other adjustments includes write-off and amortization of financing costs and fair value adjustments.

Dispositions

For the year ended December 31, 2018, the Trust disposed of the following properties:

Date disposed	Property	Ownership (%)	Disposed share of GLA (thousands of sq. ft.)	Sales price ⁽¹⁾
January 3, 2018	Morgex Building, Edmonton	100.0%	53	
January 18, 2018	340–450 3rd Avenue N., Saskatoon	100.0%	132	
February 1, 2018	2891 Sunridge Way, Calgary	100.0%	87	
February 7, 2018	1914 Hamilton Street, Regina	100.0%	82	
April 10, 2018	F1RST Tower, Calgary	50.0%	354	
August 31, 2018	IBM Corporate Park, Calgary	100.0%	358	
November 14, 2018	Life Plaza and Joffre Place, Calgary	100.0%	344	
November 22, 2018	Rocky Mountain Plaza, Calgary	100.0%	205	
December 27, 2018	14505 Bannister Road, SE, Calgary	100.0%	61	
Total dispositions for the year ended December 31, 2018			1,676	\$ 302,194

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

On April 10, 2018, the Trust completed the sale of its 50% interest in F1RST Tower in Calgary for gross proceeds net of adjustments and before transaction costs of \$53,493. As partial consideration for the sale, the Trust received a vendor takeback mortgage (“VTB mortgage”) receivable of \$34,100. The VTB mortgage receivable bears interest at 4.5%, matures on April 10, 2022 with an option to extend to April 10, 2023 and is secured by the property. The VTB mortgage receivable has been included in other non-current assets in the consolidated balance sheets. In addition, the Trust has committed to a construction loan facility of up to \$12,500 on the same terms as the VTB mortgage receivable. To date, the Trust has not funded any amounts under the construction loan facility.

On November 22, 2018, the Trust completed the sale of Rocky Mountain Plaza in Calgary. As partial consideration for the sale, the Trust received a short-term VTB mortgage receivable of \$3,800. The VTB mortgage receivable matures March 22, 2019 and bears interest at 7% for the first 60 days escalating to 10% until maturity. This VTB mortgage may be repaid by the purchaser at any time and is secured by the property. The short-term VTB mortgage receivable has been included in prepaid expenses and other assets in the consolidated balance sheets.

For the year ended December 31, 2017, the Trust disposed of 10.9 million square feet of investment properties for gross proceeds net of adjustments and before transaction costs of \$2,339,572. As a result of the disposition of certain co-owned properties during 2017, the Trust wrote off \$3,914 of intangible assets.

As part of the sale of a portfolio of properties in Etobicoke and Fredericton on April 25, 2017, the Trust received as partial consideration 646,128 units of a Canadian publicly traded real estate investment trust totalling \$5,234. These securities were sold in the third quarter of 2018.

On March 28, 2017, a VTB mortgage of \$78,775 related to a sale of investment properties in 2016 was repaid in full.

Note 11

DEBT

	December 31, 2018	December 31, 2017
Mortgages ⁽¹⁾⁽²⁾	\$ 964,758	\$ 1,080,702
Demand revolving credit facilities ⁽²⁾⁽³⁾⁽⁴⁾	291,686	(3,192)
Debentures ⁽⁵⁾	149,769	290,140
Total	1,406,213	1,367,650
Less: Current portion	91,567	206,961
Non-current debt	\$ 1,314,646	\$ 1,160,689

(1) Net of financing costs of \$3,463 (December 31, 2017 – \$4,664).

(2) Secured by charges on specific investment properties (see Note 5).

(3) Secured by certain Dream Industrial REIT Units and Dream Industrial LP Class B limited partnership units.

(4) Net of financing costs of \$3,016 (December 31, 2017 – \$3,192).

(5) Net of financing costs of \$231 (December 31, 2017 – \$615).

Continuity of debt

The following tables provide a continuity of debt for the years ended December 31, 2018 and December 31, 2017:

		Year ended December 31, 2018			
	Note	Mortgages	Demand revolving credit facilities	Debentures	Total
Balance as at January 1, 2018		\$ 1,080,702	\$ (3,192)	\$ 290,140	\$ 1,367,650
Cash items:					
Principal repayments		(19,472)	—	—	(19,472)
Borrowings		—	837,479	—	837,479
Lump sum repayments		(9,225)	(542,777)	(140,755)	(692,757)
Financing costs additions		—	(1,391)	—	(1,391)
Non-cash items:					
Debt classified as liabilities related to assets held for sale	10	(90,697)	—	—	(90,697)
Foreign currency translation adjustment		2,523	—	—	2,523
Other adjustments ⁽¹⁾		927	1,567	384	2,878
Balance as at December 31, 2018		\$ 964,758	\$ 291,686	\$ 149,769	\$ 1,406,213

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

		Year ended December 31, 2017			
	Note	Mortgages	Demand revolving credit facilities	Debentures	Total
Balance as at January 1, 2017		\$ 2,027,172	\$ 173,790	\$ 448,828	\$ 2,649,790
Cash items:					
Principal repayments		(35,739)	—	—	(35,739)
Borrowings		159,880	985,005	—	1,144,885
Lump sum repayments		(267,681)	(1,163,005)	(159,245)	(1,589,931)
Financing costs additions		(1,177)	(1,216)	—	(2,393)
Lump sum repayments on property dispositions		(32,934)	—	—	(32,934)
Non-cash items:					
Debt classified as liabilities related to assets held for sale	10	(799,762)	—	—	(799,762)
Recognition of debt related to joint operations	7	40,000	—	—	40,000
Foreign currency translation adjustment		(3,181)	—	—	(3,181)
Other adjustments ⁽¹⁾		(5,876)	2,234	557	(3,085)
Balance as at December 31, 2017		\$ 1,080,702	\$ (3,192)	\$ 290,140	\$ 1,367,650

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

On December 20, 2018, the Trust entered into a portfolio mortgage totalling \$105,000, secured by five investment properties in Toronto, Ontario. The portfolio mortgage is interest-only and bears interest at 3.96%, compounded semi-annually, and matures on January 2, 2029. On January 2, 2019, the portfolio mortgage closed and the net proceeds were used to make lump sum repayments on five mortgages prior to their original maturity dates totalling \$56,650 and the balance of the net proceeds were used to pay down drawings on the Trust's demand revolving credit facilities.

Demand revolving credit facilities

On December 21, 2018 the Trust reduced its existing demand revolving credit facility from \$575,000 to \$500,000. The Trust had previously increased the facility from \$400,000 to \$575,000 and extended the maturity to March 1, 2021 on April 25, 2018. The interest rate remained in the form of rolling one-month bankers' acceptances ("BA") bearing interest at the BA rate plus 170 basis points ("bps") or at the bank's prime rate plus 70 bps. As at December 31, 2018, the amended demand revolving credit facility is secured by seven of the Trust's investment properties and the Trust's 18,551,855 Dream Industrial LP Class B limited partnership units.

