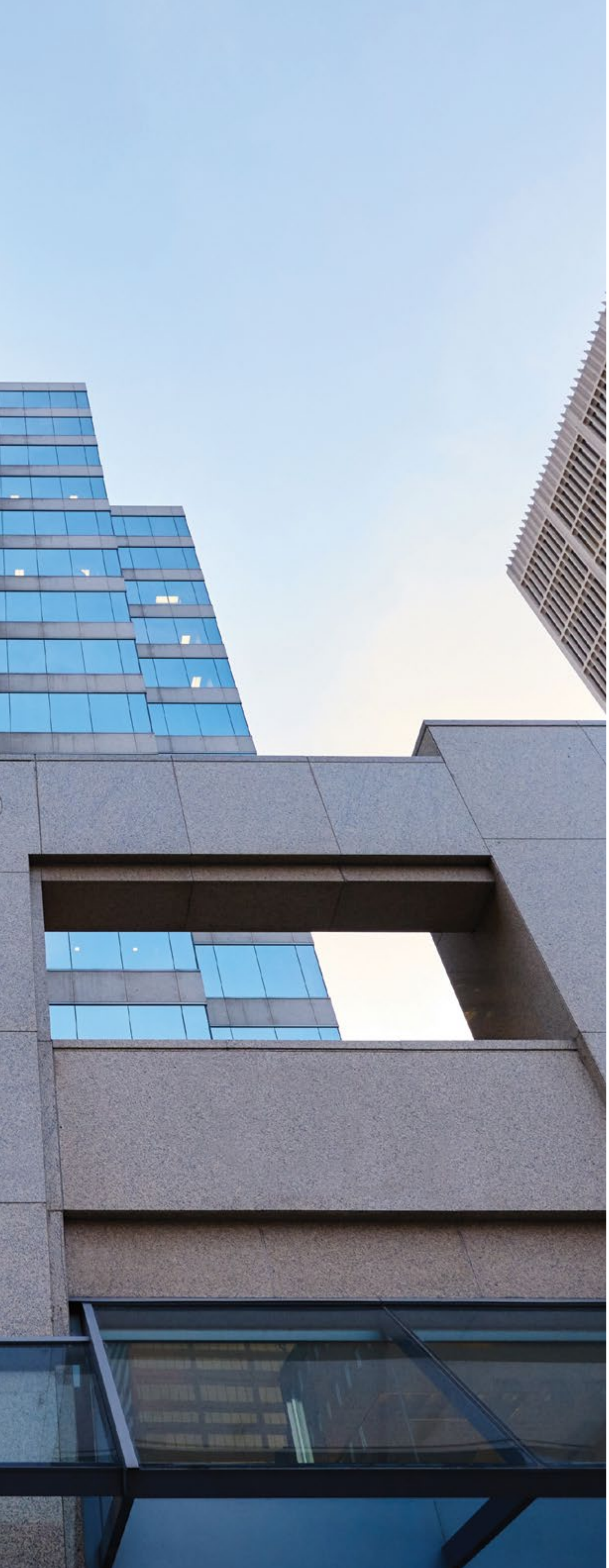
dream office REIT

2019 Annual Report


438 University Avenue
Toronto, ON



Dream Office REIT locates high-quality central business office properties, primarily in downtown Toronto.

Letter to Unitholders

We are pleased with the significant progress that Dream Office REIT has made in 2019. We have substantially completed our asset sales and the strategic plan to transform our business to a pure-play downtown Toronto office REIT. We can now be focused on generating higher long term returns while maintaining a safe balance sheet for our unitholders.

The Toronto office leasing market is currently very supportive for our company. Office vacancy is about 2% and rents on new leases and renewals are now the highest they have ever been in the city, finally surpassing the rents of 1989. Altogether, downtown Toronto is attracting most of the office jobs in the Greater Toronto Area, people will be having an easier time living downtown or commuting on public transportation and the future looks very positive as long as the supply matches the increase in demand.

Our industry has also changed dramatically with private developers, pension funds and REITs all racing to improve the quality of their portfolios and drive returns by developing new buildings. There has been a greater focus on purpose-built rentals and mixed-use developments to realize the highest and best use of each site. We are watchful of the changes in the marketplace.

Our strategy is to improve our buildings by making them very desirable to tenants so that we can achieve high rents currently and high occupancy even if there is an oversupply at times. During the year, we announced that we intend to invest and transform our assets on Bay Street and are making good progress. We are also pursuing selective developments throughout the portfolio but we will be very cautious regarding the pace of development and the total risk we take on.

In January, the City of Toronto approved our application to replace a 122,000 square foot office building with a new 49 storey building consisting of 165,000 square feet of commercial space and more than 500 apartment units. Over the next 18 months, we will work on achieving site plan approval, working with our tenants on potential relocation options and pre-leasing our new development. We are excited as this will be the first mixed-use project for Dream Office and is very well located to benefit from close proximity to transit, shops and the health and science districts.

Our balance sheet is in good shape at 37.6% level of debt with ample liquidity and a growing unencumbered pool to fund our projects.

Dream Office also owns $380 million of Dream Industrial units at market value and our investment returned 45% including distributions in 2019. Recently, Dream Industrial announced that they have expanded into Europe where they could acquire high quality industrial assets at similar or higher cap rates than Canada, with good growth prospects and significantly cheaper financing rates of approximately 200 basis points. Our investment in Dream Industrial has performed very well for us over the past three years and owning the units provides us with a safer balance sheet, good returns and flexibility on liquidity. Industrial remains one of the most desired real estate classes to invest in and we believe Dream Industrial is very well positioned to continue to deliver strong results.

We believe the future of Dream Office is very bright but we do not take for granted that we will need to improve how we manage our assets to create the best possible tenant experiences and building quality to achieve market leading rents.

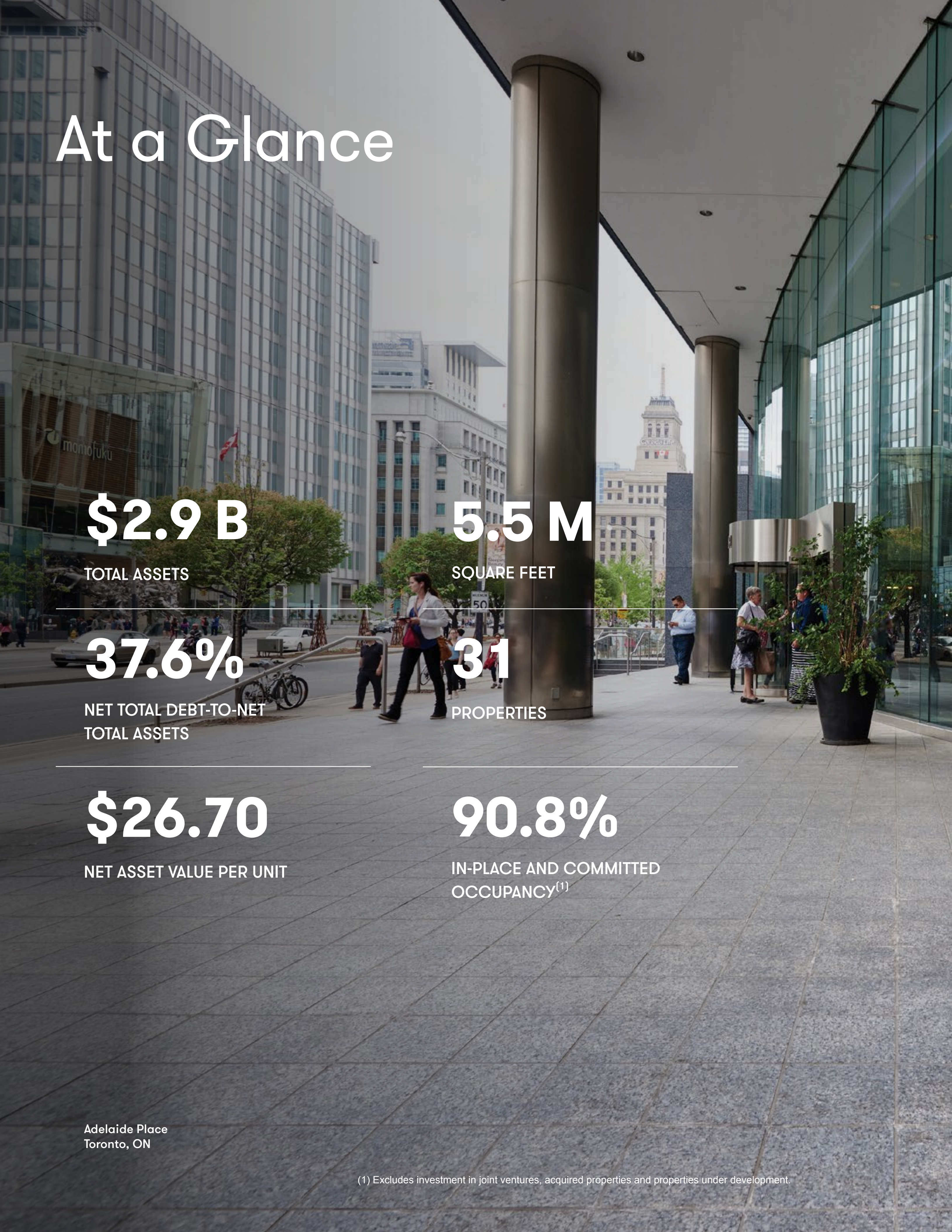
Thank you for your continued support in our business.

Sincerely,

Michael J. Cooper
Chief Executive Officer

February 20, 2020

250 Dundas Street
Toronto, ON



At a Glance

$2.9 B

TOTAL ASSETS

5.5 M

SQUARE FEET

37.6%

NET TOTAL DEBT-TO-NET TOTAL ASSETS

31

PROPERTIES

$26.70

NET ASSET VALUE PER UNIT

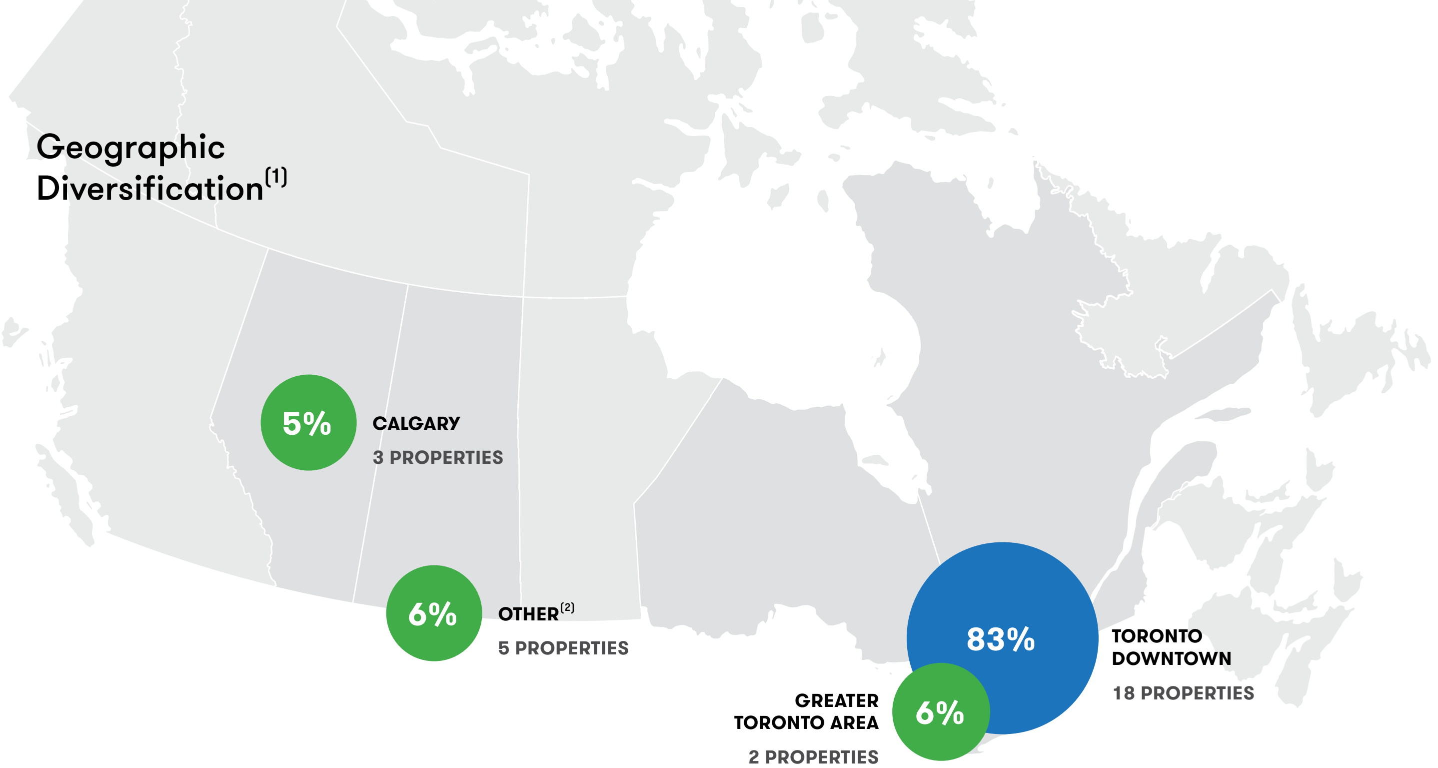
90.8%

IN-PLACE AND COMMITTED OCCUPANCY[1]

Adelaide Place
Toronto, ON

(1) Excludes investment in joint ventures, acquired properties and properties under development.

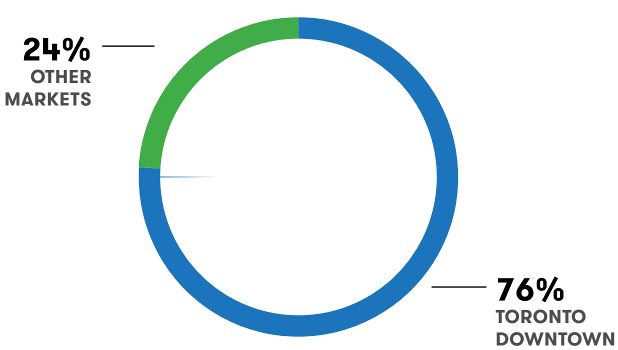
Geographic Diversification[1]



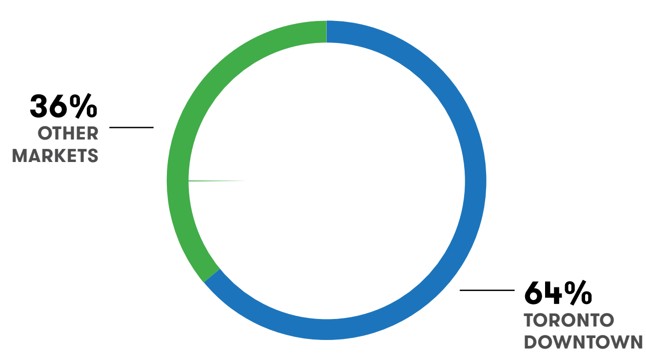
Top Ten Tenants with Weighted Average Lease Term of 5.4 Years

TENANT	GROSS RENTAL REVENUE (%)	OWNED AREA (THOUSANDS OF SQ. FT.)	OWNED AREA (%)	CREDIT RATING[3]
Government of Ontario	11.3	595	11.4	A+/A-1
Government of Canada	8.3	370	7.1	AAA/A-1+
State Street Trust Company	5.2	219	4.2	AA-/A/A-1+
International Financial Data Services	3.1	137	2.6	N/R
Medcan Health Management Inc.	2.6	88	1.7	N/R
U.S. Bank National Association	2.3	185	3.6	AA-/A-1+
CIBC	1.4	54	1.0	A+/A-1
Atmac Holdings	1.1	64	1.2	N/R
DBRS	1.1	41	0.8	N/R
Lindt & Sprüngli (Canada), Inc	1.0	37	0.7	N/R
Total	**37.4**	**1,790**	**34.3**	

Comparative Properties NOI by Region[4]



Gross Leasable Area by Region[5]



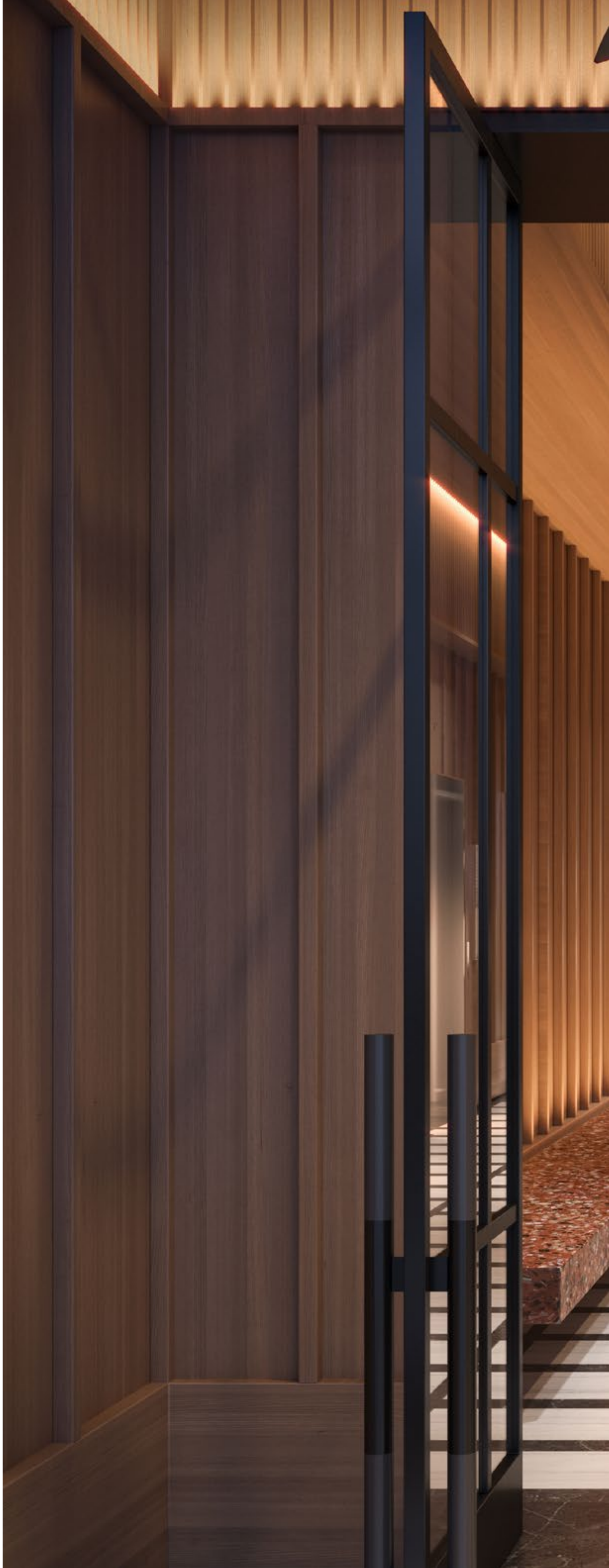
(1) This chart illustrates the fair value of investment properties by region, excluding investment in joint ventures, acquired properties and properties under development, as at December 31, 2019. (2) Other includes 3% in U.S. and 3% in Saskatchewan based on investment property fair value. (3) Credit ratings are obtained from Standard & Poor's Credit Rating Services Inc. and may reflect the parent's or guarantor's credit rating. N/R – not rated. (4) For the three months ended December 31, 2019. (5) This chart illustrates the GLA of investment properties by region, excluding investments in joint ventures, acquired properties and properties under development, as at December 31, 2019.

Dream Collection

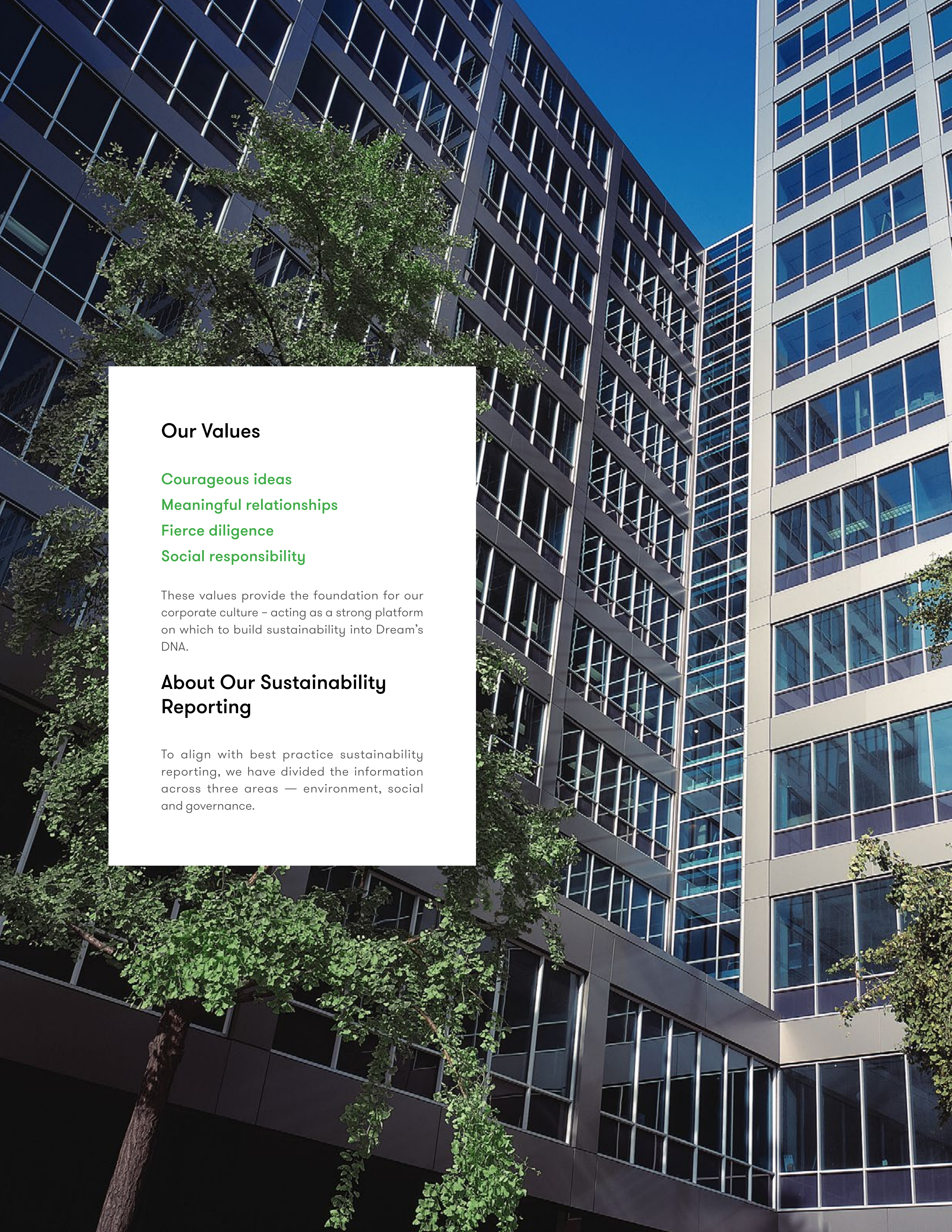
Welcome to the office space dreams are made of...

