



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.

dream 
office REIT

Letter to Unitholders

The last few years have been transformational for Dream Office REIT. In 2016, we announced a strategic plan to sell \$1.2 billion of assets over three years; we achieved this in the first year and then expanded the program in 2017. We are now focused on increasing the value of all of our remaining assets through initiatives that provide our tenants with the best experience in our buildings, pursuing intensification opportunities and maximizing the income from our properties.

Today, about 60% of Dream Office REIT's portfolio is located in Toronto's downtown core, one of North America's best office markets and one of the fastest growing cities on the continent. We also have quality assets with growth potential in Calgary, Mississauga, North York and Montréal. Dream Office REIT's portfolio is of significantly higher quality than what we owned in 2015 and all of our assets are likely to have a better future than their past.

Over the last two years, we used the proceeds of asset sales to reduce our debt level from 52% to below 40%. The dramatic reduction in debt has had a cost as we are paying down lower cost debt with more expensive equity, trading off yield for a much safer, higher quality company. We have also used capital from dispositions to reduce our units outstanding from 113 million to 75 million currently, or by 34%, so that future NAV increases can have a more dramatic effect on a per unit basis. Our unit price has responded favourably as we have now had two years of total unitholder returns of 20% each.

We still have a few assets to sell, which we are making progress on all the time. Now that our business consists of only our best assets, we are working on a detailed plan for each of them that will focus on customer service, increasing the usefulness of all of our space, animating our common areas and reducing energy costs.

2018 will be another transformational year for us. We are starting the year with a plan that focuses on how to manage our core assets in downtown Toronto to create a brand that is meaningful to our tenants, increases retention, and contributes to our financial returns. We want to develop ways for people to know that they are in one of our buildings as soon as they enter, and we are committed to providing a memorable, positive tenant experience. We also have great opportunities to intensify and develop our assets as the demand for residential and commercial space continues to increase.

We will continue to make decisions that we believe will add value to our business and that we hope will continue to be recognized in the public markets. I would like to thank you for your support of Dream Office REIT as we execute the next phase of our strategy.

Sincerely,



Michael J. Cooper

Chairman & Chief Executive Officer, Dream Office REIT

February 22, 2018



Michael J. Cooper

Chairman & Chief Executive Officer,
Dream Office REIT

“ 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. ”

Dream Office REIT at-a-Glance

\$23.46

NET ASSET VALUE PER UNIT

\$3.3 Billion

TOTAL ASSETS

90.4%

OCCUPANCY
(INCLUDING COMMITTED)

39.6%

NET TOTAL DEBT-TO-TOTAL ASSETS

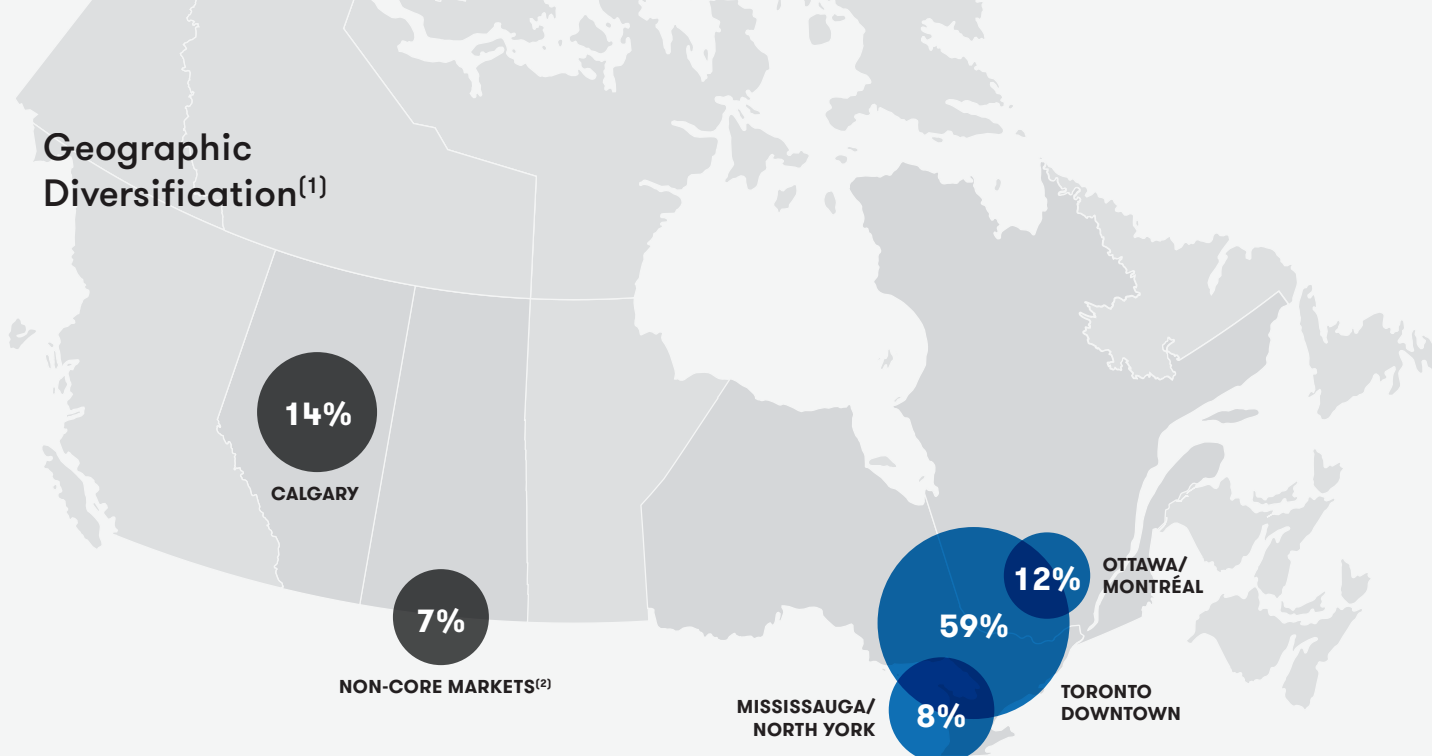


Adelaide Place, Toronto, ON



330 Bay Street, Toronto, ON

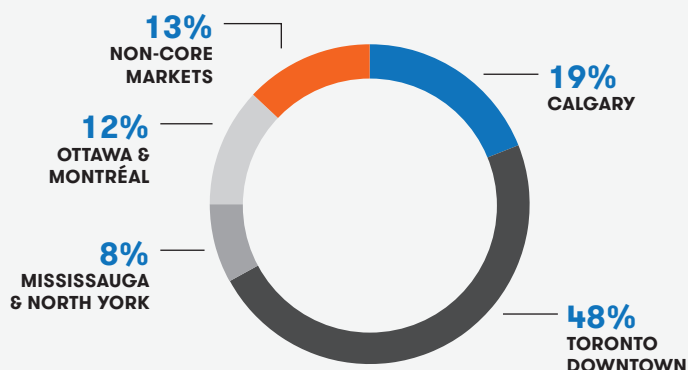
Geographic Diversification⁽¹⁾



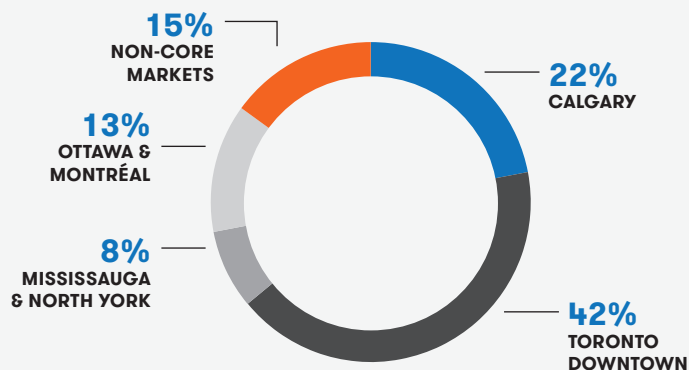
Top 10 Tenants with Weighted Average Lease Term of 4.9 Years

TENANT	GROSS RENTAL REVENUE (%)	OWNED AREA (THOUSANDS OF SQ. FT.)	OWNED AREA (%)	CREDIT RATING ⁽³⁾
Government of Canada	9.1	612	7.5	AAA/A-1+
Government of Ontario	7.9	613	7.5	A+/A-1
State Street Trust Company	3.5	219	2.7	AA-/A/A-1+
Newalta Corporation	2.9	187	2.3	N/R
Bell Canada	2.4	185	2.3	A-2/BBB+
AON Canada Inc.	2.1	152	1.9	N/R
International Financial Data Services	2.0	137	1.7	N/R
Cenovus Energy	2.0	141	1.7	BBB
Government of Québec	1.9	164	2.0	AA-/A-1+
National Bank of Canada	1.8	206	2.5	A/A-1
Total	35.6	2,616	32.1	

Comparative Properties NOI by Region



Gross Leasable Area by Region



(1) Chart based on percentage of investment property fair value excluding properties held for sale, as at December 31, 2017.

(2) Non-Core markets consist of 5% in Saskatchewan and 2% in the U.S., based on investment property fair value.

(3) Credit ratings are obtained from Standard & Poor's as at December 31, 2017 and may reflect the parent's or guarantor's credit rating. N/R – not rated

Sustainability

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.

Embedding Sustainability

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.



438 University Avenue, Toronto, ON



5001 Yonge Street, Toronto, ON



Focus on sustainability

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

From our ongoing dialogue with stakeholders, we know that they care about our sustainability platform, best practices and results. Our unitholders want to be confident that they are investing in a corporate entity which uses land and resources responsibly, minimizes carbon emissions and is in good standing with its employees and communities.

As property owners and operators, we are well positioned to implement meaningful changes within each of our companies through a progressive approach and

collaboration. Tenants generally are becoming more curious about the energy performance, cost and footprint of the specific building they are leasing. Building and maintaining high-quality, resilient properties allows us to protect our asset value and sustain high occupancy rates - an environmentally sound building is a desirable building. These are just a few examples of how business and sustainability go hand in hand.

With our more valuable and more concentrated portfolio, we will, among other changes, include significant improvements to energy efficiency, waste diversion and sustainable procurement as we increase the appeal of our buildings to our tenants and have less impact on our environment. In addition, we are continuing to invest in the development of our employees, which contributes to the strong execution of our business strategies. We are committed to sound and effective corporate governance practices.

Finally, it is increasingly important to employees that they feel good about the company for which they work. Many employees ask about best practices for energy, water and carbon management, waste recycling rates, our community commitments and what they can do to contribute.

Whatever we do, we always keep in mind the impact we have not only on our customers and tenants, but on anyone who comes into our buildings or neighbourhoods.

Our continued focus on sustainability is fostering a culture of innovation and collaboration with internal employees, external business partners and the community at large. We continue to implement strategies to manage our sustainability initiatives.



Canary District | Dream Office REIT Leasing, Toronto, ON
LEED Gold



Outstanding Building of the Year



Integrating sustainability into our buildings

Dream Office REIT has been integrating best practices into our environmental platform since 2011 and has been working hard to reduce our environmental footprint by minimizing resource consumption and greenhouse gas emissions. Reducing our energy, water and waste benefits the environment, our tenants and future generations.

According to the Canadian Green Building Council, green-certified buildings with lower operating costs and superior indoor environmental quality are more attractive to a growing group of customers. High-performing buildings are becoming a material factor when tenants and buyers make leasing and buying decisions.

At Dream, we also recognize the value of green buildings. That is why 95% of all properties over 100,000 square feet in Dream Office REIT now have a green building certification and operating standards regarding smart management of energy, water and waste. Our initiatives have resulted in an 11.4% reduction in energy use in our portfolio from 2014 to 2016.

The ongoing monitoring of resource consumption, waste streams, environmental regulations and risks also helps us to better position our assets for the future.

At the end of 2016, three of Dream Office REIT's flagship properties were LEED Gold certified, which represents 11% of the overall gross leasable area ("GLA") of its office portfolio. Another 4% is currently in progress, and we are in the process of reviewing additional buildings for LEED certification.

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. We enable energy efficiency and conservation through capital improvements, process changes and modifying behaviours.

Another example of Dream Office REIT's commitment to sustainability was demonstrated by winning the Earth Hour Portfolio Challenge for the most buildings entered by a single company for three consecutive years (2014, 2015, 2016). Around the globe, millions of people, businesses and landmarks set aside an hour to host events, switch off their lights, and make noise for climate change action.

As a leading Canadian office REIT, we feel that Dream Office REIT has a responsibility to manage and mitigate our overall impact on the environment and we will continue to tie sustainability into the ways we manage our business.

Our sustainability efforts were recognized in 2016 when in addition to being certified BOMA Platinum, London City Centre received The Outstanding Building of the Year (TOBY) Award in the class of 500,000 to 1 million square feet. The award is the most prestigious and comprehensive achievement of its kind in the commercial real estate (CRE) industry, recognizing quality in CRE buildings and rewarding excellence in building management.

During the competition, all facets of a building's operations are thoroughly evaluated. Entries are judged on everything from community involvement to environmental and sustainability management.

Judging is based on building standards, community impact, tenant relations, energy conservation, environmental, regulatory and sustainability, management emergency preparedness and security standards, and the training of building personnel.



London City Centre, London, ON

Sustainability Highlights

Environmental*



95% BOMA BEST

certification rate, based on buildings over 100,000 square feet in the Dream Office REIT portfolio



11.4%

reduction in energy use from 2014 to 2016



11% LEED

certification rate for our buildings in Dream Office REIT and an additional 4% underway



25,700 tonne

reduction in greenhouse gas emissions, equivalent to removing 5,500 cars from the road for one year



Winner

of the Earth Hour Challenge for the most buildings entered by a single company for three consecutive years (2014, 2015, 2016)



6.3 million litre

reduction in water use from 2014 to 2016 which is equivalent to the water in 2.5 Olympic size swimming pools

Governance



Embedded elements of sustainability in Board mandates



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



86% of Dream Office REIT Board members are independent

Social**



\$800,000

donated to charities and communities



~150 employees

participated in health and wellness initiatives or participated on Dream employee sports teams



\$300,000

in tuition and professional development fees reimbursed



Awarded **Employer of the Year** in 2017 by Community Living Toronto in recognition of outstanding practices in furthering employment opportunities for people with an intellectual disability



1,500 shoeboxes

were donated to the Shoebox Project for Women's Shelter by Dream, and: **600 gifts** were donated to seniors through the Tree of Dreams



Major Sponsor

of the Invictus Games; and Dream employees attended the sporting events in support of the athletes

* Environmental highlights are based on 2016

** Social highlights are based on all Dream entities combined

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Management's discussion and analysis

(All dollar amounts in our tables are presented in thousands of Canadian dollars, except for rental rates, unit and per unit amounts, 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, 2017	September 30, 2017	December 31, 2016
Total portfolio⁽¹⁾			
Number of properties	42	46	121
Gross leasable area ("GLA") ⁽²⁾	8,188	8,544	17,233
Comparative portfolio⁽³⁾			
Occupancy rate – including committed (period-end)	90.4%	90.4%	91.8%
Occupancy rate – in-place (period-end)	86.1%	87.4%	89.5%
Average in-place and committed net rent per square foot (period-end)	\$ 21.02	\$ 20.71	\$ 20.94
Weighted average lease term ("WALT") (years)	4.8	4.8	5.0

	Three months ended			Year ended	
	December 31, 2017	September 30, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Operating results					
Net income (loss)	\$ 100,731	\$ (637)	\$ (100,671)	\$ 134,786	\$ (879,705)
Adjusted net operating income ("NOI") ⁽⁴⁾	38,760	41,624	41,354	169,075	174,141
Comparative properties NOI ⁽⁵⁾	42,079	43,270	44,230	173,067	183,985
Funds from operations ("FFO") ⁽⁶⁾	32,235	44,653	67,155	197,869	290,887
EBITDFV ⁽⁷⁾	46,239	64,524	98,191	274,011	417,845
Distributions					
Total distributions	\$ 19,927	\$ 22,249	\$ 42,235	\$ 122,422	\$ 177,633
Per unit amounts⁽⁸⁾					
Distribution rate	\$ 0.25	\$ 0.25	\$ 0.38	\$ 1.25	\$ 1.56
FFO (basic) ⁽⁶⁾	0.40	0.48	0.59	2.03	2.55
FFO (diluted) ⁽⁶⁾	0.40	0.48	0.59	2.03	2.54

	As at		
	December 31, 2017	September 30, 2017	December 31, 2016
Financing			
Weighted average face rate of interest on debt (period-end) ⁽⁹⁾	3.90%	3.93%	3.84%
Interest coverage ratio (times) ⁽¹⁰⁾⁽¹¹⁾	3.1	3.1	3.1
Net debt-to-adjusted EBITDFV (years) ⁽¹⁰⁾	7.1	6.5	7.7
Level of debt (net total debt-to-total assets) ⁽¹⁰⁾⁽¹¹⁾	39.6%	39.7%	52.4%
Level of debt (net secured debt-to-total assets) ⁽¹⁰⁾⁽¹¹⁾	30.6%	30.0%	44.3%
Debt – average term to maturity (years)	4.5	4.7	3.8
Unencumbered assets ⁽¹²⁾	\$ 299,000	\$ 160,000	\$ 244,000
Available liquidity ⁽¹³⁾	\$ 493,627	\$ 666,670	\$ 622,725
Capital (period-end)			
Total number of REIT A Units and LP B Units (in millions) ⁽¹⁴⁾	78.9	81.1	110.0
Net asset value ("NAV") per unit ⁽¹⁵⁾	\$ 23.46	\$ 22.40	\$ 22.48

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

(2) In thousands of square feet.

(3) Comparative portfolio includes investment in joint ventures and excludes properties sold, properties held for sale and redevelopment at the end of Q4 2017.

(4) Adjusted NOI (non-GAAP measure) excludes NOI from properties held for sale and sold properties. Adjusted NOI is defined and reconciled to net rental income in the section "Non-GAAP Measures and Other Disclosures" under the heading "Net operating income ("NOI") and Adjusted NOI".

- (5) 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”.
- (6) 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”)”.
- (7) EBITDFV (non-GAAP measure) – The reconciliation of EBITDFV to net income (loss) can be found in the section “Non-GAAP Measures and Other Disclosures” under the heading “Earnings before interest, taxes, depreciation and fair value adjustments (“EBITDFV”)”.
- (8) A description of the determination of basic and diluted amounts per unit can be found in the section “Our Equity” under the heading “Weighted average number of units”.
- (9) Weighted average face rate of interest on debt is calculated as the weighted average face rate of all interest bearing debt balances, including investment in joint ventures that are equity accounted.
- (10) The calculation of the following non-GAAP measures – interest coverage ratio, net debt-to-adjusted EBITDFV and levels of debt – are included in the section “Non-GAAP Measures and Other Disclosures”.
- (11) Interest coverage ratio and levels of debt have been restated in the comparative periods to conform to current period presentation.
- (12) Excludes properties held for sale at period-end.
- (13) Available liquidity (non-GAAP measure) is defined in the section “Non-GAAP Measures and Other Disclosures” under the heading “Available liquidity”.
- (14) 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.
- (15) NAV per unit (non-GAAP measure) is defined in the section “Non-GAAP Measures and Other Disclosures” under the heading “Net asset value (“NAV”) per unit” 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 for the years ended December 31, 2016 and December 31, 2017, respectively. Unless otherwise indicated, our discussion of assets, liabilities, revenue and expenses includes our investment in joint ventures, which are equity accounted at our proportionate share of assets, liabilities, revenue and expenses.

This management’s discussion and analysis (“MD&A”) is dated as at February 22, 2018.

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

- “REIT A Units”, meaning the REIT Units, Series A of the Trust;
- “REIT B Units”, meaning the REIT Units, Series B of the Trust;
- “REIT Units”, meaning the REIT Units, Series A, and REIT Units, Series B, of the Trust; and
- “LP B Units” and “subsidiary redeemable units”, meaning the LP Class B, 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.

Prior to July 1, 2017, the Trust’s reportable operating segments of its investment properties and results of operations were segmented geographically, namely B.C./Saskatchewan/N.W.T., Alberta, Toronto – downtown, Toronto – suburban and Eastern Canada. Effective July 1, 2017, as a result of changes in the Trust’s property portfolio, the Trust made several changes to its reportable operating segments as follows: (i) separated its investment properties in Calgary from Alberta and created a new Calgary segment; (ii) separated its investment properties in Ottawa and Montréal from Eastern Canada and created a new Ottawa and Montréal segment; (iii) renamed the properties remaining in Toronto – suburban as Mississauga and North York; and (iv) created a new Non-core markets segment containing the remainder of the investment properties in the previous Alberta and Eastern Canada regions. This Non-core markets segment contains those investment properties in geographic areas which the Trust does not consider core to its stated strategic direction. These changes will enable management and unitholders to evaluate the performance of those investment properties which are key to the Trust’s strategy.

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, 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, litigation and the real estate industry in general (including statements regarding our disposition targets, the timing of proposed dispositions, redevelopment and intensification plans, the future composition of our portfolio, future NAV growth and debt levels), 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", "Substantial Completion of Disposition Program and Outlook" 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; 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 22, 2018. 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 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 to provide cash flows and superior risk-adjusted returns, while managing our assets to maximize value over the longer term;
- Continual improvement in the quality of our portfolio by investing in assets through upgrades, intensification and redevelopment in order for our buildings to be attractive to our tenants and selectively disposing of assets with lower potential for long-term income growth;
- 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.

SUBSTANTIAL COMPLETION OF DISPOSITION PROGRAM AND OUTLOOK

In February 2016, we announced our strategic plan to improve the long-term NAV of the Trust, by selectively disposing of assets while forgoing short-term cash flows and yield. We had originally set out to sell \$1.2 billion of non-core assets over three years; however, as we progressed through our disposition program, we found the private markets had a stronger than expected appetite for our assets. Further, we reviewed our portfolio at the beginning of 2017 and expanded upon our disposition goals to include some of our assets that did not have opportunities to increase their value through redevelopment and intensification. We have substantially completed our disposition program, having sold approximately \$3.3 billion of assets since the beginning of 2016, leaving a portfolio of higher-quality assets with a focus in downtown Toronto.

Consistent with our strategy, we have used our repatriated capital from dispositions to repurchase our units, positioning the Trust for future NAV increases to have a more dramatic effect on a per unit basis. Since the announcement of our strategic plan, we have purchased approximately 35.2 million REIT A Units for a total cost of approximately \$722.9 million or \$20.52 per unit. In conjunction with the disposition program and unit buybacks, we reduced our distribution from \$2.24 per unit prior to the announcement of our strategic plan to \$1.00 per unit this past July. The reduction in our distribution was done to maintain a conservative payout ratio, retain appropriate maintenance capital and generate investment capital to be used to improve the value of our portfolio.

With our strategic plan announced in February 2016 now substantially complete, we can now look to the next phase of our strategy, to become a nimble, value-add real estate operator positioned to unlock the value in our downtown Toronto assets through redevelopment and intensification.

FINANCIAL OVERVIEW

- **Net income for the quarter and year:** For the three months ended December 31, 2017, the Trust generated net income of \$100.7 million, consisting primarily of net rental income of \$41.4 million and fair value adjustments to investment properties and financial instruments of \$71.6 million, offset by interest expense on debt and subsidiary redeemable units of \$16.5 million and net losses on transactions and other activities of \$1.6 million.

For the year ended December 31, 2017, the Trust generated net income of \$134.8 million, consisting primarily of net rental income of \$257.7 million and fair value adjustments to investment properties and financial instruments of \$6.3 million, offset by interest expense on debt and subsidiary redeemable units of \$93.1 million and net losses on transactions and other activities of \$37.9 million.

- **Diluted FFO per unit⁽¹⁾ for the quarter and year:** Diluted FFO per unit for the three months ended December 31, 2017 was \$0.40, compared to \$0.48 and \$0.59 at Q3 2017 and Q4 2016, respectively. Diluted FFO per unit for the year ended December 31, 2017 was \$2.03, compared to \$2.54 for the year ended December 31, 2016. The decrease in diluted FFO per unit for the three months and year ended December 31, 2017 when compared to the prior year respective periods was primarily as a result of allocating capital repatriated from property dispositions to reduce overall debt levels, net of unit buybacks (-\$0.22 and -\$0.55, respectively), along with a decrease in comparative properties NOI⁽¹⁾ (-\$0.02 and -\$0.11, respectively), partially offset by lease termination fees and other non-recurring items (+\$0.05 and +\$0.15, respectively).

The decrease in diluted FFO per unit on a quarter-over-quarter basis was primarily as a result of allocating capital repatriated from property dispositions to reduce overall debt levels, net of unit buybacks (-\$0.07), along with a decrease in comparative properties NOI⁽¹⁾ (-\$0.01).

- **In-place occupancy:** As at December 31, 2017, our comparative portfolio in-place occupancy was 86.1%, compared to 87.4% and 89.5% at Q3 2017 and Q4 2016, respectively. The decline on a quarter-over-quarter basis was primarily due to a known vacancy at 438 University Ave. in Toronto downtown. Partially offsetting this decline in occupancy was an increase to occupancy in Calgary of 3.2%, mainly at 444-7th Building.

The decline on a year-over-year basis in occupancy was primarily due to known vacancies at 438 University Ave. in Toronto downtown, 700 De la Gauchetière St. W. ("700 DLG") in Montréal, and vacancies at 1900 Sherwood Place and Saskatoon Square in Saskatchewan. Partially offsetting this decline in occupancy was an increase of 1.8% in the Mississauga and North York region.

- **Leasing activity:** For the three months ended December 31, 2017, approximately 292 thousand square feet of leases commenced, of which approximately 115 thousand square feet were renewals. The retention ratio for the quarter was 57.5% after excluding the known vacancy at 438 University Ave. in Toronto downtown totalling approximately 194 thousand square feet.

For the year ended December 31, 2017, approximately 1.4 million square feet of leases commenced, of which approximately 797 thousand square feet were renewals, resulting in a tenant retention ratio of approximately 48.9%. Excluding the known vacancy at 438 University Ave., our retention ratio for the quarter improves to 55.5%.

To date, we have secured 2018 lease commitments totalling approximately 1.3 million square feet in our comparative portfolio, representing over three quarters of our 2018 lease maturities. The Trust has also leased over one-third of the 2019 lease maturities.

Leasing momentum in downtown Toronto remains robust given the low vacancy rates, which remain amongst the lowest in North America. To date, we have completed 126% of our 2018 lease maturities in the Toronto downtown region. During the quarter, the net rents for leases that commenced in Toronto downtown were approximately 6.5% above expiring net rents. Further, as at December 31, 2017, downtown Toronto market rents are estimated to be approximately 15% higher than our in-place and committed net rents.

- **Comparative properties NOI⁽¹⁾ for the quarter and year:** For the three months ended December 31, 2017, comparative properties NOI decreased by 4.9% over the prior year comparative quarter, mainly driven by decreases at 700 DLG in Montréal, at 438 University Ave. in Toronto downtown and in Saskatchewan within our Non-core markets regions, partially offset by increases in the Mississauga and North York region.

As previously disclosed, the decrease in comparative properties NOI at 700 DLG was mainly driven by Bell Canada vacating approximately 0.2 million square feet at the beginning of Q2 2017, which was substantially backfilled immediately by National Bank of Canada for a term of ten years. Bell Canada has a further 0.2 million square feet of lease maturities at the end of Q1 2018, for which we have lease commitments totalling 68 thousand square feet taking occupancy immediately, resulting in a loss of \$4 million to gross revenue on an annualized basis. Given the increasingly favourable economy in Montréal, we remain confident in our ability to re-let the vacancy at 700 DLG.

The decrease in comparative properties NOI at 438 University Ave. was mainly driven by Loyalty Management vacating approximately 0.2 million square feet of space at the beginning of Q4 2017, reducing gross revenue by approximately \$8 million on an annualized basis, partially offset by expected savings in operating expenses. Over the course of 2018, the Trust will ready the space to accommodate the new government tenant that will take effect in December 2018. 438 University Ave. is situated in a desirable location at the south-west corner of University Ave. and Dundas St. West, directly atop the St. Patrick TTC subway station and within close proximity to major hospitals.

Further, the decrease in comparative properties NOI in Saskatchewan was mainly driven by lower occupancies at 1900 Sherwood Place with an early termination in March 2017 of approximately 21 thousand square feet and at Saskatoon Square with a tenant vacating approximately 30 thousand square feet at the beginning of Q3 2017. Partially offsetting this decline in comparative properties NOI are the Mississauga and North York and Calgary regions with higher occupancies at Sussex Centre in Mississauga, 444-7th Building and 606-4th Building in Calgary.

For the year ended December 31, 2017, comparative properties NOI decreased by 5.9% over the prior year, with decreases in Calgary, Ottawa and Montréal and Saskatchewan within our Non-core markets regions, partially offset by increases in the Toronto downtown and Mississauga and North York regions. The overall decrease in comparative properties NOI was mainly due to lower occupancy and net rental rates.

The major vacancies noted above are going to negatively impact our comparative property performance over the next four quarters.

- **Fair value adjustments to investment properties for the quarter and year:** For the three months ended December 31, 2017, the Trust recorded a fair value gain of \$78.7 million, mainly driven by fair value gains in Toronto downtown totalling \$203.0 million, reflecting higher stabilized NOI to account for higher market rate assumptions and capitalization rate compression. Partially offsetting this were fair value losses in our Calgary and Non-core markets regions (Saskatchewan in particular) totalling \$106.9 million, reflecting a soft leasing environment in those regions with the balance of the fair value losses mainly attributable to properties sold and held for sale.

For the year ended December 31, 2017, the Trust recorded a fair value gain of \$23.1 million, mainly driven by the same reasons noted above.

For the three months ended December 31, 2017, the Trust valued 21 investment properties (mainly in the Toronto downtown region) by external appraisers with an aggregate fair value of \$1.8 billion, representing approximately 61% of the total investment property values.