On May 4, 2018, the Trust reduced its existing demand revolving credit facility from \$45,000 to \$20,000 and extended the maturity date to March 31, 2021. The interest rate remained in the form of rolling BAs bearing interest at the BA rate plus 200 bps or at the bank's prime rate plus 85 bps. The amended demand revolving credit facility is secured by 4,800,587 of the Trust's Dream Industrial REIT Units.

The amounts available and drawn under the demand revolving credit facilities as at December 31, 2018 and December 31, 2017 are as follows:

							December 31, 2018	
	Maturity date	Interest rates on drawings	Face interest rate	Borrowing capacity	Drawings	Letters of credit	Amount available	
Formula-based maximum not to exceed \$500,000 ⁽¹⁾	March 1, 2021	BA + 1.70% or Prime + 0.70%	3.97%	\$ 432,348	\$ (287,500)	\$ (2,507)	\$ 142,341	
Formula-based maximum not to exceed \$20,000 ⁽²⁾	March 31, 2021	BA + 2.00% or Prime + 0.85%	4.80%	20,000	(7,202)	—	12,798	
			3.99%	\$ 452,348	\$ (294,702)	\$ (2,507)	\$ 155,139	

(1) The \$500,000 demand revolving credit facility is secured by seven investment properties and 18,551,855 Dream Industrial LP Class B limited partnership units.

(2) The \$20,000 demand revolving credit facility is secured by 4,800,587 Dream Industrial REIT Units.

							December 31, 2017	
	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 \$400,000	March 1, 2020	BA + 1.70% or Prime + 0.70%	8	n/a	\$ 371,483	\$ —	\$ (660)	\$ 370,823
Formula-based maximum not to exceed \$45,000	April 30, 2018	BA + 2.00% or Prime + 0.85%	2	n/a	25,844	—	—	25,844
			10		\$ 397,327	\$ —	\$ (660)	\$ 396,667

n/a – not applicable

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%.

On June 13, 2018, the Trust repaid Series A Debentures with an aggregate principal amount of \$140,755.

During the year ended December 31, 2017, the Trust purchased and cancelled \$34,245 of Series A Debentures.

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, 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%.

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, 2018		December 31, 2017	
					Outstanding principal	Carrying value	Outstanding principal	Carrying value
Series A								
Debentures	June 13, 2013	June 13, 2018	\$ 175,000	3.42%	\$ —	\$ —	\$ 140,755	\$ 140,609
Series C								
Debentures	January 21, 2014	January 21, 2020	150,000	4.07%	150,000	149,769	150,000	149,531
					\$ 150,000	\$ 149,769	\$ 290,755	\$ 290,140

Debt weighted average effective interest rates and maturities

	Weighted average effective interest rates ⁽¹⁾		Maturity dates ⁽²⁾	Debt amount	
	December 31, 2018	December 31, 2017		December 31, 2018	December 31, 2017
Fixed rate					
Mortgages	4.14%	4.09%	2019–2027	\$ 887,234	\$ 963,346
Debentures	4.25%	3.96%	2020	149,769	290,140
Total fixed rate debt	4.16%	4.06%		1,037,003	1,253,486
Variable rate					
Mortgages	4.23%	3.32%	2019–2022	77,524	117,356
Demand revolving credit facilities	4.41%	—	2021	291,686	(3,192)
Total variable rate debt	4.37%	3.32%		369,210	114,164
Total debt	4.21%	4.00%		\$ 1,406,213	\$ 1,367,650

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

(2) As at December 31, 2018.

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

	Mortgages	Demand revolving credit facilities	Debentures	Total
2019	\$ 93,552	\$ —	\$ —	\$ 93,552
2020	48,517	—	150,000	198,517
2021	136,522	294,702	—	431,224
2022	205,456	—	—	205,456
2023	124,957	—	—	124,957
2024–2027	358,422	—	—	358,422
	967,426	294,702	150,000	1,412,128
Financing costs	(3,463)	(3,016)	(231)	(6,710)
Fair value adjustments	795	—	—	795
	\$ 964,758	\$ 291,686	\$ 149,769	\$ 1,406,213

Note 12

SUBSIDIARY REDEEMABLE UNITS

The Trust has the following subsidiary redeemable units outstanding:

	Note	Year ended December 31, 2018		Year ended December 31, 2017	
		Number of units issued and outstanding	Amount	Number of units issued and outstanding	Amount
Balance, beginning of year		5,233,823	\$ 115,981	5,233,823	\$ 102,321
Remeasurement of carrying value of subsidiary redeemable units	22	—	681	—	13,660
Balance, end of year		5,233,823	\$ 116,662	5,233,823	\$ 115,981

During the year ended December 31, 2018, the Trust incurred \$5,234 (December 31, 2017 – \$6,542) in distributions on the subsidiary redeemable units, which is included as interest expense in the consolidated statements of comprehensive income (see Note 21).

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, 2018 and December 31, 2017, 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.

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, 2018 and December 31, 2017, 5,233,823 Special Trust Units were issued and outstanding.

Note 13

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, 2018 and December 31, 2017, up to a maximum of 2.55 million deferred trust units are issuable under the DUIP.

The movement in the DUIP balance was as follows:

	Note	Year ended December 31,	
		2018	2017
Balance, beginning of year		\$ 17,280	\$ 14,796
Compensation expense	20	3,415	3,236
REIT A Units issued for vested deferred trust units		(3,205)	(3,863)
Remeasurements of carrying value of deferred trust units	22	690	3,111
Balance, end of year		\$ 18,180	\$ 17,280

	Year ended December 31,	
	2018	2017
Outstanding and payable at beginning of year	889,301	907,972
Granted	120,618	128,985
Income deferred trust units	37,950	57,735
REIT A Units issued	(139,657)	(199,675)
Fractional REIT A Units paid in cash	(64)	(100)
Cancelled	(4,577)	(5,616)
Outstanding and payable at end of year⁽¹⁾	903,571	889,301

(1) Includes 621,043 of vested but not issued deferred trust units as at December 31, 2018 (December 31, 2017 – 556,854).

For the year ended December 31, 2018, 120,618 deferred trust units were granted to trustees, officers and employees as well as employees of affiliates with the grant price ranging from \$21.11 to \$24.66 per unit. Of the units granted, 48,318 units relate to key management personnel. For the year ended December 31, 2017, 128,985 deferred trust units were granted to trustees, officers and employees as well as employees of affiliates with the grant price ranging from \$19.17 to \$21.15 per unit. Of the units granted, 86,685 units relate to key management personnel.

Note 14

INCOME TAXES

The Trust is subject to taxation in the United States (“U.S.”) on the taxable income earned by its investment properties located in the U.S. at a rate of approximately 26.53% as at December 31, 2018 (December 31, 2017 – 39.41%). 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.