We are an owner of great luxury boutique office buildings in Toronto, one of the finest office markets in North America.

Taking inspiration from Toronto's rich history as well as influence from its incredibly promising future, this historic portfolio of commercial and office space is unlike anything seen before. Interconnected, considered and representative of the best of what was, what is and what's yet to come.



360 Bay Street - Interior
Toronto, ON



Our Values

Courageous ideas
Meaningful relationships
Fierce diligence
Social responsibility

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

About Our Sustainability Reporting

To align with best practice sustainability reporting, we have divided the information across three areas — environment, social and governance.

Sustainability

Focus on Sustainability

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

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

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

Improving energy efficiency is an important part of our operational strategy for our buildings. It reduces costs and decreases our contribution to carbon emissions and climate change. Our initiatives have resulted in a 11.6% reduction in energy consumption and a 15.9% reduction in water use in our portfolio from 2014 to 2018. Further, we have reduced our greenhouse gas emissions by over 15,000 tonnes over that same period.

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

Another example of Dream Office REIT's commitment to sustainability was demonstrated by our compliance with the Energy and Water Reporting and Benchmarking (EWRB) initiative. This requires buildings in Ontario to disclose utility and water data.

As a company, we also support the communities in which we live and work through our charitable partnerships and commitments. In 2019, we prepared and donated over 1,300 shoeboxes for The Shoebox Project for Women's Shelters and ~450 gifts through our Tree of Dreams.

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

Environmental

Pro-active implementation of sustainability best practices throughout our portfolio.

Our environmental initiatives include:

1. Developing sustainable and inclusive properties where people are proud to live and work.
2. Monitoring our resource consumption to reduce the environmental impact of our operations and our carbon footprint.

Green Building Certifications

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

Affirming Strong Sustainability Practices and Responding to Market Demands

Dream Office REIT is working hard to integrate sustainability into every aspect of our operations. Green building certifications help us incorporate a range of sustainability features into our physical properties and our daily practices.

Sustainability initiatives increase occupancy and rental rates, ultimately increasing rental income. Studies have shown that certified buildings produce higher capital and income growth relative to industry benchmarks.

We are very proud of the fact that 100% of Dream Office REIT Canadian properties over 100,000 square feet are BOMA BEST certified.

LEED

The Leadership in Energy and Environmental Design (LEED) certification

LEED provides independent, third-party verification that a building was built using strategies aimed at achieving high performance in key areas of human and environmental health. It is administered by the CaGBC.

BOMA BEST

BOMA BEST is a leading certification program for existing buildings in Canada. Over 3,150 buildings, totalling 594 million square feet of Canadian commercial real estate, are certified.

438 University Avenue
Toronto, ON

Sussex Centre
Mississauga, ON

Adelaide Place
Toronto, ON

Resource Management

Real estate properties consume significant amounts of resources. Resource use directly and/or indirectly impacts profitability, operating margins, tenant demand and asset values. This section mainly focuses on Dream Office REIT's initiatives.

Management of Tenant Sustainability Impacts

Resource consumption, waste generation and other sustainability issues (occupant health and safety) are often driven by the activities of the occupant. However, real estate owners can exert influence in a manner that may increase tenant demand and satisfaction, decrease direct operating costs, decrease risks related to building codes and regulations, and drive asset value appreciation.

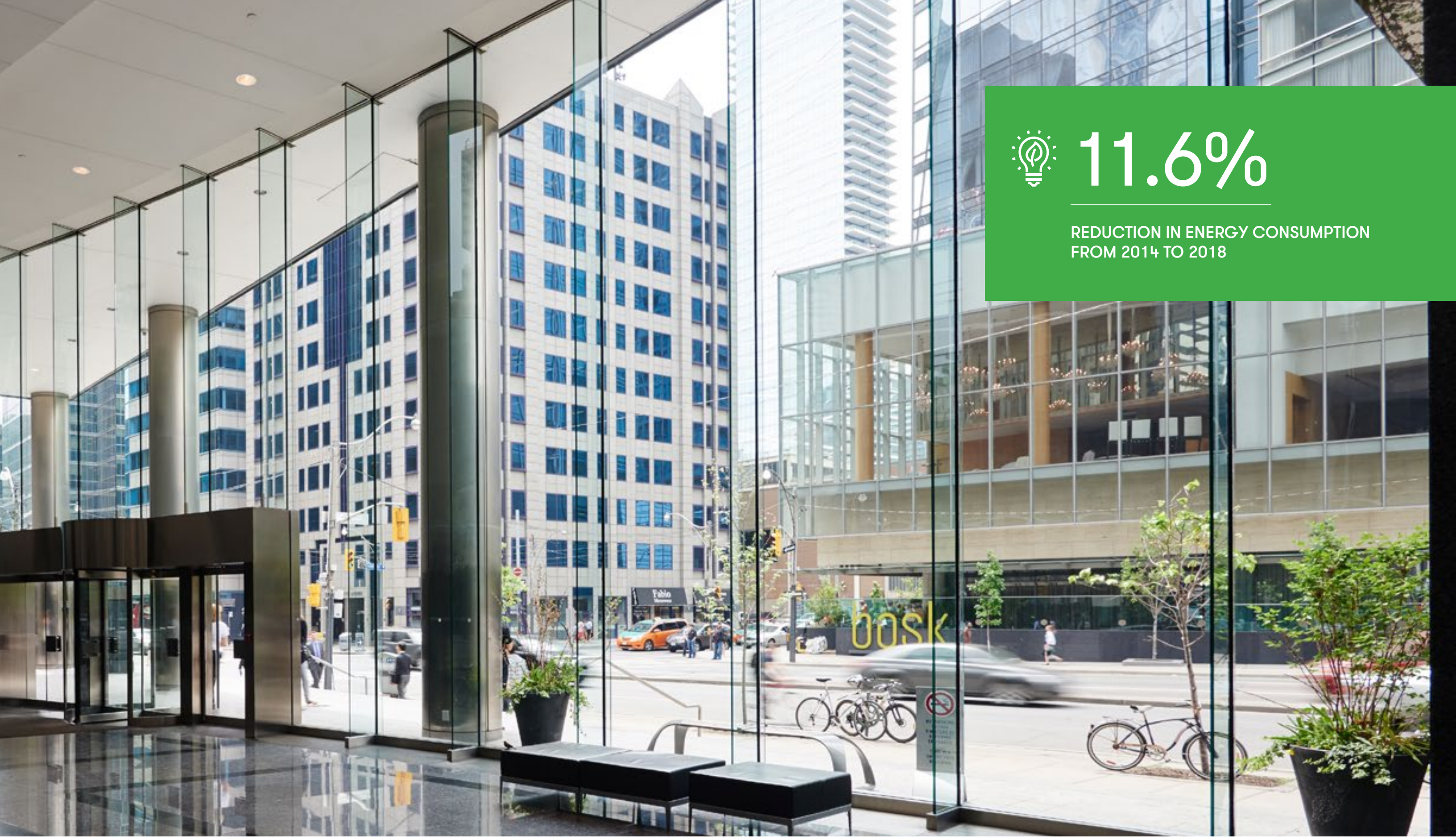
Management process, controls and measurement

Virtually all leases in the portfolio are structured in a manner whereby the tenant pays for their share of resource utilization. Leases generally contain clauses that allow for the recovery of certain capital expenditures (amortized over a period), some of which relate to energy efficiency and HVAC upgrades.

Beyond this, Dream Office REIT engages with its tenants in a variety of ways to share best practices and raise tenant awareness. On-site teams are in continual communication with occupants through a work order management platform to address issues specific to tenant spaces.

Performance and progress

- Dream Office REIT partnered with Tesla Motors to provide 80 electric vehicle chargers at several downtown properties.
- The Bay Street repositioning program is expected to have a positive impact on occupant health and well-being and to reduce total resource consumption.
- The robust tenant engagement program should continue to have a positive impact.



Energy

Focus on energy efficiency is yielding results

Reducing our energy consumption is a key initiative across all of the Dream entities. It is an important part of our operational strategy. It reduces costs and decreases our contribution to carbon emissions and climate change. We enable energy efficiency and conservation through capital investments, process changes and modifying behaviours. Proactive energy management provides Dream Office REIT with the ability to mitigate the adverse impacts of new regulation, compliance costs and carbon pricing.

Management process, controls and measurement

Energy audits were recently performed across the portfolio to find opportunities to increase energy efficiency and optimize the operation and management of our properties. This process resulted in a series of recommendations, including: (1) LED retrofits; (2) heating and air conditioning upgrades; and (3) retro-commissioning; each of these has been incorporated into a ten year capital plan.

Virtually all of Dream Office REIT's properties are equipped with a real-time operating system that enables property managers to view consumption data in 15-minute intervals to better manage each building's environmental impact and stress on the grid.

Performance and progress

- 41% of GLA is separately metered or sub-metered for energy consumption sourced from the grid.
- Total energy consumed in 2018 was 587,572 GJ.
- Reduced total energy consumption by 11.6% on a like-for-like basis since 2014.
- At the end of 2019, 100% of the portfolio was ENERGY STAR certified, 12% was LEED certified and all Canadian properties of over 100,000 square feet were BOMA BEST certified.
- LED retrofits were completed in 10 buildings in 2019.
- A smart building technology strategy is under development, with a pilot planned for 2020.
- Additional LEED certifications are underway; once complete, portfolio-wide LEED certifications will increase to 25%.
- External battery storage solutions at eligible sites along with bidirectional EVs through our partnership with Peak Power.

Greenhouse Gas Emissions

Climate change

Leading scientists agree that human activities are contributing to a warming climate. Governments around the world are enacting legislation to reduce greenhouse gas emissions. For example, there are now carbon pricing systems in many Canadian provinces which provide incentives for businesses that take action.

Dream's primary source of greenhouse gas emissions stems from energy consumption at our properties. We are reducing our impact through technological and operational improvements in energy efficiency.

15,000 tonnes

REDUCTION IN GREENHOUSE GAS EMISSIONS, EQUIVALENT TO REMOVING 3,200 CARS FROM THE ROAD PER YEAR

15.9%

REDUCTION IN WATER CONSUMPTION FROM 2014 TO 2018

Water & Waste

Efficient water and waste management

Real estate properties consume significant amounts of water. Efficient water and waste management directly and indirectly impacts profitability, operating margins, tenant demand and asset values. On the other hand, poor management can lead to flood damage, increase operating expenses and/or capital expenditures and negatively impact asset values.

Managing our water use

Dream Office REIT invests in water-efficient technologies and practices where we have the largest impact. For example, in older buildings, we have implemented and improved cooling tower controls to reduce water evaporation and we have invested in rain sensors, perennial landscaping and mulch to reduce water consumption due to irrigation in landscaping practices.

All Dream Office REIT BOMA BEST certified properties also need to comply with our water reduction policy. The policy outlines target fixture flow rates and requirements for landscaping practices. Dream has developed a policy for helping us achieve our water reduction target. An important part of this strategy is our alignment with the best practices for water management as defined by the BOMA BEST process.

Performance and progress

- From 2014 to 2018, Dream Office REIT experienced a 15.9% reduction in annual water consumption on a per square foot basis.
- 12.1% of Dream Office REIT's portfolio is in regions classified as High or Extremely High Baseline Water Stress as determined by the Aqueduct Water Risk Atlas tool.
- Dream Office REIT continues to be proactive in its approach to reducing water consumption. Leak detection systems have been implemented at two properties and the potential rollout to additional sites is being evaluated. Management is also looking into the installation of smart water meters to enhance our tracking ability and to manage consumption.

Affecting waste diversion

All Dream Office REIT BOMA BEST certified properties follow our solid waste management policy, which strives to reduce the amount of waste sent to landfills. The policy requires proper disposal of different types of waste. It also stipulates that large properties must regularly conduct waste audits, which is our primary tool for measuring and tracking waste output.

Resource Management

> Innovative partnership with Peak Power to reduce energy use in buildings.

Peak Power

Dream Office REIT takes leading role with vehicle-to-grid and energy storage

As part of Dream Office REIT's sustainability goals and our ongoing effort, tenants at Adelaide Place and State Street Financial Centre have the opportunity to purchase an electric vehicle at a discounted lease thanks to an innovative partnership with Peak Power. Peak Power has installed bi-directional (two-way) charging infrastructure at these buildings which allows electric vehicles to send electricity back to the building during key "peak" times. This reduces the building's overall energy costs with a portion of the savings going to the driver participants. The technology is being developed by Peak Power along with Ontario Power Generation to help make the transition to electric vehicles more attractive to consumers.

Peak Power uses machine learning (a form of Artificial Intelligence) to predict these moments of high electricity demand, which can form over 65% of a typical electricity bill. This technology will also help Dream Office REIT reduce its environmental footprint. By charging at night and discharging during peak moments, we reduce our reliance on natural gas peaker plants in favour of non-emitting hydro and nuclear sources. Peak Power is currently in the design phase to expand this technology to a few other eligible Dream Office REIT properties in downtown Toronto, which would create a virtual power plant that can respond to grid needs while lowering Dream Office REIT's energy costs.


PEAK DRIVE
POWER THE FUTURE


PEAK DRIVE
POWER THE FUTURE

Alate Partners

Using technology to rethink real estate

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

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

alate
partners

Select Alate Investment: Bird Rides

Stage: Growth
Founded: 2017
HQ: Santa Monica

Bird's mission is to make cities more livable by reducing car usage, traffic and carbon emissions.

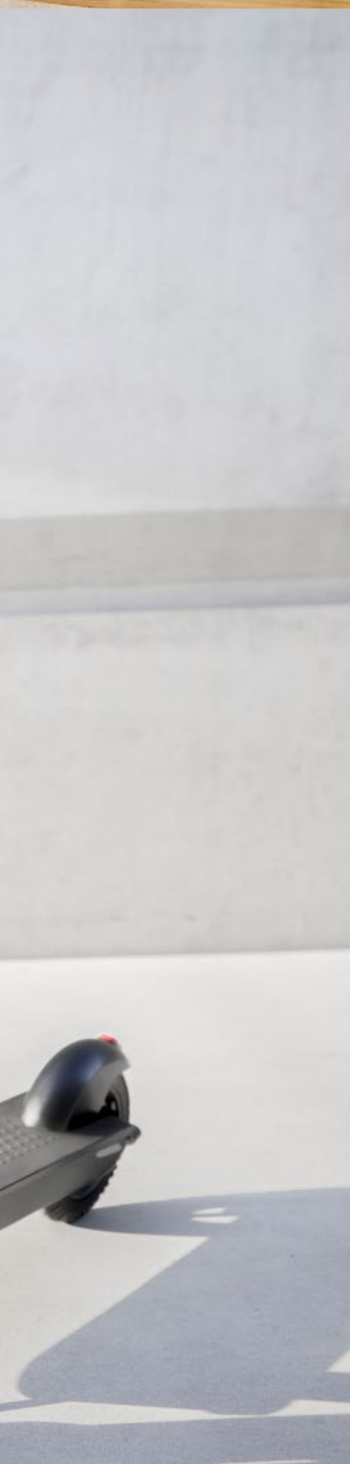
Along with Alate Partners' investment in Bird Rides, the company partnered with Relay Ventures and Obelysk to launch Bird Canada, a Canadian-owned and operated company that holds the exclusive licence to operate Bird's micro-mobility platform in Canada. Bird Canada complements public transit options to provide safe and reliable mobility options between destinations in urban areas.

BIRD
CANADA

Select Alate Investment: Branch

Stage: Early
Founded: 2019
HQ: New York

Alate Partners has recently invested in Branch, an office furniture startup based in New York. Branch delivers inexpensive furniture that can be delivered within 48 hours compared to traditional wait times of 8–16 weeks. In addition, it offers a trade-in program allowing office furniture to be reused rather than disposed of. Currently, the vast majority of office furniture is single-use only and 17 billion pounds of office furniture ends up in landfill every year.



Social

Building a thriving, people-centric organization.

Our social initiatives encompass three key areas:

1. **Employees:** Committed to the development of employees through continuous learning and promotion of healthy workplaces and lifestyles.
2. **The Greater Community:** Actively committed to the community and local charitable organizations.
3. **Tenants:** Committed to tenant satisfaction and engagement.

A Diverse Group of Employees Demonstrating a Culture of Sustainability

A future-oriented workforce

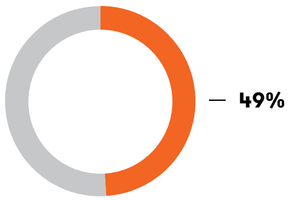
Dream's potential as an organization comes from our strong and diverse workforce. We have more than 500 employees across our business who possess expertise in a wide variety of areas that benefit our business, from real estate management and development to capital markets, risk and insurance, and many more.

Our people come from a range of backgrounds and places, bringing many valuable skills and perspectives to our team. The people we hire all have one thing in common: they share our company values and contribute to our company culture.

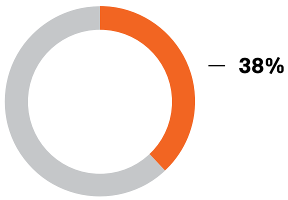
We are very proud to have a strong female presence in our workforce – 49% of our employees are women. In addition, we have many women in senior management roles across our company.

A gender-diverse company

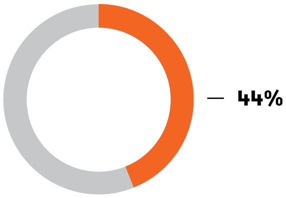
Female employees



Female directors & above



Female managers & above



Dream in the Community

Our company values are aligned with sustainability

As a major Canadian real estate and development company, we recognize the integral role that Dream plays in building and strengthening the communities where we work. We are involved with a range of community organizations across Canada and we engage community members wherever we are present.

Healthy Workplaces and Lifestyle

Employees health and wellness is important to Dream and there are a large number of initiatives and programs to encourage employees to lead healthy lifestyles. We provide free fresh fruit in all our offices, and selected healthy snacks are available for purchase at an affordable price.

Throughout the year, Dream also supports fundraising events that encourage employees to be active for a good cause – bike rides, stair climbing, runs and walks – and sponsors employee teams so they can play soccer, hockey or volleyball together in corporate leagues.

Health and safety is a priority

Ensuring the health and safety of our employees, tenants and others on all our sites is something we never compromise on: we target zero injuries. We also seek to exceed health and safety regulatory requirements by implementing programs focused on accident investigation and prevention and other types of health and safety training.

Dream Employees

Making an impact

Our employees are connected to the communities where they work. Dream creates opportunities for employees to volunteer through our relationships with charitable organizations. We have Community Leaders in each city who identify local volunteering opportunities and organize team volunteering days for their colleagues. We also encourage our employees to contribute to their local communities and boost their efforts through an employee donation program. Dream will contribute $500 per employee annually to a charitable organization that employees are actively involved with.

Building Better Leaders

We take great pride in our people and know that investing in them is a smart decision with great payback. We are focused on developing leaders throughout our company by providing opportunities for employees to grow personally and professionally.

Goal-setting

Dream employee goal-setting takes place at the beginning of each year. Employees discuss goals with their managers that are aligned with corporate or department objectives as well as personal development goals. All leadership team goals are visible through our internal employee website for any employee to view across all of our business lines.

Tenant Collaboration

Strengthening relationships through joint initiatives with our tenants

As a major landlord, we understand our responsibility to act as a model citizen, positively influence our communities and work with our tenants. Our initiatives support our business objective of being a premier community partner. We aspire to uphold our positive reputation in the communities where we are present and actively seek out partnership opportunities with our tenants. This also helps us to become a builder and landlord of choice.

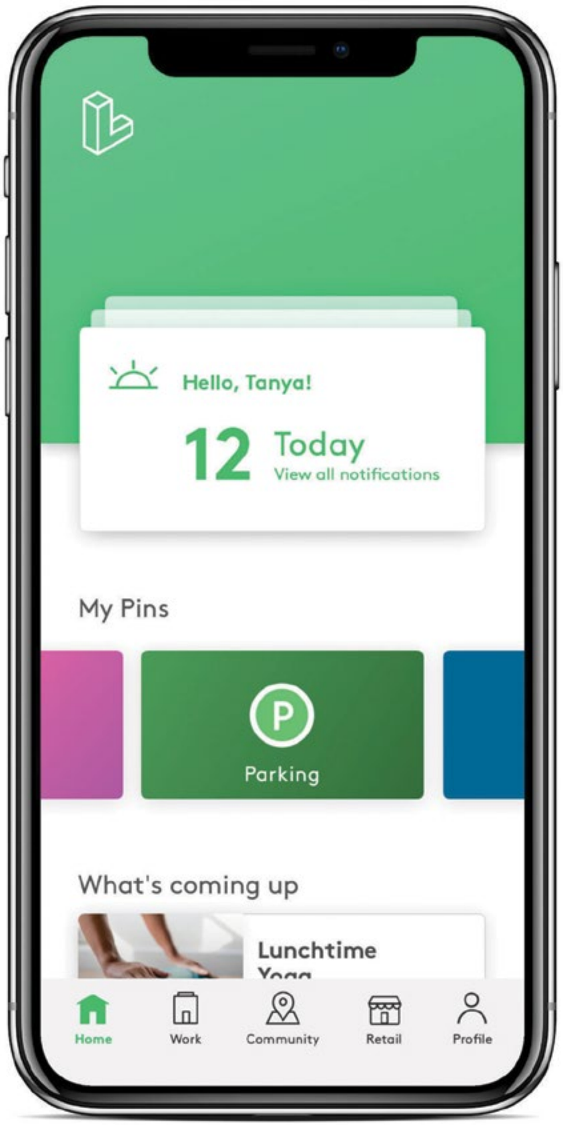
Partnering with Tenants on the Tree of Dreams

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

Select Alate Investment: Lane

Delivering a superior tenant experience using technology

Lane is a tenant experience platform for commercial office buildings. Headquartered in Toronto, Lane helps leading property owners and managers unlock the full value of their assets and deliver a superior experience for everyone at their properties. By bringing together the entire workplace ecosystem, the platform allows tenants to access everything they need in one place, including building information, services, software and amenities. Lane is a scalable solution designed for buildings of all sizes.



Governance

Strong governance practices & high ethical standards.

Our governance initiatives include:

1. Diverse and experienced Board with majority of independent trustees.
2. Strong governance. Transparency in all aspects of our business.

Commitment to Good Governance

Dream is committed to sound and effective corporate governance. Our goal is to not only meet the requirements established by regulators, but also to uphold the spirit of good corporate governance.

Good governance is a key aspect of sustainability

Good governance is regarded as an important part of corporate sustainability. As one of Canada's leading real estate organizations, we are committed to maintaining the highest standards as they relate to board governance and ethical business conduct.

We have a diverse and experienced Board of trustees, with a high ratio of independent trustees.

Sound Board composition and committees that oversee sustainability

Dream Office REIT's Board achieves strong marks on board independence and gender diversity. Dream Office REIT has 71% independent representation and 43% of Board of trustees are female, exceeding our 30% target. We are also starting to embed elements of sustainability in our board mandates.