- **Dispositions update:** For the three months ended December 31, 2017, we completed investment property dispositions for gross proceeds net of adjustments of \$184 million. Including the dispositions completed this quarter and subsequent to quarter-end, the Trust has sold approximately \$3.3 billion of investment properties since the beginning of 2016.
- **NAV per unit⁽¹⁾:** As at December 31, 2017, our NAV per unit was \$23.46, compared to \$22.40 at September 30, 2017 and \$22.48 at December 31, 2016, up \$1.06 or 4.7% and \$0.98 or 4.4%, respectively. The increase in NAV per unit during the quarter and year was primarily driven by fair value gains in Toronto downtown investment properties and unit buybacks, offset by fair value losses taken on properties in our Calgary and Non-core markets region (Saskatchewan in particular) and properties sold and held for sale.

The following table summarizes the major components of our NAV per unit as at December 31, 2017:

	Value (in \$ millions)	Per unit	GLA (in millions of sq. ft.)	Occupancy – in-place and committed (%)	WALT (years)
Investment properties					
Calgary	\$ 387	\$ 4.90	1.8	77.1%	4.6
Toronto downtown	1,708	21.64	3.5	96.8%	5.2
Mississauga and North York	216	2.74	0.6	94.5%	5.0
Ottawa and Montréal	356	4.51	1.1	93.6%	5.6
Non-core markets	212	2.68	1.2	86.9%	3.3
Total investment properties	2,879	36.47	8.2	90.4%	4.8
Mortgages	(1,081)	(13.69)			
Investment properties, net of mortgages	1,798	22.78			
Properties classified as held for sale and select redevelopment properties, net of related debt	92	1.17			
Investment in Dream Industrial REIT	221	2.80			
Unsecured debentures	(290)	(3.68)			
Cash and other items	31	0.39			
Net asset value	\$ 1,852	\$ 23.46			
Less: LP B units	116				
Equity per condensed consolidated financial statements	\$ 1,736				

Our Toronto downtown properties currently account for approximately 42% of our total GLA and approximately 59% of our comparative portfolio fair value of investment properties.

- **Capital allocation for the quarter and year:** For the three months and year ended December 31, 2017, the Trust was very active in redeploying the net proceeds received from dispositions to purchase units and pay down debt. For the three months and year ended December 31, 2017, the Trust received net proceeds from dispositions totalling approximately \$38.4 million and \$1.66 billion, respectively, and used the net proceeds and cash and cash equivalents on hand to purchase units for cancellation totalling approximately 2.2 million REIT A Units (\$21.62 per unit for a cost of \$47.3 million) and 31.3 million REIT A Units (\$20.74 per unit for a cost of \$649.2 million), respectively, and repaid debt totalling \$100.3 million and \$916.0 million, respectively.

On November 21, 2017, Dream Industrial REIT completed an \$86.5 million equity offering to partially fund an 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 \$25.0 million, to maintain our ownership interest in Dream Industrial REIT and provide the Trust a good return. As at December 31, 2017, the Trust owns 25.6% of Dream Industrial REIT.

- **Conservative capital structure with ample liquidity:** We ended the year with a net total debt-to-total assets ratio⁽¹⁾ of 39.6%, net debt-to-adjusted EBITDFV⁽¹⁾ of 7.1 years and interest coverage ratio⁽¹⁾ of 3.1 times. Our available liquidity⁽¹⁾ of \$494 million comprises undrawn demand revolving credit facilities totalling \$397 million and \$97 million of cash and cash equivalents on hand as at December 31, 2017.

(1) Diluted FFO per unit, comparative properties NOI, NAV per unit, net total debt-to-total assets, net debt-to-adjusted EBITDFV, interest coverage ratio and available liquidity are non-GAAP measures used by management in evaluating operating and financial performance. Please refer to the “Non-GAAP Measures and Other Disclosures” section of the MD&A for a full description of these non-GAAP measures.

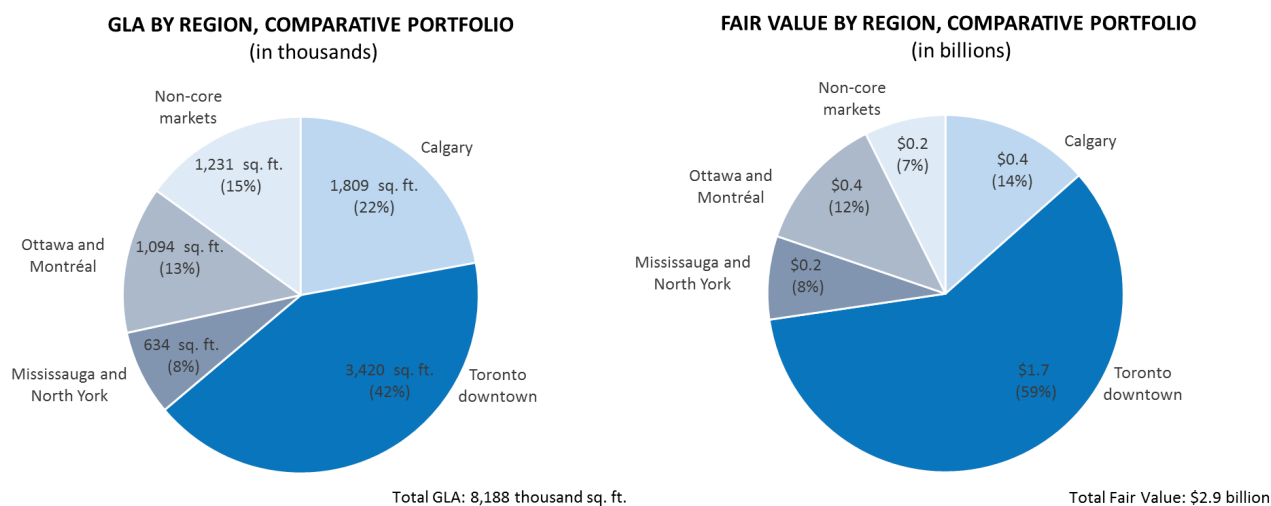
SECTION II

OUR PROPERTIES

At December 31, 2017, our ownership interests included 9.0 million square feet of GLA across 48 properties, which comprise 42 office properties (8.2 million square feet), four properties held for sale (0.4 million square feet) and two redevelopment properties comprising 15 acres in Scarborough, Ontario (0.4 million square feet).

Owned gross leasable area by region

The following pie charts illustrate GLA and fair value of investment properties by region, excluding investment properties held for sale and redevelopment properties, as at December 31, 2017.



Top ten tenants

Our tenant base includes municipal, provincial and federal governments as well as a wide range of high-quality large international corporations, including Canada's major banks and Canada's prominent law firms, and small- to medium-sized businesses across Canada. With 755 tenants and an average tenant size of approximately 11 thousand square feet in our portfolio, excluding properties held for sale and redevelopment, 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 tenants with a weighted average lease term of 4.9 years.

Tenant	Gross rental revenue (%)	Owned area (thousands of sq. ft.)	Owned area (%)	Credit rating ⁽¹⁾
1 Government of Canada	9.1	612	7.5	AAA/A-1+
2 Government of Ontario	7.9	613	7.5	A+/A-1
3 State Street Trust Company	3.5	219	2.7	AA-/A/A-1+
4 Newalta Corporation	2.9	187	2.3	N/R
5 Bell Canada	2.4	185	2.3	A-2/BBB+
6 AON Canada Inc.	2.1	152	1.9	N/R
7 International Financial Data Services	2.0	137	1.7	N/R
8 Cenovus Energy	2.0	141	1.7	BBB
9 Government of Québec	1.9	164	2.0	AA-/A-1+
10 National Bank of Canada	1.8	206	2.5	A/A-1
Total	35.6	2,616	32.1	

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

N/R – not rated

For the 185,000 square feet of space that is currently occupied by Bell Canada at 700 DLG, Montréal and expires at the end of Q1 2018, the Trust has commitments totalling approximately 68,000 square feet commencing in 2018.

OUR OPERATIONS

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

Performance indicators	December 31, 2017 ⁽¹⁾	September 30, 2017 ⁽²⁾	December 30, 2016 ⁽²⁾
Comparative portfolio			
Occupancy rate – including committed (period-end)	90.4%	90.4%	91.8%
Occupancy rate – in-place (period-end)	86.1%	87.4%	89.5%
Average in-place and committed net rental rates (per sq. ft.) (period-end) \$	21.02 \$	20.71 \$	20.94
Tenant maturity profile – average term to maturity (years)	4.8	4.8	5.0

(1) Excludes properties held for sale and redevelopment at year-end.

(2) Comparative periods include investment in joint ventures and excludes properties sold, held for sale and redevelopment at the end of Q4 2017.

Occupancy

The following table details our comparative portfolio in-place and committed occupancy and in-place occupancy rates, by geographic segment at December 31, 2017, September 30, 2017, and December 31, 2016. 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, 2017 ⁽¹⁾	September 30, 2017 ⁽²⁾	December 31, 2016 ⁽²⁾	December 31, 2017 ⁽¹⁾	September 30, 2017 ⁽²⁾	December 31, 2016 ⁽²⁾
Occupancy rate						
Calgary	77.1	76.7	78.7	75.7	72.5	75.5
Toronto downtown	96.8	97.7	97.6	89.1	93.6	93.9
Mississauga and North York	94.5	93.6	92.3	92.6	92.9	90.8
Ottawa and Montréal	93.6	92.0	96.8	92.1	92.0	96.8
Non-core markets	86.9	87.1	90.6	84.4	85.1	90.5
Total	90.4	90.4	91.8	86.1	87.4	89.5

(1) Excludes properties held for sale and redevelopment at year-end.

(2) Comparative periods include investment in joint ventures and excludes properties sold, held for sale and redevelopment at the end of Q4 2017.

The decline in the comparative portfolio in-place occupancy on a quarter-over-quarter and year-over-year basis was largely attributable to the Toronto downtown, Ottawa and Montréal and Non-core markets. In particular, the decline in Toronto downtown was primarily due to Loyalty Management vacating approximately 0.2 million square feet of space at 438 University Ave. on October 1, 2017. The 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 on April 1, 2017. The declines in the Non-core markets region were mainly experienced in select properties in Saskatchewan with negative absorption. With respect to the vacant space at 438 University Ave., the Trust has secured the entire space to a government tenant that will commence in December 2018 for a term of seven years, and the vacant space at 700 DLG in Montréal was substantially backfilled by National Bank of Canada for a term of ten years.

The following table details the change in occupancy (including committed) for the three months and year ended December 31, 2017:

	Three months ended December 31, 2017			Year ended December 31, 2017		
	Weighted average net rents per sq. ft.	000s sq. ft. ⁽¹⁾	As a percentage of total GLA ⁽¹⁾	Weighted average net rents per sq. ft.	000s sq. ft. ⁽¹⁾	As a percentage of total GLA ⁽¹⁾
Occupancy (including vacancy committed for future leases) – beginning of period		7,712	90.3%		15,450	89.7%
Vacancy committed for future leases		(245)	(2.9%)		(310)	(1.8%)
Occupancy in-place at beginning of period		7,467	87.4%		15,140	87.9%
Occupancy related to redevelopment properties, sold properties and properties held for sale		(311)			(7,810)	
Remeasurements/reclassifications		(1)			(4)	
Occupancy at beginning of period – adjusted		7,155	87.4%		7,326	89.5%
Expiries	\$ (18.62)	(394)	(4.9%)	\$ (21.64)	(1,629)	(19.9%)
Early terminations and bankruptcies	(21.00)	(1)	0.0%	(22.95)	(33)	(0.4%)
New leases	19.39	177	2.2%	18.06	591	7.2%
Renewals	20.68	115	1.4%	21.22	797	9.7%
Occupancy in-place – December 31, 2017		7,052	86.1%		7,052	86.1%
Vacancy committed for future leases		347	4.3%		347	4.3%
Occupancy (including vacancy committed for future leases) – December 31, 2017		7,399	90.4%		7,399	90.4%

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

At December 31, 2017, vacant space committed for future occupancy approximated 347 thousand square feet, with approximately 339 thousand square feet scheduled to take occupancy in 2018.

	Three months ended December 31, 2017	Year ended December 31, 2017
Tenant retention ratio	29.2%	48.9%
Renewal rate (per sq. ft.)	\$ 20.68	\$ 21.22
Expiring rents on renewed space (per sq. ft.)	19.98	22.46
Renewal to expiring rent spread (per sq. ft.)	0.70	(1.24)
Renewal to expiring rent spread (%)	3.5%	(5.5%)

For the three months and year ended December 31, 2017, approximately 292 thousand square feet and 1.4 million square feet, respectively, of leases commenced, of which approximately 115 thousand square feet and 797 thousand square feet, respectively, were renewals. The retention ratio for the quarter and year were 57.5% and 55.5%, respectively, after excluding the known vacancy at 438 University Ave. in Toronto downtown totalling approximately 194 thousand square feet.

The positive renewal to expiring rent spread for the three months ended December 31, 2017 was mainly driven by Toronto downtown, offset by the Calgary and Non-core markets regions. The negative renewal to expiring rent spread for the year ended December 31, 2017 was primarily driven by the Calgary and Ottawa and Montréal regions, offset by rent uplifts in Toronto downtown.

Rental rates

Average in-place and committed net rents across our comparative portfolio at December 31, 2017 was \$21.02 per square foot, compared to \$20.71 per square foot at September 30, 2017, and \$20.94 per square foot at December 31, 2016. The overall increase in our comparative portfolio average in-place and committed net rents on a quarter-over-quarter and year-over-year basis was mainly due to rent uplifts in the Toronto downtown region of 2.7% and 4.2%, respectively. 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 details the average in-place and committed net rental rates in our comparative portfolio as at December 31, 2017, September 30, 2017 and December 31, 2016:

Comparative portfolio	Average in-place and committed net rent (per sq. ft.)		
	December 31, 2017 ⁽¹⁾	September 30, 2017 ⁽²⁾	December 31, 2016 ⁽²⁾
Calgary	\$ 22.06	\$ 21.73	\$ 22.93
Toronto downtown	23.09	22.48	22.15
Mississauga and North York	20.67	20.70	20.62
Ottawa and Montréal	17.48	17.60	18.98
Non-core markets	16.83	16.76	16.79
Total	\$ 21.02	\$ 20.71	\$ 20.94

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

(2) Comparative periods include investments in joint ventures and exclude properties sold and properties held for sale and redevelopment at the end of Q4 2017.

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

The following table compares market rents in our comparative portfolio to the average in-place and committed net rent as at December 31, 2017:

Comparative portfolio	December 31, 2017 ⁽¹⁾		
	Market rent ⁽²⁾ (per sq. ft.)	Average in-place and committed net rent (per sq. ft.)	Market rent/ average in-place and committed net rent (%)
Calgary	\$ 15.07	\$ 22.06	(31.7)
Toronto downtown	26.68	23.09	15.5
Mississauga and North York	18.69	20.67	(9.6)
Ottawa and Montréal	19.82	17.48	13.4
Non-core markets	16.93	16.83	0.6
Total	\$ 21.48	\$ 21.02	2.2

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

(2) Market rents include office and retail space.

Net operating income ("NOI")⁽¹⁾

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

For a detailed discussion about Investment properties revenue and expenses for the three months and year ended December 31, 2017, refer to "Our Results of Operations" section.

Comparative properties NOI⁽¹⁾

For the three months ended December 31, 2017, comparative properties NOI decreased by 4.9%, or \$2.2 million, over the prior year comparative quarter, mainly driven by decreases in Ottawa and Montréal, Toronto downtown and Non-core markets regions, partially offset by increases in the Mississauga and North York region. The declines in occupancy and net rental rates in Toronto downtown were partially offset by lower non-recoverable operating expenses at certain properties. In the Calgary region, the declines in occupancy and net rental rates were offset by property tax refunds received in the current quarter as a result of vacancy in certain properties.

For the year ended December 31, 2017, NOI from comparative properties decreased by 5.9%, or \$10.9 million, over the prior year, with decreases in Calgary, Ottawa and Montréal and Non-core markets regions, partially offset by increases in the Toronto downtown and Mississauga and North York regions. The overall decrease in comparative properties NOI was mainly due to lower occupancy and net rental rates.

(1) NOI and comparative properties NOI (non-GAAP measures) – The reconciliations of NOI and comparative properties NOI to net rental income can be found in the section "Non-GAAP Measures and Other Disclosures" under the headings "Net operating income ("NOI") and Adjusted NOI" and "Comparative properties NOI".

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, 2017, lease termination fees and other adjustments amounted to a loss of \$0.1 million and income of \$5.9 million, respectively. The significant lease termination and other fees for the year ended December 31, 2017 was largely attributable to a lease cancellation fee for a tenant located at 700 DLG in Montréal during the first quarter (for the three months and year ended December 31, 2016 – income of \$0.2 million and \$1.7 million, respectively).

Properties held for redevelopment include Aviva Corporate Centre and 1020 Birchmount Road in Scarborough, Ontario. In September, Aviva Canada Inc., the major tenant at the redevelopment properties, vacated the premises upon expiry of their lease totalling approximately 319 thousand square feet, resulting in a decline in NOI related to these properties. The Trust is currently exploring redevelopment opportunities at these properties and accordingly has reclassified them out of our comparative properties during the third quarter of 2017.

	December 31, 2017	December 31, 2016	Three months ended		Change in weighted average occupancy %	In-place net rent change %
			Amount	Change %		
Calgary	\$ 8,312	\$ 8,282	\$ 30	0.4	(0.2)	(3.4)
Toronto downtown	20,168	20,513	(345)	(1.7)	(5.2)	(0.8)
Mississauga and North York	3,694	3,506	188	5.4	1.7	1.9
Ottawa and Montréal	4,658	6,025	(1,367)	(22.7)	(4.6)	(15.6)
Non-core markets	5,247	5,904	(657)	(11.1)	(6.0)	(9.3)
Comparative properties NOI⁽¹⁾	42,079	44,230	(2,151)	(4.9)	(3.6)	(4.2)
Lease termination fees and other	(127)	213	(340)			
Properties held for redevelopment	(727)	1,105	(1,832)			
Straight-line rent	261	461	(200)			
Amortization of lease incentives	(2,726)	(4,655)	1,929			
Adjusted NOI⁽¹⁾	38,760	41,354	(2,594)			
NOI from properties held for sale	1,573	1,707	(134)			
NOI from sold properties	1,040	49,603	(48,563)			
NOI⁽¹⁾	\$ 41,373	\$ 92,664	\$ (51,291)			

(1) Comparative properties NOI, Adjusted NOI and NOI (non-GAAP measures) – The reconciliations of comparative properties NOI, Adjusted NOI and NOI to net rental income can be found in the section “Non-GAAP Measures and Other Disclosures” under the headings “Net operating income (“NOI”) and Adjusted NOI” and “Comparative properties NOI”.

	December 31, 2017	December 31, 2016	Year ended		Change in weighted average occupancy %	In-place net rent change %
			Amount	Change %		
Calgary	\$ 32,030	\$ 39,180	\$ (7,150)	(18.2)	(4.4)	(15.6)
Toronto downtown	83,881	82,886	995	1.2	(1.9)	1.1
Mississauga and North York	14,563	13,901	662	4.8	0.5	3.1
Ottawa and Montréal	20,353	23,979	(3,626)	(15.1)	(2.9)	(11.3)
Non-core markets	22,240	24,039	(1,799)	(7.5)	(5.1)	(5.4)
Comparative properties NOI⁽¹⁾	173,067	183,985	(10,918)	(5.9)	(2.9)	(4.8)
Lease termination fees and other	5,933	1,703	4,230			
Properties held for redevelopment	2,265	4,293	(2,028)			
Straight-line rent	2,397	1,843	554			
Amortization of lease incentives	(14,587)	(17,683)	3,096			
Adjusted NOI⁽¹⁾	169,075	174,141	(5,066)			
NOI from properties held for sale	6,403	6,477	(74)			
NOI from sold properties	82,181	218,581	(136,400)			
NOI⁽¹⁾	\$ 257,659	\$ 399,199	\$ (141,540)			

(1) Comparative properties NOI, Adjusted NOI and NOI (non-GAAP measures) – The reconciliations of comparative properties NOI, Adjusted NOI and NOI to net rental income can be found in the section “Non-GAAP Measures and Other Disclosures” under the headings “Net operating income (“NOI”) and Adjusted NOI” and “Comparative properties NOI”.

NOI prior quarter comparison

For the three months ended December 31, 2017, comparative properties NOI on a quarter-over-quarter basis decreased by 2.8%, or \$1.2 million, over the prior quarter, with decreases mainly in the Toronto downtown, Ottawa and Montréal and Non-core markets regions, partially offset by increases in the Calgary and Mississauga and North York regions. The overall decrease in comparative properties NOI on a quarter-over-quarter basis was primarily due to Loyalty Management vacating approximately 194 thousand square feet of space at 438 University Ave. in Toronto downtown on October 1, 2017. Of the 194 thousand square feet of vacant space, the Trust has secured the entire space to a government tenant that will commence in December 2018 for a term of seven years.

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, 2017, lease termination fees and other amounted to a loss of \$0.1 million (three months ended September 30, 2017 – income of \$0.6 million).

In September, Aviva Canada Inc., the major tenant at the properties held for redevelopment, vacated the premises upon expiry of their lease totalling approximately 319 thousand square feet, resulting in a decline in NOI from \$0.7 million in Q3 2017 to negative \$0.7 million in Q4 2017.

			Three months ended		Change in weighted average occupancy %	In-place net rent change %
	December 31, 2017	September 30, 2017	Change			
			Amount	%		
Calgary	\$ 8,312	\$ 8,059	\$ 253	3.1	2.3	0.8
Toronto downtown	20,168	21,511	(1,343)	(6.2)	(5.8)	(2.6)
Mississauga and North York	3,694	3,585	109	3.0	0.2	0.0
Ottawa and Montréal	4,658	4,767	(109)	(2.3)	0.1	(0.3)
Non-core markets	5,247	5,348	(101)	(1.9)	(1.8)	(1.8)
Comparative properties NOI⁽¹⁾	42,079	43,270	(1,191)	(2.8)	(2.1)	(1.4)
Lease termination fees and other	(127)	562	(689)			
Properties held for redevelopment	(727)	730	(1,457)			
Straight-line rent	261	640	(379)			
Amortization of lease incentives	(2,726)	(3,578)	852			
Adjusted NOI⁽¹⁾	38,760	41,624	(2,864)			
NOI from properties held for sale	1,573	1,612	(39)			
NOI from sold properties	1,040	16,952	(15,912)			
NOI⁽¹⁾	\$ 41,373	\$ 60,188	\$ (18,815)			

(1) Comparative properties NOI, Adjusted NOI and NOI (non-GAAP measures) – The reconciliations of comparative properties NOI, Adjusted NOI and NOI to net rental income can be found in the section “Non-GAAP Measures and Other Disclosures” under the headings “Net operating income (“NOI”) and Adjusted NOI” and “Comparative properties NOI”.

Leasing costs

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, 2017, approximately \$10.0 million and \$33.7 million, respectively, of initial direct leasing costs and lease incentives were attributable to leases that commenced in our comparative portfolio during the respective periods. For the year, we managed to lease up more space in our comparative portfolio with approximately 1.4 million square feet of space occupied, with a longer WALT and lower leasing costs on a per square foot per year basis relative to the prior year. For the three months and year ended December 31, 2017, the WALT on leases that commenced over the respective periods were 6.2 years and 5.8 years, respectively, well above our current average of 4.8 years. The average cost per square foot per year leased for the three months and year ended December 31, 2017 was \$5.52 per square foot per year and \$4.18 per square foot per year leased, respectively, representing a decrease of \$1.97 and \$1.74 per square foot, respectively, over the prior year comparative periods. While the overall leasing costs and lease incentives per square foot per year have decreased year-over-year, we expect leasing costs and lease incentives to remain elevated in areas such as Calgary and Saskatchewan, given the current competitive office leasing environment in those particular regions.

Performance indicators	Three months ended December 31,		Year ended December 31,	
	2017	2016 ⁽²⁾	2017	2016 ⁽²⁾
Leases commenced during the period⁽¹⁾				
Leases that commenced during the period (in thousands of sq. ft.)	292	332	1,388	1,114
Average lease term (years) ⁽³⁾	6.2	7.0	5.8	5.5
Initial direct leasing costs and lease incentives ⁽³⁾ :				
In thousands of dollars	\$ 10,022	\$ 17,321	\$ 33,740	\$ 36,175
Per square foot	\$ 34.37	\$ 52.16	\$ 24.31	\$ 32.48
Per square foot per year	\$ 5.52	\$ 7.49	\$ 4.18	\$ 5.92

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

(2) Comparative periods include investments in joint ventures and exclude properties sold and properties held for sale and redevelopment at the end of Q4 2017.

(3) For leases that commenced during the respective periods.

Lease maturity profile and expiring rental rates

The following table details our lease maturity profile, lease commitments and expiring net rents by geographic segment and by year, as at December 31, 2017.

(in thousands of square feet)	2018	2019	2020	2021	2022	2023+
Calgary						
Expiries	(178)	(393)	(59)	(193)	(123)	(424)
Expiring net rents	\$ 26.34	\$ 22.44	\$ 24.43	\$ 18.74	\$ 20.84	\$ 23.68
Commencements	33	147	—	—	—	—
Commencements as a percentage of expiries	19%	37%	—	—	—	—
Toronto downtown						
Expiries	(570)	(434)	(185)	(593)	(415)	(851)
Expiring net rents	\$ 21.47	\$ 22.72	\$ 23.92	\$ 22.39	\$ 25.18	\$ 25.58
Commencements	685	105	11	13	—	138
Commencements as a percentage of expiries	120%	24%	6%	2%	—	16%
Mississauga and North York						
Expiries	(249)	(30)	(92)	(96)	(19)	(101)
Expiring net rents	\$ 23.34	\$ 22.74	\$ 20.91	\$ 18.82	\$ 19.61	\$ 19.63
Commencements	239	—	39	—	7	—
Commencements as a percentage of expiries	96%	—	42%	—	37%	—
Ottawa and Montréal						
Expiries	(220)	(27)	(190)	(12)	(206)	(353)
Expiring net rents	\$ 20.94	\$ 19.35	\$ 13.60	\$ 34.89	\$ 22.27	\$ 18.99
Commencements	105	—	—	—	6	—
Commencements as a percentage of expiries	48%	—	—	—	3%	—
Non-core markets						
Expiries	(526)	(60)	(280)	(14)	(89)	(70)
Expiring net rents	\$ 14.47	\$ 20.21	\$ 17.58	\$ 15.66	\$ 23.86	\$ 21.75
Commencements	219	—	—	—	—	—
Commencements as a percentage of expiries	42%	—	—	—	—	—
Total						
Expiries	(1,743)	(944)	(806)	(908)	(852)	(1,799)
Expiring net rents	\$ 20.05	\$ 22.35	\$ 18.99	\$ 21.29	\$ 23.59	\$ 23.35
Commencements	1,281	252	50	13	13	138
Commencements as a percentage of expiries	73%	27%	6%	1%	2%	8%

OUR RESULTS OF OPERATIONS

Basis of accounting

The Trust's proportionate share of the results of operations of its investment in joint ventures, which are accounted for using the equity method in the consolidated financial statements, are presented and discussed throughout the MD&A using the proportionate consolidation method and are, therefore, non-GAAP measures. This presentation only impacted the comparative periods as the Trust did not have any investments in joint ventures during the current year. A reconciliation of the results of operations to the consolidated statements of comprehensive income (loss) is included in the following tables.