On October 31, 2017, the Trust completed the sale of a single-tenant distribution centre located in Nashville, Tennessee to Dream Industrial REIT (see Note 26). As a result of the disposition, the timing differences pertaining to this property were realized, effectively reducing the deferred tax liability balance. The loss carry-forward balance was fully utilized at that time.

On December 22, 2017, Public law no. 115-97, also known as *Tax Cuts and Jobs Act (TCJA)*, was enacted in the U.S. One of the changes introduced by *TCJA* was the reduction of the corporate income tax rate from graduated rates with a maximum rate of 35% to a flat rate of 21% for the taxation years starting from January 1, 2018.

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

	December 31, 2018	December 31, 2017
Deferred tax assets		
Deferred financing costs	\$ 96	\$ 130
Financial instruments	211	273
Deductible interest timing differences	460	—
	767	403
Deferred tax liabilities		
Investment property	(2,724)	(2,617)
Deferred tax liabilities, net	\$ (1,957)	\$ (2,214)

A reconciliation between the expected income taxes based upon the 2018 and 2017 statutory rates and the income tax expense recognized during the years ended December 31, 2018 and December 31, 2017 is as follows:

	December 31, 2018	December 31, 2017
Income taxes computed at the statutory rate of nil that is applicable to the Trust	\$ —	\$ —
Current income taxes expense on a U.S. property	(794)	(4,123)
Deferred income taxes recovery on a U.S. property	452	7,950
	\$ (342)	\$ 3,827

As part of the deferred tax balance, \$141 is a result of a foreign exchange difference for the remaining property in the U.S. (for the year ended December 31, 2017 – \$560). This amount is included as part of accumulated other comprehensive income under unrealized foreign currency translation gain (loss).

Note 15

AMOUNTS PAYABLE AND ACCRUED LIABILITIES

	Note	December 31, 2018	December 31, 2017
Trade payables		\$ 4,042	\$ 3,847
Building improvement and leasing cost accruals		25,581	7,302
Investment properties operating expense accruals		20,749	26,211
Non-operating expense and other accruals	26	7,906	14,961
Accrued interest		6,904	6,886
Rent received in advance		4,354	8,328
Distributions payable	18	4,947	6,142
Total		\$ 74,483	\$ 73,677

Note 16

EQUITY

	Note	December 31, 2018		December 31, 2017	
		Number of REIT A Units	Amount	Number of REIT A Units	Amount
Unitholders' equity		59,369,278	\$ 2,124,760	73,705,285	\$ 2,462,611
Deficit		—	(634,513)	—	(728,934)
Accumulated other comprehensive income	17	—	6,495	—	1,946
Total		59,369,278	\$ 1,496,742	73,705,285	\$ 1,735,623

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 A Units and REIT B Units. The Special Trust Units may only be issued to holders of subsidiary redeemable units.

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

Normal course issuer bid ("NCIB")

On February 13, 2018, the NCIB covering the period from August 15, 2017 to August 14, 2018 expired as the Trust purchased the maximum number of REIT A Units, totalling 7,197,095 REIT A Units, permitted under this NCIB. On August 15, 2018, the Toronto Stock Exchange accepted a notice filed by the Trust to renew its prior normal course issuer bid for a one-year period. Under the bid, the Trust will have the ability to purchase for cancellation up to a maximum of 4,954,869 of its REIT A Units (representing 10% of the Trust's public float of 49,548,697 REIT A Units) through the facilities of the Toronto Stock Exchange. The renewed bid commenced on August 17, 2018 and will remain in effect until the earlier of August 16, 2019 or the date on which the Trust has purchased the maximum number of REIT A Units permitted under the bid. Daily purchases are limited to 48,257 REIT A Units, which equals 25% of the average daily trading volume during the prior six calendar months (being 193,028 REIT A Units per day), other than purchases pursuant to applicable block purchase exceptions.

On October 23, 2018, the Trust entered into an automatic securities repurchase plan (the "Repurchase Plan") with its designated broker in order to facilitate purchases of its REIT A Units under the NCIB. The Repurchase Plan allows for purchases by Dream Office REIT of REIT A Units at any time including, without limitation, when the Trust would ordinarily not be permitted to make purchases due to regulatory restrictions or self-imposed blackout periods. Purchases will be made by the Trust's broker based upon the parameters prescribed by the TSX and the terms of the parties' written agreement. Outside of such restricted or blackout periods, the REIT A Units may also be purchased in accordance with management's discretion. The Repurchase Plan will terminate on August 16, 2019.

For the year ended December 31, 2018, the Trust purchased for cancellation 4,475,664 REIT A Units under the NCIB at a cost of \$100,716 (for the year ended December 31, 2017 – 10,348,734 REIT A Units cancelled for \$209,178).

Subsequent to quarter-end, the Trust purchased for cancellation an additional 381,313 REIT A Units under the NCIB at a cost of \$8,466.

Substantial issuer bid (“SIB”)

On March 22, 2018, the Trust announced the offer to purchase for cancellation up to 10,000,000 of its outstanding REIT A Units at a purchase price of \$24.00 per REIT A Unit.

On May 7, 2018, the Trust took up and paid for 10,000,000 REIT A Units at a price of \$24.00 per REIT A Unit for an aggregate cost of \$240,000, excluding fees and expenses relating to the SIB. The REIT A Units purchased for cancellation under the SIB represented approximately 14% of the issued and outstanding REIT A Units immediately prior to the expiry of the SIB.

On June 22, 2017, the Trust announced the offer to purchase for cancellation up to 24,444,444 of its REIT A Units for an aggregate purchase price not to exceed \$440,000 through a “modified Dutch auction” within a price range of not less than \$18.00 per REIT A Unit and not more than \$21.00 per REIT A Unit (in increments of \$0.25 per REIT A Unit within that range).

On August 14, 2017, the Trust took up and paid for 20,952,380 REIT A Units at a price of \$21.00 per REIT A Unit for an aggregate cost of \$440,000, excluding fees and expenses relating to the SIB. The REIT A Units purchased for cancellation under the SIB represented approximately 21.3% of the issued and outstanding REIT A Units immediately prior to the expiry of the SIB.