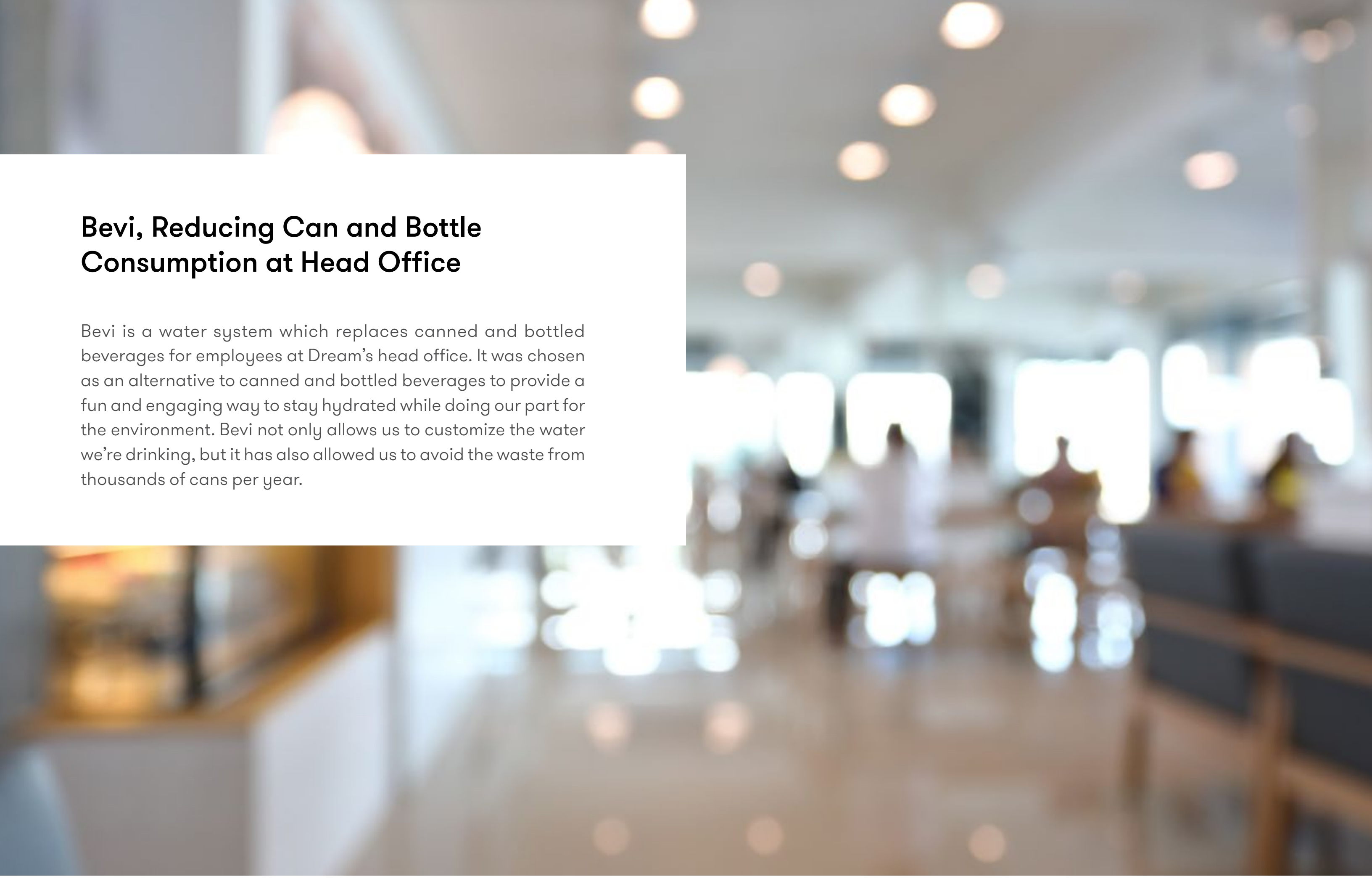
Driving sustainability progress

Our vision is to integrate sustainability in all our businesses' strategic plans, enterprise management systems and, most importantly, in our culture. Good sustainability governance is important as this is an emerging area of management and value creation.

Code of Business Conduct and Ethics

Each of the Dream entities has a code of business conduct and ethics. The code has guidelines for expected behaviours and practices in day-to-day business activities. While it does not specifically address corrupt or anti-competitive business situations that employees may be exposed to, it directs employees to report conflicts of interest to a manager and it is also supported by a whistleblower policy.

We anticipate expanding our business ethics guidelines with explicit guidance about bribery and anti-competitive situations in the upcoming year. You can find out more information about the Code of Conduct and the Whistleblower Policy on our website at www.dream.ca.



Bevi, Reducing Can and Bottle Consumption at Head Office

Bevi is a water system which replaces canned and bottled beverages for employees at Dream's head office. It was chosen as an alternative to canned and bottled beverages to provide a fun and engaging way to stay hydrated while doing our part for the environment. Bevi not only allows us to customize the water we're drinking, but it has also allowed us to avoid the waste from thousands of cans per year.

Sustainability Highlights

Environmental

11.6%*
reduction in energy consumption from 2014 to 2018

15,000 tonnes*
reduction in greenhouse gas emissions (equivalent to removing over 3,200 cars from the road for one year)

15.9%*
reduction in water consumption from 2014 to 2018

12%
LEED certified

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

Tenant Engagement
on energy management through education and awareness

Social**

~1,300+ Shoeboxes and ~$11,000
were donated to The Shoebox Project for Women's Shelters by Dream employees

~$700,000
was donated to charities and communities

~$302,000
in tuition and professional development fees were reimbursed to employees

449 Gifts
were donated to seniors in need through the Tree of Dreams with Dream tenants

Tenant Focused
We are committed to tenant satisfaction and are continually looking for ways to improve their experience in our buildings

Community Engagement
We are actively engaged with the community through strong partnerships and support for local charitable organizations

Employee Development, Education and Well-being
Committed to the development of employees through continuous learning and promotion of healthy workplaces and lifestyles

National Sponsor
of The Shoebox Project for Women's Shelters

Peer Recognition
Ethos Award recognizes employee contributions and their demonstration of core values, culture and initiatives to build better communities

Governance

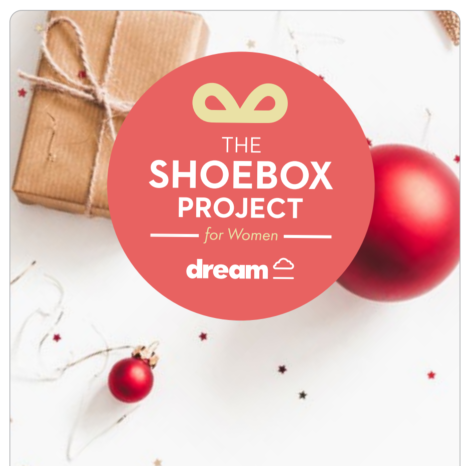
43%
of Dream Office REIT trustees are women

71%
of Dream Office REIT trustees are independent

Strong Governance
policies and transparency in all aspects of our business

Whistleblower
procedures and reporting guidelines

Board Mandated
and supported sustainability initiatives



Since Dream became the National Sponsor for The Shoebox Project for Women in 2014, Dream employees have donated over **6,000 shoeboxes** to women in shelters.

* Environmental highlights are based on 2018.
** Social highlights are based on all Dream entities combined.

357 Bay Street
Toronto , ON

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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 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, 2019	September 30, 2019	December 31, 2018
Total portfolio(1)			
Number of properties	**31**	33	37
Gross leasable area ("GLA")(2)	**5.5**	6.1	7.3
Investment properties value	**$ 2,420,945**	$ 2,520,025	$ 2,778,826
Comparative portfolio(3)			
Occupancy rate – including committed (period-end)	**90.8%**	90.7%	91.6%
Occupancy rate – in-place (period-end)	**90.1%**	89.6%	87.7%
Average in-place and committed net rent per square foot (period-end)	**$ 22.53**	$ 22.35	$ 21.82
Weighted average lease term ("WALT") (years)	**5.5**	5.1	5.1

	Three months ended			Year ended	
	December 31, 2019	September 30, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
Operating results					
Net income (loss)	**$ 63,193**	$ (2,340)	$ 58,489	**$ 117,320**	$ 157,778
Funds from operations ("FFO")(4)	**25,188**	26,678	25,736	**108,887**	115,796
Net rental income	**31,083**	31,962	31,115	**127,575**	131,832
Comparative properties net operating income ("NOI")(4)	**31,438**	31,024	29,072	**124,191**	110,679
Distributions					
Total distributions(4)	**$ 15,366**	$ 15,402	$ 16,207	**$ 62,842**	$ 68,591
Per unit amounts					
FFO (diluted)(4)(5)	**$ 0.40**	$ 0.42	$ 0.39	**$ 1.70**	$ 1.66
Distribution rate	**0.25**	0.25	0.25	**1.00**	1.00

	As at		
	December 31, 2019	September 30, 2019	December 31, 2018
Financing			
Weighted average face rate of interest on debt (period-end)(6)	**3.88%**	3.88%	4.06%
Interest coverage ratio (times)(4)(7)	**2.9**	2.9	2.8
Net total debt-to-adjusted EBITDAFV (years)(4)(7)	**7.5**	8.0	9.0
Level of debt (net total debt-to-net total assets)(4)	**37.6%**	41.3%	45.0%
Average term to maturity on debt (years)	**4.7**	4.9	3.8
Available liquidity(4)	**$ 413,580**	$ 433,844	$ 163,908
Unencumbered assets(4)(7)	**$ 281,274**	$ 156,448	$ 163,114
Capital (period-end)			
Total number of REIT A Units and LP B Units (in millions)(8)	**61.5**	61.5	64.6
Net asset value ("NAV") per unit(4)	**$ 26.70**	$ 25.79	$ 24.97

(1) Total portfolio excludes properties held for sale and joint ventures that are equity accounted at the end of each period. As at December 31, 2019, there were no investment properties held for sale and one joint venture property.

(2) In millions of square feet.

(3) Current and comparative periods exclude acquired properties, properties sold, properties under development and joint ventures that are equity accounted as at December 31, 2019.

(4) FFO, comparative properties NOI, total distributions, diluted FFO per unit, interest coverage ratio, net total debt-to-adjusted EBITDAFV, level of debt (net total debt-to-net total assets), available liquidity, unencumbered assets and NAV per unit are non-GAAP measures used by management in evaluating operating and financial performance. Please refer to the section "Non-GAAP Measures" for details of these measures and reconciliations to the nearest comparable GAAP measure.

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

(6) Weighted average face rate of interest on debt is calculated as the weighted average face rate of all interest bearing debt balances excluding debt in joint ventures that are equity accounted.

(7) Interest coverage ratio, net total debt-to-adjusted EBITDAFV and unencumbered assets have been restated for the comparative periods to conform to current period presentation. For further details, please refer to the "Non-GAAP Measures" section under the headings "Interest coverage ratio", "Net total debt-to-adjusted EBITDAFV" and "Unencumbered assets".

(8) 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.

BASIS OF PRESENTATION

Our discussion and analysis of the financial position and results of operations of Dream Office Real Estate Investment Trust ("Dream Office REIT" or the "Trust") should be read in conjunction with the audited consolidated financial statements of Dream Office REIT for the year ended December 31, 2019. Such consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The Canadian dollar is the functional and reporting currency for purposes of preparing the consolidated financial statements.

This management's discussion and analysis ("MD&A") is dated as at February 20, 2020.

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

- "REIT A Units", meaning the REIT Units, Series A of the Trust;
- "REIT B Units", meaning the REIT Units, Series B of the Trust;
- "REIT Units", meaning the REIT Units, Series A, and REIT Units, Series B, of the Trust;
- "Units", meaning REIT Units, Series A, REIT Units, Series B, and Special Trust Units, collectively; and
- "LP B Units" and "subsidiary redeemable units", meaning the LP Class B, Series 1 limited partnership units of Dream Office LP (a 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 January 1, 2019, the Trust's reportable operating segments of its investment properties and results of operations were segmented geographically, namely Calgary, Toronto downtown, Mississauga and North York, Ottawa and Montréal, and Other markets. Effective January 1, 2019, the Trust grouped its remaining four investment properties in Calgary into the Other markets segment, which better aligns with how the Trust views the operations and capital allocations of that particular market. Effective June 30, 2019, the results of operations from the Ottawa and Montréal segment were presented separately as income (loss) from discontinued operations in the consolidated statements of comprehensive income, as both investment properties in that segment were classified as assets held for sale in the consolidated balance sheets. As a result of this change in presentation, the prior periods' income measures of net rental income, interest expense on debt and fair value adjustments to investment properties attributable to this segment have been retroactively reclassified to income (loss) from discontinued operations in accordance with the requirements of International Financial Reporting Standards. Effective December 31, 2019 the Trust has further refined its reportable operating segments as a result of changes in the investment property portfolio. The Trust's remaining investment property in Mississauga, Ontario and the property held for future redevelopment have both been reclassified to the Other markets segment, which better aligns with how the Trust views the operations and capital allocations of that particular market relative to the Toronto downtown region.

Certain figures in this document are presented on a comparative portfolio basis. Comparative portfolio figures represent the results and values of investment properties which the Trust has owned in all periods presented. Acquired properties are excluded from comparative portfolio figures until the properties have been owned for all periods presented. Except as specifically noted, the results of investments that are equity accounted are excluded from disclosures in this document.

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 disclosures incorporated by reference into this report include information regarding our largest tenants that has been obtained from available public information. We have not verified any such information independently.

FORWARD-LOOKING DISCLAIMER

Certain information herein contains or incorporates comments that constitute forward-looking information within the meaning of applicable securities legislation, including but not limited to statements relating to the Trust's objectives, strategies to achieve those objectives, the Trust's beliefs, plans, estimates, projections and intentions, and similar statements concerning anticipated future events, future growth, stability of NOI at our properties, results of operations, performance, business prospects and opportunities, acquisitions or divestitures, tenant base, future maintenance and development plans and costs, capital investments, financing, the availability of financing sources, income taxes, vacancy, renewal and leasing assumptions, future leasing costs and lease incentives, litigation and the real estate industry in general (including statements regarding our disposition targets, the timing of proposed dispositions, use of proceeds from asset sales, redevelopment and intensification plans and timelines, expected capital requirements and cost to complete development projects, anticipated income and yield from properties under development, the effect of building improvements on tenant experience, tenant retention, leasing velocity and property operating costs, the recoverability of capital investments from future tenants, the future composition of our portfolio, future NAV growth, cash flows, debt levels, liquidity and leverage and our future capital requirements and ability to meet those requirements), in each case that are not historical facts. Forward-looking statements generally can be identified by words such as "outlook", "objective", "may", "will", "would", "expect", "intend", "estimate", "anticipate", "believe", "should", "could", "likely", "plan", "project", "budget" or "continue" or similar expressions suggesting future outcomes or events. Forward-looking information is based on a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond Dream Office REIT's control, which could cause actual results to differ materially from those disclosed in or implied by such forward-looking information. These risks and uncertainties include, but are not limited to, general and local economic and business conditions; the financial condition of tenants; our ability to refinance maturing debt; our ability to sell investment properties at a price which reflects fair value; leasing risks, including those associated with the ability to lease vacant space; our ability to source and complete accretive acquisitions; and interest rates.

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

All forward-looking information is as of February 20, 2020. Dream Office REIT does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise, except as required by applicable law. Additional information about these assumptions, risks and uncertainties is contained in our filings with securities regulators, including our latest Annual Report and Annual Information Form available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. Certain filings are also available on our website at www.dreamofficereit.ca.

OUR OBJECTIVES

We have been and remain committed to:

- Managing our business and assets to provide both yield and growth over the longer term;
- Driving superior risk-adjusted returns and NAV growth by investing in our assets through upgrades, intensification and redevelopment, and selectively disposing of assets with lower long-term return potential;
- Building and maintaining a strong, flexible and resilient balance sheet; and
- Maintaining a REIT status that satisfies the REIT exception under the SIFT legislation in order to provide certainty to unitholders with respect to taxation of distributions.

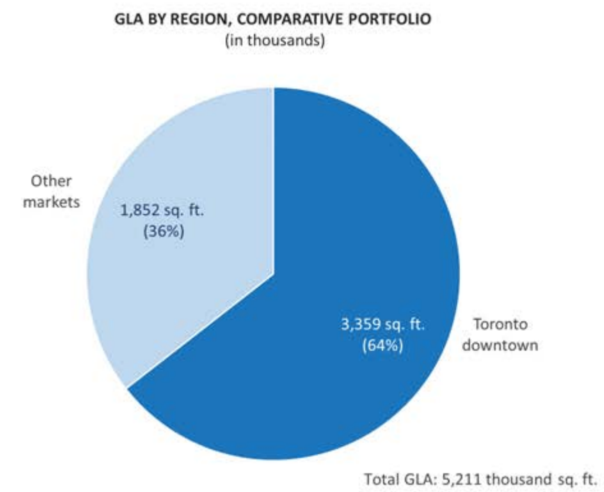
SECTION II

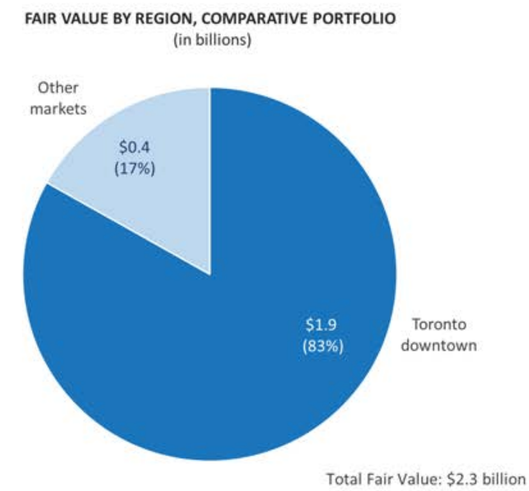
OUR PROPERTIES

At December 31, 2019, our ownership interests included 5.5 million square feet of gross leasable area (GLA) across 31 properties, which comprise 29 office properties (5.2 million square feet) and two properties under development (0.3 million square feet). In addition, we have a 50% interest in a joint venture arrangement that owns 220 King Street West, Toronto (11,000 square feet at our share). We have excluded this joint venture from all of our metrics throughout the MD&A.

Comparative portfolio owned gross leasable area and fair value by region

The following pie charts illustrate the Trust's total GLA and the fair value of investment properties by region, excluding investment properties under development, investment in joint ventures and acquired properties as at December 31, 2019.





Top ten tenants

Our external tenant base includes provincial and federal governments as well as a wide range of high-quality large international corporations, including Canada's major banks and small to medium-sized businesses across Canada. With approximately 500 tenants and an average tenant size of approximately 10,000 square feet in our comparative portfolio, excluding properties under development, investment in joint ventures and acquired properties, our risk exposure to any single large lease or tenant is mitigated. The following table outlines the contributions to total annualized gross rental revenue of our ten largest external tenants. Our top ten tenants have a weighted average lease term of 5.4 years.

	Tenant	Gross rental revenue (%)	Owned area (thousands of sq. ft.)	Owned area (%)	Credit rating[1]
1	Government of Ontario	11.3	595	11.4	A+/A-1
2	Government of Canada	8.3	370	7.1	AAA/A-1+
3	State Street Trust Company	5.2	219	4.2	AA-/A/A-1+
4	International Financial Data Services	3.1	137	2.6	N/R
5	Medcan Health Management Inc.	2.6	88	1.7	N/R
6	U.S. Bank National Association	2.3	185	3.6	AA-/A-1+
7	CIBC	1.4	54	1.0	A+/A-1
8	Atmac Holdings	1.1	64	1.2	N/R
9	DBRS	1.1	41	0.8	N/R
10	Lindt & Sprüngli (Canada), Inc.	1.0	37	0.7	N/R
	Total	37.4	1,790	34.3	

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

N/R – not rated

OUR OPERATIONS

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

Performance indicators		December 31, 2019(1)		September 30, 2019(1)		December 31, 2018(1)
Comparative portfolio						
Occupancy rate – including committed (period-end)		**90.8%**		90.7%		91.6%
Occupancy rate – in-place (period-end)		**90.1%**		89.6%		87.7%
Average in-place and committed net rent per square foot (period-end)	**$**	**22.53**	$	22.35	$	21.82
WALT (years)		**5.5**		5.1		5.1

(1) Current and comparative periods exclude acquired properties, investment in joint ventures, properties sold and properties under development at the end of Q4 2019.

Comparative portfolio occupancy

The following table details our comparative portfolio in-place and committed occupancy and in-place occupancy rates, by region at December 31, 2019, September 30, 2019 and December 31, 2018. 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.

	In-place and committed occupancy rate(1)			In-place occupancy rate(1)		
Comparative portfolio (percentage)	**December 31, 2019**	September 30, 2019	December 31, 2018	**December 31, 2019**	September 30, 2019	December 31, 2018
Occupancy rate						
Toronto downtown	**97.6**	97.4	97.8	**97.2**	97.3	96.9
Other markets	**78.6**	78.5	80.3	**77.2**	75.6	70.8
Total comparative portfolio	**90.8**	90.7	91.6	**90.1**	89.6	87.7

(1) Current and comparative periods exclude acquired properties, investment in joint ventures, properties sold and properties under development at the end of Q4 2019.

Effective Q4 2019, the Trust has reclassified its property at 2200-2206 Eglinton Avenue East and 1020 Birchmount Road in Scarborough, Ontario from properties held for future redevelopment to Other markets, which better aligns with how the Trust views the operations and capital allocations of that particular market relative to the Toronto downtown region. This property is also included in prior period figures for comparative portfolio disclosures.

Comparative portfolio in-place occupancy on a quarter-over-quarter basis increased modestly by 50 basis points ("bps") to 90.1%, compared to 89.6% at Q3 2019, primarily due to 8,000 square feet of net positive leasing absorption in Saskatchewan and 13,000 square feet of net positive leasing absorption at 2200-2206 Eglinton Avenue East in Scarborough. Toronto downtown in-place occupancy remained relatively stable on a quarter-over-quarter basis.

Comparative portfolio in-place occupancy increased by 2.4% on a year-over-year basis primarily due to 117,000 square feet of net positive leasing absorption at 2200-2206 Eglinton Avenue East and 1020 Birchmount Road in Scarborough. Occupancy was broadly flat for the remainder of the portfolio.

At December 31, 2019, vacant space committed for future occupancy approximated 39,000 square feet, bringing our overall comparative portfolio in-place and committed occupancy to 90.8%. This future committed occupancy is scheduled to take occupancy during 2020.