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

Statement of comprehensive income (loss) reconciliation to consolidated financial statements

Three months ended December 31,

	2017			2016		
	Amounts included in consolidated financial statements	Share of income from investment in joint ventures	Total	Amounts included in consolidated financial statements	Share of income from investment in joint ventures	Total
Investment properties revenue	\$ 78,740	\$ —	\$ 78,740	\$ 166,919	\$ 2,196	\$ 169,115
Investment properties operating expenses	(37,367)	—	(37,367)	(75,204)	(1,247)	(76,451)
Net rental income	41,373	—	41,373	91,715	949	92,664
Other income (loss)						
Share of net income and net accretion loss from investment in Dream Industrial REIT	3,409	—	3,409	1,156	—	1,156
Share of net loss from investment in joint ventures	—	—	—	(12,201)	12,201	—
Interest and fee income	1,064	—	1,064	1,055	9	1,064
	4,473	—	4,473	(9,990)	12,210	2,220
Other expenses						
General and administrative	(2,556)	—	(2,556)	(2,811)	—	(2,811)
Interest:						
Debt	(15,209)	—	(15,209)	(28,248)	(259)	(28,507)
Subsidiary redeemable units	(1,307)	—	(1,307)	(1,963)	—	(1,963)
Amortization and write-off of external management contracts and depreciation on property and equipment	(616)	—	(616)	(872)	—	(872)
	(19,688)	—	(19,688)	(33,894)	(259)	(34,153)
Fair value adjustments, net losses on transactions and other activities						
Fair value adjustments to investment properties	78,663	—	78,663	(123,200)	(12,900)	(136,100)
Fair value adjustments to financial instruments	(7,063)	—	(7,063)	(15,246)	—	(15,246)
Net losses on transactions and other activities	(1,632)	—	(1,632)	(9,332)	—	(9,332)
	69,968	—	69,968	(147,778)	(12,900)	(160,678)
Income (loss) before income taxes	96,126	—	96,126	(99,947)	—	(99,947)
Current income taxes expense	(4,123)	—	(4,123)	—	—	—
Deferred income taxes (expense) recovery	8,728	—	8,728	(724)	—	(724)
Net income (loss) for the period	100,731	—	100,731	(100,671)	—	(100,671)
Other comprehensive income (loss)						
Items reclassified to net income (loss):						
Reclassified realized foreign currency translation gain, 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	12	—	12	11	—	11
Unrealized foreign currency translation gain, net of taxes	110	—	110	950	—	950
Share of other comprehensive loss from investment in Dream Industrial REIT	(260)	—	(260)	—	—	—
	(6,043)	—	(6,043)	961	—	961
Comprehensive income (loss) for the period	\$ 94,688	\$ —	\$ 94,688	\$ (99,710)	\$ —	\$ (99,710)

Year ended December 31,

	2017			2016		
	Amounts per consolidated financial statements	Share of income from investment in joint ventures	Total	Amounts per consolidated financial statements	Share of income from investment in joint ventures	Total
Investment properties revenue	\$ 469,775	\$ —	\$ 469,775	\$ 664,291	\$ 59,002	\$ 723,293
Investment properties operating expenses	(212,116)	—	(212,116)	(295,713)	(28,381)	(324,094)
Net rental income	257,659	—	257,659	368,578	30,621	399,199
Other income (loss)						
Share of net income and net accretion loss from investment in Dream Industrial REIT	9,440	—	9,440	8,086	—	8,086
Share of net loss from investment in joint ventures	—	—	—	(154,300)	154,300	—
Interest and fee income	6,112	—	6,112	3,258	42	3,300
	15,552	—	15,552	(142,956)	154,342	11,386
Other expenses						
General and administrative	(10,644)	—	(10,644)	(11,906)	—	(11,906)
Interest:						
Debt	(86,560)	—	(86,560)	(119,520)	(8,864)	(128,384)
Subsidiary redeemable units	(6,542)	—	(6,542)	(8,174)	—	(8,174)
Amortization and write-off of external management contracts and depreciation on property and equipment	(6,921)	—	(6,921)	(3,573)	(27)	(3,600)
	(110,667)	—	(110,667)	(143,173)	(8,891)	(152,064)
Fair value adjustments, net losses on transactions and other activities						
Fair value adjustments to investment properties	23,116	—	23,116	(899,100)	(172,700)	(1,071,800)
Fair value adjustments to financial	(16,771)	—	(16,771)	(13,555)	—	(13,555)
Net losses on transactions and other activities	(37,930)	—	(37,930)	(47,546)	(3,372)	(50,918)
	(31,585)	—	(31,585)	(960,201)	(176,072)	(1,136,273)
Income (loss) before income taxes	130,959	—	130,959	(877,752)	—	(877,752)
Current income taxes expense	(4,123)	—	(4,123)	—	—	—
Deferred income taxes (expense) recovery	7,950	—	7,950	(1,953)	—	(1,953)
Net income (loss) for the year	134,786	—	134,786	(879,705)	—	(879,705)
Other comprehensive income (loss)						
Items reclassified to net income (loss):						
Reclassified interest rate swaps, net of tax	—	—	—	561	—	561
Reclassified realized foreign currency translation gain, 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	45	—	45	252	—	252
Unrealized foreign currency translation loss, net of taxes	(3,115)	—	(3,115)	(1,207)	—	(1,207)
Share of other comprehensive loss from investment in Dream Industrial REIT	(260)	—	(260)	—	—	—
	(9,235)	—	(9,235)	(394)	—	(394)
Comprehensive income (loss) for the year	\$ 125,551	\$ —	\$ 125,551	\$ (880,099)	\$ —	\$ (880,099)

Net income

For the three months ended December 31, 2017, the Trust generated net income of \$100.7 million consisting primarily of net rental income of \$41.4 million and fair value adjustments to investment properties and financial instruments of \$71.6 million, offset by interest expense on debt and subsidiary redeemable units of \$16.5 million and net losses on transactions and other activities of \$1.6 million.

For the year ended December 31, 2017, the Trust generated net income of \$134.8 million consisting primarily of net rental income of \$257.7 million and fair value adjustments to investment properties and financial instruments of \$6.3 million, offset by interest expense on debt and subsidiary redeemable units of \$93.1 million and net losses on transactions and other activities of \$37.9 million.

Investment properties revenue

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

Investment properties revenue for the quarter (included in consolidated financial statements) was \$78.7 million compared to \$166.9 million (included in consolidated financial statements) and \$169.1 million (including joint ventures) in the prior year comparative quarter. For the year ended December 31, 2017, investment properties revenue (per consolidated financial statements) was \$469.8 million compared to \$664.3 million (per consolidated financial statements) and \$723.3 million (including joint ventures) in the prior year.

Overall, the decreases were primarily driven by dispositions during the current and prior year and lower weighted average in-place occupancy. Offsetting this decline in investment properties revenue (per consolidated financial statements) for the three months and year ended December 31, 2017 was the recognition of the investment property revenues from the Trust's 50% interests in Scotia Plaza⁽¹⁾, 100 Yonge Street⁽¹⁾ and F1RST Tower⁽²⁾ in the consolidated financial statements and an increase in lease termination fees and other adjustments. The increase in lease termination fees and other adjustments was mainly driven by a one-time lease cancellation fee of \$4.6 million that was received during Q1 2017 from a tenant located at 700 DLG in Montréal.

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 (included in consolidated financial statements) for the quarter were \$37.4 million compared to \$75.2 million (included in consolidated financial statements) and \$76.5 million (including joint ventures) in the prior year comparative quarter. For the year ended December 31, 2017, investment properties operating expenses (per consolidated financial statements) were \$212.1 million compared to \$295.7 million (per consolidated financial statements) and \$324.1 million (including joint ventures) in the prior year.

Overall, the decreases were mainly driven by dispositions during the current and prior year and lower weighted average in-place occupancy. Offsetting this decrease in investment properties operating expenses (per consolidated financial statements) for the three months and year ended December 31, 2017 was the recognition of investment properties operating expenses from the Trust's 50% interest in Scotia Plaza⁽¹⁾, 100 Yonge Street⁽¹⁾ and F1RST Tower⁽²⁾ in the consolidated financial statements.

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

Share of net income and net accretion loss from investment in Dream Industrial REIT for the quarter and year ended December 31, 2017 were \$3.4 million and \$9.4 million, respectively. The increase in our share of net income and net accretion loss from investment in Dream Industrial REIT for the respective periods was primarily driven by reduction in fair value losses to investment properties and a reduction in non-recurring charges on other activities, offset by reduction in fair value gains to financial instruments and higher net accretion loss recognized as a result of our participation in Dream Industrial REIT's distribution reinvestment plan.

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

(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 in the consolidated financial statements.

Interest and fee income

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

Interest and fee income (included in consolidated financial statements) for the quarter was \$1.1 million, flat when compared to the prior year comparative quarter.

For the year ended December 31, 2017, interest and fee income was \$6.1 million, an increase of \$2.9 million over the prior year comparative period, mainly due to one-time leasing fees of \$1.3 million related to leasing activity at Scotia Plaza in the second quarter, \$0.6 million of one-time interest earned on a vendor take-back mortgage related to the sale of a portfolio of properties in Kitchener in the fourth quarter of 2016, \$1.1 million of investment income and interest earned on bank accounts.

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,	
	2017	2016	2017	2016
Management Services Agreement with Dream Asset Management Corporation (“DAM”)	\$ (176)	\$ (110)	\$ (830)	\$ (661)
Salaries and benefits	(320)	(438)	(1,521)	(1,902)
Deferred compensation expense	(621)	(694)	(3,128)	(2,551)
Other ⁽¹⁾	(1,439)	(1,569)	(5,165)	(6,792)
General and administrative expenses	\$ (2,556)	\$ (2,811)	\$ (10,644)	\$ (11,906)

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

General and administrative (“G&A”) expenses for the quarter were \$2.6 million, a decrease of \$0.3 million over the prior year comparative quarter, mainly attributable to decreases in salaries and benefits expense and a reduction in overhead related costs as a result of our cost reduction program. Partially offsetting the reduction was an increase in charges from the Management Services Agreement with DAM, reflecting the adjustment to the Chief Executive Officer’s compensation. For the year ended December 31, 2017, G&A expenses were \$10.6 million, a decrease of \$1.3 million over the prior year, mainly due to the same reasons noted earlier, partially offset by an increase in deferred compensation expense due to an appreciating unit price throughout 2017 and changes to the vesting terms of the Board of Trustee retainer fees in the third quarter.

Interest expense – debt

Interest expense on debt (included in consolidated financial statements) for the quarter was \$15.2 million, compared to \$28.2 million (included in consolidated financial statements) and \$28.5 million (including joint ventures). For the year ended December 31, 2017, interest expense on debt (per consolidated financial statements) was \$86.6 million compared to \$119.5 million (per consolidated financial statements) and \$128.4 million (including joint ventures) in the prior year comparative period.

Overall, the decreases were mainly driven by discharge of debt related to sold properties, discharge of certain maturing debt in the current and prior year and refinancing of maturing debt at lower interest rates during the current and prior year. Offsetting this decline in interest expense on debt (per consolidated financial statements) for the three months and year ended December 31, 2017 was the recognition of interest expense related to the Trust’s 50% interest in the debt of Scotia Plaza⁽¹⁾, 100 Yonge Street⁽¹⁾ and F1RST Tower⁽²⁾ in the consolidated financial statements.

Interest expense – subsidiary redeemable units

Interest expense on subsidiary redeemable units (included in consolidated financial statements) for the quarter was \$1.3 million, a decrease of \$0.7 million over the prior year comparative quarter. For the year ended December 31, 2017, interest expense on subsidiary redeemable units (per consolidated financial statements) was \$6.5 million, a decrease of \$1.6 million over the prior year. The decreases were due to the reduction in monthly cash distribution from \$0.18666 per unit to \$0.125 per unit, or \$1.50 per unit on an annualized basis, commencing with the month of February 2016 distribution and a further reduction to \$0.08333 per unit, or \$1.00 per unit on an annualized basis, commencing with the month of July 2017 distribution.

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

(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 in the consolidated financial statements.

Amortization and write-off of external management contracts and depreciation on property and equipment

Amortization and write-off of external management contracts and depreciation on property and equipment expense (included in consolidated financial statements) for the quarter was \$0.6 million, an increase of \$0.3 million when compared to the prior year comparative quarter (for the year ended December 31, 2017 – \$6.9 million, an increase of \$3.3 million over the prior year), primarily driven by the write-off of external management contracts related to certain co-owned properties disposed of during the current 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, 2017.

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 \$7.1 million and \$16.8 million fair value losses (included in consolidated financial statements) recorded for the three months and year ended December 31, 2017, respectively, were due to remeasurement of the carrying value of subsidiary redeemable units and deferred trust units during the quarter and for the year, as a result of increases in the Trust’s unit price.

Net losses on transactions and other activities

The following table summarizes the nature of expenses and gains included in net losses on transactions and other activities, including investments in joint ventures:

	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Debt settlement costs, net ⁽¹⁾	\$ (3,968)	\$ —	\$ (16,255)	\$ (13,320)
Costs on sale of investment properties ⁽²⁾	(1,665)	(3,137)	(20,057)	(12,074)
Internal leasing costs	(1,308)	(2,150)	(5,237)	(8,822)
Charge on cost reduction program	(43)	(3,923)	(1,616)	(3,923)
Realized foreign exchange gain on the sale of investment property	5,905	—	5,905	—
Loss on recognition of net assets related to joint operations	—	—	(117)	(10,263)
Business transformation costs	—	(122)	—	(1,219)
Other	(553)	—	(553)	(1,297)
Total	\$ (1,632)	\$ (9,332)	\$ (37,930)	\$ (50,918)

(1) 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.

(2) Costs on sale of investment properties comprise transaction costs, commissions and other expenses incurred in relation to the disposal of investment properties.

For the three months ended December 31, 2017, the decrease in net losses on transactions and other activities over the prior year comparative quarter was mainly due to the realization of historic foreign exchange adjustments on the sale of an investment property in the United States, and a reduction in costs on sale of investment properties, internal leasing costs, the charge on cost reduction program and elimination of business transformation costs, partially offset by higher debt settlement costs. For the year ended December 31, 2017, the decrease over the prior year was mainly due to the same reasons noted above, except for costs on sale of investment properties, where it increased over the prior year, and lower loss on recognition of net assets related to joint operations.

Current income taxes expense

Current income taxes expense (included in consolidated financial statements) for the three months and year ended December 31, 2017 were \$4.1 million as compared to \$nil in the comparative periods. The increase in current income tax expense in the current year was attributable to the sale of an investment property in the United States along with current year income taxes for our remaining United States property.

Deferred income taxes (expense) recovery

Deferred income taxes recovery (included in consolidated financial statements) for the three months and year ended December 31, 2017 were \$8.7 million and \$8.0 million, respectively, as compared to deferred income taxes expense of \$0.7 million and \$2.0 million for the three months and year ended December 31, 2016. The current year deferred income taxes recovery was a result of the realization of timing differences pertaining to an investment property in the United States that was sold during the quarter and changes to United States tax regulations.

Other comprehensive income (loss)

Other comprehensive income (loss) comprises amortization of an unrealized gain on an interest rate swap and an unrealized foreign currency translation gain (loss) related to the investment property located in the United States. For the three months and year ended December 31, 2017, other comprehensive loss (included in consolidated financial statements) amounted to \$6.0 million and \$9.2 million, respectively. The changes in overall comprehensive income (loss) for the respective periods were mainly driven by the reclassification of the realized foreign exchange adjustments related to the sale of an investment property in the United States during the quarter.

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, except for dispositions of investment properties which are transacted at fair value. The following tables summarize our related party transactions for the three months and years ended December 31, 2017 and December 31, 2016.

On April 2, 2015, the Trust and DAM entered into a Management Services Agreement pursuant to which DAM will provide strategic oversight of the Trust and the services of a Chief Executive Officer as requested on a cost recovery basis. In accordance with the termination provisions of the Management Services Agreement, the Trust is subject to an incentive fee payable which is based on 15% of the Trust's Aggregate Adjusted Funds from Operations (as defined in the Management Services Agreement), including the net gain on sale of any properties during the term of the agreement, and the deemed sale of the remaining portfolio upon termination, in excess of \$2.65 per REIT A Unit. This agreement gives DAM the right to terminate the agreement upon 180 days' notice (any time after April 2, 2018) and the Trust the right to terminate the agreement upon 60 days' notice. As the termination of the Management Services Agreement for the first three years is solely at the discretion of the Trust and the Trust currently has no intention to terminate the Management Services Agreement, the Trust has determined that it is not probable that the incentive fee is payable and accordingly, no amounts related to the incentive fee have been recorded in the consolidated financial statements as at December 31, 2017 and December 31, 2016.

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

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

On October 25, 2016, the Trust and DAM jointly implemented a cost reduction program to simplify and to establish more dedicated services on a cost-efficient basis of the Trust's operating and shared service platform. On a go forward basis, the portion of the cost reduction program that relates to the shared service platform will impact the costs being allocated to related parties in accordance with the Shared Services, Cost Sharing, Administrative Services and Services Agreements currently in place. As a result of implementing this program, the Trust incurred a charge of \$1.6 million and \$3.9 million for the years ended December 31, 2017 and December 31, 2016, respectively, which are included in net losses on transactions and other activities.

Management Services Agreement with DAM

The following is a summary of fees incurred for the three months and years ended December 31, 2017 and December 31, 2016 pursuant to the Management Services Agreement:

	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Senior management compensation (included in G&A expenses)	\$ (176)	\$ (110)	\$ (830)	\$ (661)
Expense reimbursements related to financing arrangements (included in debt)	(142)	(190)	(576)	(753)
Expense reimbursements related to disposition arrangements (included in costs on sale of investment properties)	(138)	(271)	(702)	(876)
Professional services and other (included in investment properties and G&A expenses)	(352)	(180)	(848)	(871)
Total incurred under the Management Services Agreement	\$ (808)	\$ (751)	\$ (2,956)	\$ (3,161)

Administrative Services Agreement with DAM

The following is a summary of cost reimbursements received from or paid to DAM and costs incurred by DAM or the Trust on behalf of the other party for the three months and years ended December 31, 2017 and December 31, 2016 pursuant to the amended Administrative Services Agreement with DAM:

	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Shared services and costs processed on behalf of DAM	\$ 1,668	\$ 1,569	\$ 5,742	\$ 7,220
Operating and administration costs of regional offices processed on behalf of DAM	74	85	287	615
Total costs processed on behalf of DAM under the Administrative Services Agreement	\$ 1,742	\$ 1,654	\$ 6,029	\$ 7,835
Total costs processed by DAM on behalf of the Trust under the Administrative Services Agreement	\$ (221)	\$ (148)	\$ (966)	\$ (568)

Shared Services and Cost Sharing Agreement with DAM

The following is a summary of fees billed by DAM for the three months and years ended December 31, 2017 and December 31, 2016.

	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Business transformation costs ⁽¹⁾	\$ —	\$ (122)	\$ —	\$ (1,219)
Total costs incurred under the Shared Services and Cost Sharing Agreement	\$ —	\$ (122)	\$ —	\$ (1,219)

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

Services Agreement with Dream Industrial REIT

DOMC entered into a separate Services Agreement with Dream Industrial REIT, in 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, 2017 and December 31, 2016:

	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Total cost recoveries from Dream Industrial REIT	\$ 728	\$ 973	\$ 2,726	\$ 3,682

SECTION III

INVESTMENT PROPERTIES

Investment property continuity

Changes in the value of our investment properties by region for the three months ended December 31, 2017 are summarized in the following table:

	Three months ended					
	September 30, 2017 ⁽¹⁾	Assets held for sale/sold properties	Building improvement, initial direct leasing costs and lease incentives	Fair value adjustments	Amortization of lease incentives, foreign exchange and other adjustments	December 31, 2017
Calgary	\$ 418,761	\$ —	\$ 1,640	\$ (32,578)	\$ (861)	\$ 386,962
Toronto downtown	1,498,160	—	7,917	202,970	(1,180)	1,707,867
Mississauga and North York	218,209	—	1,473	(3,196)	(86)	216,400
Ottawa and Montréal	357,178	—	1,553	(3,019)	(25)	355,687
Non-core markets	284,052	—	2,010	(74,305)	166	211,923
Total comparative portfolio	2,776,360	—	14,593	89,872	(1,986)	2,878,839
Add:						
Properties held for redevelopment	40,597	—	3	2	(3)	40,599
Properties classified as held for sale/sold properties	242,757	(184,090)	2,541	(11,211)	1,533	51,530
Total portfolio	\$ 3,059,714	\$ (184,090)	\$ 17,137	\$ 78,663	\$ (456)	\$ 2,970,968
Less:						
Wholly owned/co-owned properties classified as assets held for sale	181,754	(132,559)	1,590	(979)	1,724	51,530
Total amounts included in consolidated financial statements	\$ 2,877,960	\$ (51,531)	\$ 15,547	\$ 79,642	\$ (2,180)	\$ 2,919,438

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

Changes in the value of our investment properties by region for the year ended December 31, 2017 are summarized in the following table:

	Year ended					
	January 1, 2017 ⁽¹⁾	Assets held for sale/sold properties	Building improvement, initial direct leasing costs and lease incentives	Fair value adjustments	Amortization of lease incentives, foreign exchange and other adjustments	December 31, 2017
Calgary	\$ 404,861	\$ —	\$ 17,827	\$ (33,172)	\$ (2,554)	\$ 386,962
Toronto downtown	1,455,983	—	22,117	233,412	(3,645)	1,707,867
Mississauga and North York	215,214	—	3,600	(2,088)	(326)	216,400
Ottawa and Montréal	353,171	—	7,256	(4,402)	(338)	355,687
Non-core markets	324,725	—	5,570	(113,861)	(4,511)	211,923
Total comparative portfolio	2,753,954	—	56,370	79,889	(11,374)	2,878,839
Add:						
Properties held for redevelopment	49,210	—	260	(8,853)	(18)	40,599
Properties classified as held for sale/sold properties	2,414,423	(2,339,572)	31,232	(47,920)	(6,633)	51,530
Total portfolio	\$ 5,217,587	\$ (2,339,572)	\$ 87,862	\$ 23,116	\$ (18,025)	\$ 2,970,968
Less:						
Investment in joint ventures	60,000	—	—	—	(60,000) ⁽²⁾	—
Wholly owned/co-owned properties classified as assets held for sale	321,232	(264,570)	12,484	(15,327)	(2,289)	51,530
Total per consolidated financial statements	\$ 4,836,355	\$ (2,075,002)	\$ 75,378	\$ 38,443	\$ 44,264	\$ 2,919,438

- (1) Opening balances have been reclassified to exclude sold properties and properties held for sale and redevelopment during the year.
- (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 investment property as a joint operation.

Valuations of externally appraised properties

For the year ended December 31, 2017, the Trust valued 27 investment properties by qualified external valuation professionals with an aggregate fair value of \$2.2 billion (for the year ended December 31, 2016 – 46 investment properties with an aggregate fair value of \$2.0 billion).

Fair value adjustments to investment properties

For the three months ended December 31, 2017, the Trust recorded a fair value gain of \$78.7 million, mainly driven by fair value gains totalling \$89.9 million in our comparative portfolio, partially offset by fair value losses totalling \$11.2 million in our sold properties and assets held for sale. In particular, the fair value gains in our comparative portfolio were for the most part attributable to Toronto downtown totalling \$203.0 million, reflecting higher stabilized NOI to account for the higher market rate assumptions and capitalization rate (“cap rate”) compression of 46 basis points (“bps”). Partially offsetting this were fair value losses in our Calgary region totalling \$32.6 million, reflecting higher terminal cap rates at certain properties to account for the elevated risk associated with lease up assumptions as well as adjustments for the time and costs required to reach stabilization. Furthermore, the fair value losses in our Non-core markets region totalled \$74.3 million, reflecting an increase in the cap rates by 54 bps. The fair value for the remaining regions in our comparative portfolio were relatively stable. The fair value losses that relate to the properties sold and held for sale were for the most part due to final adjustments on properties sold during the quarter and bids received on properties held for sale.

For the year ended December 31, 2017, the Trust recorded a fair value gain of \$23.1 million, mainly driven by the same reasons noted above.

Assumptions in the valuation of investment properties (excluding Alberta)

As at December 31, 2017, the Trust's comparative portfolio, excluding investment properties in Alberta and certain properties where bids were received by the Trust, was valued using the cap rate method. The critical valuation metrics as at December 31, 2017, September 30, 2017 and December 31, 2016 are set out in the table below by region as follows:

	December 31, 2017		September 30, 2017 ⁽¹⁾		Capitalization rates December 31, 2016 ⁽¹⁾	
	Range (%) ⁽²⁾	Weighted average (%) ⁽²⁾	Range (%) ⁽²⁾	Weighted average (%) ⁽²⁾	Range (%) ⁽²⁾	Weighted average (%) ⁽²⁾
Toronto downtown	4.50–6.00	4.82	5.00–6.00	5.28	5.00–6.00	5.30
Mississauga and North York	5.75–6.25	5.96	5.75–6.25	5.96	5.75–6.25	5.97
Ottawa and Montréal	5.50–6.50	5.60	5.50–6.25	5.57	5.50–6.25	5.57
Non-core markets	6.00–8.00	7.37	6.00–7.50	6.93	6.25–7.50	6.79
Total comparative portfolio (excluding Alberta)	4.50–8.00	5.20	5.00–7.50	5.57	5.00–7.50	5.58

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

(2) Excludes certain properties where bids were received by the Trust at period-end.

Assumptions in the valuation of investment properties in Alberta

As at December 31, 2017, the Trust continues to value its investment properties in Alberta, excluding 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, 2017, September 30, 2017 and December 31, 2016 are set out below:

	December 31, 2017 ⁽¹⁾		September 30, 2017 ⁽¹⁾		December 31, 2016 ⁽¹⁾⁽²⁾	
	Range	Weighted average	Range	Weighted average	Range	Weighted average
Discount rates (%)	7.50–8.75	8.07	7.50–8.25	7.89	7.50–8.25	7.82
Terminal cap rates (%)	6.63–8.25	7.09	6.63–7.50	7.05	6.63–7.50	7.05
Market rents ⁽³⁾	\$10.00–16.50	\$ 14.46	\$10.00–16.50	\$ 14.34	\$12.00–16.50	\$ 15.04

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

(2) Includes investment in joint ventures.

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

In addition to the assumptions noted above, leasing cost assumptions for new and renewed leasing were within the range of \$20 and \$60 per square foot, with weighted average vacancy rate assumptions in years one to four of 23%, returning to normalized vacancy rates of 6% beyond year four.

Building improvements

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

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

The table below summarizes the building improvements incurred for the three months and years ended December 31, 2017 and December 31, 2016.

Building improvements	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Recoverable	\$ 4,576	\$ 4,274	\$ 17,138	\$ 15,749
Non-recoverable	1,440	1,132	2,769	2,742
Total comparative portfolio⁽¹⁾	6,016	5,406	19,907	18,491
Add:				
Properties held for redevelopment	—	563	100	563
Properties classified as held for sale/sold properties	97	7,255	7,662	29,068
Total portfolio	\$ 6,113	\$ 13,224	\$ 27,669	\$ 48,122
Less:				
Investment in joint ventures	—	—	—	9,901
Wholly owned/co-owned properties classified as assets held for sale	—	—	3,162	128
Total amounts included in consolidated financial statements	\$ 6,113	\$ 13,224	\$ 24,507	\$ 38,093

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

For the three months and year ended December 31, 2017, we incurred \$6.1 million and \$27.7 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, 2017 were \$4.6 million and \$17.1 million, respectively, and included safety enhancements, heating, ventilation, air conditioning replacements, parking upgrades, elevator modernization and recoverable lobby and common area upgrades.

For the three months and year ended December 31, 2017, non-recoverable building improvements were \$1.4 million and \$2.8 million, respectively, which include costs for structural, safety and exterior enhancements.

Dispositions update for the quarter and year

For the three months ended December 31, 2017, the Trust completed the sale of investment properties totalling approximately 5.1 million square feet, for gross proceeds (net of adjustments) totalling \$184.1 million. Subsequent to year-end, the Trust completed the sale of four properties located in Alberta and Saskatchewan, totalling approximately 0.4 million square feet, for gross proceeds (net of adjustments) totalling \$51.7 million. In addition, the Trust has approximately \$100 million of properties currently under contract to be sold or in various stages of discussion.

Date disposed	Property	Ownership (%)	Disposed share of GLA (000s sq. ft.)	Sales price ⁽¹⁾	Debt related to dispositions
January 9, 2017	Braithwaite Boyle Centre, Calgary	100.0%	55		
January 11, 2017	10 Lower Spadina Avenue, Toronto ⁽²⁾	40.0%	24		
January 11, 2017	49 Ontario Street, Toronto ⁽²⁾	40.0%	35		
January 31, 2017	Calgary Portfolio ⁽³⁾	100.0%	1,505		
February 27, 2017	HSBC Bank Place and Enbridge Place, Edmonton	100.0%	563		
March 3, 2017	HSBC Building and Milner Building, Edmonton	100.0%	296		
March 15, 2017	13183 146th Street NW, Edmonton	100.0%	39		
March 28, 2017	Accelerator Building, Waterloo	100.0%	93		
March 30, 2017	10199 101st Street NW, Edmonton	50.0%	60		
Total dispositions for the three months ended March 31, 2017			2,670	\$ 323,959	\$ (217,384)
April 3, 2017	Franklin Atrium, Calgary	100.0%	150		
April 12, 2017	Airport Corporate Centre, Calgary	100.0%	151		
April 12, 2017	3115 12th Street NE, Calgary	100.0%	73		
April 19, 2017	2816 11th Street NE, Calgary	100.0%	33		
April 25, 2017	250 King Street, Fredericton	100.0%	80		
April 25, 2017	460 Two Nations Crossing, Fredericton ⁽²⁾	40.0%	20		
April 25, 2017	185, 191 & 195 The West Mall, Etobicoke ⁽²⁾	49.9%	308		
May 9, 2017	625 Agnes Street, New Westminster	100.0%	86		
May 11, 2017	5945–5955 & 5915–5935 Airport Road, Mississauga	100.0%	685		
May 11, 2017	Highfield Place, Edmonton	100.0%	105		
May 26, 2017	401 & 405 The West Mall, Toronto ⁽²⁾	40.0%	165		
June 1, 2017	680 Broadway Street, Tillsonburg ⁽²⁾	49.9%	23		
June 16, 2017	55 Norfolk Street South, Simcoe ⁽²⁾	40.0%	6		
June 27, 2017	180 Keil Drive South, Chatham	100.0%	37		
June 28, 2017	2550 Argentia Road, Mississauga	100.0%	52		
June 29, 2017	Regina Portfolio ⁽⁴⁾	100.0%	176		
Total dispositions for the three months ended June 30, 2017			2,150	\$ 391,248	\$ (108,267)
July 31, 2017	Franklin Building, Calgary	100.0%	51		
August 15, 2017	2645 Skymark Avenue, Mississauga	100.0%	141		
August 15, 2017	2810 Matheson Boulevard East, Mississauga ⁽²⁾	49.9%	69		
August 17, 2017	586 Argus Road, Oakville	100.0%	75		
August 23, 2017	Scotia Plaza (40 & 44 King Street West), Toronto	50.0%	991		
August 23, 2017	100 Yonge Street, Toronto	50.0%	123		
August 23, 2017	Baker Centre, Edmonton	100.0%	143		
September 8, 2017	Diversified Portfolio ⁽⁵⁾	Various	3,436		
September 19, 2017	6501–6523 & 6531–6559 Mississauga Road, Mississauga ⁽²⁾	40.0%	63		
Total dispositions for the three months ended September 30, 2017			5,092	\$ 1,440,275	\$ (612,756)
October 4, 2017	Station Tower, Surrey	100.0%	220		
October 6, 2017	Royal Centre, Saskatchewan	100.0%	48		
October 31, 2017	445 Opus Industrial Boulevard, Mount Juliet, Nashville, U.S.	100.0%	717		
Total dispositions for the three months ended December 31, 2017			985	\$ 184,090	\$ (84,675)
Total dispositions for the year ended December 31, 2017			10,897	\$ 2,339,572	\$ (1,023,082)

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

(2) For the year ended December 31, 2017, the Trust wrote off external management contracts related to these disposed co-owned properties totalling \$3,914.

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

(4) Includes five properties in Regina: 2400 College Avenue, 2220 College Avenue, 2208 Scarth Avenue, 2445 13th Avenue and Harbour Landing, Phase 2.

(5) Diversified Portfolio includes 39 properties: three properties in British Columbia, five properties in the Northwest Territories, nine properties in Alberta, 18 properties in Ontario and four properties in Nova Scotia. The Trust's ownership interest in these properties ranged between 35.0% and 100.0%.