Note 17

ACCUMULATED OTHER COMPREHENSIVE INCOME

	2018			Year ended December 31, 2017		
	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
Unrealized gain (loss) on interest rate swaps, net of taxes	\$ (283)	\$ 46	\$ (237)	\$ (328)	\$ 45	\$ (283)
Realized and unrealized gain (loss) on foreign currency translation, net of taxes	2,489	1,192	3,681	11,509	(9,020)	2,489
Share of other comprehensive income (loss) from investment in Dream Industrial REIT	(260)	3,311	3,051	—	(260)	(260)
Accumulated other comprehensive income	\$ 1,946	\$ 4,549	\$ 6,495	\$ 11,181	\$ (9,235)	\$ 1,946

Note 18

DISTRIBUTIONS

Dream Office REIT’s Declaration of Trust, as amended and restated, provides the Board of Trustees with the discretion to determine the percentage payout of income that would be in the best interest of the Trust. The Trust determines the distribution rate by, among other considerations, its assessment of cash flows generated from (utilized in) operating activities. Cash flows from operating activities may differ from distributions declared, primarily due to: fluctuations in non-cash working capital; 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; and the impact of investments in building improvements, which fluctuates with timing and extent of the capital projects, as well as age, type and condition of asset. 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 demand revolving credit facilities. Monthly distribution payments to unitholders are payable on or about the 15th day of the following month.

On June 22, 2017, the Trust announced a revision to its monthly cash distribution from \$0.125 per REIT A Unit to \$0.08333, or \$1.00 per REIT A Unit on an annualized basis, effective for the month of July 2017 distribution.

For the years ended December 31, 2018 and December 31, 2017, the Trust declared distributions totalling \$1.00 per unit and \$1.25 per unit, respectively.

The following table summarizes distribution payments for the years ended December 31, 2018 and December 31, 2017:

	Note	Year ended December 31,	
		2018	2017
Paid in cash		\$ 64,552	\$ 122,839
Less: Payable at December 31, 2017 (December 31, 2016)		(6,142)	(13,101)
Plus: Payable at December 31, 2018 (December 31, 2017)	15	4,947	6,142
Total distributions paid and payable		\$ 63,357	\$ 115,880

On December 19, 2018, the Trust announced a cash distribution of \$0.08333 per REIT A Unit for the month of December 2018. The December 2018 distribution was paid in cash on January 15, 2019, totalling \$4,947.

On January 21, 2019, the Trust announced a cash distribution of \$0.08333 per REIT A Unit for the month of January 2019. The January 2019 distribution was paid in cash on February 15, 2019, totalling \$4,916.

On February 19, 2019, the Trust announced a cash distribution of \$0.08333 per REIT A Unit for the month of February 2019. The February 2019 distribution will be payable on March 15, 2019 to unitholders of record at February 28, 2019.

Note 19

INVESTMENT PROPERTIES REVENUE

	Year ended December 31,	
	2018	2017
Rental revenue	\$ 177,305	\$ 301,051
CAM and parking services revenue	106,199	168,724
Property management and other service fees	1,703	4,271
	\$ 285,207	\$ 474,046

Note 20

GENERAL AND ADMINISTRATIVE EXPENSES

	Note	Year ended December 31,	
		2018	2017
Salaries and benefits		\$ (3,693)	\$ (1,521)
Deferred compensation expense	13	(3,415)	(3,128)
Professional service fees		(1,702)	(1,265)
Management Services Agreement	26	(464)	(830)
Public reporting, corporate sponsorships, donations and other overhead related costs		(3,202)	(3,900)
General and administrative expenses		\$ (12,476)	\$ (10,644)

Note 21

INTEREST

Interest on debt

Interest on debt incurred and charged to the consolidated statements of comprehensive loss is recorded as follows:

	Note	Year ended December 31,	
		2018	2017
Interest expense incurred, at contractual rate of debt		\$ 58,178	\$ 85,981
Amortization of financing costs		2,872	3,514
Amortization of fair value adjustments on assumed debt		(308)	(2,935)
Capitalized interest	5	(24)	—
Interest expense on debt		60,718	86,560
Add (deduct):			
Amortization of financing costs		(2,872)	(3,514)
Amortization of fair value adjustments on assumed debt		308	2,935
Change in accrued interest		754	(3,889)
Cash interest paid		\$ 58,908	\$ 82,092

For the year ended December 31, 2018, interest was capitalized to properties under development at a weighted average effective interest rate of 4.15%.

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,	
	2018	2017
Paid in cash	\$ 5,234	\$ 6,760
Less: Interest payable at December 31, 2017 (December 31, 2016)	(436)	(654)
Plus: Interest payable at December 31, 2018 (December 31, 2017)	436	436
Interest expense on subsidiary redeemable units	\$ 5,234	\$ 6,542

Note 22

FAIR VALUE ADJUSTMENTS TO FINANCIAL INSTRUMENTS

	Note	Year ended December 31,	
		2018	2017
Remeasurement of carrying value of subsidiary redeemable units	12	\$ (681)	\$ (13,660)
Remeasurement of carrying value of deferred trust units	13	(690)	(3,111)
		\$ (1,371)	\$ (16,771)

Note 23

LEASING, NET LOSSES ON TRANSACTIONS AND DEBT SETTLEMENT COSTS

	Note	Year ended December 31,	
		2018	2017
Internal leasing costs		\$ (2,683)	\$ (5,237)
Gain (loss) on sale of investment properties, net ⁽¹⁾		(2,347)	(20,057)
Debt settlement costs, net ⁽²⁾		(1,932)	(16,255)
Realized foreign exchange gain on sale of investment property	17	—	5,905
Charge on cost reduction program	26	—	(1,616)
Loss on recognition of net assets related to joint operations	7	—	(117)
Other		(217)	(553)
Total		\$ (7,179)	\$ (37,930)

(1) Gain (loss) on sale of investment properties comprise transaction costs, commissions and other expenses incurred and adjustments in relation to the disposal of investment properties.

(2) Net debt settlement costs comprise charges on early discharge of mortgages and the write-off of associated financing costs and fair value adjustments.

Note 24

SUPPLEMENTARY CASH FLOW INFORMATION

The components of amortization and depreciation under operating activities include:

	Note	Year ended December 31,	
		2018	2017
Amortization and write-off of lease incentives	5, 10	\$ 11,825	\$ 14,587
Amortization and write-off of intangible assets	8	446	4,809
Amortization of financing costs	21	2,872	3,514
Amortization of fair value adjustments on assumed debt	21	(308)	(2,935)
Depreciation on property and equipment		1,753	2,112
Total amortization and depreciation		\$ 16,588	\$ 22,087

The components of changes in other adjustments under operating activities include:

	Note	Year ended December 31,	
		2018	2017
Deferred unit compensation expense	13	\$ 3,415	\$ 3,236
Straight-line rent adjustment		(538)	(2,885)
Deferred income taxes recovery	14	(452)	(7,950)
Gain (loss) on sale of investment properties, net	23	2,347	20,057
Debt settlement costs, net	23	1,098	16,255
Loss on recognition of net assets related to joint operations	23	—	117
Realized foreign exchange gain on sale of investment property	23	—	(5,905)
Total other adjustments		\$ 5,870	\$ 22,925

The components of the changes in non-cash working capital under operating activities include:

		Year ended December 31,	
		2018	2017
Decrease (increase) in amounts receivable		\$ (4,901)	\$ 1,686
Decrease in prepaid expenses and other assets		1,514	3,622
Decrease in other non-current assets		795	518
Decrease in amounts payable and accrued liabilities		(4,692)	(29,261)
Decrease in tenant security deposits		(864)	(8,550)
Change in non-cash working capital		\$ (8,148)	\$ (31,985)

The following amounts were paid on account of interest:

	Note	Year ended December 31,	
		2018	2017
Interest:			
Debt	21	\$ 58,908	\$ 82,092
Subsidiary redeemable units	21	5,234	6,760

Note 25

SEGMENTED INFORMATION

For the years ended December 31, 2018 and December 31, 2017, the Trust's reportable operating segments of its investment properties and results of operations were segmented geographically, namely Calgary, Toronto downtown, Mississauga and North York, Ottawa and Montréal, and Other markets. The chief operating decision-maker considers the performance of assets held for sale and future redevelopment, properties under development, and sold properties separately from properties in the regional segments. Accordingly, revenue, expenses and fair value adjustments related to these properties have been reclassified to "Other" for segment disclosure along with property management and other service fees, corporate amounts, lease termination fees, bad debt expense, straight-line rent and amortization of lease incentives at December 31, 2018 and December 31, 2017. Properties held for future redevelopment are those properties which are held with a view towards redevelopment, but which do not yet meet the criteria for presentation as properties under development. 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, leasing, net losses on transactions and debt settlement costs, and income taxes were not allocated to the segments.

Year ended December 31, 2018	Calgary	Toronto downtown	Mississauga and North York	Ottawa and Montréal	Other markets	Segment total	Other ⁽¹⁾	Total
Operations								
Investment properties revenue	\$ 17,465	\$ 144,945	\$ 24,572	\$ 37,449	\$ 28,867	\$ 253,298	\$ 31,909	\$ 285,207
Investment properties operating expenses	(6,274)	(62,669)	(9,852)	(19,523)	(12,009)	(110,327)	(19,915)	(130,242)
Net rental income (segment income)	11,191	82,276	14,720	17,926	16,858	142,971	11,994	154,965
Other income	—	—	—	—	—	—	44,799	44,799
Other expenses	—	—	—	—	—	—	(80,627)	(80,627)
Fair value adjustments, leasing, net losses on transactions and debt settlement costs	(22,848)	93,752	88	(5,953)	(14,904)	50,135	(11,152)	38,983
Income (loss) before income taxes	(11,657)	176,028	14,808	11,973	1,954	193,106	(34,986)	158,120
Current and deferred income taxes, net	—	—	—	—	—	—	(342)	(342)
Net income (loss) for the year	\$ (11,657)	\$ 176,028	\$ 14,808	\$ 11,973	\$ 1,954	\$ 193,106	\$ (35,328)	\$ 157,778

Year ended December 31, 2018	Calgary	Toronto downtown	Mississauga and North York	Ottawa and Montréal	Other markets	Segment total	Other ⁽²⁾	Reconciliation ⁽³⁾	Total
Capital expenditures ⁽⁴⁾	\$ 4,750	\$ 35,670	\$ 5,509	\$ 8,308	\$ 10,459	\$ 64,696	\$ 13,780	\$ (491)	\$ 77,985
Investment properties	\$ 115,583	\$ 1,798,728	\$ 221,464	\$ 357,878	\$ 167,928	\$ 2,661,581	\$ 117,245	\$ —	\$ 2,778,826

(1) Includes revenue, expenses and fair value adjustments related to properties held for sale and future redevelopment, properties under development, and sold properties at year-end, property management and other service fees, corporate amounts, lease termination fees, bad debt expense, straight-line rent and amortization of lease incentives.

(2) Includes properties held for future redevelopment, properties under development and sold properties at year-end.

(3) Includes assets held for sale during the year.

(4) Includes building improvements, initial direct leasing costs and lease incentives and interest capitalized to properties under development.

Year ended December 31, 2017	Calgary	Toronto downtown	Mississauga and North York	Ottawa and Montréal	Other markets	Segment total	Other ⁽¹⁾	Total
Operations								
Investment properties revenue	\$ 15,842	\$ 145,826	\$ 23,808	\$ 39,830	\$ 31,044	\$ 256,350	\$ 217,696	\$ 474,046
Investment properties operating expenses	(6,633)	(62,946)	(9,245)	(19,477)	(11,976)	(110,277)	(101,839)	(212,116)
Net rental income (segment income)	9,209	82,880	14,563	20,353	19,068	146,073	115,857	261,930
Other income	—	—	—	—	—	—	11,281	11,281
Other expenses	—	—	—	—	—	—	(110,667)	(110,667)
Fair value adjustments, leasing, net losses on transactions and debt settlement costs	(4,785)	228,551	(2,088)	(4,402)	(102,172)	115,104	(146,689)	(31,585)
Income (loss) before income taxes	4,424	311,431	12,475	15,951	(83,104)	261,177	(130,218)	130,959
Deferred income taxes recovery, net	—	—	—	—	—	—	3,827	3,827
Net income (loss) for the year	\$ 4,424	\$ 311,431	\$ 12,475	\$ 15,951	\$ (83,104)	\$ 261,177	\$ (126,391)	\$ 134,786

Year ended December 31, 2017	Calgary	Toronto downtown	Mississauga and North York	Ottawa and Montréal	Other markets	Segment total	Other ⁽²⁾	Reconciliation ⁽³⁾	Total
Capital expenditures ⁽⁴⁾	\$ 14,148	\$ 21,787	\$ 3,600	\$ 7,256	\$ 4,905	\$ 51,696	\$ 36,166	\$ (12,484)	\$ 75,378
Investment properties	\$ 135,055	\$ 1,683,820	\$ 216,400	\$ 355,687	\$ 169,779	\$ 2,560,741	\$ 410,227	\$ (51,530)	\$ 2,919,438

(1) Includes revenue, expenses and fair value adjustments related to properties held for sale and future redevelopment, properties under development, and sold properties at year-end, property management and other service fees, corporate amounts, lease termination fees, bad debt expense, straight-line rent and amortization of lease incentives.

(2) Includes properties held for future redevelopment, properties under development and sold properties at year-end.

(3) Includes assets held for sale during the year and at year-end.

(4) Includes building improvements and initial direct leasing costs and lease incentives.

Note 26

RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

From time to time, Dream Office REIT and its subsidiaries enter into transactions with related parties that are generally conducted on a cost recovery basis or under normal commercial terms.

Related party transactions

At December 31, 2018, DAM held 9,284,938 REIT A Units and 5,233,823 subsidiary redeemable units (December 31, 2017 – 8,512,730 REIT A Units and 5,233,823 subsidiary redeemable units collectively held by DAM and DHAAT).