The following table details the change in in-place and committed occupancy for the three months and year ended December 31, 2019:

	Three months ended December 31, 2019			Year ended December 31, 2019		
	Weighted average net rents per sq. ft.	Thousands of sq. ft.[(1)]	As a percentage of total GLA[(1)]	Weighted average net rents per sq. ft.	Thousands of sq. ft.[(1)]	As a percentage of total GLA[(1)]
Occupancy (in-place and committed) at beginning of period		4,929	93.1%		6,153	93.0%
Vacancy committed for future occupancy		(29)	(0.5%)		(96)	(1.5%)
Occupancy (in-place) at beginning of period		4,900	92.6%		6,057	91.5%
Occupancy related to sold properties and other		(472)			(1,625)	
Reclassification from properties held for future redevelopment		239			135	
Occupancy (in-place) at beginning of period – adjusted		4,667	89.6%		4,567	87.7%
Natural expiries and relocations	$ (23.84)	(111)	(2.1%)	$ (19.96)	(700)	(13.5%)
Temporary lease expiries	(8.15)	(10)	(0.2%)	(13.70)	(17)	(0.3%)
Early terminations and bankruptcies	(27.81)	(8)	(0.2%)	(19.18)	(45)	(0.9%)
Temporary leasing	—	—	—	5.02	30	0.6%
New leases	14.84	61	1.2%	15.16	394	7.6%
Renewals and relocations	20.70	95	1.8%	24.96	465	8.9%
Occupancy (in-place) at end of period		4,694	90.1%		4,694	90.1%
Vacancy committed for future occupancy		39	0.7%		39	0.7%
Occupancy (in-place and committed) at end of period		4,733	90.8%		4,733	90.8%

(1) Excludes acquired properties, investment in joint ventures, properties sold and properties under development in the respective periods.

The table below summarizes the retention ratio with a comparison between the renewal and relocation rate and expiring and relocation rate on retained tenant space for the three months and year ended December 31, 2019 excluding acquired properties, investment in joint ventures, properties sold and properties under development. As a result of the timing of lease executions, the renewal rates shown below were based on commitments signed in previous periods and may not be reflective of the renewal rates on leases executed during the quarter for future occupancy.

	Three months ended December 31, 2019	Year ended December 31, 2019
Tenant retention ratio	85.6%	66.4%
Renewal and relocation rate (per sq. ft.)	$ 20.70	$ 24.96
Expiring rate on retained tenant space (per sq. ft.)	22.23	22.20
Renewal and relocation rate to expiring rate spread (per sq. ft.)	(1.53)	2.76
Renewal and relocation rate to expiring rate spread (%)	(6.9%)	12.4%

For the three months ended December 31, 2019, the renewal and relocation rate to expiring and relocation rate spread was negative $1.53 per square foot, or 6.9% lower than expiring rates on retained tenant space. This was mainly driven by negative spreads on renewals in Calgary and to a lesser extent Saskatchewan within the Other markets region totalling 23,700 square feet. These negative rent spreads were offset by the positive spreads in Toronto downtown where we had 54,000 square feet of renewals with a retention rate of 78.1% at rates that were $1.03 or 4.8% higher than expiring rates.

For the year ended December 31, 2019, the renewal and relocation rate to expiring and relocation rate spread was $2.76 per square foot, or 12.4% higher than expiring rates on retained tenant space. This was mainly driven by positive spreads on tenant renewals totalling approximately 386,000 square feet in the Toronto downtown region, where we had an overall retention ratio of 86.0% at rates that were $3.86 per square foot or 17.5% higher than expiring rates on retained tenant space.

Comparative portfolio rental rates

Average in-place and committed net rents across our comparative portfolio increased to $22.53 per square foot at December 31, 2019, compared to $22.35 per square foot at September 30, 2019 and $21.82 per square foot at December 31, 2018.

The overall increase in our comparative portfolio average in-place and committed net rents on a quarter-over-quarter basis was mainly driven by higher rates on new leases and renewals in the Toronto downtown region partially offset by lower rates on new leases in provinces in Western Canada within the Other markets region.

The overall increase in our comparative portfolio average in-place and committed net rents on a year-over-year basis was primarily driven by the Toronto downtown region with net rents per square foot increasing by $0.87, or 3.7%, due to rental rate steps and strong leasing activity in the current year. While net rents in the Other markets region increased by $0.15 relative to prior year, these increases were tempered by declines in net rents per square foot in the Western Canada provinces within that region due to the continued challenging leasing environment in those particular markets.

The following table details the average in-place and committed net rental rates in our portfolio as at December 31, 2019, September 30, 2019 and December 31, 2018:

Comparative portfolio (per sq. ft.)	Average in-place and committed net rent[1] December 31, 2019	September 30, 2019	December 31, 2018
Toronto downtown	**$ 24.61**	$ 24.49	$ 23.74
Other markets	**17.75**	17.46	17.60
Total comparative portfolio	**$ 22.53**	$ 22.35	$ 21.82

(1) Current and comparative periods exclude acquired properties, investment in joint ventures, properties sold and properties under development at the end of Q4 2019.

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

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

The following table compares market rents in our comparative portfolio to the average in-place and committed net rent as at December 31, 2019:

Comparative portfolio	December 31, 2019[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 (%)
Toronto downtown	$ 30.69	$ 24.61	24.7
Other markets	15.46	17.75	(12.9)
Total comparative portfolio	$ 26.08	$ 22.53	15.8

(1) Excludes temporary leases, acquired properties, investment in joint ventures, properties sold and properties under development at the end of Q4 2019.

(2) Market rents include office and retail space.

Net rental income

Net rental income is defined by the Trust as the total investment property revenue less investment property operating expenses plus property management and other service fees. Property management and other service fees comprise property management fees earned from properties owned by Dream Asset Management Corporation ("DAM") and properties owned by or co-owned with Dream Hard Asset Alternatives Trust ("DHAAT"), and fees earned from managing tenant construction projects and other tenant services. Fees earned from tenant services are not necessarily of a recurring nature and the amounts may vary year-over-year and quarter-over-quarter.

For a detailed discussion about investment properties revenue and expenses for the three months and year ended December 31, 2019, refer to the "Our Results of Operations" section.

Comparative properties NOI (year-over-year comparison)

Comparative properties NOI is a non-GAAP measure used by management in evaluating the performance of properties owned by the Trust in the current and comparative periods presented. When the Trust compares comparative properties NOI on a year-over-year basis for the three months and years ended December 31, 2019 and December 31, 2018, the Trust excludes investment properties acquired after January 1, 2018, assets held for sale or properties sold prior to or as at the current period. Comparative properties NOI also excludes lease termination fees; one-time property adjustments, if any; bad debt expenses; NOI from properties under development and investment in joint ventures; property management and other service fees; straight-line rent; and amortization of lease incentives. This measure is not defined by IFRS, does not have a standardized meaning and may not be comparable with similar measures presented by other income trusts.

	Three months ended					
	December 31, 2019	December 31, 2018	Amount	Change %	Change in weighted average occupancy %	Change in in-place net rents %
Toronto downtown	**$ 23,974**	$ 22,200	$ 1,774	8.0	3.7	3.4
Other markets	**7,464**	6,872	592	8.6	4.8	(3.0)
Comparative properties NOI	**31,438**	29,072	2,366	8.1	4.2	1.6
Lease termination fees and other	**629**	(158)	787			
Acquired property(1)	**364**	—	364			
Properties under development	**73**	279	(206)			
Straight-line rent(2)	**(429)**	(34)	(395)			
Amortization of lease incentives(3)	**(3,695)**	(2,635)	(1,060)			
Property management and other service fees	**593**	665	(72)			
Sold properties	**2,110**	3,926	(1,816)			
Net rental income from continuing operations	**$ 31,083**	$ 31,115	$ (32)			
Net rental income (loss) from discontinued operations(4)	**$ (26)**	$ 4,577	$ (4,603)			

(1) Comprises the NOI from 6 Adelaide Street East, which was acquired on September 12, 2019.

(2) For the three months ended December 31, 2019 and December 31, 2018, straight-line rent included $(39) and $(43), respectively, related to properties under development and sold properties.

(3) For the three months ended December 31, 2019 and December 31, 2018, amortization of lease incentives included $(167) and $(374), respectively, related to properties under development and sold properties.

(4) Net rental income (loss) from discontinued operations comprises the net rental income from the previously segmented Ottawa and Montréal region.

	Year ended					
	December 31, 2019	December 31, 2018	Amount	Change %	Change in weighted average occupancy %	Change in in-place net rents %
Toronto downtown	**$ 95,650**	$ 82,276	$ 13,374	16.3	7.1	2.8
Other markets	**28,541**	28,403	138	0.5	1.6	(3.0)
Comparative properties NOI	**124,191**	110,679	13,512	12.2	5.1	1.6
Lease termination fees and other	**1,288**	498	790			
Acquired property(1)	**439**	—	439			
Properties under development	**283**	1,550	(1,267)			
Straight-line rent(2)	**(369)**	(383)	14			
Amortization of lease incentives(3)	**(12,453)**	(10,681)	(1,772)			
Property management and other service fees	**2,510**	1,703	807			
Sold properties(4)	**11,686**	28,466	(16,780)			
Net rental income from continuing operations	**$ 127,575**	$ 131,832	$ (4,257)			
Net rental income from discontinued operations(5)	**$ 10,874**	$ 23,133	$ (12,259)			

(1) Comprises the NOI from 6 Adelaide Street East, acquired on September 12, 2019.

(2) For the years ended December 31, 2019 and December 31, 2018, straight-line rent included $(123) and $(449), respectively, related to properties under development and sold properties.

(3) For the years ended December 31, 2019 and December 31, 2018, amortization of lease incentives included $(982) and $(2,252), respectively, related to properties under development and sold properties.

(4) For the year ended December 31, 2019, NOI from sold properties included post-closing adjustments totalling $1,349 from properties sold in prior periods.

(5) Net rental income from discontinued operations comprises the net rental income from the previously segmented Ottawa and Montréal region. Net rental income from discontinued operations for the year ended December 31, 2018 included $5.1 million in lease termination fees earned in Q1 2018.

Toronto downtown saw an increase in comparative properties NOI of 8.0% and 16.3%, for the three months and year ended December 31, 2019, respectively, over the prior year comparative periods mainly due to a large government lease commencement at 438 University Avenue (191,000 square feet) in Q4 2018 and the occupancy expansion and rent step-up of an anchor tenant at Adelaide Place in Q3 2019 as well as higher net rents across the region.

Comparative properties NOI in Other markets for the three months and year ended December 31, 2019 increased by 8.6% and 0.5%, respectively, over the prior year comparative periods, largely due to the positive leasing activity at 2200-2206 Eglinton Avenue East and 1020 Birchmount Road in Scarborough during the second half of the current year, partially offset by tenant vacates totalling 34,000 square feet at Princeton Tower in Saskatoon within Other markets in Q3 2019. The change in comparative properties NOI from Other markets by city for the three months and year ended December 31, 2019, respectively, relative to prior year comparative periods were: 37.72% and 45.34%, respectively, from the Greater Toronto Area, primarily as a result of strong leasing activity at 2200-2206 Eglinton Avenue East in Scarborough; 9.57% and (5.30%), respectively, from Calgary; and (6.90%) and (15.19%), respectively, from Saskatoon.

Included in properties under development are 357 Bay Street in Toronto downtown and 1900 Sherwood Place in Regina. Development projects to revitalize these properties commenced in Q3 2018. NOI at these properties under development may vary year-over-year until they stabilize upon completion of development projects and the commencement of the leases.

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, 2019, lease termination fees and other amounted to income of $0.6 million and $1.3 million, respectively. Lease termination and other income for the three months and year ended December 31, 2019, respectively, comprises compensation income recorded in the current quarter received from the City of Toronto as compensation for a temporary easement at 425 Bloor Street East, Toronto, Ontario for the construction of an elevator connected to the Sherbourne subway station amounting to $0.4 million in the current quarter and year; compensation from tenants for terminating their leases of $0.1 million and $0.2 million for the current quarter and year; and property-related adjustments of $0.1 million and $0.6 million for the current quarter and year.

Comparative properties NOI (quarter-over-quarter comparison)

When the Trust compares comparative properties NOI, as defined above, on a quarter-over-quarter basis for the three months ended December 31, 2019 and September 30, 2019, the Trust excludes investment properties acquired after July 1, 2019, assets held for sale or properties disposed of prior to or as at the current period and the other exclusions outlined above. Because 6 Adelaide Street East was acquired on September 12, 2019, it was excluded from comparative properties NOI below.

	Three months ended				Change in weighted average occupancy %	Change in in-place net rents %
	December 31, 2019	September 30, 2019	Change Amount	Change %		
Toronto downtown	**$ 23,974**	$ 24,025	$ (51)	(0.2)	(0.3)	0.7
Other markets	**7,464**	6,999	465	6.6	1.1	(0.1)
Comparative properties NOI	**31,438**	31,024	414	1.3	0.3	0.4
Lease termination fees and other	**629**	196	433			
Acquired property(1)	**364**	75	289			
Properties under development	**73**	94	(21)			
Straight-line rent(2)	**(429)**	(8)	(421)			
Amortization of lease incentives(3)	**(3,695)**	(3,015)	(680)			
Property management and other service fees	**593**	462	131			
Sold properties	**2,110**	3,134	(1,024)			
Net rental income from continuing operations	**$ 31,083**	$ 31,962	$ (879)			
Net rental income (loss) from discontinued operations(4)	**$ (26)**	$ 1,219	$ (1,245)			

(1) Comprises the NOI from 6 Adelaide Street East, acquired on September 12, 2019.

(2) For the three months ended December 31, 2019 and September 30, 2019, straight-line rent included $(39) and $(28), respectively, related to properties under development and sold properties.

(3) For the three months ended December 31, 2019 and September 30, 2019, amortization of lease incentives included $(167) and $(272), respectively, related to properties under development and sold properties.

(4) Net rental income (loss) from discontinued operations comprises the net rental income from the previously segmented Ottawa and Montréal region.

For the three months ended December 31, 2019, comparative properties NOI increased by 1.3%, or $0.4 million, when compared with the prior quarter, mainly driven by higher average occupancy in Other markets with Toronto downtown remaining broadly flat due to slightly lower occupancy from timing differences between lease expiries and commencements of new leases, partially offset by higher net rents in Toronto downtown.

The increase in comparative properties NOI in Other markets is primarily due to 13,000 square feet of positive leasing activity at 2200-2206 Eglinton Avenue East in Scarborough, rent steps and higher occupancy in Calgary and 8,000 square feet of positive leasing absorption at Saskatoon Square. Partially offsetting the increase in comparative properties NOI in Other markets is the previously identified vacancy at Princeton Tower in Saskatoon within the Other markets region totalling approximately 34,000 square feet. The change in comparative properties NOI from Other markets by city relative to the prior quarter was: 18.26% from the Greater Toronto Area, primarily as a result of strong leasing activity at 2200-2206 Eglinton Avenue East in Scarborough; 9.43% from Calgary; and (1.24%) from Saskatoon.

Comparative portfolio leasing costs and lease incentives

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

Initial direct leasing costs shown in the table below include costs attributable to leases that commenced in the respective periods. Due to the timing of the signing of lease agreements, certain costs, such as lease commissions, may be incurred in advance of lease commencement.

For the three months and year ended December 31, 2019, approximately $1.5 million and $20.3 million, respectively, of initial direct leasing costs and lease incentives were attributable to leases that commenced in our comparative portfolio during the respective periods. Average initial direct leasing costs and lease incentives on a comparative portfolio basis for the three months and year ended December 31, 2019 were $1.41 per square foot per year and $3.16 per square foot per year, respectively, representing a decrease of $2.07 per square foot and $0.25 per square foot, respectively, over the prior year comparative quarter and year. The decrease in leasing costs relative to the comparative periods was primarily due to incentives provided to a tenant in Q4 2018 for 0.2 million square feet for a seven-year term. Leasing costs for tenants in Western Canada remain elevated, but we are seeing lower costs to secure tenants in Toronto downtown due to the tight conditions in that rental market.

	Three months ended December 31,		Year ended December 31,	
Performance indicators	2019[1]	2018[1]	2019[1]	2018[1]
Leases that commenced during the period				
Leases that commenced during the period (in thousands of sq. ft.)	**156**	671	**859**	1,165
Average lease term (years)	**6.7**	5.6	**7.5**	5.8
Initial direct leasing costs and lease incentives:				
In thousands of dollars	**$ 1,467**	$ 13,049	**$ 20,320**	$ 23,020
Per square foot	**9.40**	19.46	**23.66**	19.75
Per square foot per year	**1.41**	3.48	**3.16**	3.41

(1) Current and comparative periods exclude temporary leases, acquired properties, investment in joint ventures, properties sold and properties under development at the end of Q4 2019.

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

The following table details our in-place lease maturity profile, lease commitments and expiring net rental rates by region and by year, and excludes acquired properties, investment in joint ventures, properties sold and properties under development as at December 31, 2019.

(in thousands of square feet)	Temporary leases	2020	2021	2022	2023	2024	2025+
Toronto downtown							
Expiries	(29)	(157)	(736)	(697)	(494)	(225)	(926)
Expiring net rents at maturity	$ 9.62	$ 23.65	$ 23.28	$ 25.69	$ 25.76	$ 27.67	$ 26.88
Commencements	n/a	73	389	73	194	—	15
Commencements as a percentage of expiries	n/a	46%	53%	10%	39%	—	2%
Other markets							
Expiries	(44)	(350)	(187)	(66)	(52)	(109)	(622)
Expiring net rents at maturity	$ 4.19	$ 20.08	$ 13.49	$ 21.11	$ 18.78	$ 22.29	$ 19.04
Commencements	n/a	288	35	32	—	—	—
Commencements as a percentage of expiries	n/a	82%	19%	48%	—	—	—
Total comparative portfolio							
Expiries	(73)	(507)	(923)	(763)	(546)	(334)	(1,548)
Expiring net rents at maturity	$ 6.37	$ 21.19	$ 21.29	$ 25.30	$ 25.10	$ 25.91	$ 23.74
Commencements	n/a	361	424	105	194	—	15
Commencements as a percentage of expiries	n/a	71%	46%	14%	36%	—	1%

n/a – not applicable

During Q4 2019, the Trust secured a renewal at our single-tenant U.S. property within the Other markets region totalling 185,000 square feet, for a five-year term with average net rents over the renewal term that are slightly above expiring rates.

Leasing momentum in downtown Toronto remains robust, given low vacancy rates, which remain amongst the lowest in North America. As of February 20, 2020, we have completed new and renewed leases representing over 50% of our 2020 lease maturities in the Toronto downtown region. In particular, the net rents for the 2020 lease renewals totalling approximately 52,000 square feet in Toronto downtown are approximately 35% above expiring net rents.

OUR RESULTS OF OPERATIONS

Consolidated statement of comprehensive income

(in thousands of Canadian dollars)	Three months ended December 31, 2019	Three months ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2018
Investment properties revenue	**$ 56,990**	$ 57,245	**$ 229,018**	$ 242,429
Investment properties operating expenses	**(25,907)**	(26,130)	**(101,443)**	(110,597)
Net rental income	**31,083**	31,115	**127,575**	131,832
Other income				
Share of income from investment in Dream Industrial REIT	**25,419**	12,717	**56,078**	43,125
Share of net loss from investment in joint ventures	**(126)**	—	**(641)**	—
Interest and other income	**473**	255	**2,056**	1,674
	25,766	12,972	**57,493**	44,799
Other expenses				
General and administrative	**(2,558)**	(2,973)	**(10,846)**	(12,476)
Interest:				
Debt	**(12,235)**	(13,158)	**(50,561)**	(53,374)
Subsidiary redeemable units	**(1,309)**	(1,309)	**(5,234)**	(5,234)
Amortization and write-off of intangible assets and depreciation on property and equipment	**(597)**	(509)	**(1,891)**	(2,199)
	(16,699)	(17,949)	**(68,532)**	(73,283)
Fair value adjustments, leasing, transaction and debt settlement costs				
Fair value adjustments to investment properties	**33,707**	24,568	**68,201**	53,486
Fair value adjustments to financial instruments	**(9,548)**	11,172	**(55,162)**	(1,371)
Leasing, transaction and debt settlement costs	**(709)**	(1,989)	**(3,203)**	(7,179)
	23,450	33,751	**9,836**	44,936
Income before income taxes and discontinued operations	**63,600**	59,889	**126,372**	148,284
Current and deferred income taxes recovery (expense), net	**(149)**	244	**(486)**	(342)
Income from continuing operations, net of taxes	**63,451**	60,133	**125,886**	147,942
Income (loss) from discontinued operations	**(258)**	(1,644)	**(8,566)**	9,836
Net income	**63,193**	58,489	**117,320**	157,778
Other comprehensive income (loss)	**(1,058)**	2,991	**(2,705)**	4,549
Comprehensive income	**$ 62,135**	$ 61,480	**$ 114,615**	$ 162,327

Investment properties revenue

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

Investment properties revenue for the quarter was $57.0 million, compared to $57.2 million in the prior year comparative quarter. For the year ended December 31, 2019, investment properties revenue was $229.0 million, compared to $242.4 million in the prior year. Overall, the decrease in investment properties revenue over the prior year comparative periods was primarily driven by properties sold during 2019 and 2018, partially offset by higher occupancy and in-place net rents.

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 in any given period.

Investment properties operating expenses for the quarter were $25.9 million, compared to $26.1 million in the prior year comparative quarter. For the year ended December 31, 2019, investment properties operating expenses were $101.4 million, compared to $110.6 million in the prior year. Overall, the decrease in investment properties operating expenses over the prior year comparative periods was mainly driven by properties sold during 2019 and 2018, partially offset by higher occupancy.

Share of income from investment in Dream Industrial REIT

Share of income from our investment in Dream Industrial Real Estate Investment Trust ("Dream Industrial REIT") for the quarter was $25.4 million, which comprises our share of net income of $20.6 million, plus a net dilution gain of $4.8 million, compared to our share of net income of $13.7 million, net of an accretion loss of $1.0 million in the prior year comparative quarter (for the year ended December 31, 2019 – $56.1 million, which comprises our share of net income of $51.3 million, plus a net dilution gain of $4.8 million, compared to our share of net income of $45.1 million, net of an accretion loss of $2.0 million in the prior year). The $6.9 million increase in our share of net income over the prior year comparative quarter was primarily due to higher net income pick-up from higher net rental income and fair value gains on Dream Industrial REIT's investment properties, partially offset by the impact of a reduction in our percentage ownership in Dream Industrial REIT from its equity offerings in the current year relative to the prior year. For the year ended December 31, 2019, the $6.2 million increase year-over-year in our share of net income from our investment in Dream Industrial REIT was mainly due to the same reasons noted above.

Share of net loss from investment in joint ventures

Our investment in joint ventures includes the Trust's 50% interest in a partnership that acquired an investment property in Q3 2019 and the Trust's investment in Alate Partners, an investment company focused on the property technology market in which we have invested jointly with DAM. The Trust and DAM each hold a 25% interest in Alate Partners.

For the three months ended December 31, 2019, share of net loss from investment in joint ventures amounted to a loss of $0.1 million and mainly comprises fair value adjustments and other expenses, partially offset by net rental income and other income.

For the year ended December 31, 2019, share of net loss from investment in joint ventures amounted to a loss of $0.6 million mainly due to fair value adjustments on the underlying investment property within a joint venture of $0.5 million, which was attributable to the write-off of acquisition costs.

Interest and other income

Interest and other income mainly comprises interest earned on vendor takeback mortgage ("VTB mortgage") receivables and cash on hand, miscellaneous income and fair value adjustments on marketable securities. The interest earned on cash on hand, miscellaneous income and fair value adjustments on marketable securities are not necessarily of a recurring nature and may vary year-over-year depending on the amount of cash on hand and miscellaneous income at any given period and the fair value of the marketable securities during the period.