For the year ended December 31, 2016, the Trust disposed of the following properties:

Date disposed	Property	Ownership (%)	Disposed share of GLA (000s sq. ft.)	Sales price ⁽¹⁾	Debt related to dispositions
February 26, 2016	2450 Girouard Street West & 455 Saint Joseph Avenue (Intact Tower), Saint-Hyacinthe	100%	232		
March 1, 2016	8550 Newman Boulevard, Montréal	100%	66		
March 1, 2016	1305 Chemin Sainte-Foy, Québec City	100%	37		
March 10, 2016	1 Riverside Drive, Windsor	100%	236		
Total dispositions for the three months ended March 31, 2016			571	\$ 81,501	\$ (23,268)
April 1, 2016	2010 Winston Park Drive, Oakville	40%	32		
April 27, 2016	4259–4299 Canada Way, Burnaby	100%	120		
April 29, 2016	960 Quayside Drive, New Westminster	100%	62		
May 2, 2016	625 Cochrane Drive and Valleywood Corporate Centre, Markham	100%	318		
May 18, 2016	30 Eglinton Ave. West, Mississauga	100%	165		
June 10, 2016	887 Great Northern Way, Vancouver	100%	164		
June 30, 2016	Scotia Plaza and 100 Yonge Street, Toronto	17%	371		
Total dispositions for the three months ended June 30, 2016			1,232	\$ 471,030	\$ (218,934)
July 25, 2016	100 Gough Road, Markham	100%	112		
July 29, 2016	Suburban Ottawa & Gatineau Portfolio ⁽²⁾	100%	392		
August 2, 2016	Seven Capella Court, Ottawa	100%	32		
September 16, 2016	4370 & 4400 Dominion Street, Burnaby	100%	157		
Total dispositions for the three months ended September 30, 2016			693	\$ 146,350	\$ (31,421)
November 16, 2016	2665 Renfrew Street, Vancouver	100%	82		
December 29, 2016	Kitchener Portfolio ⁽³⁾	100%	985		
Total dispositions for the three months ended December 31, 2016			1,067	\$ 171,273	\$ (55,426)
Total dispositions for the year ended December 31, 2016			3,563	\$ 870,154	\$ (329,049)

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

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

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

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, 2017	December 31, 2016
Investment in Dream Industrial REIT	\$ 220,796	\$ 186,754
Dream Industrial REIT units held, end of year	5,431,141	882,473
Dream Industrial LP Class B limited partnership units held, end of year	18,551,855	18,551,855
Total Dream Industrial REIT units held, end of year	23,982,996	19,434,328
Ownership %, end of year	25.6%	24.9%

On November 21, 2017, Dream Industrial REIT completed an \$86.5 million 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 of Dream Industrial REIT units through a private placement totalling \$25.0 million.

For the three months and year ended December 31, 2017, the Trust purchased Dream Industrial REIT Units through its distribution reinvestment plan totalling 440,161 and 1,690,668 Dream Industrial REIT Units, respectively, for a total cost of \$3.8 million and \$14.5 million, respectively.

The Trust's ownership increased to 25.6% at December 31, 2017 from 24.9% at December 31, 2016. The net change in the Trust's ownership was a result of Dream Industrial REIT's issuance of additional units through a private placement, and Dream Industrial REIT's distribution reinvestment plan, offset by Dream Industrial REIT's deferred unit incentive plan and unit purchase plan along with additional units issued through an equity offering during the year ended December 31, 2017.

The fair value of the Trust's interest in Dream Industrial REIT of \$211.1 million (December 31, 2016 – \$165.8 million) was determined using the Dream Industrial REIT closing unit price of \$8.80 per unit at year-end multiplied by the number of units held by the Trust as at December 31, 2017.

OUR FINANCING

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

Debt summary

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

	December 31, 2017	September 30, 2017	December 31, 2016
Financing and liquidity metrics			
Weighted average face rate of interest (period-end) ⁽¹⁾	3.90%	3.93%	3.84%
Interest coverage ratio (times) ⁽²⁾⁽³⁾	3.1	3.1	3.1
Net debt-to-adjusted EBITDFV (years) ⁽²⁾	7.1	6.5	7.7
Level of debt (net total debt-to-total assets) ⁽²⁾⁽³⁾	39.6%	39.7%	52.4%
Level of debt (net secured debt-to-total assets) ⁽²⁾⁽³⁾	30.6%	30.0%	44.3%
Average term to maturity (years)	4.5	4.7	3.8
Variable rate debt as percentage of total debt	8.3%	7.3%	13.0%
Unencumbered assets ⁽⁴⁾	299,000	160,000	244,000
Available liquidity ⁽⁵⁾			
Cash and cash equivalents	\$ 96,960	\$ 259,777	\$ 9,211
Undrawn demand revolving credit facilities	396,667	406,893	613,514
Available liquidity	\$ 493,627	\$ 666,670	\$ 622,725

(1) Weighted average face rate of interest 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.

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

(3) Interest coverage ratio and levels of debt have been restated in the comparative periods to conform to current period presentation.

(4) Excludes properties held for sale at period-end.

(5) Available liquidity (a non-GAAP measure) is defined in the section “Non-GAAP Measures and Other Disclosures” under the heading “Available liquidity”.

We ended the quarter with a net total debt-to-total assets ratio of 39.6%, net debt-to-adjusted EBITDFV of 7.1 years, and interest coverage ratio of 3.1 times. Our weighted average face rate of interest decreased to 3.90% when compared to 3.93% at September 30, 2017 due to discharge of debt related to sold properties during the quarter, and was up from 3.84% at December 31, 2016 for the same reasons, due to the discharge of debt during the year and lower drawings on our credit facilities. Our available liquidity of \$493.6 million comprises undrawn demand revolving credit facilities totalling \$396.7 million and \$97.0 million of cash and cash equivalents on hand as at December 31, 2017.

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

In our consolidated financial statements as at December 31, 2017, our current liabilities exceeded our current assets by \$108.4 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 that are due within one year include debt maturities of \$207.0 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 and to generate investment capital to be used to improve the value of our portfolio.

	December 31, 2017	December 31, 2016
Debt	\$ 1,367,650	\$ 2,898,901
Less debt related to:		
Investment in joint ventures ⁽¹⁾	—	39,883
Assets held for sale	—	209,228
Debt per consolidated financial statements	\$ 1,367,650	\$ 2,649,790

(1) 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 debt of this investment property in its joint operations.

Financing activities during the quarter and year

The following table details the total mortgages renewed, refinanced and discharged during the three months and year ended December 31, 2017:

Financing activities	Three months ended December 31, 2017		Year ended December 31, 2017	
	Mortgages renewed or refinanced	Mortgages discharged	Mortgages renewed or refinanced	Mortgages discharged
Amount	\$ —	\$ (155,297)	\$ 159,880	\$ (1,304,719)
New term (years)	n/a	n/a	7.0	n/a
Weighted average face interest rate ⁽¹⁾	n/a	4.36%	3.43%	4.04%

n/a – not applicable.

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

On January 9, 2017, the Trust repaid its Series B floating rate senior unsecured debentures with an aggregate principal amount of \$125.0 million.

On September 27, 2017 and December 13, 2017, the Trust purchased and cancelled \$4.6 million and \$29.7 million, respectively, of the Series A Debentures with an original aggregate principal amount of \$175.0 million and a maturity date of June 13, 2018.

Demand revolving credit facilities

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

								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.

On April 18, 2017, the \$800 million formula-based demand revolving credit facility was amended and reduced to \$500 million (the "\$500 million Facility"). On September 29, 2017, the \$500 million Facility was further amended and reduced to \$400 million (the "\$400 million Facility"). The \$400 million Facility bears interest at the bankers' acceptance ("BA") rate plus 1.70% and/or at the bank's prime rate plus 0.70%. The \$400 million Facility is at a minimum secured by first-ranking mortgages of eight properties at any point in time and matures on March 1, 2020.

Debentures

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

Debentures	Date issued	Maturity date	Original principal	Face interest rate	December 31, 2017		December 31, 2016	
					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	\$ 175,000	\$ 174,536
Series B Debentures	October 9, 2013	January 9, 2017	125,000	2.60% ⁽¹⁾	—	—	125,000	124,999
Series C Debentures	January 21, 2014	January 21, 2020	150,000	4.07%	150,000	149,531	150,000	149,293
			\$ 450,000		\$ 290,755	\$ 290,140	\$ 450,000	\$ 448,828

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

Continuity of debt

Refer to Note 12 of the consolidated financial statements for details of the changes in our debt balances for the year ended December 31, 2017.

Debt maturity profile

Our current debt profile is balanced with staggered maturities over the next nine years. The following tables summarize our debt maturity profile as at December 31, 2017:

Debt maturities	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
2018	\$ 49,225	3.31%	\$ —	—	\$ 140,755	3.42%	\$ 189,980	3.39%
2019	72,991	3.88%	—	—	—	—	72,991	3.88%
2020	43,910	3.59%	—	—	150,000	4.07%	193,910	3.97%
2021	133,249	4.73%	—	—	—	—	133,249	4.73%
2022	184,014	3.90%	—	—	—	—	184,014	3.90%
2023–2027	443,514	3.81%	—	—	—	—	443,514	3.81%
Subtotal before undernoted items	\$ 926,903	3.93%	\$ —	—	\$ 290,755	3.76%	\$ 1,217,658	3.89%
Scheduled principal repayments on non-matured debt	157,434	—	—	—	—	—	157,434	—
Subtotal before undernoted items	\$ 1,084,337	3.94%	\$ —	—	\$ 290,755	3.76%	\$ 1,375,092	3.90%
Financing costs	(4,664)		(3,192)		(615)		(8,471)	
Fair value adjustments	1,029		—		—		1,029	
Debt per consolidated financial statements	\$ 1,080,702	4.01%	\$ (3,192)	—	\$ 290,140	3.96%	\$ 1,367,650	4.00%

On October 1, 2017, the Trust repaid two mortgages prior to their respective maturity dates totalling \$58.4 million with a weighted average face interest rate of 4.62% and an average remaining term of 3.3 years. The total debt settlement costs incurred as a result of the early repayments totalled \$2.6 million.

Commitments and contingencies

We are contingently liable under guarantees that are issued in the normal course of business, on certain debt assumed by purchasers of investment properties, and with respect to litigation and claims that arise from time to time. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the consolidated financial statements of Dream Office REIT.

In 2015, a subsidiary of the Trust received notices of reassessment from both the Canada Revenue Agency and the Alberta Minister of Finance with respect to its 2007, 2008 and 2010 taxation years. These reassessments relate to the deductibility of certain tax losses claimed by the subsidiary prior to its acquisition by the Trust. These federal and provincial reassessments if upheld could increase total current taxes payable, including interest and penalties, by \$11.8 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, 2017.

At December 31, 2017, Dream Office REIT's future minimum commitments under operating leases and fixed price contracts to purchase steam are as follows:

	Minimum payments due			
	< 1 year	1–5 years	> 5 years	Total
Operating lease payments	\$ 2,680	\$ 4,362	\$ 3,670	\$ 10,712
Fixed price contracts – steam	151	604	1,815	2,570
Total	\$ 2,831	\$ 4,966	\$ 5,485	\$ 13,282

Operating leases include a ground lease on a property totalling \$4.5 million, payable over the next 29 years.

The Trust has entered into lease agreements that may require tenant improvement costs of approximately \$14.4 million (December 31, 2016 – \$42.6 million).

As at December 31, 2017, the Trust's share of contingent liabilities for the obligation of the other owners of co-owned properties was \$nil (December 31, 2016 – \$5.3 million).

The Trust is contingently liable under guarantees that are issued on certain debt assumed by purchasers of investment properties totalling \$173.2 million (December 31, 2016 – \$74.4 million).

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, 2017		Unitholders' equity December 31, 2016	
	Number of Units	Amount	Number of Units	Amount
REIT Units, Series A	73,705,285	\$ 2,462,611	104,806,724	\$ 3,108,424
Deficit	—	(728,934)	—	(747,840)
Accumulated other comprehensive income	—	1,946	—	11,181
Equity per consolidated financial statements	73,705,285	1,735,623	104,806,724	2,371,765
Add: LP B Units	5,233,823	115,981	5,233,823	102,321
Total equity (including LP B Units)⁽¹⁾	78,939,108	\$ 1,851,604	110,040,547	\$ 2,474,086
Net asset value ("NAV") per unit ⁽²⁾		\$ 23.46		\$ 22.48

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

(2) NAV per unit (non-GAAP measure) is defined in the section "Non-GAAP Measures and Other Disclosures" under the heading "Net asset value ("NAV") per unit".

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

At December 31, 2017, DAM held 5,992,583 REIT A Units and 5,233,823 LP B Units for a total ownership interest of approximately 14.2%.

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 this section "Our Equity" reconciles NAV per unit to equity (as per consolidated financial statements).

The following table contains a summary of the major components of NAV per unit:

	Total	Per unit
Investment properties		
Calgary	\$ 386,962	\$ 4.90
Toronto downtown	1,707,867	21.64
Mississauga and North York	216,400	2.74
Ottawa and Montréal	355,687	4.51
Non-core markets	211,923	2.68
Total investment properties	2,878,839	36.47
Mortgages	(1,080,702)	(13.69)
Investment properties, net of mortgages	1,798,137	22.78
Properties classified as held for sale and select redevelopment properties, net of related debt	92,129	1.17
Investment in Dream Industrial REIT	220,796	2.80
Unsecured debentures	(290,140)	(3.68)
Cash and other items	30,682	0.39
Net asset value	\$ 1,851,604	\$ 23.46
Less: LP B units	115,981	
Equity per consolidated financial statements	\$ 1,735,623	

Outstanding equity

The following table summarizes the changes in our outstanding equity:

	REIT A Units	LP B Units	Total
Total Units issued and outstanding at January 1, 2017	104,806,724	5,233,823	110,040,547
Units issued pursuant to Deferred Unit Incentive Plan ("DUIP")	121,036	—	121,036
Cancellation of REIT A Units under NCIB	(1,589,140)	—	(1,589,140)
Total Units issued and outstanding at March 31, 2017	103,338,620	5,233,823	108,572,443
Percentage of all units	95.2%	4.8%	100.0%
Units issued pursuant to DUIP	252	—	252
Cancellation of REIT A Units under NCIB	(5,219,106)	—	(5,219,106)
Total Units issued and outstanding at June 30, 2017	98,119,766	5,233,823	103,353,589
Percentage of all Units	94.9%	5.1%	100.0%
Units issued pursuant to DUIP	66,108	—	66,108
Cancellation of REIT A Units under NCIB	(1,355,279)	—	(1,355,279)
Cancellation of REIT A Units under SIB	(20,952,380)	—	(20,952,380)
Total Units issued and outstanding at September 30, 2017	75,878,215	5,233,823	81,112,038
Percentage of all Units	93.5%	6.5%	100.0%
Units issued pursuant to DUIP	12,279	—	12,279
Cancellation of REIT A Units under NCIB	(2,185,209)	—	(2,185,209)
Total Units issued and outstanding at December 31, 2017	73,705,285	5,233,823	78,939,108
Percentage of all Units	93.4%	6.6%	100.0%
Cancellation of REIT A Units under NCIB	(3,656,607)	—	(3,656,607)
Total Units issued and outstanding at February 22, 2018	70,048,678	5,233,823	75,282,501
Percentage of all Units	93.0%	7.0%	100.0%

As at December 31, 2017, there were 889,301 deferred trust units and income deferred trust units outstanding (December 31, 2016 – 907,972) under the Trust’s DUIP.

Normal course issuer bid (“NCIB”)

On June 7, 2017, the NCIB covering the period from June 22, 2016 to June 21, 2017 expired as the Trust purchased the maximum number of REIT A Units, totalling 10,732,867 REIT A Units, permitted under this NCIB. On August 10, 2017, the Toronto Stock Exchange accepted a notice filed by the Trust to renew its prior NCIB for a one-year period. Under the renewed bid, the Trust will have the ability to purchase for cancellation up to a maximum of 7,197,095 of its REIT A Units (representing 10% of the Trust’s public float of 71,970,948 REIT A Units) through the facilities of the Toronto Stock Exchange. The renewed bid commenced on August 15, 2017 and will remain in effect until the earlier of August 14, 2018 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 54,249 REIT A Units, which equals 25% of the average daily trading volume during the last six calendar months (being 216,999 REIT A Units per day), other than purchases pursuant to applicable block purchase exceptions. 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.

For the three months and year ended December 31, 2017, the Trust purchased for cancellation 2,185,209 REIT A Units and 10,348,734 REIT A Units, respectively, under the NCIB, at a cost of approximately \$47.3 million and \$209.2 million, respectively (December 31, 2016 – 4,331,194 REIT A Units cancelled for \$80.2 million).

Subsequent to quarter-end, the Trust purchased for cancellation an additional 3,656,607 REIT A Units under the NCIB at a cost of approximately \$81.3 million or \$22.21 per unit.

Substantial issuer bid (“SIB”)

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 approximately \$440 million, 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.

Weighted average number of units

The basic weighted average number of units outstanding used in the FFO per unit calculations includes the weighted average number of all REIT Units, LP B Units, and vested but unissued deferred trust units and the associated income deferred trust units. The diluted weighted average number of units outstanding used in the FFO per unit calculations includes the basic weighted average number of units 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,	
	2017	2016	2017	2016
Basic	80,611	113,920	97,257	114,203
Diluted	80,943	114,018	97,531	114,651

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, to retain appropriate maintenance capital for capital expenditures and leasing costs and to generate investment capital to be used to improve the value of our portfolio.

For the three months and year ended December 31, 2017, total distributions amounted to \$19.9 million and \$122.4 million, respectively, representing a decrease of \$22.3 million over the prior year comparative quarter and a decrease of \$55.2 million over the prior year. The decrease in the respective periods mainly reflects the reduction in the monthly cash distribution from \$0.18666 per unit to \$0.125 per unit, or \$1.50 per unit on an annualized basis, commencing with the month of February 2016 distribution, a further reduction to \$0.08333 per unit, or \$1.00 per unit on an annualized basis, commencing with the month of July 2017 distribution, and the cancellation of REIT A Units under the NCIB and SIB.

Cash flows from operating activities and distributions declared

The Trust anticipates that future cash generated from (utilized in) operating activities and/or adjusted cash from operating activities (a non-GAAP measure) may be less than distributions declared. 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 generated from (utilized in) operating activities when compared to distributions declared or a shortfall in adjusted cash flows from operating activities (a non-GAAP measure) when compared to distributions declared, 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. In light of the fact that the Trust is substantially through its disposition program and expects adjusted cash flow from operating activities (a non-GAAP measure) 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 (measured by adjusted cash flows from operating activities (a non-GAAP measure)) 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 (loss) will continue to vary from distributions declared as net income (loss) 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 costs on sale of investment properties. Accordingly, the Trust does not use net income (loss) as a proxy for determining distributions.

In any given period, actual cash generated from (utilized in) operating activities may differ from distributions declared, 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 Trust determines the distribution rate by, among other considerations, its assessment of cash flows as determined using adjusted cash flows from operating activities (a non-GAAP measure). This non-GAAP measure does not represent cash generated from (utilized in) operating activities as defined by IFRS, and 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 reconciliation of cash generated from (utilized in) operating activities (per consolidated financial statements) to adjusted cash flows from operating activities (a non-GAAP measure) can be found in the section "Non-GAAP Measures and Other Disclosures" under the heading "Adjusted cash flows from operating activities". Actual adjusted cash flows from operating activities (a non-GAAP measure) may differ from distributions declared, primarily due to the reasons noted above for variations in cash generated from (utilized in) operating activities 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.

The following table summarizes net income (loss), cash flows from operating activities (per consolidated financial statements), adjusted cash flows from operating activities (a non-GAAP measure) and total distributions for the three months and years ended December 31, 2017 and December 31, 2016:

	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Net income (loss) for the period	\$ 100,731	\$ (100,671)	\$ 134,786	\$ (879,705)
Cash flows from (utilized in) operating activities (included in consolidated financial statements) for the period	10,177	35,911	79,820	147,368
Adjusted cash flows from operating activities ⁽¹⁾ (non-GAAP measure) for the period	4,077	25,583	82,916	123,029
Total distributions ⁽²⁾ for the period	\$ 19,927	\$ 42,235	\$ 122,422	\$ 177,633

(1) Adjusted cash flows from operating activities (non-GAAP measure) – The reconciliation of adjusted cash flows from operating activities to cash flows from (utilized in) operating activities (included in consolidated financial statements) can be found in the section "Non-GAAP Measures and Other Disclosures" under the heading "Adjusted cash flows from operating activities".

(2) Includes distributions declared on LP B Units and 4% bonus on reinvested units in the comparative periods.

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

	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Excess (shortfall) of net income (loss) over total distributions ⁽¹⁾	\$ 80,804	\$ (142,906)	\$ 12,364	\$ (1,057,338)
Shortfall of cash flows from (utilized in) operating activities (included in consolidated financial statements) over total distributions ⁽¹⁾	(9,750)	(6,324)	(42,602)	(30,265)
Shortfall of adjusted cash flows from operating activities (non-GAAP measure) over total distributions ⁽¹⁾	\$ (15,850)	\$ (16,652)	\$ (39,506)	\$ (54,604)

(1) Includes distributions declared on LP B Units and 4% bonus on reinvested units in the comparative periods.

For the three months ended December 31, 2017, net income exceeded total distributions by \$80.8 million primarily as a result of fair value increases recorded during the quarter. For the year ended December 31, 2017, net income marginally exceeded total distributions by \$12.4 million primarily due to costs incurred as part of our disposition program such as costs on sale of investment properties and debt settlement costs, and non-cash items such as fair value adjustments to financial instruments, offset by positive fair value adjustments to investment properties. For the three months and year ended December 31, 2016, total distributions exceeded net income (loss) by \$142.9 million and \$1,057.3 million, respectively, primarily as a result of costs related to our disposition program, fair value adjustments to financial instruments and fair value losses on investment properties.

For the three months and year ended December 31, 2017, total distributions exceeded cash generated from (utilized in) operating activities (included in consolidated financial statements) by \$9.8 million and \$42.6 million, respectively. The shortfall of cash generated from (utilized in) operating activities (included in consolidated financial statements) over total distributions is mainly 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, 2016, cash generated from (utilized in) operating activities (included in consolidated financial statements) exceeded total distributions by \$6.3 million and \$30.3 million, respectively, for the same reasons noted in the current year. In addition, the shortfall for the year ended December 31, 2016 was due to the fact that cash flows from operating activities of our investments in joint ventures that are equity accounted were excluded from this calculation despite the fact that they form part of the Trust’s determination of its cash available for distribution. Further, the Trust receives monthly distributions from its investment in Dream Industrial REIT totalling \$14.6 million for the year ended December 31, 2017 (for the year ended December 31, 2016 – \$13.1 million), which the Trust has currently elected to reinvest through Dream Industrial REIT’s distribution reinvestment plan. Had the Trust not reinvested the distributions from Dream Industrial REIT, management is of the view such distributions could be used to fund the shortfall of cash 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 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 EBITDFV and interest coverage ratio (non-GAAP measures), consistent with management’s view of the characterization of such cash flows as operating in nature as opposed to investing activities.

For the year ended December 31, 2017, total distributions exceeded adjusted cash flows from operating activities (a non-GAAP measure) by \$15.9 million and \$39.5 million, respectively (for the three months and year ended December 31, 2016 – \$16.7 million and \$54.6 million, respectively). The shortfall of adjusted cash flows from operating activities (a non-GAAP measure) over total distributions in the respective periods is mainly due to the impact of elevated leasing costs related to properties that have been sold during the period, which fluctuate with lease maturities, renewal terms and the type of asset being leased, and the impact of investments in building improvements, which fluctuate with timing and extent of the capital projects, and age, type and condition of asset. Given the unpredictability of when leasing costs and investments in building improvements are incurred, we typically fund these costs with cash and cash equivalents on hand and, if necessary, with our existing demand revolving credit facilities.

SELECTED ANNUAL INFORMATION

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

	2017	2016	2015
Investment properties revenue	\$ 469,775	\$ 664,291	\$ 690,962
Net income (loss)	134,786	(879,705)	(55,039)
Total assets	3,321,983	5,486,516	6,762,874
Non-current debt	1,160,689	2,321,530	2,401,104
Total debt	1,367,650	2,649,790	3,010,748
Total distributions	122,422	177,633	254,303
Distribution rate (per unit)	1.25 ⁽¹⁾	1.56 ⁽²⁾	2.24
Units outstanding:			
REIT Units, Series A	73,705,285	104,806,724	107,860,638
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, including cash and cash equivalents held by joint ventures that are equity accounted, 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 ability 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.

	December 31, 2017	September 30, 2017	December 31, 2016
Cash and cash equivalents (per consolidated financial statements)	\$ 96,960	\$ 259,777	\$ 7,667
Cash and cash equivalents from investments in joint ventures	—	—	1,544
Undrawn demand revolving credit facilities (per consolidated financial statements)	396,667	406,893	613,514
Available liquidity	\$ 493,627	\$ 666,670	\$ 622,725

Total equity (including LP B Units)

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

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

Net asset value ("NAV") per unit

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

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

Funds from operations ("FFO")

Management believes FFO is an important measure of our operating performance. This non-GAAP measurement is a commonly used measure of performance of real estate operations; however, it does not represent net income nor cash generated from (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 2017, 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 cost adjustments. Debt settlement costs are typically incurred by the Trust as a result of disposition of investment properties in any given period and accordingly 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 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 (loss) in the table below:

	Three months ended			Year ended	
	December 31, 2017	September 30, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Net income (loss) for the period	\$ 100,731	\$ (637)	\$ (100,671)	\$ 134,786	\$ (879,705)
Add (deduct):					
Share of net income and net accretion loss from investment in Dream Industrial REIT	(3,409)	(4,009)	(1,156)	(9,440)	(8,086)
Share of FFO from investment in Dream Industrial REIT	5,063	4,826	4,068	18,765	17,104
Depreciation, amortization and write-offs of external management contracts	3,344	4,890	5,526	21,509	21,283
Costs on sale of investment properties ⁽¹⁾	1,665	6,050	3,137	20,057	12,074
Interest expense on subsidiary redeemable units	1,307	1,309	1,963	6,542	8,174
Fair value adjustments to investment properties	(78,663)	21,009	136,100	(23,116)	1,071,800
Fair value adjustments to financial instruments and DUIP included in G&A expenses	7,075	9,086	15,257	16,673	13,108
Debt settlement costs, net	3,968	957	—	16,255	13,320
Internal leasing costs	1,308	1,111	2,150	5,237	8,822
Deferred income taxes expense (recovery)	(8,728)	102	724	(7,950)	1,953
Taxes attributable to dispositions	4,369	—	—	4,369	—
Foreign exchange gain attributable to dispositions	(5,717)	—	—	(5,905)	—
Loss on recognition of net assets related to joint operations	—	—	—	117	10,263
Other	(78)	(41)	57	(30)	777
FFO	\$ 32,235	\$ 44,653	\$ 67,155	\$ 197,869	\$ 290,887
FFO per unit – basic ⁽²⁾	\$ 0.40	\$ 0.48	\$ 0.59	\$ 2.03	\$ 2.55
FFO per unit – diluted ⁽²⁾	\$ 0.40	\$ 0.48	\$ 0.59	\$ 2.03	\$ 2.54

(1) For the three months and year ended December 31, 2017 and for the three months ended September 30, 2017, costs on sale of investment properties included severance charges directly attributable to the investment properties sold of \$59, \$1,724 and \$631, respectively.

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

Adjusted funds from operations (“AFFO”)

Management of the Trust has determined that the best course of action for the Trust is to increase the long-term NAV of the Trust and to reduce the discount between the unit trading price and NAV. Further, continuing economic uncertainty in the Alberta office market will result in higher leasing costs, relative to historical normalized rates. There can also be a large degree of variability in the actual amounts incurred in any given period due to the timing and extent of leasing activity and building improvement projects. Management does not believe current costs in respect of leasing and building improvements are indicative of a normalized longer-term trend.

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

Prior to 2016, the Trust had included AFFO, a non-GAAP measure, as part of the MD&A as management previously was of the view that it provided an important additional measure of the Trust’s operating performance. AFFO is not defined by IFRS, does not have a standardized meaning and may not be comparable with similar measures presented by other income trusts. For unitholders that continue to use AFFO to evaluate the performance of the Trust, we continue to disclose in our MD&A relevant information, including leasing and building improvement costs incurred during the period, to enable unitholders to make their own estimates of AFFO.