On October 31, 2017, the Trust completed the sale of a 0.7 million square foot single-tenant distribution centre located in Nashville, Tennessee to Dream Industrial REIT for gross proceeds (net of adjustments) totalling \$60,855. The gross proceeds, net of adjustments, were satisfied by \$30,592 in cash, \$28,917 in assumed debt and \$1,346 of other adjustments. The Trust incurred \$709 in transaction costs with respect to this sale which was included in leasing, net losses on transactions and debt settlement costs.

Agreements with DAM

On April 2, 2015, the Trust and DAM entered into a Management Services Agreement pursuant to which DAM provides strategic oversight of the Trust and the services of senior management 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. This agreement gives DAM the right to terminate the agreement upon 180 days' notice (any time after April 2, 2018) and the Trust has the right to terminate the agreement upon 60 days' notice. As no incentive fee would currently be payable in the case of termination of the agreement, no amounts related to the incentive fee have been recorded in the consolidated financial statements as at December 31, 2018 and December 31, 2017.

On December 1, 2013, Dream Office REIT and DAM entered into a Shared Services Agreement and a Cost Sharing Agreement. Pursuant to the Reorganization, the Trust and DAM amended the existing Shared Services and Cost Sharing Agreements as of April 2, 2015. According to the terms of the amended arrangements, 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. The amended agreements provide for the automatic reappointment of DAM for additional one-year terms commencing on January 1 unless and until terminated in accordance with their terms or by mutual agreement of the parties.

Dream Office Management Corp. ("DOMC"), a wholly owned subsidiary of Dream Office Management LP, and DAM entered into an Administrative Services Agreement on April 2, 2015. Under this Administrative Services Agreement, DOMC provides certain administrative and support services to DAM. The terms of this agreement provide that DOMC will be reimbursed by DAM for the actual costs incurred by it in carrying out these activities on behalf of DAM. This agreement automatically renews 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. As a result of implementing this program, the Trust incurred charges of \$nil and \$1,616 for the years ended December 31, 2018 and December 31, 2017, which are included in leasing, net losses on transactions and debt settlement costs (see Note 23).

During the year ended December 31, 2018, the Trust, along with DAM, entered into a strategic partnership focused on the property technology market. The Trust and DAM each hold a 25% interest in the partnership, included in equity accounted investment in other non-current assets. As at December 31, 2018, the Trust had funded \$1,541 into the partnership.

Management Services Agreement with DAM

The following is a summary of fees incurred for the years ended December 31, 2018 and December 31, 2017:

	Year ended December 31,	
	2018	2017
Senior management compensation (included in G&A expenses)	\$ (357)	\$ (830)
Expense reimbursements related to financing arrangements (included in debt)	(333)	(576)
Expense reimbursements related to disposition arrangements (included in gain (loss) on sale of investment properties)	(280)	(702)
Professional services and other (included in investment properties and G&A expenses)	(1,300)	(848)
Total costs incurred under the Management Services Agreement	\$ (2,270)	\$ (2,956)

Administrative Services and Shared Services Agreements with DAM

The following is a summary of total costs processed on behalf of DAM and total costs processed by DAM on behalf of the Trust for the years ended December 31, 2018 and December 31, 2017.

	Year ended December 31,	
	2018	2017
Shared services and costs processed on behalf of DAM	\$ 6,107	\$ 5,742
Operating and administration costs of regional offices processed on behalf of DAM	284	287
Total costs processed on behalf of DAM under the Administrative Services Agreement	\$ 6,391	\$ 6,029
Total costs processed by DAM on behalf of the Trust under the Shared Services Agreement	\$ (1,207)	\$ (966)

Services Agreement with Dream Industrial REIT

Effective October 4, 2012, DOMC and Dream Industrial REIT entered into a Services Agreement, pursuant to which the Trust 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, 2018 and December 31, 2017:

	Year ended December 31,	
	2018	2017
Total cost recoveries from Dream Industrial REIT	\$ 3,304	\$ 2,726

Agreements with DHAAT

DOMC provides property management services to the two co-owned investment properties with DHAAT which are accounted for as joint operations (see Note 7).

Effective July 8, 2014, DOMC and DHAAT entered into a Services Agreement, in which the Trust provides certain services to DHAAT on a cost recovery basis.

The following is a summary of the amounts that were charged to DHAAT for the years ended December 31, 2018 and December 31, 2017:

	Year ended December 31,	
	2018	2017
Amounts charged to DHAAT under the Services Agreement	\$ 330	\$ 257
Costs processed on behalf of DHAAT related to co-owned properties	3,139	5,106
Total amount charged back to DHAAT⁽¹⁾	\$ 3,469	\$ 5,363

(1) Includes Services Agreement with DHAAT and Property Management Agreements for various co-owned and managed DHAAT properties.

Amounts due from (to) related parties

	December 31,	December 31,
	2018	2017
Amounts due from DAM		
Administrative Services Agreement with DAM	\$ 988	\$ 763
Total amounts due from DAM (included in amounts receivable)	\$ 988	\$ 763

	December 31,	December 31,
	2018	2017
Amounts due to DAM		
Various agreements with DAM ⁽¹⁾	\$ (531)	\$ (894)
Distributions payable to DAM ⁽²⁾	(774)	(499)
Subsidiary redeemable interest payable to DAM ⁽³⁾	(436)	(436)
Total amounts due to DAM (included in amounts payable and accrued liabilities)	\$ (1,741)	\$ (1,829)

(1) Includes Management Services Agreement and Shared Services Agreement.

(2) Distributions payable is in relation to the 9,284,938 REIT A Units held by DAM (December 31, 2017 – 5,992,583 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, 2018	December 31, 2017
Amounts due from Dream Industrial REIT		
Services Agreement with Dream Industrial REIT	\$ 387	\$ 302
Distributions receivable from Dream Industrial REIT ⁽¹⁾	1,535	1,431
Total amounts due from Dream Industrial REIT (included in amounts receivable)	\$ 1,922	\$ 1,733

(1) Distributions receivable is in relation to the 7,200,736 Dream Industrial REIT Units and 18,551,855 Dream Industrial LP Class B limited partnership units held by the Trust at December 31, 2018 (December 31, 2017 – 5,431,141 Dream Industrial REIT Units and 18,551,855 Dream Industrial LP Class B limited partnership units). Included in distribution receivable are the bonus distributions pursuant to Dream Industrial REIT's distribution reinvestment plan.

	December 31, 2018	December 31, 2017
Amounts due to Dream Industrial REIT		
Funds received on behalf of Dream Industrial REIT	\$ (855)	\$ (299)
Total amounts due to Dream Industrial REIT (included in amounts payable and accrued liabilities)	\$ (855)	\$ (299)

	December 31, 2018	December 31, 2017
Amounts due from DHAAT		
Various agreements with DHAAT ⁽¹⁾	\$ 363	\$ 538
Total amounts due from DHAAT (included in amounts receivable)	\$ 363	\$ 538

(1) Includes Services Agreement and Property Management Agreements.