Interest and other income for the quarter was $0.5 million, comprising $0.5 million of interest earned on the VTB mortgage and interest earned on cash on hand partially offset by a nominal amount of realized foreign exchange losses in the quarter.

For the year ended December 31, 2019, interest and other income was $2.1 million, comprising $2.0 million of interest earned on the VTB mortgage and interest earned on cash on hand offset by realized foreign exchange losses and other items during the year.

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,	
	2019	2018	**2019**	2018
Salaries and benefits	**$ (825)**	$ (1,046)	**$ (3,353)**	$ (3,693)
Deferred compensation expense	**(671)**	(606)	**(2,736)**	(3,415)
Professional services fees, public reporting, overhead-related costs and other	**(1,062)**	(1,167)	**(4,757)**	(4,904)
Management Services Agreement with DAM	**—**	(154)	**—**	(464)
General and administrative expenses	**$ (2,558)**	$ (2,973)	**$ (10,846)**	$ (12,476)

General and administrative ("G&A") expenses for the three months ended December 31, 2019 were $2.6 million, a decrease of $0.4 million over the prior year comparative quarter, mainly due to lower salaries as a result of efficiencies achieved through process improvement initiatives.

For the year ended December 31, 2019, G&A expenses were $10.8 million, a decrease of $1.6 million over the prior year, mainly due to the same reason noted above as well as fewer deferred trust units vesting in the current year.

Interest expense – debt

Interest expense on debt for the quarter was $12.2 million, compared to $13.2 million in the prior year comparative quarter. For the year ended December 31, 2019, interest expense on debt was $50.6 million compared to $53.4 million in the prior year.

Overall, the decrease in interest expense on debt over the prior year comparative periods was mainly due to a reduction in overall debt levels from disposition of investment properties and financing activities during the current year which resulted in lower borrowing costs.

Interest expense – subsidiary redeemable units

Interest expense on subsidiary redeemable units for the three months and year ended December 31, 2019 was $1.3 million and $5.2 million, respectively, unchanged when compared to the prior year comparative periods. The interest expense on subsidiary redeemable units represents distributions paid and payable on subsidiary redeemable units owned by DAM.

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

Amortization and write-off of intangible assets and depreciation on property and equipment expense for the quarter was $0.6 million, an increase of $0.1 million when compared to the prior year comparative quarter, primarily driven by a write-off of intangible assets related to a co-owned property disposed of during the current quarter.

For the year ended December 31, 2019, amortization and write-off of intangible assets and depreciation on property and equipment was $1.9 million, a decrease of $0.3 million when compared to the prior year, primarily due to fewer depreciable information technology assets.

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 adjustments to investment properties for the three months and year ended December 31, 2019.

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 fair value adjustments to financial instruments are dependent on the change in the Trust's REIT A Unit trading price, and the adjustments may vary significantly year-over-year.

For the three months and year ended December 31, 2019, the Trust recorded fair value losses of $9.5 million and $55.2 million, respectively, due to increases in the REIT A Unit trading price throughout the respective periods.

Leasing, transaction and debt settlement costs

The following table summarizes the nature of expenses included in leasing, transaction and debt settlement costs:

	Three months ended December 31,		Year ended December 31,	
	2019	2018	**2019**	2018
Internal leasing costs	**$ (500)**	$ (512)	**$ (2,188)**	$ (2,683)
Costs attributable to sale of investment properties(1)	**(209)**	455	**(654)**	(2,347)
Debt settlement costs, net(2)	**—**	(1,932)	**(361)**	(1,932)
Other	**—**	—	**—**	(217)
Leasing, transaction and debt settlement costs	**$ (709)**	$ (1,989)	**$ (3,203)**	$ (7,179)

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

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

Leasing, transaction and debt settlement costs for the three months ended December 31, 2019 were $0.7 million, a decrease of $1.3 million over the prior year comparative quarter mainly due to lower debt settlement costs as a result of fewer dispositions in the current year.

For the year ended December 31, 2019, leasing, transaction and debt settlement costs were $3.2 million, a decrease of $4.0 million over the prior year primarily due to the same reason noted above as well as lower costs attributable to the sale of investment properties as a result of fewer dispositions in the current year and savings in internal leasing costs as a result of change in roles and responsibilities of certain individuals in the current year.

Current and deferred income taxes recovery (expense), net

Current and deferred income taxes are not necessarily of a recurring nature and the amounts may vary from period to period due to changes in tax legislation and the performance of our U.S. subsidiary. Net current and deferred income taxes expense for the three months and year ended December 31, 2019 was $0.1 million and $0.5 million, respectively, and relates to the remaining investment property in the United States.

Income (loss) from discontinued operations

Income (loss) from discontinued operations comprises income (loss) from our investment properties previously included in the Ottawa and Montréal region. For the three months ended December 31, 2019, the Trust generated a loss from discontinued operations of $0.3 million. The loss in the current quarter mainly comprises costs attributable to the sale of investment properties.

For the year ended December 31, 2019, loss from discontinued operations amounted to $8.6 million. The loss for the year consisted of fair value loss to investment properties of $11.3 million, interest expense on debt of $4.0 million and costs attributable to the sale of investment properties and debt settlement costs totalling $4.2 million, partially offset by net rental income of $10.9 million.

Other comprehensive income (loss)

Other comprehensive income (loss) is not necessarily of a recurring nature and the amounts may vary from period to period primarily due to changes in exchange rates. Other comprehensive income (loss) comprises amortization of an unrealized gain on an interest rate swap, unrealized foreign currency translation gain (loss) related to the investment property located in the United States, the Trust's share of Dream Industrial REIT's other comprehensive income (loss) and share of comprehensive income (loss) from an investment in a joint venture. For the three months and year ended December 31, 2019, other comprehensive loss amounted to $1.1 million and $2.7 million, respectively.

Funds from operations ("FFO")

Management believes FFO (including diluted FFO per unit) is an important measure of our operating performance. This non-GAAP measurement is a commonly used measure of performance of real estate operations; however, it does not represent net income nor cash flows generated from (utilized in) operating activities, as defined by IFRS, is not necessarily indicative of cash available to fund Dream Office REIT's needs 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", FFO has been reconciled to net income (loss) in the "Non-GAAP Measures" section under the heading "Funds from operations ("FFO")".

The following table summarizes FFO and diluted FFO per unit.

	Three months ended			Year ended	
	December 31, 2019	September 30, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
FFO for the period	**$ 25,188**	$ 26,678	$ 25,736	**$ 108,887**	$ 115,796
Diluted weighted average number of units[1]	**62,388**	62,848	65,839	**63,878**	69,775
FFO per unit – diluted	**$ 0.40**	$ 0.42	$ 0.39	**$ 1.70**	$ 1.66

(1) Diluted weighted average number of units includes the weighted average of all REIT A Units, LP B Units, vested but unissued and unvested deferred trust units and associated income deferred trust units.

The year-over-year increase in diluted FFO per unit for the three months and year ended December 31, 2019 was mainly due to increases in comparative properties NOI (+$0.04 and +$0.21, respectively), general and administrative expense savings (+$0.01 and +$0.02, respectively) and fees earned from property management and managing tenant construction projects ($nil and +$0.01, respectively), partially offset by asset sales (net of unit buybacks and debt reduction) (-$0.03 and -$0.13, respectively), lease termination fees received from a tenant in a Montréal property in Q1 2018 (-$0.07 for the year) and other items (-$0.01 and $nil, respectively).

Quarter-over-quarter, diluted FFO per unit decreased to $0.40 from $0.42 in Q3 2019, primarily driven by asset sales (net of debt reduction) (-$0.02) and lower FFO from our investment in Dream Industrial REIT (-$0.01), partially offset by a combined increase in comparative properties NOI and other income (+$0.01).

Related party transactions

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

On May 15, 2019, the Trust entered into a shared services agreement (the “New Shared Services Agreement”) with DAM, a subsidiary of Dream Unlimited Corp., which replaces the existing Management Services Agreement, Shared Services and Cost Sharing Agreement and Administrative Services Agreement (the “Existing Agreements”). As a result of the termination of the Existing Agreements, any incentive fees that may have been payable to DAM in the future under the Management Services Agreement are eliminated. Under the New Shared Services Agreement, the Trust will act as the property manager for DAM’s income properties in Canada and DAM will act as the development manager for the Trust’s future development projects. In order to take advantage of the economies of scale it currently enjoys, the New Shared Services Agreement maintains certain resource-sharing arrangements between the Trust and DAM, such as information technology, human resources and insurance, among other services as requested, on a cost allocation basis.

Under the New Shared Services Agreement, in connection with each future development project, DAM will earn a development fee equal to 3.75% of the total net revenues of the development or, for rental properties, 3.75% of the fair value upon completion, without any promote or other incentive fees. In connection with the property management services provided by the Trust to DAM, the Trust will earn a fee equal to 3.5% of gross revenue of the managed income properties.

The following tables summarize our related party transactions for the three months and years ended December 31, 2019 and December 31, 2018.

Related party transactions with DAM

The following is a summary of costs processed by DAM and the Trust for the three months and years ended December 31, 2019 and December 31, 2018:

	Three months ended December 31,		Year ended December 31,	
	2019	2018	**2019**	2018
Property management services fee charged by the Trust	**$ 59**	$ —	**$ 221**	$ —
Costs processed by the Trust on behalf of DAM (cost recovery)	**1,900**	1,691	**7,064**	6,391
Development fees charged by DAM[(1)]	**(589)**	—	**(1,473)**	—
Costs processed by DAM on behalf of the Trust (cost recovery)	**(313)**	(628)	**(1,897)**	(3,477)
Net fees and reimbursements from DAM	**$ 1,057**	$ 1,063	**$ 3,915**	$ 2,914

(1) Development fees charged by DAM became effective May 15, 2019.

Related party transactions with DHAAT

Dream Office Management Corp. ("DOMC") provides property management services to co-owned investment properties with DHAAT which are accounted for as joint operations.

DOMC and DHAAT are parties to a Services Agreement, in which the Trust provides certain services to DHAAT on a cost recovery basis.

The following is a summary of the amounts that were charged to DHAAT for the three months and years ended December 31, 2019 and December 31, 2018:

	Three months ended December 31,		Year ended December 31,	
	2019	2018	**2019**	2018
Property management and construction fees related to co-owned properties	**$ 322**	$ 138	**$ 1,130**	$ 1,400
Costs processed on behalf of DHAAT related to co-owned properties	**1,639**	744	**2,977**	1,739
Amounts charged to DHAAT under the Services Agreement	**83**	103	**366**	330
Total cost recoveries from DHAAT[(1)]	**$ 2,044**	$ 985	**$ 4,473**	$ 3,469

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

Related party transactions with Dream Industrial REIT

DOMC and Dream Industrial REIT are parties to a Services Agreement, pursuant to which the Trust provides certain services to Dream Industrial REIT on a cost recovery basis.

The following is a summary of the cost recoveries from Dream Industrial REIT for the three months and years ended December 31, 2019 and December 31, 2018:

	Three months ended December 31,		Year ended December 31,	
	2019	2018	**2019**	2018
Total cost recoveries from Dream Industrial REIT	**$ 996**	$ 919	**$ 4,037**	$ 3,304

SECTION III

INVESTMENT PROPERTIES

Investment properties continuity

Changes in the value of our investment properties by region, excluding an investment property owned through a joint venture that is equity accounted, for the three months and year ended December 31, 2019 are summarized in the following tables:

						Three months ended
	September 30, 2019[1]	Sold properties	Building improvements, initial direct leasing costs and lease incentives[2]	Fair value adjustments	Amortization of lease incentives, foreign exchange and other adjustments	**December 31, 2019**
Toronto downtown	$ 1,846,810	$ —	$ 11,093	$ 34,964	$ (2,559)	**$ 1,890,308**
Other markets	380,452	—	5,560	(752)	(2,468)	**382,792**
Total comparative portfolio	2,227,262	—	16,653	34,212	(5,027)	**2,273,100**
Add:						
Acquired property	45,500	—	5	(17)	11	**45,499**
Properties under development	91,282	—	11,191	(95)	(32)	**102,346**
Sold properties	155,981	(156,050)	643	(393)	(181)	**—**
Total amounts included in consolidated financial statements	$ 2,520,025	$ (156,050)	$ 28,492	$ 33,707	$ (5,229)	**$ 2,420,945**

(1) Opening balances in the comparative portfolio have been reclassified to exclude properties sold during the period.

(2) Includes $201 of interest capitalized to properties under development.

						Year ended
	January 1, 2019[1]	Acquisitions and assets held for sale/sold properties, net	Building improvements, initial direct leasing costs and lease incentives[2]	Fair value adjustments	Amortization of lease incentives, foreign exchange and other adjustments	**December 31, 2019**
Toronto downtown	$ 1,802,975	$ —	$ 24,548	$ 70,763	$ (7,978)	**$ 1,890,308**
Other markets	378,967	—	18,194	(8,086)	(6,283)	**382,792**
Total comparative portfolio	2,181,942	—	42,742	62,677	(14,261)	**2,273,100**
Add:						
Acquired property	—	47,454	5	(1,971)	11	**45,499**
Properties under development	74,585	—	26,721	1,210	(170)	**102,346**
Properties classified as assets held for sale/sold properties	526,798	(528,837)	8,526	(4,967)	(1,520)	**—**
Total portfolio	$ 2,783,325	$ (481,383)	$ 77,994	$ 56,949	$ (15,940)	**$ 2,420,945**
Less: Properties classified as assets held for sale	—	(1,858)	947	1,220	(309)	**—**
Total amounts included in consolidated financial statements	$ 2,783,325	$ (479,525)	$ 77,047	$ 55,729	$ (15,631)	**$ 2,420,945**

(1) Opening balances in the comparative portfolio have been restated to include capitalization of right-of-use assets totalling $4,499 within the Toronto downtown region and reclassified to exclude assets held for sale and/or sold properties during the year.

(2) Includes $488 of interest capitalized to properties under development.

Acquisitions update

On September 12, 2019, the Trust acquired 6 Adelaide Street East, a 53,000 square foot boutique office building in downtown Toronto, for $45.5 million before transaction costs. The Trust assumed a $10.3 million mortgage that bears interest at 2.58% and matures on April 1, 2021 and $0.3 million of non-cash working capital, with the balance paid in cash. The property is 96.7% occupied with in-place rents currently significantly below market rents for the area. With a weighted average lease term for the building of 2.0 years, the Trust sees opportunities for significant rent steps as leases roll over in the tight Toronto downtown leasing market.

The Trust holds a 50% interest in a partnership that is accounted for as a joint venture that was formed for the purpose of acquiring an investment property. On August 22, 2019, this partnership acquired 220 King Street West in Toronto, Ontario for gross proceeds including transaction costs of $13.0 million (including $0.5 million of transaction costs) at the Trust's 50% share.

Properties under development

In 2018, we secured two long-term leases at 357 Bay Street in Toronto downtown and 1900 Sherwood Place in Regina. These properties require major revitalization programs to meet tenant requirements. These two properties have met the IFRS criteria for presentation as properties under development within the investment properties note of the consolidated financial statements.

At 357 Bay Street in Toronto downtown, we secured a lease for the entire building with WeWork for approximately 65,000 square feet commencing in Q3 2020 for a term of 15 years, with net rental rates starting at $45 per square foot, with annual rent escalators. The Trust intends to invest approximately $29 million into the asset over the course of the development project, which includes a complete reconstruction of the building interior.

At 1900 Sherwood Place in Regina, we secured a lease with The Co-operators for approximately 114,000 square feet, commencing in Q3 2021 for a term of 18 years. As part of the lease, we will be investing approximately $26 million in leasing and value-add capital into the property over the course of the development project, which includes a 13,000 square foot expansion to the building.

The table below summarizes select financial information related to the two properties under development as at December 31, 2019.

Property (in millions of Canadian dollars)	Carrying value at time of reclassification	Capital invested to date[(1)]	Estimated capital remaining	Estimated NOI[(2)]	Estimated yield on cost and original carrying value
357 Bay Street, Toronto	$ 24.1	$ 17.6	$ 11.4	$ 2.9	5.5%
1900 Sherwood Place, Regina	42.2	15.2	10.4	5.4	8.0%

(1) Capital invested to date excludes interest capitalized to properties under development.

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

Valuations of externally appraised properties

The following table summarizes the investment properties valued by qualified external valuation professionals for the years ended December 31, 2019 and December 31, 2018:

	December 31, 2019	December 31, 2018
Investment properties valued by qualified external valuation professionals	**$ 1,073,130**	$ 759,868
Number of investment properties valued by qualified external valuation professionals	**10**	11
Percentage of the total investment properties valued by qualified external valuation professionals	**44%**	27%

Fair value adjustments to investment properties

Fair value adjustments to investment properties are not necessarily of a recurring nature and the amounts may vary from period to period due to changes in the market and valuation assumptions. For the three months ended December 31, 2019, the Trust recorded a fair value gain of $33.7 million, mainly driven by fair value gains of $35.0 million in Toronto downtown, reflecting higher stabilized NOI to account for higher market rent assumptions. Fair value gains were partially offset by fair value losses of $0.8 million in Other markets and $0.1 million in properties under development due to recurring leasing costs spent to manage and maintain our buildings and $0.4 million relating to properties sold during the quarter to reflect final sales prices.

For the year ended December 31, 2019, the Trust recorded a fair value gain of $56.9 million, primarily due to fair value gains of $70.8 million in Toronto downtown due to the same reasons noted above and $1.2 million in properties under development for capital expenditures incurred to revitalize these properties. Fair value gains for the year were partially offset by fair value losses of $8.1 million in Other markets due to the same reasons noted above, $5.0 million to properties sold during the year to reflect final sales prices and $2.0 million relating to our single acquired property in Q3 2019 to reflect the write-off of transaction costs and land transfer taxes incurred as part of the acquisition.

Zoning approval at 250 Dundas Street West

On January 29, 2020, the Trust received council zoning approval for its application to amend the zoning of its property at 250 Dundas Street W. in downtown Toronto. The revised zoning permits the Trust to convert the office property to a multi-use development comprising commercial office, multi-residential rental and retail components totalling over 503,000 square feet of gross floor area. The project currently contemplates replacing the existing 122,000 square foot old office building with a new Class A 49-storey residential tower with 522 residential units and an eight-storey commercial podium with 165,000 square feet of office and retail space. Total GLA including the residential component is currently estimated to be over 456,000 square feet. The Trust is currently working with its development team and architects to evaluate the design and timing of the project. The approval is subject to satisfying customary by-law conditions and the expiration of applicable appeal periods.

Assumptions used in the valuation of investment properties

Refer to Note 6 of the consolidated financial statements for details of the assumptions used in the Trust's investment property valuations.

Building improvements

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

As part of our broader strategy to invest capital in our buildings to improve the experience of and attractiveness to tenants as well as to reduce operating costs, we expect overall building improvement costs 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, 2019 and December 31, 2018.

	Three months ended December 31,		Year ended December 31,	
Building improvements	**2019**	2018	**2019**	2018
Recoverable	**$ 8,386**	$ 2,218	**$ 12,204**	$ 6,865
Value-add	**1,775**	1,915	**4,999**	5,020
Non-recoverable	**1,172**	339	**3,250**	760
Total comparative portfolio(1)	**11,333**	4,472	**20,453**	12,645
Add:				
Acquired property	**5**	—	**5**	—
Properties under development	**10,888**	3,229	**24,981**	3,787
Interest capitalized to properties under development	**201**	24	**488**	24
Properties classified as assets held for sale/sold properties	**519**	1,820	**4,251**	5,218
Total portfolio	**$ 22,946**	$ 9,545	**$ 50,178**	$ 21,674
Less: Properties classified as assets held for sale	**—**	—	**472**	60
Total amounts included in consolidated financial statements	**$ 22,946**	$ 9,545	**$ 49,706**	$ 21,614

(1) Excludes properties sold and acquired properties, properties under development and joint ventures that are equity accounted at the end of Q4 2019.

For the three months and year ended December 31, 2019, we incurred $11.3 million and $20.5 million, respectively, in expenditures related to building improvements in our comparative portfolio, the majority of which are recoverable from tenants under the terms of current and future leases.

Recoverable building improvements for the three months and year ended December 31, 2019 were $8.4 million and $12.2 million, respectively, and included safety enhancements, heating, ventilation and air conditioning upgrades, elevator modernization and recoverable lobby and common area upgrades.

For the three months and year ended December 31, 2019, value-add additions were $1.8 million and $5.0 million, respectively, the majority of which were invested in pre-development and value-enhancing capital at certain properties. Certain capital investments will be recoverable from current and future tenants under the terms of their leases.

The Trust has commenced investing capital towards the transformation of its properties in the Bay Street corridor. For the year ended December 31, 2019, $2.1 million of the total value-add additions were spent towards enhancing the main lobbies, washrooms, stairwells and exterior facades and breaking ground in revitalizing an alleyway. We plan to invest up to $50 million into these properties over the next two years to secure higher net rents from tenants.

For the three months and year ended December 31, 2019, non-recoverable building improvements were $1.2 million and $3.3 million, respectively, which include costs for structural and building enhancements.

As part of our development program, for the three months and year ended December 31, 2019, properties under development incurred $10.9 million and $25.0 million, respectively, in building improvements and included reconstruction costs to building interiors at 357 Bay Street and costs at 1900 Sherwood Place for a parkade expansion and building upgrades to the exterior and common areas. As we progress through the development projects at these two properties, we expect to continue to incur building improvement costs that will serve to enhance the overall experience for our new and existing tenants at the buildings once complete.

Dispositions update

Date disposed	Property	Ownership (%)	Disposed share of GLA (thousands of sq. ft.)	Sales price[1]
May 14, 2019	Centre 70, Calgary	15.0%	20	
July 2, 2019	Financial Building, Regina	100.0%	66	
July 17, 2019	700 De la Gauchetière Street West, Montréal	100.0%	986	
August 23, 2019	150 Metcalfe Street, Ottawa	100.0%	110	
September 30, 2019	Victoria Tower, Regina	100.0%	144	
December 13, 2019	275 Dundas Street West, London (London City Centre)	40.0%	216	
December 13, 2019	5001 Yonge Street, North York	100.0%	309	
Total dispositions for the year ended December 31, 2019			1,851	$ 528,837

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

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".

The table below summarizes the Trust's participation in Dream Industrial REIT's Distribution Reinvestment Plan ("DRIP") and the Trust's ownership:

	Three months ended and as at			Year ended and as at	
	December 31, 2019	September 30, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
Units acquired via DRIP	**362,315**	399,762	468,373	**1,591,434**	1,769,595
Cost of units acquired via DRIP	**$ 4,885**	$ 4,816	$ 4,586	**$ 19,114**	$ 17,265
Ownership at period-end	**17.8%**	19.4%	23.3%	**17.8%**	23.3%

The decrease in the Trust's ownership over the prior quarter and prior year-end was mainly driven by equity offerings by Dream Industrial REIT as well as Dream Industrial REIT's deferred unit incentive plan and unit purchase plan, which collectively decreased our relative ownership, partially offset by our participation in Dream Industrial REIT's distribution reinvestment plan.