Net operating income (“NOI”) and Adjusted NOI

NOI is defined by the Trust as net rental income (which is the total investment property revenue less investment property operating expenses), including the share of net rental income from investment in joint ventures and property management income. Adjusted NOI is NOI excluding NOI from properties held for sale and sold properties. These non-GAAP measurements are an important measure used by the Trust in evaluating property operating performance; however, they are not defined by IFRS, do not have standard meanings and may not be comparable with similar measures presented by other income trusts. In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”, NOI and Adjusted NOI have been reconciled to net rental income in the table below:

	Three months ended			Year ended	
	December 31, 2017	September 30, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Net rental income (included in consolidated financial statements)	\$ 41,373	\$ 60,188	\$ 91,715	\$ 257,659	\$ 368,578
Add: Share of net rental income from investments in joint ventures	—	—	949	—	30,621
NOI	41,373	60,188	92,664	257,659	399,199
Less: NOI from properties held for sale	1,573	1,612	1,707	6,403	6,477
Less: NOI from sold properties	1,040	16,952	49,603	82,181	218,581
Adjusted NOI	\$ 38,760	\$ 41,624	\$ 41,354	\$ 169,075	\$ 174,141

Comparative properties NOI

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

	Three months ended			Year ended	
	December 31, 2017	September 30, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Net rental income (included in consolidated financial statements)	\$ 41,373	\$ 60,188	\$ 91,715	\$ 257,659	\$ 368,578
Add: Share of net rental income from investments in joint ventures	—	—	949	—	30,621
Less: Lease termination fees and other	(127)	562	213	5,933	1,703
Less: Properties held for redevelopment	(727)	730	1,105	2,265	4,293
Less: Straight-line rent	261	640	461	2,397	1,843
Less: Amortization of lease incentives	(2,726)	(3,578)	(4,655)	(14,587)	(17,683)
Less: NOI from properties held for sale	1,573	1,612	1,707	6,403	6,477
Less: NOI from sold properties	1,040	16,952	49,603	82,181	218,581
Comparative properties NOI	\$ 42,079	\$ 43,270	\$ 44,230	\$ 173,067	\$ 183,985

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

EBITDFV is defined by the Trust as net income (loss) for the period adjusted for: lease termination fees and other, non-cash items included in investment properties revenue, fair value adjustments to investment properties and financial instruments, share of net income and accretion loss from Dream Industrial REIT, distributions received from Dream Industrial REIT, interest expense, amortization of external management contracts and depreciation on property and equipment, net loss on transactions and other activities, and deferred income taxes. This non-GAAP measurement is an important measure used by the Trust in evaluating property operating performance; however, it is not defined by IFRS, does not have a standard meaning and may not be comparable with similar measures presented by other income trusts. In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”, EBITDFV has been reconciled to net income (loss) in the table below:

	Three months ended			Year ended	
	December 31, 2017	September 30, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Net income (loss) for the period	\$ 100,731	\$ (637)	\$ (100,671)	\$ 134,786	\$ (879,705)
Add (deduct):					
Lease termination fees and other	127	(562)	(213)	(5,933)	(1,703)
Non-cash items included in investment properties revenue ⁽¹⁾	2,465	2,974	4,194	12,190	15,840
Fair value adjustments to investment properties	(78,663)	21,009	136,100	(23,116)	1,071,800
Fair value adjustments to financial instruments	7,063	9,067	15,246	16,771	13,555
Share of net income and net accretion loss from Dream Industrial REIT	(3,409)	(4,009)	(1,156)	(9,440)	(8,086)
Distributions received from Dream Industrial REIT	3,766	3,694	3,293	14,627	13,115
Interest – debt	15,209	21,462	28,507	86,560	128,384
Interest – subsidiary redeemable units	1,307	1,309	1,963	6,542	8,174
Amortization and write-off of external management contracts and depreciation on property and equipment	616	1,313	872	6,921	3,600
Net losses on transactions and other activities	1,632	8,802	9,332	37,930	50,918
Current income taxes expense	4,123	—	—	4,123	—
Deferred income taxes expense (recovery)	(8,728)	102	724	(7,950)	1,953
EBITDFV for the period	\$ 46,239	\$ 64,524	\$ 98,191	\$ 274,011	\$ 417,845

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

Adjusted cash flows from operating activities

Prior to July 1, 2017, the Trust determined its cash available for distribution using the non-GAAP cash flow metric adjusted cash flows from operating activities, which included cash flows from operating activities (per consolidated financial statements) and cash flows from operating activities of our investments in joint ventures that are equity accounted, and excluded working capital and investment in lease incentives and initial direct leasing costs. In February 2017, REALPAC issued a white paper on a new non-GAAP measure referred to as Adjusted Cashflow from Operations (“ACFO”), which is intended to be used as a sustainable, economic cash flow metric.

The Trust has reviewed the REALPAC ACFO white paper guidelines and revisited its determination of adjusted cash flows from operating activities to better align with the REALPAC ACFO white paper guidelines except for the deduction of debt settlement costs. Debt settlement costs are typically incurred as a result of the disposition of investment properties in any given period and accordingly are primarily funded from net proceeds from dispositions and not from cash flows from operating activities. Effective July 1, 2017, the Trust revised its determination of adjusted cash flows from operating activities, with comparative periods restated to conform with current period presentation, as cash flows generated from (utilized in) operating activities (as per consolidated financial statements) adjusted for the following:

- adding cash flows generated from (utilized in) operations of joint ventures not included in cash flows generated from (utilized in) operating activities under GAAP;
- deducting investment in building improvements;

- adding or deducting change in working capital;
- deducting amortization of financing costs; and
- adding amortization of fair value adjustments on assumed debt.

Management believes adjusted cash flows from operating activities is an important measure that reflects our ability to pay cash distributions. This non-GAAP measurement does not represent cash generated by operating activities (as per consolidated financial statements), as 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 cash generated from (utilized in) operating activities (included in consolidated financial statements) to adjusted cash flows from operating activities (a non-GAAP measure).

	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Cash generated from (utilized in) operating activities (included in consolidated financial statements)	\$ 10,177	\$ 35,911	\$ 79,820	\$ 147,368
Add (deduct):				
Investment in joint ventures’ cash flows from operating activities	—	278	—	18,123
Change in non-cash working capital ⁽¹⁾	3,711	3,902	31,985	18,421
Change in joint ventures’ non-cash working capital	—	(92)	—	(2,835)
Total investment in building improvements ⁽¹⁾	(9,182)	(14,556)	(28,310)	(47,689)
Joint ventures’ total investment in building improvements	—	—	—	(9,990)
Amortization of financing costs ⁽¹⁾	(734)	(992)	(3,514)	(3,867)
Amortization of fair value adjustments on assumed debt ⁽¹⁾	105	1,132	2,935	3,498
Adjusted cash flows from operating activities (non-GAAP measure)	\$ 4,077	\$ 25,583	\$ 82,916	\$ 123,029

(1) Included in consolidated financial statements.

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

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

	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Cash generated from (utilized in) operating activities (included in consolidated financial statements)	\$ 10,177	\$ 35,911	\$ 79,820	\$ 147,368
Add:				
Investment in joint ventures’ cash flows from operating activities	—	278	—	18,123
Cash flows from operating activities (including investment in joint ventures) (non-GAAP measure)	\$ 10,177	\$ 36,189	\$ 79,820	\$ 165,491

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

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

Balance sheet reconciliation to consolidated financial statements

	December 31, 2017			December 31, 2016		
	Amounts per consolidated financial statements	Share from investment in joint ventures	Total	Amounts per consolidated financial statements	Share from investment in joint ventures	Total
Assets						
NON-CURRENT ASSETS						
Investment properties	\$ 2,919,438	\$ —	\$ 2,919,438	\$ 4,836,355	\$ 60,000	\$ 4,896,355
Investment in Dream Industrial REIT	220,796	—	220,796	186,754	—	186,754
Investment in joint ventures	—	—	—	15,189	(15,189)	—
Other non-current assets	9,544	—	9,544	16,556	7	16,563
	3,149,778	—	3,149,778	5,054,854	44,818	5,099,672
CURRENT ASSETS						
Amounts receivable	14,826	—	14,826	17,786	249	18,035
Prepaid expenses and other assets	8,889	—	8,889	84,854	140	84,994
Cash and cash equivalents	96,960	—	96,960	7,667	1,544	9,211
	120,675	—	120,675	110,307	1,933	112,240
Assets held for sale	51,530	—	51,530	321,355	—	321,355
Total assets	\$ 3,321,983	\$ —	\$ 3,321,983	\$ 5,486,516	\$ 46,751	\$ 5,533,267
Liabilities						
NON-CURRENT LIABILITIES						
Debt	\$ 1,160,689	\$ —	\$ 1,160,689	\$ 2,321,530	\$ 39,883	\$ 2,361,413
Subsidiary redeemable units	115,981	—	115,981	102,321	—	102,321
Deferred Unit Incentive Plan	17,280	—	17,280	14,796	—	14,796
Deferred tax liabilities, net	2,214	—	2,214	10,735	—	10,735
Tenant security deposits and other	9,558	—	9,558	15,056	2	15,058
	1,305,722	—	1,305,722	2,464,438	39,885	2,504,323
CURRENT LIABILITIES						
Debt	206,961	—	206,961	328,260	—	328,260
Amounts payable and accrued liabilities	73,677	—	73,677	104,997	6,866	111,863
	280,638	—	280,638	433,257	6,866	440,123
Liabilities related to assets held for sale	—	—	—	217,056	—	217,056
Total liabilities	1,586,360	—	1,586,360	3,114,751	46,751	3,161,502
Equity						
Unitholders' equity	2,462,611	—	2,462,611	3,108,424	—	3,108,424
Deficit	(728,934)	—	(728,934)	(747,840)	—	(747,840)
Accumulated other comprehensive income	1,946	—	1,946	11,181	—	11,181
Total equity	1,735,623	—	1,735,623	2,371,765	—	2,371,765
Total liabilities and equity	\$ 3,321,983	\$ —	\$ 3,321,983	\$ 5,486,516	\$ 46,751	\$ 5,533,267

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

Management believes that level of debt (net total debt-to-total assets and net secured debt-to-total assets) are important non-GAAP measures in the management of our debt levels. These non-GAAP measures do not have standardized meanings and may not be comparable with similar measures presented by other income trusts. Net total debt-to-total assets as shown below is determined as net total debt (net of cash on hand), which includes debt related to investment in joint ventures that are equity accounted and debt related to assets held for sale, divided by total assets. Net secured debt-to-total assets as shown below is determined as net total secured debt (net of unsecured debt and cash on hand), which includes debt related to investment in joint ventures that are equity accounted and debt related to assets held for sale, divided by total assets. Total assets include assets of investment in joint ventures that are equity accounted and the reversal of cash on hand. Effective December 31, 2017, the Trust has chosen to revise 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 tables calculate the level of debt (net total debt-to-total assets and net secured debt-to-total assets) as at December 31, 2017 and December 31, 2016:

	As at December 31, 2017		
	Amounts included in consolidated financial statements	Share of amounts from investment in joint ventures	Total
Non-current debt	\$ 1,160,689	\$ —	\$ 1,160,689
Current debt	206,961	—	206,961
Debt before undernoted items	1,367,650	—	1,367,650
Less: Cash on hand ⁽¹⁾	(86,474)	—	(86,474)
Net total debt	1,281,176	—	1,281,176
Less: Unsecured debt	(290,140)	—	(290,140)
Net total secured debt	991,036	—	991,036
Total assets ⁽²⁾	3,321,983	—	3,321,983
Less: Cash on hand ⁽¹⁾	(86,474)	—	(86,474)
Total assets (excluding cash on hand)	\$ 3,235,509	\$ —	\$ 3,235,509
Net total debt-to-total assets			39.6%
Net secured debt-to-total assets value			30.6%

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

(2) Total assets are determined as total assets including assets held for sale at year-end.

	As at December 31, 2016 ⁽¹⁾		
	Amounts included in consolidated financial statements	Share of amounts from investment in joint ventures	Total
Non-current debt	\$ 2,321,530	\$ 39,883	\$ 2,361,413
Current debt	328,260	—	328,260
Debt before undernoted items	2,649,790	39,883	2,689,673
Add: Debt related to assets held for sale	209,228	—	209,228
Add: Overdraft ⁽²⁾	1,274	—	1,274
Net total debt	2,860,292	39,883	2,900,175
Less: Unsecured debt	(448,828)	—	(448,828)
Net total secured debt	2,411,464	39,883	2,451,347
Total assets	5,486,516 ⁽³⁾	46,751	5,533,267 ⁽⁴⁾
Add: Overdraft ⁽²⁾	1,274	—	1,274
Total assets (excluding cash on hand)	\$ 5,487,790	\$ 46,751	\$ 5,534,541
Net total debt-to-total assets			52.4%
Net secured debt-to-total assets			44.3%

(1) Net total debt-to-total assets and net secured debt-to-total assets have been restated in the comparative period to conform to current period presentation.

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

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

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

Interest coverage ratio

Management believes 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 measure does not have a standardized meaning and may not be comparable with similar measures presented by other income trusts. Interest coverage ratio for the years ended December 31, 2017 and December 31, 2016 includes the results from investment in joint ventures that are equity accounted. Interest coverage ratio as shown below is calculated as net rental income plus interest and fee income and distributions received from Dream Industrial REIT, less general and administrative expenses, all divided by interest expense on total debt. Effective January 1, 2017, the Trust has chosen to revise its calculation of interest coverage ratio to include distributions received from Dream Industrial REIT as management is of the view that such distributions are a source of income that covers interest expense. 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 tables calculate the interest coverage ratio for the years ended December 31, 2017 and December 31, 2016:

	For the year ended December 31, 2017		
	Amounts per consolidated financial statements	Share of amounts from investment in joint ventures	Total
Net rental income	\$ 257,659	\$ —	\$ 257,659
Add: Interest and fee income	6,112	—	6,112
Add: Distributions received from Dream Industrial REIT	14,627	—	14,627
Less: General and administrative expenses	(10,644)	—	(10,644)
Total	\$ 267,754	\$ —	\$ 267,754
Interest expense – debt	\$ 86,560	\$ —	\$ 86,560
Interest coverage ratio (times)			3.1

	For the year ended December 31, 2016 ⁽¹⁾		
	Amounts per consolidated financial statements	Share of amounts from investment in joint ventures	Total
Net rental income	\$ 368,578	\$ 30,621	\$ 399,199
Add: Interest and fee income	3,258	42	3,300
Add: Distributions received from Dream Industrial REIT	13,115	—	13,115
Less: General and administrative expenses	(11,906)	—	(11,906)
Total	\$ 373,045	\$ 30,663	\$ 403,708
Interest expense – debt	\$ 119,520	\$ 8,864	\$ 128,384
Interest coverage ratio (times)			3.1

(1) Interest coverage ratio has been restated in the comparative period to conform to current period presentation.

Net debt-to-adjusted EBITDFV

Management believes that net debt-to-adjusted EBITDFV, 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 measure does not have a standardized meaning and may not be comparable with similar measures presented by other income trusts.

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

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”, the following tables calculate the annualized net debt-to-adjusted EBITDFV for the periods ended December 31, 2017 and December 31, 2016:

	December 31, 2017		
	Amounts included in consolidated financial statements	Share of amounts from investment in joint ventures	Total
Non-current debt	\$ 1,160,689	\$ —	\$ 1,160,689
Current debt	206,961	—	206,961
Debt before undernoted items	1,367,650	—	1,367,650
Less: Cash on hand ⁽¹⁾	(86,474)	—	(86,474)
Net debt	\$ 1,281,176	\$ —	\$ 1,281,176
EBITDFV⁽²⁾ – quarterly	\$ 46,239	\$ —	\$ 46,239
Less: NOI of disposed properties for the quarter	(1,040)	—	(1,040)
Adjusted EBITDFV – quarterly	\$ 45,199	\$ —	\$ 45,199
Adjusted EBITDFV – annualized			\$ 180,796
Net debt-to-adjusted EBITDFV (years)			7.1

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

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

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

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

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

QUARTERLY INFORMATION

The following tables show quarterly information since January 1, 2016.

Key leasing, financing and portfolio information

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Leasing – total portfolio⁽¹⁾								
Occupancy rate – including committed (period-end)	90.4%	90.3%	91.5%	88.6%	89.7%	88.9%	90.1%	91.4%
Occupancy rate – in-place (period-end)	86.1%	87.4%	89.0%	86.5%	87.9%	87.0%	87.7%	89.4%
Tenant retention ratio	29.2%	43.3%	57.1%	51.6%	54.9%	66.1%	60.0%	65.3%
Average in-place and committed net rent per square foot (period-end)	\$ 21.02	\$ 20.64	\$ 19.90	\$ 19.61	\$ 19.21	\$ 18.95	\$ 18.75	\$ 19.02
Financing								
Weighted average face rate of interest on debt (period-end) ⁽²⁾	3.90%	3.93%	3.82%	3.77%	3.84%	3.89%	3.97%	3.96%
Interest coverage ratio (times) ⁽³⁾⁽⁴⁾	3.1	3.1	3.2	3.3	3.1	3.1	3.0	3.0
Net debt-to-adjusted EBITDFV (years) ⁽³⁾	7.1	6.5	7.6	7.9	7.7	7.3	7.4	7.8
Level of debt (net total debt-to-total assets) ⁽³⁾⁽⁴⁾	39.6%	39.7%	47.6%	49.8%	52.4%	50.4%	51.4%	48.7%
Portfolio⁽¹⁾								
Number of properties	42	46	51	106	121	148	157	160
GLA (millions of sq. ft.)	8.2	8.5	9.0	15.4	17.2	20.8	21.5	22.3

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

(2) Weighted average face rate of interest 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.

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

(4) Interest coverage ratio and net total debt-to-total assets have been restated in the comparative periods to conform to current period presentation.

Results of operations

(in thousands of Canadian dollars)

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Investment properties revenue	\$ 78,740	\$ 110,466	\$ 128,206	\$ 152,363	\$ 166,919	\$ 170,699	\$ 159,124	\$ 167,549
Investment properties operating expenses	(37,367)	(50,278)	(56,709)	(67,762)	(75,204)	(77,032)	(70,513)	(72,964)
Net rental income	41,373	60,188	71,497	84,601	91,715	93,667	88,611	94,585
Other income (loss)	4,473	5,278	2,908	2,893	(9,990)	1,616	(63,682)	(70,900)
Other expenses	(19,688)	(27,123)	(31,623)	(32,233)	(33,894)	(34,766)	(36,013)	(38,500)
Fair value adjustments, net losses on transactions and other activities	69,968	(38,878)	(7,969)	(54,706)	(147,778)	(31,573)	(695,587)	(85,263)
Income (loss) before income taxes	96,126	(535)	34,813	555	(99,947)	28,944	(706,671)	(100,078)
Current income taxes expense	(4,123)	—	—	—	—	—	—	—
Deferred income taxes (expense) recovery	8,728	(102)	(257)	(419)	(724)	(364)	(403)	(462)
Net income (loss) for the period	100,731	(637)	34,556	136	(100,671)	28,580	(707,074)	(100,540)
Other comprehensive income (loss)	(6,043)	(1,740)	(1,127)	(325)	961	523	(40)	(1,859)
Comprehensive income (loss) for the period	\$ 94,688	\$ (2,377)	\$ 33,429	\$ (189)	\$ (99,710)	\$ 29,103	\$ (707,114)	\$ (102,399)

Reconciliation between net income (loss) and funds from operations

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

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net income (loss) for the period	\$ 100,731	\$ (637)	\$ 34,556	\$ 136	\$ (100,671)	\$ 28,580	\$ (707,074)	\$ (100,540)
Add (deduct):								
Share of net income and net accretion loss from investment in Dream Industrial REIT	(3,409)	(4,009)	(557)	(1,465)	(1,156)	(255)	(4,400)	(2,275)
Share of FFO from investment in Dream Industrial REIT	5,063	4,826	4,683	4,193	4,068	4,307	4,348	4,381
Depreciation, amortization and write-offs of external management contracts	3,344	4,890	7,377	5,898	5,526	5,291	5,460	5,006
Costs on sale of investment properties	1,665	6,050	6,268	6,074	3,137	2,213	5,217	1,507
Interest expense on subsidiary redeemable units	1,307	1,309	1,963	1,963	1,963	1,963	1,963	2,285
Fair value adjustments to investment properties	(78,663)	21,009	(6,337)	40,875	136,100	33,700	759,400	142,600
Fair value adjustments to financial instruments and DUIP included in G&A expenses	7,075	9,086	2,122	(1,610)	15,257	(9,677)	(12,748)	20,276
Debt settlement costs, net	3,968	957	3,939	7,391	—	2,844	8,862	1,614
Internal leasing costs	1,308	1,111	1,312	1,506	2,150	2,051	2,299	2,322
Deferred income taxes expense (recovery)	(8,728)	102	257	419	724	364	403	462
Taxes attributable to dispositions	4,369	—	—	—	—	—	—	—
Foreign exchange gain attributable to dispositions	(5,717)	—	—	—	—	—	—	—
Loss on recognition of net assets related to joint operations	—	—	—	117	—	—	10,263	—
Other	(78)	(41)	103	(14)	57	(22)	157	585
FFO⁽¹⁾	\$ 32,235	\$ 44,653	\$ 55,686	\$ 65,483	\$ 67,155	\$ 71,359	\$ 74,150	\$ 78,223
FFO per unit – basic ⁽²⁾	\$ 0.40	\$ 0.48	\$ 0.53	\$ 0.59	\$ 0.59	\$ 0.62	\$ 0.65	\$ 0.69
FFO per unit – diluted ⁽²⁾	\$ 0.40	\$ 0.48	\$ 0.53	\$ 0.59	\$ 0.59	\$ 0.62	\$ 0.65	\$ 0.68
Weighted average units outstanding⁽³⁾								
Basic (in thousands)	80,611	92,858	105,663	110,229	113,920	114,448	114,396	113,971
Diluted (in thousands)	80,943	93,213	105,880	110,303	114,018	114,558	114,516	115,488

(1) FFO (non-GAAP measure) – Refer to the section “Non-GAAP Measures and Other Disclosures” under the heading “Funds from operations (“FFO”)” for further details.

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

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

SECTION V – DISCLOSURE CONTROLS AND PROCEDURES

At December 31, 2017, 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. During the year ended December 31, 2016, Dream Office REIT implemented the framework established in “2013 Committee of Sponsoring Organizations (COSO) Internal Control Framework”, published by the Committee of Sponsoring Organizations of the Treadway Commission. The Certifying Officers, together with other members of management, have evaluated the design and operation of Dream Office REIT’s internal control over financial reporting. Based on that evaluation, the Certifying Officers have concluded that Dream Office REIT’s internal control over financial reporting was effective as at December 31, 2017.

There were no changes in Dream Office REIT’s internal control over financial reporting during the financial year ended December 31, 2017 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 (such as the availability, terms and cost of mortgage financings and other types of credit), local economic conditions (such as an oversupply of office and other commercial properties or a reduction in demand for real estate in the area), the attractiveness of properties to potential tenants or purchasers, competition with other landlords with similar available space, and the ability of the owner to provide adequate maintenance at competitive costs.

An investment in real estate is relatively illiquid. Such illiquidity will tend to limit our ability to vary our portfolio promptly in response to changing economic or investment conditions. In recessionary times, it may be difficult to dispose of certain types of real estate. The costs of holding real estate are considerable, and during an economic recession, we may be faced with ongoing expenditures with a declining prospect of incoming receipts. In such circumstances, it may be necessary for us to dispose of properties at lower prices in order to generate sufficient cash from operations and make distributions and interest payments.

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

ROLLOVER OF LEASES

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

CONCENTRATION OF PROPERTIES AND TENANTS

Currently, principally all of our properties are located in Canada and, as a result, are impacted by economic and other factors specifically affecting the real estate markets in Canada. These factors may differ from those affecting the real estate markets in other regions. Due to the concentrated nature of our properties, a number of our properties could experience any of the same conditions at the same time. If real estate conditions in Canada decline relative to real estate conditions in other regions, our cash flows and financial condition may be more adversely affected than those of companies that have more geographically diversified portfolios of properties.

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

FINANCING

We require access to capital to maintain our properties as well as to fund our growth strategy and significant capital expenditures. There is no assurance that capital will be available when needed or on favourable terms. Our access to third-party financing will be subject to a number of factors, including general market conditions; the market's perception of our growth potential; our current and expected future earnings; our cash flow and cash distributions, and cash interest payments; and the market price of our REIT A Units.

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

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

CHANGES IN LAW

We are subject to applicable federal, provincial, municipal, local and common laws and regulations governing the ownership and leasing of real property, employment standards, environmental matters, taxes and other matters. It is possible that future changes in such laws or regulations, or changes in their application, enforcement or regulatory interpretation, could result in changes in the legal requirements affecting us (including with retroactive effect). In addition, the political conditions in the jurisdictions in which we operate are also subject to change. Any changes in investment policies or shifts in political attitudes may adversely affect our investments. Any changes in the laws to which we are subject in the jurisdictions in which we operate could materially affect our rights and title in and to the properties and the revenues we are able to generate from our investments.

INTEREST RATES

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

ENVIRONMENTAL RISK

As an owner of real property, we are subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide a range of potential liability, including potentially significant penalties, and potential liability for the costs of removal or remediation of certain hazardous substances. The presence of such substances, if any, could adversely affect our ability to sell or redevelop such real estate or to borrow using such real estate as collateral and, potentially, could also result in civil claims against us. In order to obtain financing for the purchase of a new property through traditional channels, we may be requested to arrange for an environmental audit to be conducted. Although such an audit provides us and our lenders with some assurance, we may become subject to liability for undetected pollution or other environmental hazards on our properties against which we cannot insure, or against which we may elect not to insure where premium costs are disproportionate to our perception of relative risk.

We have formal policies and procedures to review and monitor environmental exposure. These policies include the requirement to obtain a Phase I Environmental Site Assessment, conducted by an independent and qualified environmental consultant, before acquiring any real property or any interest therein.

JOINT ARRANGEMENTS

We 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 operating income derived from and the value of such property could be reduced.

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

INSURANCE

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

RELIANCE ON DAM FOR CERTAIN MANAGEMENT SERVICES

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

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

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

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

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

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

Impairment

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

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

IAS 36, "Impairment of Assets" ("IAS 36"), requires management to use judgment in determining the recoverable amount of assets and equity accounted investments that are tested for impairment, including our investment in Dream Industrial REIT and investment in joint ventures. 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.

Estimates and assumptions

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

Valuation of financial instruments

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

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

FUTURE ACCOUNTING POLICY CHANGES

Statement of cash flows

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

Revenue recognition

IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”), provides a comprehensive five-step revenue recognition model for all contracts with customers. The IFRS 15 revenue recognition model requires management to exercise significant judgment and make estimates that affect revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Trust has not early adopted IFRS 15.

The Trust has performed an in-depth assessment of IFRS 15 to determine what the impact of the adoption of the standard will have on the Trust’s consolidated financial statements. The Trust has certain service obligations with respect to its rented space which are in the scope of IFRS 15. These obligations are satisfied evenly over time, and revenue earned is based on actual costs incurred to provide the services. The Trust will recognize revenues to the extent it is entitled to recover costs from tenants under the terms of the leases. IFRS 15 also includes a control-based model for determining whether a principal or agent relationship exists, under which the Trust exercises judgment about the nature of its relationships with related parties. As a result of its assessment, the Trust does not expect there to be a material impact on the timing and amount of service revenue recognized in a given reporting period under IFRS 15. Rental revenue earned from leases is outside of the scope of IFRS 15 and will therefore not be impacted by its adoption. Additional disclosures will be required to comply with IFRS 15.

Financial instruments

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

The Trust has performed an in-depth assessment of IFRS 9 to determine what the impact of the adoption of the standard will have on the Trust’s consolidated financial statements. The Trust has 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 will be carried at amortized cost upon adoption. Marketable securities will continue to be carried at fair value through profit or loss. The Trust does not expect there to be a material impact on the carrying value of its trade receivables or to the classification and measurement of its financial assets. Additional disclosures will be required to comply with IFRS 9.

Financial instruments – disclosures

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

Share-based payments

IFRS 2, “Share-Based Payments” (“IFRS 2”), clarifies how to account for certain types of share-based payment transactions. It was amended to address (i) certain issues related to the accounting for cash settled awards, and (ii) the accounting for equity settled awards that include a “net settlement” feature in respect of employee withholding taxes. The amendments to IFRS 2 are effective for years beginning on or after January 1, 2018. The Trust does not anticipate this amendment to have a material impact on the consolidated financial statements.

Leases

IFRS 16, “Leases” (“IFRS 16”), sets out the principles for the recognition, measurement and disclosure of leases. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right-of-use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value. Under IFRS 16, lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15. The Trust is currently evaluating the impact of adopting this standard on the consolidated financial statements.

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 is currently evaluating the impact of adopting this interpretation on the consolidated financial statements.

ADDITIONAL INFORMATION

Additional information relating to Dream Office REIT, including the latest Annual Information Form of Dream Office REIT, is available on SEDAR at www.sedar.com.

SECTION VIII

ASSET LISTING

The following table includes supplementary information on our portfolio as at December 31, 2017.

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
IBM Corporate Park, Calgary	100.0%	358	8	38	4.4	86.0%
F1RST Tower, Calgary ⁽¹⁾	50.0%	354	7	52	2.1	51.4%
444 – 7th Building, Calgary	100.0%	261	11	23	7.2	98.3%
Life Plaza, Calgary	100.0%	237	34	4	3.5	59.1%
Rocky Mountain Plaza, Calgary	100.0%	205	9	20	4.9	87.3%
606 – 4th Building & Barclay Parkade, Calgary	100.0%	128	12	9	5.7	81.4%
Joffre Place, Calgary	100.0%	107	11	7	3.1	74.7%
Kensington House, Calgary	100.0%	78	18	4	5.8	89.1%
14505 Bannister Road, SE, Calgary	100.0%	61	4	15	3.2	100.0%
Centre 70, Calgary ⁽¹⁾	15.0%	20	34	3	3.3	74.6%
Calgary		1,809	148	11	4.6	77.1%
Adelaide Place, Toronto	100.0%	657	72	9	5.2	96.3%
State Street Financial Centre, Toronto	100.0%	414	8	52	6.5	100.0%
438 University Avenue, Toronto	100.0%	323	19	17	7.4	100.0%
655 Bay Street, Toronto	100.0%	299	25	12	4.5	97.7%
74 Victoria Street/137 Yonge Street, Toronto	100.0%	266	5	53	5.9	100.0%
720 Bay Street, Toronto	100.0%	248	1	248	3.0	100.0%
36 Toronto Street, Toronto	100.0%	214	36	5	4.8	86.3%
330 Bay Street, Toronto	100.0%	164	41	4	3.5	94.2%
20 Toronto Street/33 Victoria Street, Toronto	100.0%	158	25	6	6.6	99.5%
250 Dundas Street West, Toronto	100.0%	122	19	6	6.0	100.0%
Victory Building, Toronto	100.0%	101	43	2	3.3	98.3%
425 Bloor Street East, Toronto ⁽²⁾	100.0%	84	8	10	6.0	100.0%
212 King Street West, Toronto	100.0%	73	9	7	3.6	84.8%
357 Bay Street, Toronto	100.0%	64	21	2	2.1	70.4%
360 Bay Street, Toronto	100.0%	58	15	4	3.4	96.8%
67 Richmond Street West, Toronto	100.0%	54	5	10	2.5	93.3%
350 Bay Street, Toronto	100.0%	53	12	4	3.9	100.0%
366 Bay Street, Toronto	100.0%	36	13	3	2.5	100.0%
56 Temperance Street, Toronto	100.0%	32	10	3	3.8	100.0%
Toronto downtown		3,420	387	9	5.2	96.8%
50 & 90 Burnhamthorpe Road West, Mississauga (Sussex Centre) ⁽¹⁾	49.9%	325	60	10	5.9	89.3%
5001 Yonge Street, North York	100.0%	309	21	15	4.1	100.0%
Mississauga and North York		634	81	11	5.0	94.5%
700 De la Gauchetière Street West, Montréal ⁽³⁾	100.0%	985	42	22	5.6	95.1%
150 Metcalfe Street, Ottawa	100.0%	109	18	5	5.4	79.8%
Ottawa and Montréal		1,094	60	17	5.6	93.6%

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
Saskatoon Square, Saskatoon	100.0%	228	14	15	3.6	92.2%
275 Dundas Street West, London (London City Centre) ⁽¹⁾	40.0%	216	21	24	5.7	91.5%
1900 Sherwood Place, Regina	100.0%	185	7	20	2.7	77.2%
12800 Foster Street, Overland Park, U.S.	100.0%	185	1	185	2.9	100.0%
Victoria Tower, Regina	100.0%	144	2	72	0.8	100.0%
Princeton Tower, Saskatoon	100.0%	135	16	7	3.0	85.1%
Financial Building, Regina	100.0%	66	1	5	1.0	6.8%
Preston Centre, Saskatoon	100.0%	62	13	5	3.8	100.0%
234 – 1st Avenue South, Saskatoon	100.0%	10	4	2	4.5	83.4%
Non-core markets		1,231	79	17	3.3	86.9%
Total comparative portfolio⁽⁴⁾		8,188	755	11	4.8	90.4%
Total – held for sale		354	18	17	3.8	88.0%
Total – redevelopment		442	8	16	1.5	28.1%

(1) Co-owned property.