	December 31, 2018	December 31, 2017
Amounts due to DHAAT		
Distributions payable to DHAAT ⁽¹⁾	\$ —	\$ (210)
Total amounts due to DHAAT (included in amounts payable and accrued liabilities)	\$ —	\$ (210)

(1) Distributions payable is in relation to the 2,520,147 REIT A Units held by DHAAT as at December 31, 2017.

Compensation of key management personnel and trustees

Compensation of key management personnel and trustees for the years ended December 31, 2018 and December 31, 2017 is as follows:

	Year ended December 31,	
	2018	2017
Compensation and benefits	\$ 1,640	\$ 1,417
Unit-based awards ⁽¹⁾	1,121	1,489
Total	\$ 2,761	\$ 2,906

(1) Deferred trust units granted to officers vest over a five-year period with one-fifth of the deferred trust units vesting each year. Deferred trust units granted to trustees vest when granted. 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 27

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 disposed 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 as at December 31, 2018 and December 31, 2017.

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 \$11,700. 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 at December 31, 2018.

At December 31, 2018, Dream Office REIT's future minimum commitments under operating leases and fixed price contracts to purchase steam are as follows:

	Minimum payments due			
	Within 1 year	1–5 years	> 5 years	Total
Operating lease payments	\$ 2,688	\$ 4,759	\$ 9,412	\$ 16,859
Fixed price contracts	151	604	1,815	2,570
Total	\$ 2,839	\$ 5,363	\$ 11,227	\$ 19,429

Operating leases include a ground lease at one investment property totalling \$4,300, payable in equal annual amounts over the next 27 years.

During the year ended December 31, 2018, the Trust paid \$3,281 (December 31, 2017 – \$1,908) in minimum lease payments, which has been included in the consolidated statements of comprehensive income for the year.

The Trust has entered into lease agreements that may require tenant improvement costs of approximately \$1,401 (December 31, 2017 – \$14,412).

The Trust has committed US\$6,075 to fund investments in real estate technologies.

The Trust is contingently liable under guarantees that are issued on certain debt assumed by purchasers of investment properties totalling \$148,733 (December 31, 2017 – \$173,188).

Note 28

CAPITAL MANAGEMENT

The primary objective of the Trust's capital management is to ensure it remains within its quantitative banking covenants.

The Trust's capital consists of debt, including mortgages, demand revolving credit facilities, 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. The Trust's maximum credit exposure is equal to the trade receivables as at December 31, 2018 and December 31, 2017.

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 demand revolving credit facilities or mortgage loans.

Note 29

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, foreign 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, 2018 was 26.3% of the Trust’s total debt (December 31, 2017 – 8.3%). 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.

	Amounts as at December 31, 2018	Interest rate risk			
		-1%		+1%	
		Income	Equity	Income	Equity
Financial assets					
Cash and cash equivalents ⁽¹⁾	\$ 8,769	\$ (88)	\$ (88)	\$ 88	\$ 88
Financial liabilities					
Fixed rate debt due to mature in 2019 and total variable debt	\$ 372,582	\$ 3,726	\$ 3,726	\$ (3,726)	\$ (3,726)

(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% to 2.00%. Cash and cash equivalents as at December 31, 2018 are short term in nature and may not be representative of the balance during the year.

The Trust is not exposed to significant foreign currency risk.

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. As at December 31, 2018, the Government of Canada represented 11.2% of the Trust’s gross rental revenue. No other tenant accounts for more than 10% of the Trust’s gross rental revenue. The Trust also monitors tenant payment patterns and discusses potential tenant issues with property managers on a regular basis. The Trust manages its credit risk on debt assumed by purchasers of investment properties by monitoring the ongoing repayment of assumed debt by the purchasers and evaluating market conditions which would affect the purchasers’ ability to repay assumed debt. The Trust manages its credit risk on VTB mortgage receivables by lending to reputable purchasers of properties, retaining security interests in the sold investment properties, monitoring compliance with repayment schedules and evaluating the progress and estimated rates of returns of financed projects. 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. As at December 31, 2018, current liabilities exceeded current assets by \$131,028 (December 31, 2017 – current liabilities exceeded current assets by \$108,433). The Trust’s main sources of liquidity are its cash and cash equivalents on hand, revolving credit facilities and unencumbered assets. The Trust is able to use its revolving credit facilities on short notice which eliminates the need to hold a significant amount of cash and cash equivalents on hand. Working capital balances fluctuate significantly from period to period depending on the timing of receipts and payments. The Trust manages maturities of the fixed rate debts, monitors the repayment dates and maintains adequate cash and cash equivalents on hand and availability on the demand revolving credit facilities to ensure sufficient capital will be available to cover obligations as they become due.

Note 30

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 for the years ended December 31, 2018 and December 31, 2017.

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, 2018	Fair value as at December 31, 2018		
			Level 1	Level 2	Level 3
Recurring measurements					
Non-financial assets					
Investment properties	5	\$ 2,778,826	\$ —	\$ —	\$ 2,778,826

	Note	Carrying value as at December 31, 2017	Fair value as at December 31, 2017		
			Level 1	Level 2	Level 3
Recurring measurements					
Financial instruments					
Marketable securities		\$ 5,259	\$ 5,259	\$ —	\$ —
Non-financial assets					
Investment properties	5	2,919,438	—	—	2,919,438
Investment properties classified as held for sale	10	51,530	—	—	51,530

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, 2018	Fair value as at December 31, 2018		
			Level 1	Level 2	Level 3
Fair values disclosed					
Mortgages	11	\$ 964,758	\$ —	\$ —	\$ 971,424
Demand revolving credit facilities	11	291,686	—	294,702	—
Debentures	11	149,769	150,923	—	—
Investment in Dream Industrial REIT	6	266,583	68,551	176,614	—
Non-current VTB mortgage receivable	8, 10	34,100	—	—	33,214

	Note	Carrying value as at December 31, 2017	Fair value as at December 31, 2017		
			Level 1	Level 2	Level 3
Fair values disclosed					
Mortgages	11	\$ 1,080,702	\$ —	\$ —	\$ 1,087,274
Demand revolving credit facilities	11	(3,192)	—	—	—
Debentures	11	290,140	292,346	—	—
Investment in Dream Industrial REIT	6	220,796	47,794	163,256	—

Amounts receivable, cash and cash equivalents, short-term VTB mortgage receivable, tenant security deposits, and amounts payable and accrued liabilities 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 2 is applied in determining the fair value of investment properties by using the income approach, which is derived from one of two methods: overall cap rate method and discounted cash flow method. As a result, these measurements are classified as Level 3 in the fair value hierarchy. Valuations of investment properties are most sensitive to changes in discount rates and cap 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.
- Capital expenditures – reflecting management's best estimates of costs to complete development projects.