On February 12, 2020, Dream Industrial REIT completed a public offering in which the Trust did not participate and issued 16,859,000 REIT units. Subsequent to this offering, the Trust's ownership of Dream Industrial REIT was reduced to 16.1%.

OUR FINANCING

Debt summary

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

Financing and liquidity metrics		**December 31, 2019**		September 30, 2019		December 31, 2018
Weighted average face rate of interest on debt (period-end)(1)		**3.88%**		3.88%		4.06%
Interest coverage ratio (times)(2)(3)		**2.9**		2.9		2.8
Net total debt-to-adjusted EBITDAFV (years)(2)(3)		**7.5**		8.0		9.0
Level of debt (net total debt-to-net total assets)(2)		**37.6%**		41.3%		45.0%
Average term to maturity on debt (years)		**4.7**		4.9		3.8
Variable rate debt as percentage of total debt		**—**		4.5%		26.3%
Available liquidity(2)	**$**	**413,580**	$	433,844	$	163,908
Unencumbered assets(2)(3)	**$**	**281,274**	$	156,448	$	163,114

(1) Weighted average face rate of interest on debt is calculated as the weighted average face rate of all interest bearing debt balances, excluding debt in joint ventures that are equity accounted.

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

(3) Interest coverage ratio, net total debt-to-adjusted EBITDAFV and unencumbered assets have been restated for the comparative periods to conform to current period presentation. For further details, please refer to the "Non-GAAP Measures" section under the headings "Interest coverage ratio", "Net total debt-to-adjusted EBITDAFV" and "Unencumbered assets".

The overall net total debt-to-net total assets ratio has decreased 370 bps from 41.3% in Q3 2019 to 37.6% this quarter, mainly driven by the discharge of debt on dispositions and the repayment of drawings on demand revolving credit facilities in full with net proceeds from dispositions.

Throughout 2019, the Trust has significantly reduced its variable rate debt exposure from 26.3% since the beginning of 2019 to nil as of December 31, 2019, by using the net proceeds from sales of investment properties and closing on four fixed interest rate mortgages totalling $292.9 million to pay off the demand revolving credit facilities in full, as well as fixing rates on, or discharging, all floating rate mortgages.

Liquidity and capital resources

Dream Office REIT's primary sources of capital are cash generated from operating activities, net proceeds from investment property dispositions, demand revolving credit facilities, and mortgage financing and refinancing. Our primary uses of capital include the payment of distributions, costs of attracting and retaining tenants, recurring property maintenance, development projects, major property improvements, debt principal repayments and interest payments. We expect to meet all of our ongoing obligations with current cash and cash equivalents on hand, cash flows generated from operations, net proceeds from investment property dispositions, demand revolving credit facilities and conventional mortgage refinancing.

In our consolidated financial statements as at December 31, 2019, our current liabilities exceeded our current assets by $146.8 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 and scheduled principal repayments of $183.9 million, which includes $150 million of Series C unsecured debentures which were redeemed on January 21, 2020 using a combination of cash on hand and our demand revolving credit facilities. We typically refinance maturing debt with our undrawn demand revolving 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 acquisitions and dispositions.

We continue to maintain high levels of liquidity for capital expenditures to improve the quality of our properties.

Financing activities during the quarter and year

The following table details the total mortgages renewed, refinanced, assumed through acquisitions and discharged during the three months and year ended December 31, 2019. The net proceeds of the new mortgages were used to pay down outstanding balances on the demand revolving credit facilities.

	Three months ended December 31, 2019		Year ended December 31, 2019	
Financing activities	Mortgages renewed, refinanced or assumed through acquisitions	Mortgages discharged	Mortgages renewed, refinanced or assumed through acquisitions	Mortgages discharged
Amount	$ —	$ (18,000)	$ 303,206	$ (246,674)
New term (years)	—	n/a	8.4	n/a
Weighted average face interest rate(1)	n/a	4.20%	3.57%	4.24%

(1) Weighted average face rate of interest on debt is calculated as the weighted average face rate of all interest bearing debt balances, excluding debt in joint ventures that are equity accounted.

As a result of the disposition of Victoria Tower in Regina during Q3 2019, we took the opportunity to renegotiate with the lender and transferred the $21 million mortgage to an investment property previously pledged against our $300 million demand revolving credit facility. By removing the underlying Regina property as collateral from the mortgage, this facilitated the sale of the property and eliminated the need to pay a prepayment penalty had we discharged the mortgage early.

Demand revolving credit facilities

On March 21, 2019, the Trust reduced its existing demand revolving credit facility from $500 million to $435 million and extended the maturity date from March 1, 2021 to March 1, 2022. On December 19, 2019, the Trust further reduced its demand revolving credit facility from $435 million to $300 million. The interest rate remained in the form of rolling one-month bankers' acceptances ("BA") bearing interest at the BA rate plus 170 bps or at the bank's prime rate plus 70 bps. Furthermore, the minimum number of investment properties pledged as security was reduced from five to four and the number of Dream Industrial LP Class B limited partnership units pledged as security was reduced from 18,551,855 to 9,551,160.

As at December 31, 2019, the amended $300 million demand revolving credit facility is secured by first-ranking charges on four investment properties and 9,551,160 Dream Industrial LP Class B limited partnership units.

As at December 31, 2019, the amount available under the $300 million demand revolving credit facility was $300 million less $1.8 million in the form of letters of credit. As at December 31, 2019, the amount available under the $20 million demand revolving credit facility was $20 million.

Continuity of debt

Refer to Note 11 of the consolidated financial statements for details of the changes in our debt balances for the year ended December 31, 2019.

Debt maturity profile

Our current debt profile is balanced with staggered maturities over the next nine years. The following table summarizes our debt maturity profile, excluding debt in joint ventures that are equity accounted, as at December 31, 2019:

	Mortgages		Demand revolving credit facilities		Debentures		Total	
Debt maturities	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
2020	$ 14,523	4.32%	$ —	—	$ 150,000	4.07%	$ 164,523	4.10%
2021	104,317	4.88%	—	—	—	—	104,317	4.88%
2022	59,880	3.49%	—	—	—	—	59,880	3.49%
2023	139,951	4.25%	—	—	—	—	139,951	4.25%
2024	17,205	4.16%	—	—	—	—	17,205	4.16%
2025–2029	579,258	3.59%	—	—	—	—	579,258	3.59%
Subtotal before undernoted items	$ 915,134	3.86%	$ —	—	$ 150,000	4.07%	$ 1,065,134	3.89%
Scheduled principal repayments on non-matured debt	91,735	—	—	—	—	—	91,735	—
Subtotal before undernoted items	$ 1,006,869	3.85%	$ —	—	$ 150,000	4.07%	$ 1,156,869	3.88%
Unamortized financing costs	(4,230)		(2,709)		—		(6,939)	
Unamortized fair value adjustments	442		—		—		442	
Debt per consolidated financial statements	$ 1,003,081	3.89%	$ (2,709)	—	$ 150,000	4.25%	$ 1,150,372	3.94%

Commitments and contingencies

Dream Office REIT and its operating subsidiaries are contingently liable under guarantees that are issued in the normal course of business, on certain debt assumed by purchasers of investment properties, and with respect to litigation and claims that arise from time to time. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the consolidated financial statements of the Trust as at December 31, 2019.

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 $12.6 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, 2019 and December 31, 2018.

At December 31, 2019, Dream Office REIT's future minimum commitments are as follows:

	Minimum payments due			
	Within 1 year	1–5 years	> 5 years	Total
Operating lease payments for low-value assets	$ 156	$ 322	$ —	$ 478
Operating commitments	2,069	2,662	—	4,731
Fixed price contracts	222	888	2,134	3,244
Total	$ 2,447	$ 3,872	$ 2,134	$ 8,453

In 2018, the Trust originally committed US$7.25 million to fund investments in real estate technologies of which US$3.5 million was funded as at December 31, 2019 (December 31, 2018 – US$1.2 million).

The Trust is contingently liable under guarantees that are issued on certain debt assumed by purchasers of investment properties totalling $114.3 million (December 31, 2018 – $148.7 million) with a weighted average term to maturity of 3.7 years (December 31, 2018 – 4.0 years).

In the event that a contemplated development project proceeds, the Trust has committed to contribute one of its investment properties with a fair value of $40.5 million to the development project.

As part of the sale of F1RST Tower in 2018, the Trust committed to a construction loan facility of up to $12.5 million. The construction loan facility bears interest at 4.5%, matures on April 10, 2022 with an option to extend to April 10, 2023 and is secured by the property. At December 31, 2019, the Trust had not funded any amounts under the construction loan facility.

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.

						Unitholders' equity
	December 31, 2019			December 31, 2018		
	Number of Units		**Amount**	Number of Units		Amount
Unitholders' equity	**56,234,546**	**$**	**2,049,272**	59,369,278	$	2,124,760
Deficit	**—**		**(574,801)**	—		(634,513)
Accumulated other comprehensive income	**—**		**3,790**	—		6,495
Equity per consolidated financial statements	**56,234,546**		**1,478,261**	59,369,278		1,496,742
Add: LP B Units	**5,233,823**		**162,929**	5,233,823		116,662
Total equity (including LP B Units)[1]	**61,468,369**	**$**	**1,641,190**	64,603,101	$	1,613,404
Net asset value ("NAV") per unit[2]		**$**	**26.70**		$	24.97

(1) Total equity (a non-GAAP measure) is defined in the section "Non-GAAP Measures" under the heading "Total equity (including LP B Units or subsidiary redeemable units)".

(2) NAV per unit (a non-GAAP measure) is defined in this section under the heading "NAV per unit" and in the section "Non-GAAP Measures" under the heading "NAV per unit".

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

At December 31, 2019, DAM held 11,490,702 REIT A Units and 5,233,823 LP B Units for a total ownership interest of approximately 27.2%.

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.

As at December 31, 2019, our NAV per unit was $26.70, compared to $25.79 at September 30, 2019 and $24.97 at December 31, 2018, up $0.91 or 3.5% and $1.73 or 6.9%, respectively.

The quarter-over-quarter and year-over-year increases in NAV per unit of $0.91 and $1.73, respectively, were primarily due to cash flow retention from operations (diluted FFO net of distributions), fair value uplifts in our Toronto downtown investment properties and our share of fair value gains in Dream Industrial REIT's investment properties.

As at December 31, 2019, the carrying value of our investment in Dream Industrial REIT, which is accounted for under the equity method, is $320.3 million compared to a market value of $359.3 million based on the closing price on December 31, 2019, representing a difference of $39.0 million, or $0.63 per unit of the Trust.

NAV per unit is considered one of the Trust's key metrics and has increased consistently over the past 11 quarters as we improve the quality of our assets.

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

	Total	Per unit	GLA (in millions of sq. ft.)	Occupancy – in-place and committed (%)	WALT (years)
Investment properties					
Toronto downtown	$ 1,890,308	$ 30.75	3.4	97.6%	5.1
Other markets	382,792	6.23	1.8	78.6%	6.4
Total comparative portfolio investment properties	2,273,100	36.98	5.2	90.8%	5.5
Mortgages	(924,903)	(15.05)			
Total comparative portfolio investment properties, net of mortgages	1,348,197	21.93			
Acquired properties, net of mortgages	35,283	0.57			
Properties under development, net of mortgages	34,384	0.56			
Investment in Dream Industrial REIT	320,295	5.21			
Investments in joint ventures	13,935	0.23			
Cash and cash equivalents	95,410	1.55			
Unsecured debentures	(150,000)	(2.44)			
Other items	(56,314)	(0.91)			
Net asset value	$ 1,641,190	$ 26.70			
Less: LP B Units	162,929				
Total equity per consolidated financial statements	$ 1,478,261				

Outstanding equity

The following table summarizes the changes in our outstanding equity:

For the three months ended December 31, 2019	REIT A Units	LP B Units	Total
Total units issued and outstanding at October 1, 2019	56,229,342	5,233,823	61,463,165
REIT A Units issued pursuant to Deferred Unit Incentive Plan ("DUIP")	5,204	—	5,204
Total units issued and outstanding at December 31, 2019	56,234,546	5,233,823	61,468,369
Percentage of all units	91.5%	8.5%	100.0%

For the year ended December 31, 2019	REIT A Units	LP B Units	Total
Total units issued and outstanding at January 1, 2019	59,369,278	5,233,823	64,603,101
REIT A Units issued pursuant to DUIP	96,234	—	96,234
Cancellation of REIT A Units under NCIB	(3,230,966)	—	(3,230,966)
Total units issued and outstanding at December 31, 2019	56,234,546	5,233,823	61,468,369
Percentage of all units	91.5%	8.5%	100.0%

As at December 31, 2019, there were 927,621 deferred trust units and income deferred trust units outstanding (December 31, 2018 – 903,571) under the Trust's DUIP.

Normal course issuer bid ("NCIB")

On August 16, 2019, the NCIB covering the period from August 15, 2018 to August 16, 2019 expired. On August 12, 2019, the TSX accepted a notice filed by the Trust to renew its prior normal course issuer bid for a one-year period. Under the bid, the Trust will have the ability to purchase for cancellation up to a maximum of 4,544,730 of its REIT A Units (representing 10% of the Trust's public float of 45,447,304 REIT A Units) through the facilities of the TSX. The renewed bid commenced on August 19, 2019 and will remain in effect until the earlier of August 18, 2020 or the date on which the Trust has purchased the maximum number of REIT A Units permitted under the bid. Daily purchases are limited to 30,145 REIT A Units, which equals 25% of the average daily trading volume during the prior six calendar months (being 120,580 REIT A Units per day), other than purchases pursuant to applicable block purchase exceptions.

In connection with the NCIB renewal, the Trust entered into an automatic securities repurchase plan (the "Repurchase Plan") with its designated broker in order to facilitate purchases of its REIT A Units under the NCIB. The Repurchase Plan allows for purchases by Dream Office REIT of REIT A Units at any time including, without limitation, when the Trust would ordinarily not be permitted to make purchases due to regulatory restrictions or self-imposed blackout periods. Purchases will be made by the Trust's broker based upon the parameters prescribed by the TSX and the terms of the parties' written agreement. Outside of such restricted or blackout periods, the REIT A Units may also be purchased in accordance with management's discretion. The Repurchase Plan will terminate on August 18, 2020.

For the three months and year ended December 31, 2019, the Trust purchased for cancellation no REIT A Units and 3,230,966 REIT A Units, respectively, under the NCIB, at a cost of $nil and $77.8 million (or $24.09 per unit), respectively (December 31, 2018 – 4,475,664 REIT A Units cancelled for $100.7 million or $22.50 per unit).

Weighted average number of units

The basic weighted average number of units includes the weighted average of all REIT Units, LP B Units, and vested but unissued deferred trust units and income deferred trust units.

The diluted weighted average number of units includes the basic weighted average number of Units, unvested deferred trust units and associated income deferred trust units. As at December 31, 2019, there were 239,661 unvested deferred trust units and associated income deferred trust units (December 31, 2018 – 282,528).

	Three months ended December 31,		Year ended December 31,	
Weighted average number of units (in thousands)	**2019**	2018	**2019**	2018
Basic	**62,149**	65,557	**63,622**	69,484
Diluted	**62,388**	65,839	**63,878**	69,775

Distribution policy

Our Declaration of Trust, as amended and restated, provides our trustees with the discretion to determine the percentage payout of income that would be in the best interest of the Trust. For the three months and year ended December 31, 2019, the Trust declared distributions totalling $0.25 per unit and $1.00 per unit, respectively.

The following table summarizes our total distributions for the three months and years ended December 31, 2019 and December 31, 2018:

	Three months ended December 31,		Year ended December 31,	
	2019	2018	**2019**	2018
Total distributions[1] for the period	**$ 15,366**	$ 16,207	**$ 62,842**	$ 68,591

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

The decrease in total distributions on a year-over-year basis for the three months and year ended December 31, 2019 was primarily due to the cancellation of REIT A Units under the NCIB and substantial issuer bid in the current and prior year.

The following table summarizes our monthly distributions paid and payable subsequent to year-end:

Date distribution announced	Month of distribution	Date distribution was paid or is payable	Distribution per REIT A Unit	Total distribution paid or payable
December 19, 2019	December 2019	January 15, 2020	$ 0.08333	$ 4,686
January 22, 2020	January 2020	February 17, 2020	$ 0.08333	$ 4,689
February 20, 2020	February 2020	March 13, 2020	$ 0.08333	TBD

TBD – to be determined as at February 28, 2020.

Cash flows from operating activities and distributions declared

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

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

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

In any given period, actual cash flows generated from (utilized in) operating activities may differ from total distributions (a non-GAAP measure), primarily due to fluctuations in non-cash working capital and the impact of leasing costs, which fluctuate with lease maturities, renewal terms, the type of asset being leased, and when tenants fulfill the terms of their respective lease agreements. These seasonal fluctuations or the unpredictability of when leasing costs are incurred are funded with our cash and cash equivalents on hand and, if necessary, with our existing demand revolving credit facilities.

The following table summarizes net income, cash flows generated from (utilized in) operating activities and total distributions (a non-GAAP measure) for the three months and years ended December 31, 2019 and December 31, 2018:

	Three months ended December 31,		Year ended December 31,	
	2019	2018	**2019**	2018
Net income for the period	**$ 63,193**	$ 58,489	**$ 117,320**	$ 157,778
Cash flows generated from (utilized in) operating activities	**19,680**	1,048	**69,359**	46,529
Total distributions[1] for the period	**15,366**	16,207	**62,842**	68,591

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

As required by National Policy 41-201, "Income Trusts and Other Indirect Offerings", the following table outlines the difference between net income and total distributions (a non-GAAP measure), as well as the difference between cash flows generated from (utilized in) operating activities and total distributions (a non-GAAP measure), in accordance with the guidelines.

	Three months ended December 31,		Year ended December 31,	
	2019	2018	**2019**	2018
Excess of net income over total distributions[1]	**$ 47,827**	$ 42,282	**$ 54,478**	$ 89,187
Excess (shortfall) of cash flows generated from (utilized in) operating activities over total distributions[1]	**4,314**	(15,159)	**6,517**	(22,062)

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

For the three months and year ended December 31, 2019, net income exceeded total distributions (a non-GAAP measure) by $47.8 million and $54.5 million, respectively, primarily due to the impact of non-cash items such as fair value adjustments to our investment properties and our share of income from our investment in Dream Industrial REIT, partially offset by fair value adjustments to financial instruments. For the three months and year ended December 31, 2018, net income exceeded total distributions (a non-GAAP measure) by $42.3 million and $89.2 million, respectively, due to the same reasons noted above.

For the three months and year ended December 31, 2019, cash flows generated from (utilized in) operating activities exceeded total distributions (a non-GAAP measure) by $4.3 million and $6.5 million, respectively. For the three months and year ended December 31, 2018, total distributions (a non-GAAP measure) exceeded cash flows generated from (utilized in) operating activities by $15.2 million and $22.1 million, respectively, primarily due to fluctuations in non-cash working capital and the impact of leasing costs. For the three months and year ended December 31, 2018, the Trust received monthly distributions from its investment in Dream Industrial REIT totalling $4.6 million and $17.9 million, respectively, which the Trust elected to reinvest through Dream Industrial REIT's distribution reinvestment plan. Had the Trust not reinvested the distributions received from Dream Industrial REIT, management is of the view such distributions could be used to mitigate any shortfalls of cash flows generated from (utilized in) operating activities over total distributions (a non-GAAP measure), even though distributions received from Dream Industrial REIT would be included as part of cash flows generated from (utilized in) investing activities in the consolidated financial statements. Additionally, the Trust has included distributions received from Dream Industrial REIT as part of its calculation of EBITDAFV (a non-GAAP measure), consistent with management's view of the characterization of such cash flows as operating in nature as opposed to investing activities.

SECTION IV

NON-GAAP MEASURES

Included in this section are reconciliations of non-GAAP measures presented throughout this MD&A to the nearest comparable consolidated financial statements line item, in compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”. These non-GAAP measures are not defined by IFRS, do not have a standardized meaning and may not be comparable with similar measures presented by other income trusts.

Available liquidity

Available liquidity is defined as the sum of cash and cash equivalents and undrawn demand revolving credit facilities at period-end, excluding cash held in joint ventures, which are equity accounted. Management believes that available liquidity, a non-GAAP measure, is an important measure in determining our resources available to meet all of our ongoing obligations. This non-GAAP measure does not have a standardized meaning and may not be comparable with similar measures presented by other income trusts.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”, available liquidity has been reconciled to cash and cash equivalents in the table below:

			As at
	December 31, 2019	September 30, 2019	December 31, 2018
Cash and cash equivalents	**$ 95,410**	$ 20,217	$ 8,769
Undrawn demand revolving credit facilities	**318,170**	413,627	155,139
Available liquidity	**$ 413,580**	$ 433,844	$ 163,908

Total equity (including LP B Units or subsidiary redeemable units)

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

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

Total distributions paid and payable

Total distributions paid and payable is calculated as the sum of the distributions paid and payable on REIT A Units and subsidiary redeemable units (LP B Units) interest expense per consolidated financial statements. Because management considers the subsidiary redeemable units to be a component of the Trust’s equity, management considers the interest paid on the subsidiary redeemable units to be a component of total distributions paid to unitholders. However, total distributions paid and payable is not defined by IFRS, does not have a standardized meaning and may not be comparable with similar measures presented by other income trusts.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”, total distributions paid and payable has been reconciled to total distributions paid and payable on REIT A Units (included in consolidated financial statements) in the table below:

			Three months ended		Year ended
	December 31, 2019	September 30, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
Total distributions paid and payable on REIT A Units	**$ 14,057**	$ 14,094	$ 14,898	**$ 57,608**	$ 63,357
Add: Interest on subsidiary redeemable units	**1,309**	1,308	1,309	**5,234**	5,234
Total distributions paid and payable	**$ 15,366**	$ 15,402	$ 16,207	**$ 62,842**	$ 68,591

NAV per unit

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

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", the table within the section "Our Equity" under the heading "NAV per unit" reconciles NAV per unit to equity (as per consolidated financial statements) as at December 31, 2019 and December 31, 2018. The table below reconciles NAV per unit to equity (as per consolidated financial statements) as at September 30, 2019.

	Unitholders' equity		
	September 30, 2019		
	Number of Units		Amount
Unitholders' equity	56,229,342	$	2,049,116
Deficit	—		(623,937)
Accumulated other comprehensive income	—		4,848
Equity included in consolidated financial statements	56,229,342	$	1,430,027
Add: LP B Units	5,233,823		154,974
Total equity (including LP B Units)[(1)]	61,463,165	$	1,585,001
Net asset value ("NAV") per unit		$	25.79

(1) Total equity (a non-GAAP measure) is defined in this section under the heading "Total equity (including LP B Units or subsidiary redeemable units)".

Unencumbered assets

Unencumbered assets is the value of investment properties, excluding properties held for sale or investment properties in joint ventures which are equity accounted, which have not been pledged as collateral for the Trust's demand revolving credit facilities or mortgages plus the fair value of unpledged Dream Industrial REIT Units. This non-GAAP measurement is used by management in assessing the borrowing capacity available to the Trust. However, it is not defined by IFRS, does not have a standardized meaning and may not be comparable with similar measures presented by other income trusts.