(2) Property subject to a ground lease.

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

(4) Excludes redevelopment properties and properties held for sale as at December 31, 2017.

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

"Rajeev Viswanathan"

Rajeev Viswanathan
Chief Financial Officer

Toronto, Ontario, February 22, 2018

Independent Auditor's Report

To the Unitholders of Dream Office Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Dream Office Real Estate Investment Trust and its subsidiaries (together, Dream Office REIT), which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016 and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Dream Office REIT as at December 31, 2017 and December 31, 2016 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.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario,
February 22, 2018

Consolidated balance sheets

(in thousands of Canadian dollars)	Note	December 31, 2017	December 31, 2016
Assets			
NON-CURRENT ASSETS			
Investment properties	7	\$ 2,919,438	\$ 4,836,355
Investment in Dream Industrial REIT	8	220,796	186,754
Investment in joint ventures	9	—	15,189
Other non-current assets	10	9,544	16,556
		3,149,778	5,054,854
CURRENT ASSETS			
Amounts receivable	11	14,826	17,786
Prepaid expenses and other assets	18	8,889	84,854
Cash and cash equivalents		96,960	7,667
		120,675	110,307
Assets held for sale	18	51,530	321,355
Total assets		\$ 3,321,983	\$ 5,486,516
Liabilities			
NON-CURRENT LIABILITIES			
Debt	12	\$ 1,160,689	\$ 2,321,530
Subsidiary redeemable units	13	115,981	102,321
Deferred Unit Incentive Plan	14	17,280	14,796
Deferred tax liabilities, net	21	2,214	10,735
Tenant security deposits and other		9,558	15,056
		1,305,722	2,464,438
CURRENT LIABILITIES			
Debt	12	206,961	328,260
Amounts payable and accrued liabilities	15	73,677	104,997
		280,638	433,257
Liabilities related to assets held for sale	18	—	217,056
Total liabilities		1,586,360	3,114,751
Equity			
Unitholders' equity	17	2,462,611	3,108,424
Deficit	17	(728,934)	(747,840)
Accumulated other comprehensive income	17, 26	1,946	11,181
Total equity		1,735,623	2,371,765
Total liabilities and equity		\$ 3,321,983	\$ 5,486,516

See accompanying notes to the consolidated financial statements.

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

"Joanne Ferstman"
JOANNE FERSTMAN
 Trustee

"Michael J. Cooper"
MICHAEL J. COOPER
 Trustee

Consolidated statements of comprehensive income (loss)

(in thousands of Canadian dollars)	Note	Year ended December 31,	
		2017	2016
Investment properties revenue		\$ 469,775	\$ 664,291
Investment properties operating expenses		(212,116)	(295,713)
Net rental income		257,659	368,578
Other income (loss)			
Share of net income and net accretion loss from investment in Dream Industrial REIT	8	9,440	8,086
Share of net loss from investment in joint ventures	9	—	(154,300)
Interest and fee income		6,112	3,258
		15,552	(142,956)
Other expenses			
General and administrative	23	(10,644)	(11,906)
Interest:			
Debt	19	(86,560)	(119,520)
Subsidiary redeemable units	19	(6,542)	(8,174)
Amortization and write-off of external management contracts and depreciation on property and equipment	10, 18	(6,921)	(3,573)
		(110,667)	(143,173)
Fair value adjustments, net losses on transactions and other activities			
Fair value adjustments to investment properties	7, 18	23,116	(899,100)
Fair value adjustments to financial instruments	20	(16,771)	(13,555)
Net losses on transactions and other activities	31	(37,930)	(47,546)
		(31,585)	(960,201)
Income (loss) before income taxes		130,959	(877,752)
Current income taxes expense	21	(4,123)	—
Deferred income taxes (expense) recovery	21	7,950	(1,953)
Net income (loss) for the year		134,786	(879,705)
Other comprehensive income (loss)			
Items reclassified to net income (loss):			
Reclassified realized gain on interest rate swaps, net of taxes	26	—	561
Reclassified realized gain on foreign currency translation, net of taxes	26	(5,905)	—
Items that will be reclassified subsequently to net income (loss):			
Unrealized gain on interest rate swaps and other, net of taxes	26	45	252
Unrealized loss on foreign currency translation, net of taxes	26	(3,115)	(1,207)
Share of other comprehensive loss from investment in Dream Industrial REIT	26	(260)	—
		(9,235)	(394)
Comprehensive income (loss) for the year		\$ 125,551	\$ (880,099)

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, 2017	Note	Number of REIT A Units	Unitholders' equity	Attributable to unitholders of the Trust		
				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	16	—	—	(115,880)	—	(115,880)
Deferred trust units exchanged for REIT A Units	14	199,675	3,863	—	—	3,863
Cancellation of REIT A Units under NCIB	17	(10,348,734)	(209,178)	—	—	(209,178)
Cancellation of REIT A Units under SIB	17	(20,952,380)	(440,000)	—	—	(440,000)
Issue and cancellation costs		—	(498)	—	—	(498)
Other comprehensive loss	26	—	—	—	(9,235)	(9,235)
Balance at December 31, 2017		73,705,285	\$ 2,462,611	\$ (728,934)	\$ 1,946	\$ 1,735,623

Year ended December 31, 2016	Note	Number of REIT A Units	Unitholders' equity	Attributable to unitholders of the Trust		
				Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total equity
Balance at January 1, 2016		107,860,638	\$ 3,168,915	\$ 301,324	\$ 11,575	\$ 3,481,814
Net loss for the year		—	—	(879,705)	—	(879,705)
Distributions paid and payable	16	—	—	(169,459)	—	(169,459)
Distribution Reinvestment Plan	17	1,122,411	17,034	—	—	17,034
Unit Purchase Plan	17	362	6	—	—	6
Deferred trust units exchanged for REIT A Units	14	154,507	2,696	—	—	2,696
Cancellation of REIT A Units under NCIB	17	(4,331,194)	(80,174)	—	—	(80,174)
Issue and cancellation costs		—	(53)	—	—	(53)
Other comprehensive loss	26	—	—	—	(394)	(394)
Balance at December 31, 2016		104,806,724	\$ 3,108,424	\$ (747,840)	\$ 11,181	\$ 2,371,765

See accompanying notes to the consolidated financial statements.

Consolidated statements of cash flows

(in thousands of Canadian dollars)	Note	Year ended December 31,	
		2017	2016
Generated from (utilized in) operating activities			
Net income (loss) for the year		\$ 134,786	\$ (879,705)
Non-cash items:			
Share of net income and net accretion loss from investment in Dream Industrial REIT	8	(9,440)	(8,086)
Share of net loss from investment in joint ventures	9	—	154,300
Amortization and depreciation	25	22,087	21,006
Fair value adjustments to investment properties	7, 18	(23,116)	899,100
Fair value adjustments to financial instruments	20	16,771	13,555
Other adjustments	25	22,925	35,646
Investment in lease incentives and initial direct leasing costs		(58,750)	(78,201)
Interest expense on subsidiary redeemable units	19	6,542	8,174
Change in non-cash working capital	25	(31,985)	(18,421)
		79,820	147,368
Generated from (utilized in) investing activities			
Investment in building improvements		(28,310)	(47,689)
Investment in property and equipment		(390)	(2,623)
Net proceeds from disposal of investment properties		1,664,271	470,293
Distributions from investment in Dream Industrial REIT		48	11,918
Purchase of Dream Industrial REIT Units		(25,008)	(5,851)
Distributions from investment in joint ventures		1,544	130,698
Contributions to investment in joint ventures		—	(35,909)
Change in restricted cash		275	101
		1,612,430	520,938
Generated from (utilized in) financing activities			
Borrowings	12	1,144,885	1,121,743
Principal repayments	12, 18	(40,013)	(61,814)
Lump sum repayments	12, 18	(1,603,887)	(1,325,173)
Lump sum repayments on property dispositions	12, 18	(297,102)	(133,917)
Financing cost additions	12	(2,393)	(7,080)
Distributions paid on REIT A Units	16	(122,839)	(159,782)
Interest paid on subsidiary redeemable units	25	(6,760)	(8,497)
Cancellation of REIT A Units under NCIB	17	(209,178)	(80,174)
Cancellation of REIT A Units under SIB	17	(440,000)	—
REIT A Units issued for cash		—	6
Debt settlement and REIT A Units issue and cancellation costs		(25,242)	(7,918)
		(1,602,529)	(662,606)
Increase in cash and cash equivalents		89,721	5,700
Foreign exchange loss on cash held in foreign currency		(428)	(84)
Cash and cash equivalents, beginning of year		7,667	2,051
Cash and cash equivalents, end of year		\$ 96,960	\$ 7,667

See accompanying notes to the consolidated financial statements.

Notes to the consolidated financial statements

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

Note 1

ORGANIZATION

Dream Office Real Estate Investment Trust (“Dream Office REIT” or the “Trust”) is an open-ended investment trust created pursuant to a Declaration of Trust, as amended and restated, under the laws of the Province of Ontario. The consolidated financial statements of Dream Office REIT include the accounts of Dream Office REIT and its subsidiaries. Dream Office REIT’s portfolio comprises office properties located in urban centres primarily in 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, ON M5C 3H1. The Trust is listed on the Toronto Stock Exchange (“TSX”) under the symbol “D.UN”. Dream Office REIT’s consolidated financial statements for the year ended December 31, 2017 were authorized for issuance by the Board of Trustees on February 22, 2018, after which they may only be amended with the Board of Trustees’ approval.

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

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

Note 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of presentation and statement of compliance

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

Basis of consolidation

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

Equity accounted investments

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

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

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

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

Joint arrangements

The Trust enters into joint arrangements via joint operations and joint ventures. A joint arrangement is a contractual arrangement pursuant to which the Trust and other parties undertake an economic activity that is subject to joint control, whereby the strategic financial and operating policy decisions relating to the activities of the joint arrangement require the unanimous consent of the parties sharing control, and that is referred to as joint operations. Joint arrangements that involve the establishment of a separate entity or partnership in which each party to the venture has rights to the net assets of the arrangements are referred to as joint ventures. In a co-ownership arrangement, the Trust owns jointly one or more investment properties with another party and has direct rights to the investment property, and obligations for the liabilities relating to the co-ownership.

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

Note 3

ACCOUNTING POLICIES SELECTED AND APPLIED FOR SIGNIFICANT TRANSACTIONS AND EVENTS

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

Investment properties

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

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

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

Initial direct leasing costs incurred in negotiating and arranging tenant leases are added to the carrying amount of investment properties. Lease incentives, which include costs incurred to make leasehold improvements to tenants’ space and cash allowances provided to tenants, are added to the carrying amount of investment properties and are amortized on a straight-line basis over the term of the lease as a reduction to investment properties revenue. Internal leasing costs are expensed in the period that they are incurred.

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

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

Segment reporting

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

Prior to July 1, 2017, the Trust’s reportable operating segments of its investment properties and results of operations were segmented geographically, namely B.C./Saskatchewan/N.W.T., Alberta, Toronto – downtown, Toronto – suburban and Eastern Canada. Effective July 1, 2017, as a result of changes in the Trust’s property portfolio, the Trust made several changes to its reportable operating segments as follows: (i) separated its investment properties in Calgary from Alberta and created a new Calgary segment; (ii) separated its investment properties in Ottawa and Montréal from Eastern Canada and created a new Ottawa and Montréal segment; (iii) renamed the properties remaining in Toronto – suburban as Mississauga and North York; and (iv) created a new Non-core markets segment containing the remainder of the investment properties that were previously included in the Alberta and Eastern Canada regions. This Non-core markets segment contains those investment properties in geographic areas which the Trust does not consider core to its stated strategic direction. These changes will enable the Chief Executive Officer to evaluate the performance of those investment properties which are key to the Trust’s overall strategy.

Other non-current assets

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

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

Revenue recognition

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

External property management contracts

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

Distributions

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

Income taxes

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

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

Unit-based compensation plan

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

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

Cash and cash equivalents

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

Financial instruments

Designation of financial instruments

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

	Classification	Measurement
Financial assets		
Amounts receivable	Loans and receivables	Amortized cost
Other receivables ⁽¹⁾	Loans and receivables	Amortized cost
Marketable securities ⁽¹⁾	Financial assets available for sale	Fair value through profit or loss
Restricted cash and deposits ⁽¹⁾	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost
Financial liabilities		
Amounts payable and accrued liabilities	Other liabilities	Amortized cost
Tenant security deposits	Other liabilities	Amortized cost
Deferred Unit Incentive Plan	Other liabilities	Amortized cost
Subsidiary redeemable units	Other liabilities	Amortized cost
Mortgages ⁽²⁾	Other liabilities	Amortized cost
Demand revolving credit facilities ⁽²⁾	Other liabilities	Amortized cost
Debentures ⁽²⁾	Other liabilities	Amortized cost

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

(2) Included within debt in consolidated balance sheets.

Financial assets

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

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

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

Financial liabilities

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

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

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

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

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. Finance costs are amortized to interest expense.

Equity

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

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

Provisions

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

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

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

Assets held for sale

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

Foreign currencies

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

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

Note 4

CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS IN APPLYING ACCOUNTING POLICIES

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

Critical accounting judgments

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

Investment properties

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

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

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

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

Impairment

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

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

IAS 36, “Impairment of Assets” (“IAS 36”), requires management to use judgment in determining the recoverable amount of assets and equity accounted investments that are tested for impairment, including the investment in Dream Industrial REIT and the investment in joint ventures. 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.

Estimates and assumptions

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

Valuation of financial instruments

The Trust makes estimates and assumptions relating to the fair value measurement of the subsidiary redeemable units, the deferred trust units and the fair value disclosure of the mortgages and debentures. The critical assumptions underlying the fair value measurements and disclosures include the market price of REIT A Units, market interest rates for mortgages and unsecured debentures.

For certain financial instruments, including cash and cash equivalents, amounts receivable, other receivables, amounts payable and accrued liabilities, deposits and distributions payable, the carrying amounts approximate fair values due to their immediate or short-term maturity. The fair values of mortgages and debentures are determined based on discounted cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

Note 5

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Trust has adopted the following revised standard, along with any consequential amendments, effective January 1, 2017. This change was made in accordance with the applicable transitional provisions.

Statement of cash flows

IAS 7, “Cash Flow Statements” (“IAS 7”), was amended by the IASB to introduce additional disclosure that allows users to understand changes in liabilities arising from financing activities. This amendment did not have a material impact on the consolidated financial statements.

Note 6

FUTURE ACCOUNTING POLICY CHANGES

Revenue recognition

IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”), provides a comprehensive five-step revenue recognition model for all contracts with customers. The IFRS 15 revenue recognition model requires management to exercise significant judgment and make estimates that affect revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Trust has not early adopted IFRS 15.

The Trust has performed an in-depth assessment of IFRS 15 to determine what the impact of the adoption of the standard will have on the Trust’s consolidated financial statements. The Trust has certain service obligations with respect to its rented space which are in scope of IFRS 15. These obligations are satisfied evenly over time, and revenue earned is based on actual costs incurred to provide the services. The Trust will recognize revenues to the extent it is entitled to recover costs from tenants under the terms of the leases. IFRS 15 also includes a control-based model for determining whether a principal or

agent relationship exists, under which the Trust exercises judgment about the nature of its relationships with related parties. As a result of its assessment, the Trust does not expect there to be a material impact on the timing and amount of service revenue recognized in a given reporting period under IFRS 15. Rental revenue earned from leases is outside of the scope of IFRS 15 and will therefore not be impacted by its adoption. Additional disclosures will be required to comply with IFRS 15.

Financial instruments

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

The Trust has performed an in-depth assessment of IFRS 9 to determine what the impact of the adoption of the standard will have on the Trust’s consolidated financial statements. The Trust has 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 will be carried at amortized cost upon adoption. Marketable securities will continue to be carried at fair value through profit or loss. The Trust does not expect there to be a material impact on the carrying value of its trade receivables or to the classification and measurement of its financial assets. Additional disclosures will be required to comply with IFRS 9.

Financial instruments – disclosures

IFRS 7, “Financial Instruments: Disclosures” (“IFRS 7”), has been amended by the IASB to require additional disclosures on the transition from IAS 39 to IFRS 9. The amendment to IFRS 7 is effective for annual periods beginning on or after January 1, 2018. The Trust does not anticipate this amendment to have a material impact to the consolidated financial statements.

Share-based payments

IFRS 2, “Share-Based Payments” (“IFRS 2”), clarifies how to account for certain types of share-based payment transactions. It was amended to address (i) certain issues related to the accounting for cash settled awards, and (ii) the accounting for equity settled awards that include a “net settlement” feature in respect of employee withholding taxes. The amendments to IFRS 2 are effective for years beginning on or after January 1, 2018. The Trust does not anticipate this amendment to have a material impact to the consolidated financial statements.

Leases

IFRS 16, “Leases” (“IFRS 16”), sets out the principles for the recognition, measurement and disclosure of leases. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right-of-use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value. Under IFRS 16, lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15. The Trust is currently evaluating the impact of adopting this standard on the consolidated financial statements.

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 is currently evaluating the impact of adopting this interpretation on the consolidated financial statements.

Note 7

INVESTMENT PROPERTIES

		Year ended December 31,	
	Note	2017	2016
Balance, beginning of year		\$ 4,836,355	\$ 5,899,131
Additions:			
Building improvements		24,507	38,093
Lease incentives and initial direct leasing costs		50,871	74,259
Recognition of investment properties related to joint operations	9	60,000	663,705
Other		—	4,070
Total additions to investment properties		135,378	780,127
Dispositions and assets held for sale:			
Investment properties disposed of during the year		(70,852)	(386,679)
Investment properties classified as held for sale during the year	18	(2,004,150)	(536,125)
Total investment properties disposed of and classified as held for sale		(2,075,002)	(922,804)
Changes included in net income (loss):			
Fair value adjustments to investment properties		38,443	(898,800)
Amortization of lease incentives		(13,044)	(16,092)
Change in straight-line rent		2,845	(1,764)
Total changes included in net income (loss)		28,244	(916,656)
Losses included in other comprehensive income (loss):			
Foreign currency translation adjustment and other		(5,537)	(3,443)
Total losses included in other comprehensive income (loss)		(5,537)	(3,443)
Balance, end of year		\$ 2,919,438	\$ 4,836,355
Change in unrealized income (loss) included in net income (loss) for the year			
Change in fair value of investment properties		\$ 50,425	\$ (898,747)

Investment properties includes \$21,530 (December 31, 2016 – \$30,772) related to straight-line rent receivables.

Investment properties excluding assets held for sale with a fair value of \$2,084,942 as at December 31, 2017 (December 31, 2016 – \$3,778,650) are pledged as security for mortgages.

Investment properties excluding assets held for sale with a fair value of \$535,198 as at December 31, 2017 (December 31, 2016 – \$826,563) are pledged as security for the demand revolving credit facilities.

Valuations of externally appraised properties

For the year ended December 31, 2017, the Trust valued 27 investment properties by qualified external valuation professionals with an aggregate fair value of \$2,207,640, representing 76% of the total investment property values (for the year ended December 31, 2016 – 46 investment properties with an aggregate fair value of \$2,014,068, representing 42% of the total investment property values).

Fair value adjustments to investment properties

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 18).

For the year ended December 31, 2016, the Trust recorded a fair value loss in our investment properties totalling \$898,800, and a fair value loss of \$300 recorded in our investment properties classified as assets held for sale (see Note 18).

The fair value of the investment properties as at December 31, 2017 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 (excluding Alberta)

As at December 31, 2017, the Trust's investment properties, excluding investment properties in Alberta and assets held for sale, were valued using the capitalization rate ("cap rate") method. The critical valuation metrics as at December 31, 2017 and December 31, 2016 are set out below:

	December 31, 2017		December 31, 2016	
	Range (%)	Weighted average (%)	Range (%)	Weighted average (%)
Cap rates ⁽¹⁾⁽²⁾	4.50–8.00	5.23	4.90–8.25	5.74

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

(2) Excludes investment properties in Alberta and assets held for sale 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 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 \$113,030. If the cap rate were to decrease by 25 bps, the 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 \$124,990.

Assumptions used in the valuation of investment properties in Alberta

As at December 31, 2017, the Trust's investment properties in Alberta were valued using the discounted cash flow method. The critical valuation metrics as at December 31, 2017 and December 31, 2016 are set out below:

	December 31, 2017		December 31, 2016	
	Range (%)	Weighted average (%)	Range (%)	Weighted average (%)
Discount rates ⁽¹⁾⁽²⁾	7.50–8.75	8.07	7.50–8.75	7.98
Terminal cap rates ⁽¹⁾⁽²⁾	6.63–8.25	7.09	6.63–8.25	7.31
Market rents (in dollars per square foot) ⁽¹⁾⁽²⁾⁽³⁾	\$ 10.00–16.50	\$ 14.46	\$ 11.00–16.50	\$ 14.22

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

(2) Excludes investment in joint ventures and assets held for sale at the end of each period.

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

In addition to the assumptions noted above, leasing cost assumptions for new and renewed leasing were within the range of \$20.00 and \$60.00 per square foot, with weighted average vacancy rate assumptions in years one to four of 23%, returning to normalized vacancy rates of 6% beyond year four.

Sensitivities on assumptions

The following sensitivity table outlines the potential impact on the 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, 2017.

	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	\$ (6,070)	\$ 6,153	\$ (7,555)	\$ 8,119

The following sensitivity table outlines the potential impact on the 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, 2017.

	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	\$ 15,442	\$ (13,123)	\$ 5,136	\$ (5,136)

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

Note 8

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 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.

During the fourth quarter of 2016, the Trust purchased 747,190 Dream Industrial REIT Units for a total cost of \$5,851. These units purchased were enrolled in Dream Industrial REIT’s distribution reinvestment plan effective for the December 2016 distribution. In addition, the Trust enrolled its 18,551,855 Dream Industrial LP Class B limited partnership units into Dream Industrial REIT’s distribution reinvestment plan effective for the November 2016 distribution and elected to reinvest the distributions received in Dream Industrial REIT Units.

For the year ended December 31, 2017, the Trust purchased Dream Industrial REIT Units through its distribution reinvestment plan totalling 1,690,668 Dream Industrial REIT Units for a total cost of \$14,481 (for the year ended December 31, 2016 – 135,283 Dream Industrial REIT Units for a total cost of \$1,115).

As at December 31, 2017 and December 31, 2016, the Trust’s ownership was 25.6% and 24.9%, respectively.

	Year ended December 31,	
	2017	2016
Balance, beginning of year	\$ 186,754	\$ 184,817
Dream Industrial REIT units purchased during the year	25,008	5,851
Dream Industrial REIT units purchased through distribution reinvestment plan	14,481	1,115
Distributions received on LP Class B limited partnership units	(13,473)	(13,050)
Distributions received on Dream Industrial REIT Units	(1,154)	(65)
Share of comprehensive income from investment in Dream Industrial REIT	13,307	8,467
Net accretion loss	(4,127)	(381)
Balance, end of year	\$ 220,796	\$ 186,754
Dream Industrial REIT units held, end of year	5,431,141	882,473
Dream Industrial LP Class B limited partnership units held, end of year	18,551,855	18,551,855
Total Dream Industrial REIT units held, end of year	23,982,996	19,434,328
Ownership %, end of year	25.6%	24.9%

The fair value of the Trust’s interest in Dream Industrial REIT of \$211,050 (December 31, 2016 – \$165,775) was determined using the Dream Industrial REIT closing unit price of \$8.80 per unit at year-end multiplied by the number of units held by the Trust as at December 31, 2017.

Pursuant to the reorganization of the Trust’s management structure on April 2, 2015, 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 in an open market or private sale at fair market value.

Under IAS 39, "Financial Instruments", a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is an indicator of impairment. As a result, the Trust performed an impairment test as at December 31, 2017, by comparing the recoverable amount of its investment in Dream Industrial REIT using the value-in-use approach to its carrying value. Based on the impairment test performed, the Trust concluded that no impairment existed as at December 31, 2017.

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,	
	2017	2016	2017	2016
Non-current assets	\$ 1,729,622	\$ 1,638,031	\$ 436,200	\$ 408,225
Current assets	78,129	20,045	19,704	4,996
Total assets	\$ 1,807,751	\$ 1,658,076	\$ 455,904	\$ 413,221
Non-current liabilities	957,650	956,389	363,597	357,157
Current liabilities	137,855	110,577	34,767	27,557
Total liabilities	\$ 1,095,505	\$ 1,066,966	\$ 398,364	\$ 384,714
Net assets	\$ 712,246	\$ 591,110	\$ 57,540	\$ 28,507
Add-back:				
Subsidiary redeemable units			163,256	158,247
Investment in Dream Industrial REIT			\$ 220,796	\$ 186,754

	At 100%		At % ownership interest	
	Year ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Net rental income	\$ 116,778	\$ 117,387	\$ 29,867	\$ 28,073
Other revenue and expenses, fair value adjustments and other items	(82,119)	(120,077)	(34,685)	(57,701)
Net income (loss)	\$ 34,659	\$ (2,690)	\$ (4,818)	\$ (29,628)
Other comprehensive income (loss)	(266)	708	(260)	—
Comprehensive income (loss) before the undernoted adjustments	34,393	(1,982)	(5,078)	(29,628)
Add-back:				
Interest on subsidiary redeemable units			13,376	13,050
Fair value adjustments to subsidiary redeemable units			5,009	25,045
Share of comprehensive income from investment in Dream Industrial REIT			\$ 13,307	\$ 8,467
Add (deduct):				
Net accretion loss			(4,127)	(381)
Share of comprehensive income and net accretion loss from investment in Dream Industrial REIT			\$ 9,180	\$ 8,086

Note 9

JOINT ARRANGEMENTS

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

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 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 of \$117 in the consolidated statements of comprehensive income (loss) 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 31). The newly formed co-ownership entered into a property management agreement with H&R REIT to provide property management services to F1RST Tower.

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

Concurrently on June 30, 2016, the Trust terminated the joint venture agreement with H&R REIT and entered into a co-ownership agreement with KingSett and AIMCo. As a result of this change, the Trust derecognized its investment in joint ventures of Scotia Plaza and 100 Yonge Street at its combined carrying amount of \$329,104 and recognized the Trust’s remaining 50% interest in the assets and liabilities amounting to \$664,144 and \$345,303, respectively, of Scotia Plaza and 100 Yonge Street on a combined basis in the consolidated balance sheet. This resulted in the Trust recognizing a loss of \$10,263 in the consolidated statements of comprehensive loss related to the initial recognition at fair value of the Trust’s remaining 50% share of the assets and liabilities compared to the carrying values of the joint ventures (see Note 31). The newly formed co-ownership entered into a property management agreement with a wholly owned subsidiary of the Trust to provide property management services to Scotia Plaza and 100 Yonge Street.

Property	Location	Ownership interest (%)	
		December 31, 2017	December 31, 2016
Scotia Plaza ⁽¹⁾	Toronto	—	—
Other joint ventures:			
100 Yonge Street ⁽¹⁾	Toronto	—	—
F1RST Tower ⁽²⁾	Calgary	—	50.0

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

(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.

Property	Net assets at % ownership interest	
	December 31, 2017	December 31, 2016
Scotia Plaza ⁽¹⁾	\$ —	\$ —
Other joint ventures ⁽¹⁾⁽²⁾	—	15,189
Total net assets	\$ —	\$ 15,189

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

(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.