As at December 31, 2018, there were no investment properties classified as assets held for sale. In accordance with IFRS 5, "Non-Current Assets Held for Sale and Discontinued Operations", the Trust classified certain investment properties as assets held for sale totalling \$51,530 as at December 31, 2017. 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 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 obtaining independent appraisals. At each reporting period, a select number of properties, determined on a rotational basis, are valued by independent appraisers. For properties not subject to independent appraisals, valuations are prepared internally during each reporting period.

The Trust uses the following techniques in determining the fair value disclosed for the following financial liabilities classified as Level 1, 2 and 3:

Mortgages

The fair value of mortgages as at December 31, 2018 and December 31, 2017 are determined by discounting the expected cash flows of each mortgage using market discount rates. 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 fair value of the investment properties that the mortgages are secured by and other indicators of the Trust's creditworthiness.

Debentures

The fair value of debentures that are traded as at December 31, 2018 and December 31, 2017 are based on the debentures' trading price on or about December 31, 2018 and December 31, 2017, respectively.

Non-current VTB mortgage receivable

The fair value of the non-current VTB mortgage receivable as at December 31, 2018 is determined by discounting the expected cash flows of the VTB mortgage receivable using market discount rates. The discount rates are determined using the Government of Canada benchmark bond yield for instruments of similar maturity adjusted for the counterparty's specific credit risk. In determining the adjustment for credit risk, the Trust considers market conditions and indicators of the counterparty's creditworthiness.

Note 31

COMPARATIVE FIGURES

Certain comparative figures included in the consolidated financial statements have been reclassified to conform to the current period presentation.



Trustees

Detlef Bierbaum^{Ind.,1,2}
Köln, Germany
Corporate Director

Donald K. Charter^{Ind.,1,3,4,6}
Toronto, Ontario
Corporate Director

Michael J. Cooper^{2,5}
Toronto, Ontario
President and Chief Responsible Officer
Dream Unlimited Corp.

Jane Gavan
Toronto, Ontario
Chief Executive Officer
Dream Global REIT

Robert Goodall^{Ind.,3,4}
Toronto, Ontario
President
Canadian Mortgage Capital Corp.

The Hon. Dr. Kellie Leitch^{Ind.,3}
Creemore, Ontario
Member of Parliament for Simcoe–Grey

Karine MacIndoe^{Ind.,1,4}
Toronto, Ontario
Corporate Director

Legend:

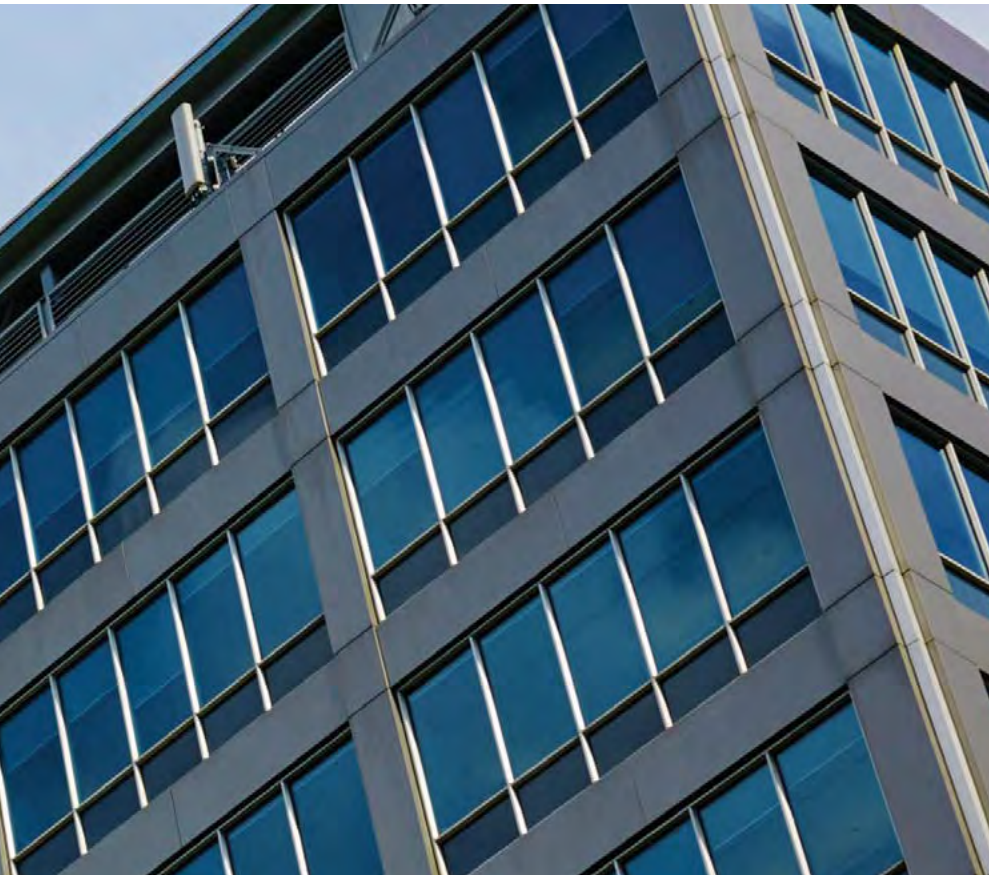
Ind. Independent

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
6. Independent Lead Trustee

Management Team

Michael J. Cooper
Chief Executive Officer

Jay Jiang
Chief Financial Officer



Corporate Information

HEAD OFFICE

**Dream Office
Real Estate Investment Trust**
State Street Financial Centre
30 Adelaide Street East, Suite 301
Toronto, Ontario M5C 3H1
Phone: (416) 365-3535
Fax: (416) 365-6565

INVESTOR RELATIONS

Phone: (416) 365-3535
Toll free: 1 877 365-3535
Email: officeinfo@dream.ca
Website: www.dreamofficereit.ca

TRANSFER AGENT

(for change of address, registration
or other unitholder enquiries)

**Computershare Trust
Company of Canada**
100 University Avenue, 8th Floor
Toronto, Ontario M5J 2Y1
Phone: (514) 982-7555 or 1 800 564-6253
Fax: (416) 263-9394 or 1 888 453-0330
Website: www.computershare.com
Email: service@computershare.com

AUDITOR

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600
Toronto, Ontario M5J 0B2

CORPORATE COUNSEL

Osler, Hoskin & Harcourt LLP
Box 50, 1 First Canadian Place, Suite 6200
Toronto, Ontario M5X 1B8

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Listing Symbol: REIT Units, Series A: D.UN

For more information, please visit
dreamofficereit.ca



Corporate Office

State Street Financial Centre
30 Adelaide Street East, Suite 301
Toronto, Ontario M5C 3H1
Phone: 416.365.3535
Fax: 416.365.6565
Website: www.dreamofficereit.ca
Email: officeinfo@dream.ca