Effective September 30, 2019, the Trust revised its calculation of unencumbered assets to include the fair value of unpledged Dream Industrial REIT units as management considers these units an asset that may be pledged to support future borrowings. Accordingly, unencumbered assets for comparative periods has been restated to conform to current period presentation.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", the table below presents the components of unencumbered assets:

		December 31, 2019		September 30, 2019		December 31, 2018
Investment properties not pledged as security for debt	**$**	**110,555**	$	108,433	$	140,265
Fair value of unpledged Dream Industrial REIT units[(1)]		**170,719**		48,015		22,849
Unencumbered assets	**$**	**281,274**	$	156,448	$	163,114

(1) Fair value of unpledged Dream Industrial REIT units is determined as the closing price of the Dream Industrial REIT units at the end of each period multiplied by the number of units not pledged as security for demand revolving credit facilities.

Funds from operations ("FFO")

Management believes FFO (including diluted FFO per unit) is an important measure of our operating performance. This non-GAAP measurement is a commonly used measure of performance of real estate operations; however, it does not represent net income or cash flows generated from (utilized in) operating activities, as defined by IFRS, and is not necessarily indicative of cash available to fund Dream Office REIT's needs and may not be comparable with similar measures presented by other income trusts.

In February 2019, REALPAC issued a white paper on Funds from Operations and Adjusted Funds from Operations for IFRS. The Trust has reviewed the REALPAC FFO white paper guidelines and its determination of FFO is substantially aligned with the REALPAC FFO white paper guidelines with the exception of the treatment of debt settlement costs due to disposals of investment properties. These debt settlement costs are primarily funded from net proceeds from dispositions and not from cash flows from operating activities. Thus, the Trust is of the view that debt settlement costs due to disposals of investment properties should not be included in the determination of FFO.

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

	Three months ended			Year ended	
	December 31, 2019	September 30, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
Net income (loss) for the period	**$ 63,193**	$ (2,340)	$ 58,489	**$ 117,320**	$ 157,778
Add (deduct):					
Share of income from investment in Dream Industrial REIT	**(25,419)**	(4,348)	(12,717)	**(56,078)**	(43,125)
Share of FFO from investment in Dream Industrial REIT	**4,878**	5,139	5,572	**20,934**	21,467
Depreciation, amortization and write-off of intangible assets	**4,134**	3,426	3,477	**14,571**	13,966
Costs attributable to sale of investment properties(1)	**441**	2,967	(455)	**3,536**	2,347
Interest expense on subsidiary redeemable units	**1,309**	1,308	1,309	**5,234**	5,234
Fair value adjustments to investment properties(1)	**(33,707)**	(18,807)	(20,160)	**(56,949)**	(47,533)
Fair value adjustments to investment properties held in joint ventures	**—**	518	—	**518**	—
Fair value adjustments to financial instruments and DUIP included in G&A expenses	**9,721**	36,595	(11,066)	**55,551**	1,656
Internal leasing costs	**500**	506	512	**2,188**	2,683
Principal repayments on finance lease liabilities(1)	**(11)**	(8)	—	**(44)**	—
Deferred income taxes expense (recovery)	**149**	102	(288)	**486**	(452)
Taxes attributable to dispositions	**—**	—	—	**—**	625
Debt settlement costs due to disposals of investment properties, net(1)	**—**	1,620	1,070	**1,620**	1,070
Other	**—**	—	(7)	**—**	80
FFO for the period	**$ 25,188**	$ 26,678	$ 25,736	**$ 108,887**	$ 115,796
Diluted weighted average number of units(2)	**62,388**	62,848	65,839	**63,878**	69,775
FFO per unit – diluted	**$ 0.40**	$ 0.42	$ 0.39	**$ 1.70**	$ 1.66

(1) Includes both continuing and discontinued operations.

(2) Diluted weighted average number of units includes the weighted average of all REIT A Units, LP B Units, vested but unissued and unvested deferred trust units and associated income deferred trust units.

Comparative properties NOI

Comparative properties NOI is a non-GAAP measure used by management in evaluating the performance of properties owned by the Trust in the current and comparative periods presented. When the Trust compares comparative properties NOI on a year-over-year basis and quarter-over-quarter basis, the Trust excludes investment properties acquired after January 1, 2018 and July 1, 2019, respectively, and assets held for sale or disposed of prior to or as at the current period. Comparative properties NOI also excludes lease termination fees; one-time property adjustments, if any; bad debt expenses; NOI from properties under development and investment in joint ventures; property management and other service fees; straight-line rent; and amortization of lease incentives. This measure is not defined by IFRS, does not have a standardized meaning and may not be comparable with similar measures presented by other income trusts.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", comparative properties NOI for the respective periods have been reconciled to net rental income within the section "Our Operations" under the heading "Comparative properties NOI (year-over-year comparison)" and "Comparative properties NOI (quarter-over-quarter comparison)".

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

EBITDAFV 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 income from investment in Dream Industrial REIT, distributions received from Dream Industrial REIT, interest expense on debt and subsidiary redeemable units, amortization and write-off of intangible assets and depreciation on property and equipment, leasing, transaction and debt settlement costs and other activities, and net current and deferred income taxes. This non-GAAP measurement is an important measure used by the Trust in evaluating property operating performance; however, it is not defined by IFRS, does not have a standardized meaning and may not be comparable with similar measures presented by other income trusts. Effective December 31, 2019, the Trust refined its calculation of EBITDAFV to exclude net loss from joint ventures to improve consistency between the calculation of debt and adjusted EBITDAFV in its net total debt-to-adjusted EBITDAFV calculation. Consequently, EBITDAFV and net total debt-to-adjusted EBITDAFV have been restated in prior periods to be consistent with current period presentation.

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

	Three months ended			Year ended	
	December 31, 2019	September 30, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
Net income (loss) for the period	**$ 63,193**	$ (2,340)	$ 58,489	**$ 117,320**	$ 157,778
Add (deduct):					
Lease termination fees and other[1]	**(629)**	(190)	(45)	**(1,288)**	(5,870)
Non-cash items included in investment properties revenue[1][2]	**4,124**	3,091	2,718	**13,144**	11,229
Fair value adjustments to investment properties[1]	**(33,707)**	(18,807)	(20,160)	**(56,949)**	(47,533)
Fair value adjustments to financial instruments	**9,548**	36,515	(11,172)	**55,162**	1,371
Share of income from investment in Dream Industrial REIT	**(25,419)**	(4,348)	(12,717)	**(56,078)**	(43,125)
Share of net loss from investment in joint ventures	**126**	497	—	**641**	—
Distributions received from Dream Industrial REIT	**4,906**	4,839	4,613	**19,222**	17,914
Interest – debt[1]	**12,235**	12,765	14,971	**54,608**	60,718
Interest – subsidiary redeemable units	**1,309**	1,308	1,309	**5,234**	5,234
Amortization and write-off of intangible assets and depreciation on property and equipment	**597**	389	509	**1,891**	2,199
Leasing, transaction and debt settlement costs[1]	**941**	5,093	1,989	**7,344**	7,179
Current and deferred income taxes expense (recovery), net	**149**	102	(244)	**486**	342
EBITDAFV for the period	**$ 37,373**	$ 38,914	$ 40,260	**$ 160,737**	$ 167,436

(1) Includes both continuing and discontinued operations.

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

Trailing 12-month EBITDAFV and trailing 12-month interest expense on debt

Management believes that the trailing 12-month EBITDAFV and trailing 12-month interest expense on debt, both of which are non-GAAP measures, are important measures in identifying longer-term trends in property operating performance and the cost of the Trust's debt. These non-GAAP measurements do not have standardized 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", the following tables calculate EBITDAFV and interest expense on debt for the trailing 12-month periods ended September 30, 2019.

	Trailing 12-month period ended September 30, 2019
EBITDAFV for the nine months ended September 30, 2019[1]	$ 123,364
Add: EBITDAFV for the year ended December 31, 2018[2]	167,436
Less: EBITDAFV for the nine months ended September 30, 2018	(127,176)
Trailing 12-month EBITDAFV	$ 163,624

(1) EBITDAFV for the nine months ended September 30, 2019 has been adjusted by $0.5 million related to net loss from investment in joint ventures to conform to current period presentation. Refer to the discussion under the "Earnings before interest, taxes, depreciation, amortization and fair value adjustments ("EBITDAFV")" heading within this section for further details.

(2) EBITDAFV (a non-GAAP measure) for the respective periods have been reconciled to net income under the heading "Earnings before interest, taxes, depreciation, amortization and fair value adjustments ("EBITDAFV")" within this section.

		Trailing 12-month period ended September 30, 2019
Interest expense on debt for the nine months ended September 30, 2019[1]	$	42,373
Add: Interest expense on debt for the year ended December 31, 2018[1]		60,718
Less: Interest expense on debt for the nine months ended September 30, 2018[1]		(45,747)
Trailing 12-month interest expense on debt	$	57,344

(1) Includes interest expense on debt from continuing and discontinued operations.

Interest coverage ratio

Management believes that interest coverage ratio, a non-GAAP measurement, is an important measure in determining our ability to cover interest expense based on our operating performance. This non-GAAP measurement does not have a standardized meaning and may not be comparable with similar measures presented by other income trusts.

Prior to December 31, 2018, interest coverage ratio was calculated as year-to-date EBITDAFV divided by year-to-date interest expense on debt.

Effective January 1, 2019, the Trust has chosen to revise its calculation of interest coverage ratio to be calculated as trailing 12-month EBITDAFV divided by the trailing 12-month interest expense on debt, as management is of the view that this revised calculation will more accurately reflect the ability of the Trust to meet its trailing 12-month interest expense on debt obligations. Accordingly, the interest coverage ratios for comparative periods have been restated to conform to current period presentation.

Because the calculation of EBITDAFV has been adjusted effective December 31, 2019 as discussed under the "Earnings before interest, taxes, depreciation, amortization and fair value adjustments ("EBITDAFV")" heading above, the Trust has restated its prior period calculation of interest coverage ratio (times) to be consistent with current period presentation.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", the following table calculates the interest coverage ratio for the trailing 12-month periods ended December 31, 2019, September 30, 2019 and December 31, 2018:

	For the trailing 12-month period ended		
	December 31, 2019	September 30, 2019	December 31, 2018
Trailing 12-month EBITDAFV[1]	**$ 160,737**	$ 163,624	$ 167,436
Trailing 12-month interest expense on debt[1]	**$ 54,608**	$ 57,344	$ 60,718
Interest coverage ratio (times)	**2.9**	2.9	2.8

(1) Trailing 12-month EBITDAFV and trailing 12-month interest expense on debt (non-GAAP measures) for the period ending September 30, 2019 has been reconciled under the heading "Trailing 12-month EBITDAFV and trailing 12-month interest expense on debt" within this section.

Net total debt-to-adjusted EBITDAFV

Management believes that net total debt-to-adjusted EBITDAFV, a non-GAAP measurement, is an important measure in determining the time it takes the Trust, on a go-forward basis, based on its normalized operating performance, to repay our debt. This non-GAAP measurement does not have a standardized meaning and may not be comparable with similar measures presented by other income trusts.

Net total debt-to-adjusted EBITDAFV as shown below is calculated as total debt (net of cash on hand), which includes debt related to assets held for sale, divided by adjusted EBITDAFV – annualized. Adjusted EBITDAFV – annualized is calculated as annualized quarterly EBITDAFV less NOI of disposed properties for the quarter plus the normalized NOI of properties acquired in the quarter.

Because the calculation of EBITDAFV has been adjusted effective December 31, 2019 as discussed in under the "Earnings before interest, taxes, depreciation, amortization and fair value adjustments ("EBITDAFV")" heading above, the Trust has restated its prior period calculation of net total debt-to-adjusted EBITDAFV to be consistent with current period presentation.

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

	Amounts included in consolidated financial statements		
	December 31, 2019	September 30, 2019	December 31, 2018
Non-current debt	**$ 967,861**	$ 1,030,580	$ 1,314,646
Current debt	**182,511**	180,827	91,567
Total debt	**1,150,372**	1,211,407	1,406,213
Less: Cash on hand(1)	**(89,816)**	(13,687)	(2,263)
Net total debt	**$ 1,060,556**	$ 1,197,720	$ 1,403,950
EBITDAFV(2) – quarterly	**37,373**	38,914	40,260
Add: Normalized NOI of property acquired in the quarter(3)	**—**	308	—
Less: NOI of disposed properties for the quarter(4)	**(2,084)**	(1,661)	(1,392)
Adjusted EBITDAFV – quarterly	**$ 35,289**	$ 37,561	$ 38,868
Adjusted EBITDAFV – annualized	**$ 141,156**	$ 150,244	$ 155,472
Net total debt-to-adjusted EBITDAFV (years)	**7.5**	8.0	9.0

(1) Cash on hand represents cash on hand at period-end, excluding cash held in co-owned properties and joint ventures that are equity accounted.

(2) EBITDAFV (a non-GAAP measure) has been reconciled to net income under the heading “Earnings before interest, taxes, depreciation, amortization and fair value adjustments (“EBITDAFV”)” within this section. For the period ended September 30, 2019, EBITDAFV has been restated to exclude share of net loss from investments in joint ventures.

(3) Represents the incremental NOI had the acquisitions in the respective periods occurred for the full quarter, determined using the average daily NOI times the number of days the Trust did not own the property. This adjustment excludes NOI from properties acquired by joint ventures that are equity accounted.

(4) NOI of disposed properties for the three months ended December 31, 2019 and September 30, 2019 includes NOI from properties classified as discontinued operations that were sold during Q3 2019.

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

Management believes that level of debt (net total debt-to-net total assets) is an important non-GAAP measure in the management of our debt levels. This non-GAAP measure does not have a standardized meaning and may not be comparable with similar measures presented by other income trusts. Net total debt-to-net total assets as shown below is determined as total debt less cash on hand, which includes debt related to assets held for sale, all divided by net total assets (being determined as total assets, less cash on hand).

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

	Amounts included in consolidated financial statements		
	December 31, 2019	September 30, 2019	December 31, 2018
Non-current debt	**$ 967,861**	$ 1,030,580	$ 1,314,646
Current debt	**182,511**	180,827	91,567
Total debt	**1,150,372**	1,211,407	1,406,213
Less: Cash on hand(1)	**(89,816)**	(13,687)	(2,263)
Net total debt	**$ 1,060,556**	$ 1,197,720	$ 1,403,950
Total assets	**2,911,682**	2,910,715	3,122,931
Less: Cash on hand(1)	**(89,816)**	(13,687)	(2,263)
Net total assets	**$ 2,821,866**	$ 2,897,028	$ 3,120,668
Net total debt-to-net total assets	**37.6%**	41.3%	45.0%

(1) Cash on hand represents cash on hand at period-end, excluding cash held in co-owned properties and joint ventures that are equity accounted.

SELECTED ANNUAL INFORMATION

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

	2019	2018	2017
Investment properties revenue	**$ 229,018**	$ 242,429	$ 429,652
Net income	**117,320**	157,778	134,786
Total assets	**2,911,682**	3,122,931	3,321,983
Non-current debt	**967,861**	1,314,646	1,160,689
Total debt	**1,150,372**	1,406,213	1,367,650
Total distributions(1)	**62,842**	68,591	122,422
Distribution rate (per unit)	**$ 1.00**	$ 1.00	$ 1.25(2)
Units outstanding:			
REIT Units, Series A	**56,234,546**	59,369,278	73,705,285
LP Class B Units, Series 1	**5,233,823**	5,233,823	5,233,823

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

(2) 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.

Since January 1, 2017, the Trust has disposed of investment properties, along with related mortgage debt, and used the balance of the net proceeds to pay down the balance on the demand revolving credit facilities and buy back units through the NCIB program. The reduced net income from a smaller portfolio was offset by fair value gains primarily in our Toronto downtown region and higher comparative properties NOI due to higher occupancy and higher rents.

QUARTERLY INFORMATION

The following tables show quarterly information since January 1, 2018.

Key portfolio, leasing, financing and other capital information

				2019				2018
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Portfolio(1)								
Number of properties	**31**	33	33	37	37	37	41	42
GLA (millions of sq. ft.)	**5.5**	6.1	6.2	7.3	7.3	7.3	8.1	8.3
Leasing – comparative portfolio(2)								
Occupancy rate – including committed (period-end)	**90.8%**	93.1%	94.3%	93.2%	93.0%	94.2%	91.8%	91.3%
Occupancy rate – in-place (period-end)	**90.1%**	92.6%	92.9%	91.8%	91.5%	88.3%	86.4%	86.3%
Tenant retention ratio	**85.6%**	69.7%	88.0%	70.9%	71.6%	88.8%	53.0%	54.3%
Average in-place and committed net rent per square foot (period-end)	**$ 22.53**	$ 22.79	$ 22.20	$ 21.06	$ 20.97	$ 20.87	$ 21.03	$ 21.13
Financing								
Weighted average face rate of interest on debt (period-end)(3)	**3.88%**	3.88%	3.94%	3.99%	4.06%	3.94%	3.85%	3.92%
Interest coverage ratio (times)(4)(5)	**2.9**	2.9	2.8	2.7	2.8	2.8	2.9	3.1
Net total debt-to-adjusted EBITDAFV (years)(4)(5)	**7.5**	8.0	8.5	8.6	9.0	9.1	9.3	7.6
Level of debt (net total debt-to-net total assets)(4)	**37.6%**	41.3%	45.4%	45.1%	45.0%	46.2%	48.1%	40.7%
Capital								
Total number of REIT A Units and LP B Units (in millions)(6)	**61.5**	61.5	63.6	64.3	64.6	65.3	65.4	75.4
NAV per unit(4)	**$ 26.70**	$ 25.79	$ 25.49	$ 25.10	$ 24.97	$ 24.40	$ 23.95	$ 23.81

(1) Excludes properties held for sale and properties in joint ventures that are equity accounted at the end of each period.

(2) Excludes acquired properties, properties held for sale, properties under development and properties in joint ventures that are equity accounted at the end of each period.

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

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

(5) Interest coverage ratio and net total debt-to-adjusted EBITDAFV have been restated for the comparative periods to conform to current period presentation. For further details, please refer to the "Non-GAAP Measures" section under the headings "Interest coverage ratio" and "Net total debt-to-adjusted EBITDAFV".

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

Results of operations

Effective June 30, 2019, the results of operations from the Ottawa and Montréal segment were presented separately as income (loss) from discontinued operations in the consolidated statements of comprehensive income (loss), as both investment properties in that segment have been sold. As a result of this change in presentation, the prior periods' income measures of investment properties revenue and operating expenses, interest expense on debt (included in "Other expenses") and fair value adjustments to investment properties (included in "Fair value adjustments, leasing, transaction and debt settlement costs") attributable to this segment have been retroactively reclassified to income (loss) from discontinued operations in the table below, in accordance with IFRS requirements.

				2019				2018
(in thousands of Canadian dollars)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Investment properties revenue	**$ 56,990**	$ 57,432	$ 57,031	$ 57,565	$ 57,245	$ 60,955	$ 58,732	$ 65,497
Investment properties operating expenses	**(25,907)**	(25,470)	(24,683)	(25,383)	(26,130)	(27,856)	(25,736)	(30,875)
Net rental income	**31,083**	31,962	32,348	32,182	31,115	33,099	32,996	34,622
Other income	**25,766**	4,460	19,454	7,813	12,972	6,362	9,555	15,910
Other expenses	**(16,699)**	(16,609)	(17,852)	(17,372)	(17,949)	(19,032)	(18,975)	(17,327)
Fair value adjustments, leasing, transaction and debt settlement costs	**23,450**	(20,112)	18,016	(11,518)	33,751	19,860	(7)	(8,668)
Income (loss) before income taxes and discontinued operations	**63,600**	(299)	51,966	11,105	59,889	40,289	23,569	24,537
Current and deferred income taxes recovery (expense), net	**(149)**	(102)	(118)	(117)	244	(349)	(114)	(123)
Income (loss) from continuing operations, net of taxes	**63,451**	(401)	51,848	10,988	60,133	39,940	23,455	24,414
Income (loss) from discontinued operations	**(258)**	(1,939)	(5,315)	(1,054)	(1,644)	1,442	1,931	8,107
Net income (loss) for the period	**63,193**	(2,340)	46,533	9,934	58,489	41,382	25,386	32,521
Other comprehensive income (loss)	**(1,058)**	1,172	(2,074)	(745)	2,991	(771)	1,135	1,194
Comprehensive income (loss) for the period	**$ 62,135**	$ (1,168)	$ 44,459	$ 9,189	$ 61,480	$ 40,611	$ 26,521	$ 33,715

Reconciliation between net income (loss) and funds from operations

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

					2019				2018
		Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net income (loss) for the period	**$**	**63,193** $	(2,340) $	46,533 $	9,934 $	58,489 $	41,382 $	25,386 $	32,521
Add (deduct):									
Share of income from investment in Dream Industrial REIT		**(25,419)**	(4,348)	(18,833)	(7,478)	(12,717)	(5,599)	(8,932)	(15,877)
Share of FFO from investment in Dream Industrial REIT[1]		**4,878**	5,139	5,417	5,500	5,572	4,217	6,204	5,474
Depreciation, amortization and write-off of intangible assets		**4,134**	3,426	3,653	3,358	3,477	3,717	3,502	3,270
Costs attributable to sale of investment properties[2]		**441**	2,967	76	52	(455)	919	415	1,468
Interest expense on subsidiary redeemable units		**1,309**	1,308	1,309	1,308	1,309	1,308	1,309	1,308
Fair value adjustments to investment properties[2]		**(33,707)**	(18,807)	(3,832)	(603)	(20,160)	(24,823)	(1,777)	(773)
Fair value adjustments to investment properties held in joint ventures		**—**	518	—	—	—	—	—	—
Fair value adjustments to financial instruments and DUIP included in G&A expenses		**9,721**	36,595	(6,219)	15,454	(11,066)	4,493	853	7,376
Debt settlement costs due to disposals of investment properties, net[2]		**—**	1,620	—	—	1,070	—	—	—
Internal leasing costs		**500**	506	511	671	512	630	924	617
Principal repayments on finance lease liabilities[2]		**(11)**	(8)	(12)	(13)	—	—	—	—
Deferred income taxes expense (recovery)		**149**	102	118	117	(288)	(276)	21	91
Taxes attributable to dispositions		**—**	—	—	—	—	625	—	—
Other		**—**	—	—	—	(7)	95	7	(15)
FFO for the period[3]	**$**	**25,188** $	26,678 $	28,721 $	28,300 $	25,736 $	26,688 $	27,912 $	35,460
FFO per unit – diluted[4]	**$**	**0.40** $	0.42 $	0.44 $	0.43 $	0.39 $	0.40 $	0.40 $	0.46
Weighted average units outstanding[5]									
Diluted (in thousands)		**62,388**	62,848	65,144	65,185	65,839	66,286	70,228	76,881

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

(2) Includes both continuing and discontinued operations.