Property	Share of net loss at % ownership interest for the year ended December 31,	
	2017	2016
Scotia Plaza ⁽¹⁾	\$ —	\$ (79,104)
Other joint ventures ⁽¹⁾⁽²⁾	—	(75,196)
Share of net loss from investment in joint ventures	\$ —	\$ (154,300)

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

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

	Scotia Plaza ⁽¹⁾ At 100%		Scotia Plaza ⁽¹⁾ At 66.7%	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	Non-current assets	\$ —	\$ —	\$ —
Current assets	—	—	—	—
Total assets	\$ —	\$ —	\$ —	\$ —
Non-current liabilities	—	—	—	—
Current liabilities	—	—	—	—
Total liabilities	\$ —	\$ —	\$ —	\$ —
Net assets	\$ —	\$ —	\$ —	\$ —

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

	Scotia Plaza ⁽¹⁾ At 100%		Scotia Plaza ⁽¹⁾ At 66.7%	
	Year ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Net rental income	\$ —	\$ 35,211	\$ —	\$ 23,474
Other income and expenses, fair value adjustments, net losses on transactions and other activities	—	(153,867)	—	(102,578)
Net loss for the year	\$ —	\$ (118,656)	\$ —	\$ (79,104)

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

	Scotia Plaza ⁽¹⁾ At 100%		Scotia Plaza ⁽¹⁾ At 66.7%	
	Year ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Cash flows generated from (utilized in):				
Operating activities	\$ —	\$ 20,433	\$ —	\$ 13,622
Investing activities	—	301,837	—	95,749
Financing activities	—	(323,696)	—	(110,321)
Decrease in cash and cash equivalents	\$ —	\$ (1,426)	\$ —	\$ (950)

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

	Other joint ventures ⁽¹⁾⁽²⁾		Other joint ventures ⁽¹⁾⁽²⁾	
	At 100%		At proportionate share	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Non-current assets	\$ —	\$ 120,014	\$ —	\$ 60,007
Current assets	—	3,866	—	1,933
Total assets	\$ —	\$ 123,880	\$ —	\$ 61,940
Non-current liabilities	—	79,770	—	39,885
Current liabilities	—	13,732	—	6,866
Total liabilities	\$ —	\$ 93,502	\$ —	\$ 46,751
Net assets	\$ —	\$ 30,378	\$ —	\$ 15,189

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

	Other joint ventures ⁽¹⁾⁽²⁾		Other joint ventures ⁽¹⁾⁽²⁾	
	At 100%		At proportionate share	
	Year ended December 31, 2017	2016	2017	2016
Net rental income	\$ —	\$ 13,533	\$ —	\$ 7,147
Other income and expenses, fair value adjustments, net losses on transactions and other activities	—	(162,887)	—	(82,343)
Net loss for the year	\$ —	\$ (149,354)	\$ —	\$ (75,196)

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

	Other joint ventures ⁽¹⁾⁽²⁾		Other joint ventures ⁽¹⁾⁽²⁾	
	At 100%		At proportionate share	
	Year ended December 31, 2017	2016	2017	2016
Cash flows generated from (utilized in):				
Operating activities	\$ —	\$ 8,675	\$ —	\$ 4,501
Investing activities	—	23,731	—	7,779
Financing activities	—	(36,594)	—	(14,416)
Decrease in cash and cash equivalents	\$ —	\$ (4,188)	\$ —	\$ (2,136)

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

Co-owned investment properties

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

Property	Location	Ownership interest (%)	
		December 31, 2017	December 31, 2016
700 De la Gauchetière Street West – retail	Montréal, Quebec	79.2	79.2
F1RST Tower ⁽¹⁾	Calgary, Alberta	50.0	—
50 & 90 Burnhamthorpe Road West (Sussex Centre)	Mississauga, Ontario	49.9	49.9
275 Dundas Street West (London City Centre)	London, Ontario	40.0	40.0
Centre 70	Calgary, Alberta	15.0	15.0
Scotia Plaza ⁽²⁾	Toronto, Ontario	—	50.0
100 Yonge Street ⁽²⁾	Toronto, Ontario	—	50.0
10199 - 101st Street North West ⁽³⁾	Edmonton, Alberta	—	50.0
680 Broadway Street (Tillsonburg Gateway Centre) ⁽³⁾	Tillsonburg, Ontario	—	49.9
2810 Matheson Boulevard East ⁽³⁾	Mississauga, Ontario	—	49.9
300, 302 & 304 The East Mall (Valhalla Executive Centre) ⁽³⁾	Mississauga, Ontario	—	49.9
185, 191, 195 The West Mall ⁽³⁾	Toronto, Ontario	—	49.9
2261 Keating Cross Road ⁽³⁾	Victoria, British Columbia	—	40.0
350-450 Lansdowne Street ⁽³⁾	Kamloops, British Columbia	—	40.0
55 Norfolk Street South ⁽³⁾	Simcoe, Ontario	—	40.0
6501–6523 Mississauga Road ⁽³⁾	Mississauga, Ontario	—	40.0
6531–6559 Mississauga Road ⁽³⁾	Mississauga, Ontario	—	40.0
10 Lower Spadina Avenue ⁽³⁾	Toronto, Ontario	—	40.0
49 Ontario Street ⁽³⁾	Toronto, Ontario	—	40.0
401 & 405 The West Mall (Commerce West) ⁽³⁾	Toronto, Ontario	—	40.0
80 Whitehall Drive ⁽³⁾	Markham, Ontario	—	40.0
219 Laurier Avenue West ⁽³⁾	Ottawa, Ontario	—	40.0
460 Two Nations Crossing ⁽³⁾	Fredericton, New Brunswick	—	40.0
117 Kearney Lake Road ⁽³⁾	Halifax, Nova Scotia	—	35.0

(1) 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.

(2) On June 30, 2016, the Trust derecognized its investment in the joint ventures of Scotia Plaza and 100 Yonge Street and recognized the Trust's remaining 50% interest in the assets, liabilities, revenues and expenses of these investment properties in the consolidated financial statements. On August 23, 2017, the Trust sold its remaining 50% interest in Scotia Plaza and 100 Yonge Street (see Note 18).

(3) Investment property was sold during 2017 (see Note 18).

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, 2017 ⁽¹⁾	December 31, 2016 ⁽²⁾
Non-current assets	\$ 195,493	\$ 1,058,636
Current assets	5,073	12,716
Assets held for sale	—	22,784
Total assets	\$ 200,566	\$ 1,094,136
Non-current liabilities	78,001	423,902
Current liabilities	44,392	96,121
Liabilities related to assets held for sale	—	9,090
Total liabilities	\$ 122,393	\$ 529,113
Net assets	\$ 78,173	\$ 565,023

(1) 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.

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

	Share of net income (loss) at % ownership interest for the year ended December 31,	
	2017 ⁽¹⁾	2016 ⁽²⁾
Net rental income	\$ 36,811	\$ 40,017
Other income and expenses, fair value adjustments, net losses on transactions and other activities	(2,415)	(52,681)
Share of net income (loss) from co-owned properties	\$ 34,396	\$ (12,664)

(1) 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.

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

Note 10

OTHER NON-CURRENT ASSETS

	December 31, 2017	December 31, 2016
Property and equipment, net of accumulated depreciation of \$10,433 (December 31, 2016 – \$8,753)	\$ 5,500	\$ 6,783
Restricted cash	1,082	1,357
External management contracts, net of accumulated amortization of \$3,008 (December 31, 2016 – \$6,331)	1,862	6,671
Deposits and other	1,100	1,745
Total	\$ 9,544	\$ 16,556

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. External management contracts 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. Deposits largely represent amounts provided by the Trust in connection with utility deposits.

External management contracts

	Note	External management contracts
Balance as at January 1, 2016		\$ 7,962
Amortization of external management contracts		(1,291)
Balance as at December 31, 2016		6,671
Amortization of external management contracts		(895)
Derecognition of external management contracts related to investment property dispositions during the year	18	(3,914)
Balance as at December 31, 2017		\$ 1,862

Note 11

AMOUNTS RECEIVABLE

As at December 31, 2017, amounts receivable are net of credit adjustments aggregating to \$6,532 (December 31, 2016 – \$10,081).

	Note	December 31, 2017	December 31, 2016
Trade receivables		\$ 7,159	\$ 3,442
Less: Provision for impairment of trade receivables		(1,486)	(1,803)
Trade receivables, net		5,673	1,639
Other amounts receivable	24	9,153	16,147
Total		\$ 14,826	\$ 17,786

The movement in the provision for impairment of trade receivables for the years ended December 31, 2017 and December 31, 2016 were as follows:

	Year ended December 31,	
	2017	2016
Balance, beginning of year	\$ 1,803	\$ 1,615
Provision for impairment of trade receivables	2,257	1,868
Reversal of provision for previously impaired trade receivables	(532)	(408)
Receivables written off during the year as uncollectible	(2,042)	(1,272)
Balance, end of year	\$ 1,486	\$ 1,803

The carrying value of amounts receivable approximates fair value due to their current nature. As at December 31, 2017, trade receivables of approximately \$1,226 (December 31, 2016 – \$1,634) were past due but not considered impaired, as the Trust has ongoing relationships with these tenants and the aging of these trade receivables is not indicative of expected default. The Trust leases office properties to tenants under operating leases. Minimum rental commitments, including joint operations, on non-cancellable tenant operating leases over their remaining terms are as follows:

	December 31, 2017
No more than 1 year	\$ 144,135
1–5 years	459,862
5+ years	168,734
	\$ 772,731

Note 12

DEBT

	December 31, 2017	December 31, 2016
Mortgages ⁽¹⁾⁽²⁾	\$ 1,080,702	\$ 2,027,172
Demand revolving credit facilities ⁽²⁾⁽³⁾	(3,192)	173,790
Debentures ⁽⁴⁾	290,140	448,828
Total	1,367,650	2,649,790
Less: Current portion	206,961	328,260
Non-current debt	\$ 1,160,689	\$ 2,321,530

(1) Net of financing costs of \$4,664 (December 31, 2016 – \$6,925).

(2) Secured by charges on specific investment properties (see Notes 7 and 18).

(3) Net of financing costs of \$3,192 (December 31, 2016 – \$4,210).

(4) Net of financing costs of \$615 (December 31, 2016 – \$1,172).

Continuity of debt

The following tables provide a continuity of debt for the years ended December 31, 2017 and December 31, 2016:

	Note	Year ended December 31, 2017			
		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:					
Borrowings		159,880	985,005	—	1,144,885
Principal repayments		(35,739)	—	—	(35,739)
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	18	(799,762)	—	—	(799,762)
Recognition of debt related to joint operations	9	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 write-offs and amortization of financing costs and fair value adjustments.

Year ended December 31, 2016

	Note	Mortgages	Demand revolving credit facilities	Debentures	Term loan facility	Convertible debentures	Total
Balance as at January 1, 2016		\$ 2,244,161	\$ 49,500	\$ 483,174	\$ 182,990	\$ 50,923	\$ 3,010,748
Cash items:							
Borrowings		191,434	930,309	—	—	—	1,121,743
Principal repayments		(61,336)	—	—	—	—	(61,336)
Lump sum repayments		(254,283)	(801,809)	(35,000)	(183,453)	(50,628)	(1,325,173)
Financing costs additions		(1,370)	(5,710)	—	—	—	(7,080)
Lump sum repayments on property dispositions		(83,141)	—	—	—	—	(83,141)
Non-cash items:							
Debt assumed by purchaser on disposal of investment properties		(52,788)	—	—	—	—	(52,788)
Debt classified as liabilities related to assets held for sale	18	(274,761)	—	—	—	—	(274,761)
Recognition of debt related to joint operations	9	313,422	—	—	—	—	313,422
Foreign currency translation adjustment		(2,064)	—	—	—	—	(2,064)
Other adjustments ⁽¹⁾⁽²⁾		7,898	1,500	654	463	(295)	10,220
Balance as at December 31, 2016		\$ 2,027,172	\$ 173,790	\$ 448,828	\$ —	\$ —	\$ 2,649,790

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

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

Demand revolving credit facilities

The amounts available and drawn under the demand revolving credit facilities as at December 31, 2017 and December 31, 2016 are as follows:

							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.

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

n/a – not applicable.

On April 18, 2017, the \$800,000 formula-based demand revolving credit facility was amended and reduced to \$500,000 (the “\$500,000 Facility”). On September 29, 2017, the \$500,000 Facility was further amended and reduced to \$400,000 (the “\$400,000 Facility”). Subsequent to year-end, the Trust issued a letter of credit in the normal course of business, in the amount of \$1,847.

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%.

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%.

Debentures

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

Debentures	Date issued	Maturity date	Original principal	Face interest rate	December 31, 2017		December 31, 2016	
					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	\$ 175,000	\$ 174,536
Series B								
Debentures	October 9, 2013	January 9, 2017	125,000	2.60% ⁽¹⁾	—	—	125,000	124,999
Series C								
Debentures	January 21, 2014	January 21, 2020	150,000	4.07%	150,000	149,531	150,000	149,293
			\$ 450,000		\$ 290,755	\$ 290,140	\$ 450,000	\$ 448,828

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

Debt weighted average effective interest rates and maturities

	Weighted average effective interest rates ⁽¹⁾		Maturity dates	Debt amount	
	December 31, 2017	December 31, 2016		December 31, 2017	December 31, 2016
Fixed rate					
Mortgages	4.09%	3.86%	2018–2027	\$ 963,346	\$ 1,989,222
Debentures	3.96%	3.93%	2018–2020	290,140	323,829
Total fixed rate debt	4.06%	3.87%		1,253,486	2,313,051
Variable rate					
Mortgages	3.32%	3.05%	2018–2022	117,356	37,950
Demand revolving credit facilities	—	3.02%	2018–2020	(3,192)	173,790
Series B Debentures	—	3.09%	2017	—	124,999
Total variable rate debt	3.32%	3.05%		114,164	336,739
Total debt	4.00%	3.76%		\$ 1,367,650	\$ 2,649,790

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

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

	Mortgages	Demand revolving credit facilities	Debentures	Total
2018	\$ 68,782	\$ —	\$ 140,755	\$ 209,537
2019	95,127	—	—	95,127
2020	72,878	—	150,000	222,878
2021	158,715	—	—	158,715
2022	205,456	—	—	205,456
2023–2027	483,379	—	—	483,379
	1,084,337	—	290,755	1,375,092
Financing costs	(4,664)	(3,192)	(615)	(8,471)
Fair value adjustments	1,029	—	—	1,029
	\$ 1,080,702	\$ (3,192)	\$ 290,140	\$ 1,367,650

Short form base shelf prospectus

On April 27, 2015, the Trust filed a short form base shelf prospectus, which was valid for a 25-month period, during which time the Trust could offer and issue, from time to time, debt securities, with an aggregate offering price of up to \$2,000,000. On May 26, 2017, the short form base shelf prospectus expired and was not renewed. For the years ended December 31, 2017 and December 31, 2016, no debt securities were issued under the short form base shelf prospectus.

Note 13

SUBSIDIARY REDEEMABLE UNITS

The Trust has the following subsidiary redeemable units outstanding:

Note	Year ended December 31, 2017		Year ended December 31, 2016	
	Number of units issued and outstanding	Amount	Number of units issued and outstanding	Amount
	5,233,823	\$ 102,321	5,233,823	\$ 90,912
Remeasurement of carrying value of subsidiary redeemable units	20	—	—	11,409
	5,233,823	\$ 115,981	5,233,823	\$ 102,321

During the year ended December 31, 2017, the Trust incurred \$6,542 (December 31, 2016 – \$8,174) in distributions on the subsidiary redeemable units, which is included as interest expense in the consolidated statements of comprehensive loss (see Note 19).

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, 2017 and December 31, 2016, 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, 2017 and December 31, 2016, 5,233,823 Special Trust Units were issued and outstanding.

Note 14

DEFERRED UNIT INCENTIVE PLAN

The Deferred Unit Incentive Plan (“DUIP”) provides for the grant of deferred trust units to trustees, officers and employees as well as employees of affiliates. Deferred trust units are granted at the discretion of the trustees and earn income deferred trust units based on the payment of distributions. Once granted, each deferred trust unit and the related distribution of income deferred trust units vest evenly over a three- or five-year period on the anniversary date of the grant. Subject to an election option available for certain participants to postpone receipt of REIT A Units, such units will be issued immediately on vesting. As at December 31, 2017 and December 31, 2016, 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,	
		2017	2016
Balance, beginning of year		\$ 14,796	\$ 12,596
Compensation expense		3,236	2,750
REIT A Units issued for vested deferred trust units		(3,863)	(2,696)
Remeasurements of carrying value of deferred trust units	20	3,111	2,146
Balance, end of year		\$ 17,280	\$ 14,796

Of the \$3,236 of deferred compensation expense incurred during the year ended December 31, 2017, \$3,128 was recorded and included in general and administrative (“G&A”) expenses (December 31, 2016 – \$2,551). For the same period, a fair value loss of \$3,111 (December 31, 2016 – fair value loss of \$2,146) was recognized, representing the remeasurement of the DUIP liability during the year.

	Year ended December 31,	
	2017	2016
Outstanding and payable at beginning of year	907,972	862,358
Granted	128,985	144,436
Income deferred trust units	57,735	82,595
REIT A Units issued	(199,675)	(154,507)
Fractional Units paid in cash	(100)	—
Cancelled	(5,616)	(26,910)
Outstanding and payable at end of year	889,301	907,972
Vested but not issued at end of year	556,854	471,455

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. For the year ended December 31, 2016, 144,636 deferred trust units were granted to trustees, officers and employees as well as employees of affiliates with the grant price ranging from \$16.27 to \$20.31 per unit. Of the units granted, 74,898 units relate to key management personnel.

Note 15

AMOUNTS PAYABLE AND ACCRUED LIABILITIES

	Note	December 31, 2017	December 31, 2016
Trade payables		\$ 3,847	\$ 1,313
Accrued liabilities and other payables	24	48,474	63,414
Accrued interest		6,886	10,775
Rent received in advance		8,328	16,394
Distributions payable	16	6,142	13,101
Total		\$ 73,677	\$ 104,997

Note 16

DISTRIBUTIONS

Dream Office REIT's Declaration of Trust 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 as determined using adjusted cash flows from operating activities (a non-GAAP measure). This non-GAAP measure does not represent cash generated from (utilized in) operating activities as defined by IFRS, and does not have a standardized meaning and may not be comparable with similar measures presented by other income trusts. Actual adjusted cash flows from operating activities (a non-GAAP measure) 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.

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

The Trust declared monthly distributions of \$0.125 per unit from January 2017 to June 2017 and \$0.08333 per unit for the remainder of 2017, or \$1.25 per unit for the year ended December 31, 2017. The Trust declared monthly distributions of \$0.18666 per unit for January 2016 and \$0.125 per unit for the remainder of 2016, or \$1.56 per unit for the year ended December 31, 2016.

The following table summarizes distribution payments for the years ended December 31, 2017 and December 31, 2016:

	Note	Year ended December 31,	
		2017	2016
Paid in cash		\$ 122,839	\$ 159,782
Paid by way of reinvestment in REIT A Units		—	17,034
Less: Payable at December 31, 2016 (December 31, 2015)		(13,101)	(20,458)
Plus: Payable at December 31, 2017 (December 31, 2016)	15	6,142	13,101
Total		\$ 115,880	\$ 169,459

On December 18, 2017, the Trust announced a cash distribution of \$0.08333 per REIT A Unit for the month of December 2017. The December 2017 distribution was paid in cash on January 15, 2018, totalling \$6,142.

On January 22, 2018, the Trust announced a cash distribution of \$0.08333 per REIT A Unit for the month of January 2018. The January 2018 distribution was paid in cash on February 15, 2018, totalling \$5,870.

On February 16, 2018, the Trust announced a cash distribution of \$0.08333 per REIT A Unit for the month of February 2018. The February 2018 distribution will be payable on March 15, 2018 to unitholders of record at February 28, 2018.

Note 17 EQUITY

	Note	December 31, 2017		December 31, 2016	
		Number of REIT A Units	Amount	Number of REIT A Units	Amount
REIT A Units		73,705,285	\$ 2,462,611	104,806,724	\$ 3,108,424
Deficit		—	(728,934)	—	(747,840)
Accumulated other comprehensive income	26	—	1,946	—	11,181
Total		73,705,285	\$ 1,735,623	104,806,724	\$ 2,371,765

Dream Office REIT Units

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

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

Distribution Reinvestment and Unit Purchase Plan

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

On February 18, 2016, the Trust announced the suspension of its DRIP until further notice effective for the February 2016 distribution. For the year ended December 31, 2016, the Trust issued 1,122,411 REIT A Units under the DRIP for \$17,034.

The Unit Purchase Plan feature of the DRIP facilitates the purchase of additional REIT A Units by existing unitholders. Participation in the Unit Purchase Plan is optional and subject to certain limitations on the maximum number of additional REIT A Units that may be acquired. The price per unit is calculated in the same manner as the DRIP. No commission, service charges or brokerage fees are payable by participants in connection with either the reinvestment or purchase features of the DRIP. For the year ended December 31, 2017, no REIT A Units were issued under the Unit Purchase Plan (December 31, 2016 – 362 REIT A Units for \$6).

Normal course issuer bid (“NCIB”)

On June 7, 2017, the NCIB covering the period from June 22, 2016 to June 21, 2017 expired as the Trust purchased the maximum number of REIT A Units, totalling 10,732,867 REIT A Units, permitted under this NCIB. On August 10, 2017, the Toronto Stock Exchange accepted a notice filed by the Trust to renew its prior NCIB for a one-year period. Under the renewed bid, the Trust will have the ability to purchase for cancellation up to a maximum of 7,197,095 of its REIT A Units (representing 10% of the Trust’s public float of 71,970,948 REIT A Units) through the facilities of the Toronto Stock Exchange. The renewed bid commenced on August 15, 2017 and will remain in effect until the earlier of August 14, 2018 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 54,249 REIT A Units, which equals 25% of the average daily trading volume during the last six calendar months (being 216,999 REIT A Units per day), other than purchases pursuant to applicable block purchase exceptions. 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.

For the year ended December 31, 2017, the Trust purchased for cancellation 10,348,734 REIT A Units under the NCIB at a cost of \$209,178 (for the year ended December 31, 2016 – 4,331,194 REIT A Units cancelled for \$80,174).

Subsequent to year-end, the Trust purchased for cancellation an additional 3,656,607 REIT A Units under the NCIB at a cost of \$81,226.

Substantial issuer bid (“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 18

ASSETS HELD FOR SALE AND DISPOSITIONS

Assets held for sale

As at December 31, 2017 and December 31, 2016, the Trust classified certain properties as assets held for sale totalling \$51,530 and \$321,355, respectively, and associated liabilities totalling \$nil and \$217,056, respectively, with prior year balances including working capital items.

As at December 31, 2017 and December 31, 2016, 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 and December 31, 2016 and certain properties were subsequently sold (see Note 32).

Investment properties held for sale

	Note	Year ended December 31,	
		2017	2016
Balance, beginning of year		\$ 321,232	\$ 44,712
Add (deduct):			
Building improvements		3,162	128
Lease incentives and initial direct leasing costs		9,322	671
Investment properties disposed of during the year		(2,268,720)	(259,327)
Investment properties classified as held for sale during the year	7	2,004,150	536,125
Fair value adjustment to investment properties		(15,327)	(300)
Amortization of lease incentives and other		(1,966)	(777)
Foreign currency translation adjustment		(323)	—
Balance, end of year		\$ 51,530	\$ 321,232

Investment properties included in assets held for sale as at December 31, 2017 had previously been included in the Calgary and Non-core markets reportable operating segments.

Held for sale properties with a fair value of \$nil as at December 31, 2017 (December 31, 2016 – \$177,043) are pledged as security for the mortgages.

Held for sale properties with a fair value of \$30,977 as at December 31, 2017 (December 31, 2016 – \$131,043) are pledged as security for the demand revolving credit facilities.

Debt related to investment properties held for sale

	Note	Year ended December 31,	
		2017	2016
Balance, beginning of year		\$ 209,228	\$ 24,245
Cash items:			
Principal repayments		(4,274)	(478)
Lump sum repayments		(13,956)	—
Lump sum repayment on property dispositions		(264,168)	(50,776)
Non-cash items:			
Debt classified as liabilities related to assets held for sale	12	799,762	274,761
Debt assumed by purchaser on disposal of investment properties		(720,990)	(37,899)
Foreign currency translation adjustment		(236)	—
Other adjustments ⁽¹⁾		(5,366)	(625)
Balance, end of year		\$ —	\$ 209,228

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

Dispositions

For the year ended December 31, 2017, the Trust disposed of the following properties:

Date disposed	Property	Ownership (%)	Disposed share of GLA (000s sq. ft.)	Sales price ⁽¹⁾
January 9, 2017	Braithwaite Boyle Centre, Calgary	100.0%	55	
January 11, 2017	10 Lower Spadina Avenue, Toronto ⁽²⁾	40.0%	24	
January 11, 2017	49 Ontario Street, Toronto ⁽²⁾	40.0%	35	
January 31, 2017	Calgary Portfolio ⁽³⁾	100.0%	1,505	
February 27, 2017	HSBC Bank Place and Enbridge Place, Edmonton	100.0%	563	
March 3, 2017	HSBC Building and Milner Building, Edmonton	100.0%	296	
March 15, 2017	13183 146th Street NW, Edmonton	100.0%	39	
March 28, 2017	Accelerator Building, Waterloo	100.0%	93	
March 30, 2017	10199 101st Street NW, Edmonton	50.0%	60	
Total dispositions for the three months ended March 31, 2017			2,670	\$ 323,959
April 3, 2017	Franklin Atrium, Calgary	100.0%	150	
April 12, 2017	Airport Corporate Centre, Calgary	100.0%	151	
April 12, 2017	3115 12th Street NE, Calgary	100.0%	73	
April 19, 2017	2816 11th Street NE, Calgary	100.0%	33	
April 25, 2017	250 King Street, Fredericton	100.0%	80	
April 25, 2017	460 Two Nations Crossing, Fredericton ⁽²⁾	40.0%	20	
April 25, 2017	185, 191 & 195 The West Mall, Etobicoke ⁽²⁾	49.9%	308	
May 9, 2017	625 Agnes Street, New Westminster	100.0%	86	
May 11, 2017	5945–5955 & 5915–5935 Airport Road, Mississauga	100.0%	685	
May 11, 2017	Highfield Place, Edmonton	100.0%	105	
May 26, 2017	401 & 405 The West Mall, Toronto ⁽²⁾	40.0%	165	
June 1, 2017	680 Broadway Street, Tillsonburg ⁽²⁾	49.9%	23	
June 16, 2017	55 Norfolk Street South, Simcoe ⁽²⁾	40.0%	6	
June 27, 2017	180 Keil Drive South, Chatham	100.0%	37	
June 28, 2017	2550 Argenta Road, Mississauga	100.0%	52	
June 29, 2017	Regina Portfolio ⁽⁴⁾	100.0%	176	
Total dispositions for the three months ended June 30, 2017			2,150	\$ 391,248
July 31, 2017	Franklin Building, Calgary	100.0%	51	
August 15, 2017	2645 Skymark Avenue, Mississauga	100.0%	141	
August 15, 2017	2810 Matheson Boulevard East, Mississauga ⁽²⁾	49.9%	69	
August 17, 2017	586 Argus Road, Oakville	100.0%	75	
August 23, 2017	Scotia Plaza (40 & 44 King Street West), Toronto	50.0%	991	
August 23, 2017	100 Yonge Street, Toronto	50.0%	123	
August 23, 2017	Baker Centre, Edmonton	100.0%	143	
September 8, 2017	Diversified Portfolio ⁽⁵⁾	Various	3,436	
September 19, 2017	6501–6523 & 6531–6559 Mississauga Road, Mississauga ⁽²⁾	40.0%	63	
Total dispositions for the three months ended September 30, 2017			5,092	\$ 1,440,275
October 4, 2017	Station Tower, Surrey	100.0%	220	
October 6, 2017	Royal Centre, Saskatchewan	100.0%	48	
October 31, 2017	445 Opus Industrial Boulevard, Mount Juliet, Nashville, U.S.	100.0%	717	
Total dispositions for the three months ended December 31, 2017			985	\$ 184,090
Total dispositions for the year ended December 31, 2017			10,897	\$ 2,339,572

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

(2) For the year ended December 31, 2017, the Trust wrote off external management contracts related to these disposed co-owned properties totalling \$3,914.

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

(4) Includes five properties in Regina: 2400 College Avenue, 2220 College Avenue, 2208 Scarth Avenue, 2445 13th Avenue and Harbour Landing, Phase 2.

(5) Diversified Portfolio includes 39 properties: three properties in British Columbia, five properties in the Northwest Territories, nine properties in Alberta, 18 properties in Ontario and four properties in Nova Scotia. The Trust's ownership interest in these properties ranged between 35.0% and 100.0%.

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. As at December 31, 2017, the fair value of these units was \$5,259 and is included in prepaid expenses and other assets in the consolidated balance sheet.

For the year ended December 31, 2016, the Trust disposed of the following properties:

Date disposed	Property	Ownership (%)	Disposed share of GLA (000s sq. ft.)	Sales price ⁽¹⁾
February 26, 2016	2450 Girouard Street West & 455 Saint Joseph Avenue (Intact Tower), Saint-Hyacinthe	100%	232	
March 1, 2016	8550 Newman Boulevard, Montréal	100%	66	
March 1, 2016	1305 Chemin Sainte-Foy, Québec City	100%	37	
March 10, 2016	1 Riverside Drive, Windsor	100%	236	
Total dispositions for the three months ended March 31, 2016			571	\$ 81,501
April 1, 2016	2010 Winston Park Drive, Oakville	40%	32	
April 27, 2016	4259–4299 Canada Way, Burnaby	100%	120	
April 29, 2016	960 Quayside Drive, New Westminster	100%	62	
May 2, 2016	625 Cochrane Drive and Valleywood Corporate Centre, Markham	100%	318	
May 18, 2016	30 Eglinton Ave. West, Mississauga	100%	165	
June 10, 2016	887 Great Northern Way, Vancouver	100%	164	
Total dispositions for the three months ended June 30, 2016			861	\$ 249,795
July 25, 2016	100 Gough Road, Markham	100%	112	
July 29, 2016	Suburban Ottawa & Gatineau Portfolio ⁽²⁾	100%	392	
August 2, 2016	Seven Capella Court, Ottawa	100%	32	
September 16, 2016	4370 & 4400 Dominion Street, Burnaby	100%	157	
Total dispositions for the three months ended September 30, 2016			693	\$ 146,350
November 16, 2016	2665 Renfrew Street, Vancouver	100%	82	
December 29, 2016	Kitchener Portfolio ⁽³⁾	100%	985	
Total dispositions for the three months ended December 31, 2016			1,067	\$ 171,273
Total dispositions for the year ended December 31, 2016			3,192	\$ 648,919

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

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

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

As part of the Kitchener Portfolio sale on December 29, 2016, the Trust received as partial consideration a vendor takeback mortgage (“VTB Mortgage”) of \$78,775. The VTB Mortgage bore interest at the bank’s prime rate plus 0.2277% per annum and interest was payable monthly. The VTB Mortgage was included in prepaid expenses and other assets in the consolidated balance sheets as at December 31, 2016. The VTB Mortgage was repaid in full on March 28, 2017.

Note 19

INTEREST

Interest on debt

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

	Year ended December 31,	
	2017	2016
Interest expense incurred, at contractual rate of debt	\$ 85,981	\$ 119,151
Amortization of financing costs	3,514	3,867
Amortization of fair value adjustments on assumed debt	(2,935)	(3,498)
Interest expense on debt	86,560	119,520
Add (deduct):		
Amortization of financing costs	(3,514)	(3,867)
Amortization of fair value adjustments on assumed debt	2,935	3,498
Change in accrued interest	(3,889)	(1,389)
Cash interest paid	\$ 82,092	\$ 117,762

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,	
	2017	2016
Paid in cash	\$ 6,760	\$ 8,497
Less: Interest payable at December 31, 2016 (December 31, 2015)	(654)	(977)
Plus: Interest payable at December 31, 2017 (December 31, 2016)	436	654
Interest expense on subsidiary redeemable units	\$ 6,542	\$ 8,174

Note 20

FAIR VALUE ADJUSTMENTS TO FINANCIAL INSTRUMENTS

		Year ended December 31,	
	Note	2017	2016
Remeasurement of carrying value of subsidiary redeemable units	13	\$ (13,660)	\$ (11,409)
Remeasurement of carrying value of deferred trust units	14	(3,111)	(2,146)
		\$ (16,771)	\$ (13,555)

Note 21

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 39.41% (December 31, 2016 – 39.49%). 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 24). 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 in the current year.

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. As a result of the rate drop, the Trust is expecting the remaining timing differences to be realized at a tax rate which is lower than was previously expected. The closing deferred tax liability was recalculated at the lower expected tax rate, which resulted in a further reduction in the deferred tax liabilities of the Trust.

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, 2017	December 31, 2016
Deferred tax assets		
Deferred financing costs	\$ 130	\$ 269
Financial instruments	273	1,121
Loss carry-forwards	—	1,097
	403	2,487
Deferred tax liabilities		
Investment properties	(2,617)	(13,222)
Deferred tax liabilities, net	\$ (2,214)	\$ (10,735)

A reconciliation between the expected income taxes based upon the 2017 and 2016 statutory rates and the income tax expense recognized during the years ended December 31, 2017 and December 31, 2016 is as follows:

	December 31, 2017	December 31, 2016
Income taxes computed at the statutory rate of nil that is applicable to the Trust	\$ —	\$ —
Current income taxes expense on U.S. properties	4,123	—
Deferred income taxes expense (recovery) on U.S. properties	(7,950)	1,953
	\$ (3,827)	\$ 1,953

As part of the deferred tax balance, \$560 is a result of a foreign exchange difference for the remaining property in the U.S. (for the year ended December 31, 2016 – \$256). This amount is included as part of accumulated other comprehensive income under unrealized foreign currency translation gain (loss).

Note 22

SEGMENTED INFORMATION

Prior to July 1, 2017, the Trust's reportable operating segments of its investment properties and results of operations were segmented geographically, namely B.C./Saskatchewan/N.W.T., Alberta, Toronto – downtown, Toronto – suburban and Eastern Canada. Effective July 1, 2017, as a result of changes in the Trust's property portfolio, the Trust made several changes to its reportable operating segments as follows: (i) separated its investment properties in Calgary from Alberta and created a new Calgary segment; (ii) separated its investment properties in Ottawa and Montréal from Eastern Canada and created a new Ottawa and Montréal segment; (iii) renamed the properties remaining in Toronto – suburban as Mississauga and North York; and (iv) created a new Non-core markets segment containing the remainder of the investment properties in the previous Alberta and Eastern Canada regions. This Non-core markets segment contains those investment properties in geographic areas which the Trust does not consider core to its stated strategic direction. These changes will enable the Chief Executive Officer to evaluate the performance of those investment properties which are key to the Trust's overall strategy.

For the years ended December 31, 2017 and December 31, 2016, 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 Non-core markets. Corporate amounts, lease termination fees, bad debt expense, straight-line rent and amortization of lease incentives, and revenue and expenses related to properties held for redevelopment, sold properties and assets held for sale at December 31, 2017, were included in "Other" for segment disclosure. Assets classified as held for sale or sold as at December 31, 2017 have been reclassified to "Other" in the comparative segment disclosures for the year ended December 31, 2016, including the investment properties revenue, investment properties operating expenses and fair value adjustments associated with these properties. The Trust did not allocate interest expense to these segments since leverage is viewed as a corporate function. The decision as to where to incur the debt is largely based on minimizing the cost of debt and is not specifically related to the segments. Similarly, other income, other expenses, fair value adjustments to financial instruments, net losses on transactions and other activities, and deferred income taxes were not allocated to the segments.

For the year ended December 31, 2016, segments include the Trust's proportionate share of its joint ventures. The column entitled "Reconciliation" adjusts the segmented results to account for these joint ventures using the equity method of accounting as applied in these consolidated financial statements.

Year ended December 31, 2017	Calgary	Toronto downtown	Mississauga and North York	Ottawa and Montréal	Non-core markets	Segment total	Other ⁽¹⁾	Reconciliation	Total
Operations									
Investment properties revenues	\$ 57,264	\$ 148,006	\$ 23,808	\$ 39,830	\$ 37,262	\$ 306,170	\$ 163,605	\$ —	\$ 469,775
Investment properties operating expenses	(25,234)	(64,125)	(9,245)	(19,477)	(15,022)	(133,103)	(79,013)	—	(212,116)
Net rental income (segment income)	32,030	83,881	14,563	20,353	22,240	173,067	84,592	—	257,659
Other income	—	—	—	—	—	—	15,552	—	15,552
Other expenses	—	—	—	—	—	—	(110,667)	—	(110,667)
Fair value adjustments, net losses on transactions and other activities	(33,172)	233,412	(2,088)	(4,402)	(113,861)	79,889	(111,474)	—	(31,585)
Income (loss) before income taxes	(1,142)	317,293	12,475	15,951	(91,621)	252,956	(121,997)	—	130,959
Current income taxes expense	—	—	—	—	—	—	(4,123)	—	(4,123)
Deferred income taxes recovery	—	—	—	—	—	—	7,950	—	7,950
Net income (loss) for the year	\$ (1,142)	\$ 317,293	\$ 12,475	\$ 15,951	\$ (91,621)	\$ 252,956	\$ (118,170)	\$ —	\$ 134,786

Year ended December 31, 2017	Calgary	Toronto downtown	Mississauga and North York	Ottawa and Montréal	Non-core markets	Segment total	Other ⁽²⁾	Reconciliation ⁽³⁾	Total
Capital expenditures ⁽⁴⁾	\$ 17,827	\$ 22,117	\$ 3,600	\$ 7,256	\$ 5,570	\$ 56,370	\$ 31,492	\$ (12,484)	\$ 75,378
Investment properties	\$ 386,962	\$ 1,707,867	\$ 216,400	\$ 355,687	\$ 211,923	\$ 2,878,839	\$ 92,129	\$ (51,530)	\$ 2,919,438

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

(2) Includes properties held for redevelopment, sold properties and assets held for sale at year-end.

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

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

Year ended December 31, 2016	Calgary	Toronto downtown	Mississauga and North York	Ottawa and Montréal	Non-core markets	Segment total ⁽¹⁾	Other ⁽²⁾	Reconciliation ⁽¹⁾	Total
Operations									
Investment properties revenue	\$ 66,729	\$ 145,796	\$ 23,000	\$ 43,728	\$ 39,156	\$ 318,409	\$ 404,884	\$ (59,002)	\$ 664,291
Investment properties operating expenses	(27,549)	(62,910)	(9,099)	(19,749)	(15,117)	(134,424)	(189,670)	28,381	(295,713)
Net rental income (segment income)	39,180	82,886	13,901	23,979	24,039	183,985	215,214	(30,621)	368,578
Other income (loss)	—	—	—	—	—	—	11,386	(154,342)	(142,956)
Other expenses	—	—	—	—	—	—	(152,064)	8,891	(143,173)
Fair value adjustments, net losses on transactions and other activities	(305,060)	26,606	(18)	(3,496)	(52,438)	(334,406)	(801,867)	176,072	(960,201)
Income (loss) before income taxes	(265,880)	109,492	13,883	20,483	(28,399)	(150,421)	(727,331)	—	(877,752)
Deferred income taxes expense	—	—	—	—	—	—	(1,953)	—	(1,953)
Net income (loss) for the year	\$ (265,880)	\$ 109,492	\$ 13,883	\$ 20,483	\$ (28,399)	\$ (150,421)	\$ (729,284)	\$ —	\$ (879,705)

Year ended December 31, 2016	Calgary	Toronto downtown	Mississauga and North York	Ottawa and Montréal	Non-core markets	Segment total ⁽¹⁾	Other ⁽³⁾	Reconciliation ⁽¹⁾⁽⁴⁾	Total
Capital expenditures ⁽⁵⁾	\$ 18,227	\$ 17,924	\$ 3,006	\$ 5,134	\$ 6,738	\$ 51,029	\$ 77,728	\$ (16,405)	\$ 112,352
Investment properties	\$ 404,861	\$ 1,455,983	\$ 215,214	\$ 353,171	\$ 324,725	\$ 2,753,954	\$ 2,463,633	\$ (381,232)	\$ 4,836,355

(1) Includes the Trust's proportionate share of its joint ventures, accounted for using the equity method of accounting.

(2) Includes revenue, expenses and fair value adjustments related to properties held for redevelopment, sold properties and assets held for sale at year-end, corporate amounts, lease termination fees, bad debt expense, straight-line rent and amortization of lease incentives.

(3) Includes properties held for redevelopment, sold properties and assets held for sale at year-end.

(4) Includes assets held for sale at year-end.

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

Note 23

GENERAL AND ADMINISTRATIVE EXPENSES

	Note	Year ended December 31,	
		2017	2016
Management Services Agreement	24	\$ (830)	\$ (661)
Salaries		(1,521)	(1,902)
Deferred compensation expense	14	(3,128)	(2,551)
Other ⁽¹⁾		(5,165)	(6,792)
General and administrative expenses		\$ (10,644)	\$ (11,906)

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

Note 24

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, except for dispositions of investment properties which are transacted at fair value.

At December 31, 2017, DAM held 5,992,583 REIT A Units and 5,233,823 subsidiary redeemable units (December 31, 2016 – 3,858,153 REIT A Units and 5,233,823 subsidiary redeemable units).

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 net losses on transactions and other activities.

Agreements with DAM

On April 2, 2015, the Trust and DAM entered into a Management Services Agreement pursuant to which DAM will provide strategic oversight of the Trust and the services of a Chief Executive Officer as requested on a cost recovery basis. In accordance with the termination provisions of the Management Services Agreement, the Trust is subject to an incentive fee payable which is based on 15% of the Trust's Aggregate Adjusted Funds from Operations (as defined in the Management Services Agreement), including the net gain on sale of any properties during the term of the agreement, and the deemed sale of the remaining portfolio upon termination, in excess of \$2.65 per REIT A Unit. This agreement gives DAM the right to terminate the agreement upon 180 days' notice (any time after April 2, 2018) and the Trust the right to terminate the agreement upon 60 days' notice. As the termination of the Management Services Agreement for the first three years is solely at the discretion of the Trust and the Trust currently has no intention to terminate the Management Services Agreement, the Trust has determined that it is not probable that the incentive fee is payable and accordingly, no amounts related to the incentive fee have been recorded in the consolidated financial statements as at December 31, 2017 and December 31, 2016.

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

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

On October 25, 2016, the Trust and DAM jointly implemented a cost reduction program to simplify and to establish more dedicated services on a cost-efficient basis of the Trust's operating and shared service platform. On a go forward basis, the portion of the cost reduction program that relates to the shared service platform will impact the costs being allocated to related parties in accordance with the Shared Services, Cost Sharing, Administrative Services and Services Agreements currently in place. As a result of implementing this program, the Trust incurred a charge of \$1,616 and \$3,923 for the years ended December 31, 2017 and December 31, 2016, which are included in net losses on transactions and other activities (see Note 31).

Management Services Agreement with DAM

The following is a summary of fees incurred for the years ended December 31, 2017 and December 31, 2016:

	Year ended December 31,	
	2017	2016
Senior management compensation (included in G&A expenses)	\$ (830)	\$ (661)
Expense reimbursements related to financing arrangements (included in debt)	(576)	(753)
Expense reimbursements related to disposition arrangements (included in costs on sale of investment properties)	(702)	(876)
Professional services and other (included in investment properties and G&A expenses)	(848)	(871)
Total incurred under the Management Services Agreement	\$ (2,956)	\$ (3,161)

Administrative Services Agreement with DAM

The following is a summary of fees received from or paid to DAM and costs incurred by DAM or the Trust on behalf of the other party for the years ended December 31, 2017 and December 31, 2016.

	Year ended December 31,	
	2017	2016
Shared services and costs processed on behalf of DAM	\$ 5,742	\$ 7,220
Operating and administration costs of regional offices processed on behalf of DAM	287	615
Total costs processed on behalf of DAM under the Administrative Services Agreement	\$ 6,029	\$ 7,835
Total costs processed by DAM on behalf of the Trust under the Administrative Services Agreement	\$ (966)	\$ (568)

Shared Services and Cost Sharing Agreement with DAM

The following is a summary of fees billed by DAM for the years ended December 31, 2017 and December 31, 2016:

	Year ended December 31,	
	2017	2016
Business transformation costs (included in net losses on transactions and other activities)	\$ —	\$ (1,219)
Total costs incurred under the Shared Services and Cost Sharing Agreement	\$ —	\$ (1,219)

Services Agreement with Dream Industrial REIT

The following is a summary of the cost recoveries from Dream Industrial REIT for the years ended December 31, 2017 and December 31, 2016:

	Year ended December 31,	
	2017	2016
Total cost recoveries from Dream Industrial REIT	\$ 2,726	\$ 3,682

Amounts due from (to) related parties

	December 31, 2017	December 31, 2016
Amounts due from DAM		
Administrative Services Agreement with DAM	\$ 763	\$ 1,077
Total amounts due from DAM	\$ 763	\$ 1,077

	December 31, 2017	December 31, 2016
Amounts due to DAM		
Various agreements with DAM ⁽¹⁾	\$ (894)	\$ (825)
Distributions payable to DAM ⁽²⁾	(499)	(482)
Subsidiary redeemable interest payable to DAM ⁽³⁾	(436)	(654)
Total amounts due to DAM	\$ (1,829)	\$ (1,961)

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

(2) Distributions payable is in relation to the 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, 2017	December 31, 2016
Amounts due from Dream Industrial REIT		
Service Agreement with Dream Industrial REIT	\$ 302	\$ 429
Distributions from Dream Industrial REIT	1,431	1,168
Total amounts due from Dream Industrial REIT	\$ 1,733	\$ 1,597

	December 31, 2017	December 31, 2016
Amounts due to Dream Industrial REIT		
Funds received on behalf of Dream Industrial REIT	\$ (299)	\$ —
Total amounts due to Dream Industrial REIT	\$ (299)	\$ —

Compensation of key management personnel and trustees

Compensation of key management personnel and trustees for the years ended December 31, 2017 and December 31, 2016 is as follows:

	Year ended December 31,	
	2017	2016
Compensation and benefits	\$ 1,417	\$ 1,189
Unit-based awards ⁽¹⁾	1,489	1,298
Total	\$ 2,906	\$ 2,487

(1) Deferred trust units granted to officers and trustees vest over a five-year period with one-fifth of the deferred trust units vesting each year. Amounts are determined based on the grant date fair value of deferred trust units multiplied by the number of deferred trust units granted in the year.

Note 25

SUPPLEMENTARY CASH FLOW INFORMATION

The components of amortization and depreciation under operating activities include:

	Note	Year ended December 31,	
		2017	2016
Amortization of lease incentives	7, 18	\$ 14,587	\$ 17,064
Amortization and write-off of external management contracts	10	4,809	1,291
Amortization of financing costs	19	3,514	3,867
Amortization of fair value adjustments on assumed debt	19	(2,935)	(3,498)
Depreciation on property and equipment		2,112	2,282
Total amortization and depreciation		\$ 22,087	\$ 21,006

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

	Note	Year ended December 31,	
		2017	2016
Debt settlement costs, net	31	\$ 16,255	\$ 9,899
Costs on sale of investment properties	31	20,057	12,250
Deferred unit compensation expense	14	3,236	2,750
Straight-line rent adjustment		(2,885)	(1,512)
Deferred income taxes expense (recovery)	21	(7,950)	1,953
Loss on recognition of net assets of joint operations	31	117	10,263
Realized foreign exchange gain on sale of investment property	31	(5,905)	—
Cost on Reorganization and other	24, 31	—	43
Total other adjustments		\$ 22,925	\$ 35,646

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

		Year ended December 31,	
		2017	2016
Decrease (increase) in amounts receivable	\$	1,686	\$ (3,965)
Decrease in prepaid expenses and other assets		3,622	2,078
Decrease in other non-current assets		518	188
Decrease in amounts payable and accrued liabilities		(29,261)	(12,160)
Decrease in non-current liabilities		(8,550)	(4,562)
Change in non-cash working capital	\$	(31,985)	\$ (18,421)

The following amounts were paid on account of interest:

	Note	Year ended December 31,	
		2017	2016
Interest:			
Debt	19	\$ 82,092	\$ 117,762
Subsidiary redeemable units	19	6,760	8,497

Note 26

ACCUMULATED OTHER COMPREHENSIVE INCOME

	Year ended December 31,					
	2017			2016		
	Opening balance January 1	Net change during the year	Closing balance December 31	Opening balance January 1	Net change during the year	Closing balance December 31
Realized and unrealized gain (loss) on interest rate swaps, net of taxes	\$ (328)	\$ 45	\$ (283)	\$ (1,141)	\$ 813	\$ (328)
Realized and unrealized gain (loss) on foreign currency translation, net of taxes	11,509	(9,020)	2,489	12,716	(1,207)	11,509
Share of other comprehensive loss from investment in Dream Industrial REIT	—	(260)	(260)	—	—	—
Accumulated other comprehensive income	\$ 11,181	\$ (9,235)	\$ 1,946	\$ 11,575	\$ (394)	\$ 11,181

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 investment properties, and with respect to litigation and claims that arise from time to time. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the consolidated financial statements of Dream Office REIT.

In 2015, a subsidiary of the Trust received notices of reassessment from both the Canada Revenue Agency and the Alberta Minister of Finance with respect to its 2007, 2008 and 2010 taxation years. These reassessments relate to the deductibility of certain tax losses claimed by the subsidiary prior to its acquisition by the Trust. These federal and provincial reassessments if upheld could increase total current taxes payable, including interest and penalties, by \$11,765. 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, 2017.

At December 31, 2017, Dream Office REIT's future minimum commitments under operating leases and fixed price contracts to purchase steam are as follows:

	Minimum payments due			
	< 1 year	1–5 years	> 5 years	Total
Operating lease payments	\$ 2,680	\$ 4,362	\$ 3,670	\$ 10,712
Fixed price contracts – steam	151	604	1,815	2,570
Total	\$ 2,831	\$ 4,966	\$ 5,485	\$ 13,282

Operating leases include a ground lease on a property totalling \$4,458, payable over the next 29 years.

During the year ended December 31, 2017, the Trust paid \$1,908 (December 31, 2016 – \$3,208) in minimum lease payments, which has been included in the consolidated statements of comprehensive income (loss) for the year.

The Trust has entered into lease agreements that may require tenant improvement costs of approximately \$14,412 (December 31, 2016 – \$42,575).

As at December 31, 2017, the Trust's share of contingent liabilities for the obligation of the other owners of co-owned properties was \$nil (December 31, 2016 – \$5,330).

The Trust is contingently liable under guarantees that are issued on certain debt assumed by purchasers of investment properties totalling \$173,188 (December 31, 2016 – \$74,380).

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, 2017 and December 31, 2016.

Various debt, equity and earnings distribution ratios are used to ensure capital adequacy and to monitor capital requirements. The primary ratios used for assessing capital management are the interest coverage ratio and net debt-to-gross carrying value. Other significant indicators include weighted average interest rate, average term to maturity of debt and variable debt as a portion of total debt. These indicators assist the Trust in assessing whether the debt level maintained is sufficient to provide adequate cash flows for unitholder distributions, leasing costs, and capital expenditures, and for evaluating the need to raise funds for further expansion. Various mortgages have debt covenant requirements that are monitored by the Trust to ensure there are no defaults. These covenants include loan-to-value ratios, cash flow coverage ratios, interest coverage ratios and debt service coverage ratios. These covenants are measured at the subsidiary limited partnership level, and all have been complied with in all material respects.

The Trust's equity consists of REIT Units, in which the carrying value is impacted by earnings and unitholder distributions. Amounts retained in excess of the distributions are used to fund leasing costs, capital expenditures and working capital requirements. Management monitors distributions to ensure adequate resources are available by comparing total distributions to adjusted cash flows from operating activities, a non-IFRS measure.

During the year, there were no events of default on any of the Trust's obligations under its credit facilities or mortgage loans.

Note 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, 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, 2017 was 8.3% of the Trust's total debt (December 31, 2016 – 12.7%). In order to manage exposure to interest rate risk, the Trust endeavours to maintain an appropriate mix of fixed and variable rate debt, manage maturities of fixed rate debt and match the nature of the debt with the cash flow characteristics of the underlying asset.

The following interest rate sensitivity table outlines the potential impact of a 1% change in the interest rate on variable rate financial assets and liabilities for the prospective 12-month period. A 1% change is considered a reasonable level of fluctuation on variable rate financial assets and liabilities.

	Amount	Interest rate risk			
		-1%		+1%	
		Income	Equity	Income	Equity
Financial assets					
Cash and cash equivalents ⁽¹⁾	\$ 96,960	\$ (970)	\$ (970)	\$ 970	\$ 970
Financial liabilities					
Fixed rate debt due to mature in 2018					
and total variable debt	\$ 267,860	\$ 2,679	\$ 2,679	\$ (2,679)	\$ (2,679)

(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 1.95%. Cash and cash equivalents are short term in nature and the current balance may not be representative of the balance for the rest of the year.

The Trust is not exposed to significant foreign exchange risks.

The Trust's assets mainly consist of investment properties. Credit risk arises from the possibility that tenants in investment properties may not fulfill their lease or contractual obligations. The Trust mitigates its credit risks by attracting tenants of sound financial standing and by diversifying its mix of tenants. It also monitors tenant payment patterns and discusses potential tenant issues with property managers on a regular basis. Cash and cash equivalents, deposits and restricted cash carry minimal credit risk as all funds are maintained with highly reputable financial institutions.

Liquidity risk is the risk the Trust will encounter difficulty in meeting obligations associated with the maturity of financial obligations. The Trust manages maturities of the fixed rate debts, and monitors the repayment dates to ensure sufficient capital will be available to cover obligations as they become due.

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 during the year.

The following tables summarize fair value measurements recognized in the consolidated financial statements by class of asset or liability and categorized by level according to the significance of the inputs used in making the measurements.

	Note	Carrying value as at December 31, 2017	Fair value as at December 31, 2017		
			Level 1	Level 2	Level 3
Recurring measurements					
Financial instruments					
Marketable securities	18	\$ 5,259	\$ 5,259	\$ —	\$ —
Non-financial assets					
Investment properties	7	\$ 2,919,438	\$ —	\$ —	\$ 2,919,438
Investment properties classified as held for sale	18	\$ 51,530	\$ —	\$ —	\$ 51,530

	Note	Carrying value as at December 31, 2016	Fair value as at December 31, 2016		
			Level 1	Level 2	Level 3
Recurring measurements					
Non-financial assets					
Investment properties	7	\$ 4,836,355	\$ —	\$ —	\$ 4,836,355
Investment properties classified as held for sale	18	\$ 321,232	\$ —	\$ —	\$ 321,232

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, 2017	Fair value as at December 31, 2017		
			Level 1	Level 2	Level 3
Fair values disclosed					
Mortgages	12	\$ 1,080,702	\$ —	\$ —	\$ 1,087,274
Debentures	12	290,140	292,346	—	—
Investment in Dream Industrial REIT	8	220,796	47,794	163,256	—

	Note	Carrying value as at December 31, 2016	Fair value as at December 31, 2016		
			Level 1	Level 2	Level 3
Fair values disclosed					
Mortgages	12	\$ 2,027,172	\$ —	\$ —	\$ 2,047,635
Mortgages related to properties held for sale	12	209,228	—	—	211,845
Debentures	12	448,828	450,000	—	—
Investment in Dream Industrial REIT	8	186,754	7,528	158,247	—

Amounts receivable, cash and cash equivalents, tenant security deposits, amounts payable and accrued liabilities, and distributions payable are carried at amortized cost which approximates fair value due to their short-term nature. Subsidiary redeemable units and the Deferred Unit Incentive Plan are carried at amortized cost, which approximates fair value as they are readily redeemable financial instruments.

Investment properties

The Trust's accounting policy as indicated in Note 3 is applied to fair value investment properties using the income approach, which is derived from two methods: overall capitalization rate method and discounted cash flow method, which result in these measurements being classified as Level 3 in the fair value hierarchy. Valuations of investment properties are most sensitive to changes in discount rates and capitalization rates. In applying the overall cap rate method the stabilized NOI of each property is divided by any appropriate cap rate.

The critical and key assumptions in the valuation of investment properties are as follows:

Cap rate method

- Cap rates – based on actual location, size and quality of the properties and taking into account any available market data at the valuation date.
- Stabilized NOI – normalized property operating revenues less property operating expenses.

Discounted cash flow method

- Discount and terminal rates – reflecting current market assessments of the return expectations.
- Market rents – reflecting management's best estimates with reference to recent leasing activity and external market data.
- Leasing costs – reflecting recent leasing activity and external market data.
- Vacancy rates – reflecting recent leasing activity and external market data.

In accordance with IFRS 5, "Non-Current Assets Held for Sale and Discontinued Operations", as at December 31, 2017, the Trust classified certain investment properties as assets held for sale totalling \$51,530 and its associated liabilities totalling \$nil. The fair value of the assets held for sale approximates the carrying value of the assets.

Investment properties are valued on a highest-and-best-use basis. For all of the Trust's investment properties the current use is considered the highest and best use.

Investment properties valuation process

The Trust is responsible for determining the fair value measurements included in the consolidated financial statements. At the end of each reporting period, the Trust determines the fair value of investment properties by:

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

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

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, 2017 and December 31, 2016 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 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, 2017 and December 31, 2016 are based on the debentures' trading price on or about December 31, 2017 and December 31, 2016, respectively. The fair values of debentures that are non-trading as at December 31, 2017 and December 31, 2016 are based on the debentures' par value.

Demand revolving credit facilities

The fair value of the demand revolving credit facilities as at December 31, 2017 and December 31, 2016 approximates their carrying value due to their short-term nature.

Note 31

NET LOSSES ON TRANSACTIONS AND OTHER ACTIVITIES

	Note	Year ended December 31,	
		2017	2016
Debt settlement costs, net ⁽¹⁾		\$ (16,255)	\$ (9,899)
Costs on sale of investment properties ⁽²⁾		(20,057)	(12,250)
Internal leasing costs		(5,237)	(8,695)
Charge on cost reduction program	24	(1,616)	(3,923)
Realized foreign exchange gain on sale of investment property	26	5,905	—
Loss on recognition of net assets related to joint operations	9	(117)	(10,263)
Business transformation costs	24	—	(1,219)
Other		(553)	(1,297)
Total		\$ (37,930)	\$ (47,546)

(1) 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.

(2) Costs on sale of investment properties comprise transaction costs, commissions and other expenses incurred in relation to the disposal of investment properties.

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 (see Note 24). As a result of the sale, the Trust reclassified \$5,905 of realized foreign currency translation gain, net of taxes from other comprehensive income (loss) to net income during the year.

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 recognized a loss of \$117 in the consolidated statements of comprehensive income (loss) 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 9).

On October 25, 2016, the Trust and DAM jointly implemented a cost reduction program to simplify and to establish more dedicated services on a cost-efficient basis of the Trust's operating and shared service platform. On a go forward basis, the portion of the cost reduction program that relates to the shared service platform will impact the costs being allocated to related parties in accordance with the Shared Services, Cost Sharing, Administrative Services and Services Agreements currently in place. As a result of implementing this program, the Trust incurred a charge of \$1,616 and \$3,923 for the years ended December 31, 2017 and December 31, 2016.

On June 30, 2016, the Trust terminated the joint venture agreement with H&R REIT and entered into a co-ownership agreement with KingSett and AIMCo. As a result of this change, the Trust recognized a loss of \$10,263 in the consolidated statements of comprehensive income (loss) related to the initial recognition at fair value of the Trust's remaining 50% share of the assets and liabilities compared to the carrying values of the joint ventures (see Note 9).

Note 32

SUBSEQUENT EVENTS

Subsequent to year-end, the Trust completed the sale of four properties located in Alberta and Saskatchewan, totalling approximately 0.4 million square feet, for gross proceeds (net of adjustments) totalling \$51,730.



Trustees

Detlef Bierbaum^{Ind.,1,2}

Köln, Germany
Corporate Director

Donald K. Charter^{Ind.,3,4,6}

Toronto, Ontario
Corporate Director

Michael J. Cooper^{2,5}

Toronto, Ontario
President and Chief Responsible Officer
Dream Unlimited Corp.

Joanne Ferstman^{Ind.,1,2}

Toronto, Ontario
Corporate Director

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

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
- 6 Independent Lead Trustee

Management Team

Michael J. Cooper

Chief Executive Officer

Rajeev Viswanathan

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
E-mail: 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
Web: www.computershare.com
E-mail: service@computershare.com

AUDITORS

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



Corporate Office

State Street Financial Centre
30 Adelaide Street East, Suite 301
Toronto, Ontario M5C 3H1
Phone: 416.365.3535
Fax: 416.365.6565
dreamofficereit.ca