(3) FFO (a non-GAAP measure) – Refer to the section "Non-GAAP Measures" under the heading "Funds from operations ("FFO")" for further details.

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

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

SECTION V

DISCLOSURE CONTROLS AND PROCEDURES

For the year ended December 31, 2019, the Chief Executive Officer and the Chief Financial Officer (the "Certifying Officers"), together with other members of management, have evaluated the design and operational effectiveness of Dream Office REIT's disclosure controls and procedures, as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"). The Certifying Officers have concluded that the disclosure controls and procedures are adequate and effective in order to provide reasonable assurance that material information has been accumulated and communicated to management, to allow timely decisions of required disclosures by Dream Office REIT and its consolidated subsidiary entities, within the required time periods.

Dream Office REIT's internal control over financial reporting (as defined in NI 52-109) is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Using the framework established in "2013 Committee of Sponsoring Organizations (COSO) Internal Control Framework", published by the Committee of Sponsoring Organizations of the Treadway Commission, the Certifying Officers, together with other members of management, have evaluated the design and operation of Dream Office REIT's internal control over financial reporting. Based on that evaluation, the Certifying Officers have concluded that Dream Office REIT's internal control over financial reporting was effective for the year ended December 31, 2019.

There were no changes in Dream Office REIT's internal control over financial reporting during the financial year ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, Dream Office REIT's internal control over financial reporting.

SECTION VI – RISKS AND OUR STRATEGY TO MANAGE

In addition to the specific risks discussed in this MD&A, we are exposed to various risks and uncertainties, many of which are beyond our control and could have an impact on our business, financial condition, operating results and prospects. Unitholders should consider these risks and uncertainties when assessing our outlook in terms of investment potential. For a further discussion of the risks and uncertainties identified by Dream Office REIT, please refer to our latest Annual Report and Annual Information Form filed on SEDAR at www.sedar.com.

REAL ESTATE OWNERSHIP

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

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

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

DEVELOPMENT RISK

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

ROLLOVER OF LEASES

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

CONCENTRATION OF PROPERTIES AND TENANTS

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

FINANCING

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

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

The degree to which we are leveraged could have important consequences to our operations. A high level of debt will reduce the amount of funds available for the payment of distributions to unitholders; 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.

TAX CONSIDERATIONS

We intend to continue to qualify as a "unit trust" and a "mutual fund trust" for purposes of the *Income Tax Act* (Canada). There can be no assurance that Canadian federal income tax laws and the administrative policies and assessing practices of the Canada Revenue Agency respecting the treatment of mutual fund trusts will not be changed in a manner that adversely affects the unitholders. If we cease to qualify as a "mutual fund trust" under the *Income Tax Act* (Canada), the income tax considerations applicable to us would be materially and adversely different in certain respects, including that the REIT A Units may cease to be qualified investments for registered plans under the *Income Tax Act* (Canada).

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. 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. However, to the extent that we fail to adequately manage these risks, our financial results, our ability to pay distributions to unitholders and cash interest payments under our financing arrangements and future financings may be negatively affected. 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 AND CLIMATE CHANGE RISK

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

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

Climate change continues to attract the focus of governments and the general public as an important threat, given the emission of greenhouse gases and other activities continue to negatively impact the planet. We face the risk that our properties will be subject to government initiatives aimed at countering climate change, such as reduction of greenhouse gas emissions, which could impose constraints on our operational flexibility or cause us to incur financial costs to comply with various reforms. Any failure to adhere and adapt to climate change reform could result in fines or adversely affect our reputation, operations or financial performance. Furthermore, our properties may be exposed to the impact of events caused by climate change, such as natural disasters and increasingly frequent and severe weather conditions. Such events could interrupt our operations and activities, damage our properties and may potentially decrease our property values or require us to incur additional expenses including an increase in insurance costs to insure our properties against natural disasters and severe weather.

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

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

COMPETITION

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

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

INSURANCE

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

RELIANCE ON DAM FOR CERTAIN MANAGEMENT SERVICES

We rely on DAM for certain management services, as requested. DAM has the right, upon 180 days' notice, to terminate our New Shared Services Agreement for any reason at any time. Our New Shared Services Agreement may also be terminated in other circumstances, such as in the event of default or insolvency of DAM within the meaning of such agreement. Accordingly, there can be no assurance that DAM will continue to provide management services. If DAM should cease for whatever reason to provide such services, this may adversely impact our ability to meet our objectives and execute our strategy.

CYBER SECURITY RISKS

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

SECTION VII

CRITICAL ACCOUNTING JUDGMENTS

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.

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

Investment properties

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

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

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

Judgment is also applied in determining whether certain costs are additions to the carrying amount of the investment property. For properties under development, the Trust exercises judgment in determining when development activities have commenced, when and how much borrowing costs are to be capitalized to the development project, and the point of practical completion.

Impairment

The Trust assesses the possibility and amount of any impairment loss or write-down as it relates to the investment in Dream Industrial REIT and other equity accounted investments, amounts receivable, property and equipment and intangible assets.

IFRS 9, "Financial Instruments" ("IFRS 9") requires management to use judgment in determining if the Trust's financial assets are impaired. In making this judgment, the Trust evaluates, among other factors, the credit risk of the counterparty, whether there are indicators that credit risk on a financial instrument has changed significantly since initial recognition or the last reassessment of credit risk. Where the credit risk of a financial asset has increased significantly since initial recognition, the Trust records a loss allowance equal to the lifetime expected credit losses arising from that financial asset.

IAS 36, "Impairment of Assets" ("IAS 36"), requires management to use judgment in determining the recoverable amount of assets and equity accounted investments that are tested for impairment, including the investment in Dream Industrial REIT and other equity accounted investments. Judgment is also involved in estimating the value-in-use of the investment in Dream Industrial REIT and other equity accounted investments, including estimates of future cash flows, discount rates and terminal rates. The values assigned to these key assumptions reflect past experience and are consistent with external sources of information.

CHANGES IN ACCOUNTING POLICIES

Leases

Effective January 1, 2019, the Trust has adopted IFRS 16, "Leases" ("IFRS 16"). IFRS 16 sets out the principles for the recognition, measurement and disclosure of leases. While accounting for leases where the Trust is acting as the lessor is substantially unchanged, there have been significant changes to the accounting for leases previously classified as operating leases where the Trust is acting as the lessee.

Prior to January 1, 2019, where the Trust was a lessee, operating leases were expensed over the term of the lease; however, IFRS 16 requires that the Trust recognize a Right of Use ("ROU") asset and a lease liability at the inception of a lease contract. Subsequently, ROU assets for investment properties are accounted for under the fair value model while ROU assets for property and equipment are depreciated on a straight-line basis over the lesser of the useful life of the asset and the term of the lease. Lease liabilities are amortized using the effective interest rate method over the term of the lease. Leases for a term of less than 12 months, or for low value assets (determined by the Trust to be less than $10), are expensed evenly over the term of the lease.

The Trust has applied IFRS 16 on a modified retrospective basis. On adoption of IFRS 16, the Trust recognized investment property ROU assets and related lease liabilities totalling $4,499 in the consolidated balance sheet based on an estimated weighted average incremental borrowing rate of 5.12% for borrowings secured by similar assets and for similar terms as the leases.

The Trust is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. The Trust accounts for its leases in accordance with IFRS 16 from the date of initial application.

FUTURE ACCOUNTING POLICY CHANGES

Business combinations

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

ADDITIONAL INFORMATION

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

SECTION VIII

ASSET LISTING

The following table includes supplementary information on our portfolio as at December 31, 2019.

Property	Ownership	Owned share of total GLA (in thousands of square feet)	Number of tenants (in-place and committed)	Average tenant size (in thousands of square feet)	Average remaining lease term (in years)	In-place and committed occupancy
Adelaide Place, Toronto	100.0%	658	70	9	5.5	98.4%
State Street Financial Centre, Toronto	100.0%	414	7	59	4.8	100.0%
438 University Avenue, Toronto	100.0%	323	18	18	6.0	100.0%
655 Bay Street, Toronto	100.0%	301	22	13	6.1	98.4%
74 Victoria Street/137 Yonge Street, Toronto	100.0%	266	5	53	4.2	98.9%
720 Bay Street, Toronto	100.0%	248	1	248	6.0	100.0%
36 Toronto Street, Toronto	100.0%	214	39	5	3.8	99.2%
330 Bay Street, Toronto	100.0%	165	41	4	3.0	90.5%
20 Toronto Street/33 Victoria Street, Toronto	100.0%	158	20	8	6.7	99.5%
250 Dundas Street West, Toronto	100.0%	122	16	8	4.9	98.9%
Victory Building, Toronto	100.0%	101	39	2	2.7	79.7%
425 Bloor Street East, Toronto(1)	100.0%	83	8	10	9.5	100.0%
212 King Street West, Toronto	100.0%	73	9	8	2.7	98.6%
360 Bay Street, Toronto	100.0%	58	16	4	2.8	100.0%
67 & 69 Richmond Street West, Toronto	100.0%	54	5	10	4.2	93.3%
350 Bay Street, Toronto	100.0%	53	11	5	3.5	97.4%
366 Bay Street, Toronto	100.0%	36	7	3	1.8	54.3%
56 Temperance Street, Toronto	100.0%	32	8	4	5.7	100.0%
Toronto downtown		**3,359**	**342**	**10**	**5.1**	**97.6%**
2200-2206 Eglinton Avenue East & 1020 Birchmount Road, Scarborough	100.0%	442	11	24	8.2	60.4%
50 & 90 Burnhamthorpe Road West, Mississauga (Sussex Centre)(2)	49.9%	326	62	9	6.1	90.0%
444 – 7th Building, Calgary	100.0%	261	10	22	6.5	85.7%
Saskatoon Square, Saskatoon	100.0%	228	13	13	5.7	74.2%
12800 Foster Street, Overland Park, Kansas, U.S.	100.0%	185	1	185	5.9	100.0%
Princeton Tower, Saskatoon	100.0%	134	13	5	7.3	49.8%
606 – 4th Building & Barclay Parkade, Calgary	100.0%	126	12	9	5.8	85.5%
Kensington House, Calgary	100.0%	78	20	4	6.2	95.7%
Preston Centre, Saskatoon	100.0%	62	13	5	3.1	100.0%
234 – 1st Avenue South, Saskatoon	100.0%	10	3	2	4.0	66.8%
Other markets		**1,852**	**158**	**11**	**6.4**	**78.6%**
Total – comparative portfolio		**5,211**	**500**	**10**	**5.5**	**90.8%**
6 Adelaide Street East, Toronto	100.0%	53	20	3	2.0	96.7%
Total acquired properties		**53**	**20**	**3**	**2.0**	**96.7%**
Total comparative portfolio and acquired properties		**5,264**	**520**	**10**	**5.5**	**90.9%**
1900 Sherwood Place, Regina	100.0%	210	6	35	11.0	100.0%
357 Bay Street, Toronto	100.0%	65	1	64	15.0	100.0%
Total properties under development		**275**	**7**	**39**	**11.9**	**100.0%**
Total portfolio		**5,539**	**527**	**10**	**5.8**	**91.4%**
220 King Street West, Toronto(3)	50.0%	11	3	6	6.3	83.4%

(1) Property subject to a ground lease.

(2) Co-owned property.

(3) Joint venture that is equity accounted. This property was acquired on August 22, 2019.

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 appointed trustees, meets with management as well as the external auditor to satisfy itself that management is properly discharging its financial responsibilities and to review its consolidated financial statements and the report of the auditor. The Audit Committee reports its findings to the Board of Trustees, which approves the consolidated financial statements.

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

"Michael J. Cooper"

Michael J. Cooper
Chief Executive Officer

"Jay Jiang"

Jay Jiang
Chief Financial Officer

Toronto, Ontario, February 20, 2020

Independent auditor's report

To the Unitholders of Dream Office Real Estate Investment Trust

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Dream Office Real Estate Investment Trust and its subsidiaries (together, the Trust) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Trust's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2019 and 2018;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

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

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
February 20, 2020

Consolidated balance sheets

(in thousands of Canadian dollars)

	Note	**December 31, 2019**	December 31, 2018
Assets			
NON-CURRENT ASSETS			
Investment properties	6	**$ 2,420,945**	$ 2,778,826
Investment in Dream Industrial REIT	7	**320,295**	266,583
Investments in joint ventures	8	**13,935**	1,531
Other non-current assets	9	**42,337**	40,969
		2,797,512	3,087,909
CURRENT ASSETS			
Amounts receivable	10	**13,834**	20,005
Prepaid expenses and other assets		**4,926**	6,248
Cash and cash equivalents		**95,410**	8,769
		114,170	35,022
Total assets		**$ 2,911,682**	$ 3,122,931
Liabilities			
NON-CURRENT LIABILITIES			
Debt	11	**$ 967,861**	$ 1,314,646
Subsidiary redeemable units	12	**162,929**	116,662
Deferred Unit Incentive Plan	13	**27,064**	18,180
Deferred tax liabilities, net	14	**2,342**	1,957
Other non-current liabilities	15	**12,236**	8,694
		1,172,432	1,460,139
CURRENT LIABILITIES			
Debt	11	**182,511**	91,567
Amounts payable and accrued liabilities	16	**78,478**	74,483
		260,989	166,050
Total liabilities		**1,433,421**	1,626,189
Equity			
Unitholders’ equity	17	**2,049,272**	2,124,760
Deficit	17	**(574,801)**	(634,513)
Accumulated other comprehensive income	17, 18	**3,790**	6,495
Total equity		**1,478,261**	1,496,742
Total liabilities and equity		**$ 2,911,682**	$ 3,122,931

See accompanying notes to the consolidated financial statements.

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

“Karine MacIndoe”
KARINE MACINDOE
Trustee

“Michael J. Cooper”
MICHAEL J. COOPER
Trustee

Consolidated statements of comprehensive income

(in thousands of Canadian dollars)

	Note	Year ended December 31, 2019	2018
Investment properties revenue	19	**$ 229,018**	$ 242,429
Investment properties operating expenses		**(101,443)**	(110,597)
Net rental income		**127,575**	131,832
Other income			
Share of income from investment in Dream Industrial REIT	7	**56,078**	43,125
Share of net loss from investment in joint ventures	8	**(641)**	—
Interest and other income		**2,056**	1,674
		57,493	44,799
Other expenses			
General and administrative	20	**(10,846)**	(12,476)
Interest:			
Debt	21	**(50,561)**	(53,374)
Subsidiary redeemable units	21	**(5,234)**	(5,234)
Amortization and write-off of intangible assets and depreciation on property and equipment		**(1,891)**	(2,199)
		(68,532)	(73,283)
Fair value adjustments, leasing, transaction and debt settlement costs			
Fair value adjustments to investment properties	6, 24	**68,201**	53,486
Fair value adjustments to financial instruments	22	**(55,162)**	(1,371)
Leasing, transaction and debt settlement costs	23	**(3,203)**	(7,179)
		9,836	44,936
Income before income taxes and discontinued operations		**126,372**	148,284
Current and deferred income taxes expense, net	14	**(486)**	(342)
Income from continuing operations, net of taxes		**125,886**	147,942
Income (loss) from discontinued operations	24	**(8,566)**	9,836
Net income for the year		**117,320**	157,778
Other comprehensive income (loss)			
Items that will be reclassified subsequently to net income:			
Unrealized gain on interest rate swaps and other, net of taxes	18	**48**	46
Unrealized gain (loss) on foreign currency translation, net of taxes	18	**(720)**	1,192
Share of other comprehensive income (loss) from investment in Dream Industrial REIT	7, 18	**(2,258)**	3,311
Items that will not be reclassified subsequently to net income:			
Share of other comprehensive income from investment in joint ventures	8, 18	**225**	—
		(2,705)	4,549
Comprehensive income for the year		**$ 114,615**	$ 162,327

See accompanying notes to the consolidated financial statements.

Consolidated statements of changes in equity

(all dollar amounts in thousands of Canadian dollars)

		Attributable to unitholders of the Trust							
Year ended December 31, 2019	**Note**	**Number of REIT A Units**		**Unitholders' equity**		**Deficit**		**Accumulated other comprehensive income (loss)**	**Total equity**
Balance at January 1, 2019		**59,369,278**	**$**	**2,124,760**	**$**	**(634,513)**	**$**	**6,495**	**$ 1,496,742**
Net income for the year		**—**		**—**		**117,320**		**—**	**117,320**
Distributions paid and payable	25	**—**		**—**		**(57,608)**		**—**	**(57,608)**
Deferred trust units exchanged for REIT A Units	13	**96,234**		**2,397**		**—**		**—**	**2,397**
Cancellation of REIT A Units under NCIB	17	**(3,230,966)**		**(77,818)**		**—**		**—**	**(77,818)**
Issue and cancellation costs		**—**		**(67)**		**—**		**—**	**(67)**
Other comprehensive loss	18	**—**		**—**		**—**		**(2,705)**	**(2,705)**
Balance at December 31, 2019		**56,234,546**	**$**	**2,049,272**	**$**	**(574,801)**	**$**	**3,790**	**$ 1,478,261**

		Attributable to unitholders of the Trust							
Year ended December 31, 2018	Note	Number of REIT A Units		Unitholders' equity		Deficit		Accumulated other comprehensive income	Total equity
Balance at January 1, 2018		73,705,285	$	2,462,611	$	(728,934)	$	1,946	$ 1,735,623
Net income for the year		—		—		157,778		—	157,778
Distributions paid and payable	25	—		—		(63,357)		—	(63,357)
Deferred trust units exchanged for REIT A Units	13	139,657		3,205		—		—	3,205
Cancellation of REIT A Units under NCIB	17	(4,475,664)		(100,716)		—		—	(100,716)
Cancellation of REIT A Units under SIB	17	(10,000,000)		(240,000)		—		—	(240,000)
Issue and cancellation costs		—		(340)		—		—	(340)
Other comprehensive income	18	—		—		—		4,549	4,549
Balance at December 31, 2018		59,369,278	$	2,124,760	$	(634,513)	$	6,495	$ 1,496,742

See accompanying notes to the consolidated financial statements.

Consolidated statements of cash flows

(in thousands of Canadian dollars)

	Note	Year ended December 31, 2019	2018
Generated from (utilized in) operating activities			
Net income for the year		**$ 117,320**	$ 157,778
Non-cash items:			
Share of income from investment in Dream Industrial REIT	7	**(56,078)**	(43,125)
Share of net loss from investments in joint ventures	8	**641**	—
Fair value adjustments to investment properties	6, 24	**(56,949)**	(47,533)
Fair value adjustments to financial instruments	22	**55,162**	1,371
Amortization and depreciation	26	**16,932**	16,588
Other adjustments	26	**8,284**	5,870
Change in non-cash working capital	26	**9,727**	(8,148)
Investment in lease incentives and initial direct leasing costs		**(30,914)**	(41,506)
Interest expense on subsidiary redeemable units	21	**5,234**	5,234
		69,359	46,529
Generated from (utilized in) investing activities			
Investment in building improvements		**(23,220)**	(17,627)
Investment in properties under development		**(22,936)**	(3,471)
Investment in property acquisition and transaction costs paid	5	**(36,833)**	—
Investment in property and equipment		**(11)**	(406)
Contributions to joint ventures		**(12,820)**	(1,532)
Net proceeds from disposal of investment properties		**377,690**	261,330
Change in restricted cash		**(3,517)**	(165)
Net proceeds from sale of marketable securities		**—**	5,157
Distributions from investment in Dream Industrial REIT		**—**	378
		278,353	243,664
Generated from (utilized in) financing activities			
Principal repayments	11, 24	**(15,650)**	(19,472)
Borrowings	11	**410,900**	580,702
Lump sum repayments	11	**(469,352)**	(435,980)
Lump sum repayments on property dispositions	11, 24	**(41,937)**	(90,697)
Financing cost additions	11	**(2,575)**	(1,391)
Distributions paid on REIT A Units	25	**(57,869)**	(64,552)
Interest paid on subsidiary redeemable units	21	**(5,234)**	(5,234)
Cancellation of REIT A Units under NCIB	17	**(77,818)**	(100,716)
Cancellation of REIT A Units under SIB	17	**—**	(240,000)
Debt settlement and REIT A Units issue and cancellation costs		**(1,407)**	(1,166)
Principal repayments on finance lease liabilities	15	**(44)**	—
		(260,986)	(378,506)
Increase (decrease) in cash and cash equivalents		**86,726**	(88,313)
Foreign exchange gain (loss) on cash held in foreign currency		**(85)**	122
Cash and cash equivalents, beginning of year		**8,769**	96,960
Cash and cash equivalents, end of year		**$ 95,410**	$ 8,769

See accompanying notes to the consolidated financial statements.

Notes to the consolidated financial statements

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

Note 1

ORGANIZATION

Dream Office Real Estate Investment Trust ("Dream Office REIT" or the "Trust") is an open-ended investment trust created pursuant to a Declaration of Trust, as amended and restated, under the laws of the Province of Ontario. The consolidated financial statements of Dream Office REIT include the accounts of Dream Office REIT and its subsidiaries. Dream Office REIT primarily owns central business district office properties in major urban centres across Canada, with a focus on downtown Toronto. A subsidiary of Dream Office REIT performs the property management function.

The principal office and centre of administration of the Trust is 30 Adelaide Street East, Suite 301, State Street Financial Centre, Toronto, Ontario, M5C 3H1. The Trust is listed on the Toronto Stock Exchange ("TSX") under the symbol "D.UN". Dream Office REIT's consolidated financial statements for the year ended December 31, 2019 were authorized for issuance by the Board of Trustees on February 20, 2020, after which they may only be amended with the Board of Trustees' approval.

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

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

Note 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of presentation and statement of compliance

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

Basis of consolidation

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

Equity accounted investments

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

The financial results of the Trust's equity accounted investments are included in the Trust's consolidated financial statements using the equity method, whereby the investment is carried on the consolidated balance sheets at cost, adjusted for the Trust's proportionate share of post-acquisition profits and losses and for post-acquisition changes in excess of the Trust's carrying amount of its investment over the net assets of the equity accounted investments, less any identified impairment loss. The Trust's share of profits and losses is recognized in the share of income from equity accounted investments in the consolidated statements of comprehensive income. Dilution gains and accretion 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.

One of the joint ventures in which the Trust participates holds investments that are classified as financial assets. These assets have been designated as fair value through other comprehensive income with changes in the fair values of these investments flowing through the Trust's statement of comprehensive income as share of other comprehensive income from investment in joint ventures.

Investment properties

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

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

The income approach is derived from two methods: the capitalization rate ("cap rate") method and the 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, 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. Properties under development and properties with redevelopment potential are measured using the discounted cash flow method, net of costs to complete, as of the consolidated balance sheet dates.

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

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

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

Investment properties, including investment properties held for sale, are derecognized on disposal or when no future economic benefits are expected from their use or disposal. Any transaction costs arising on derecognition of an investment property are included in the consolidated statements of comprehensive income during the reporting period the asset is derecognized.

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

Assets held for sale

Assets and associated 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. Debt related to assets held for sale is carried at amortized cost until disposal.

Other non-current assets

Other non-current assets include a vendor takeback mortgage receivable, property and equipment, restricted cash, intangible assets and deposits. The vendor takeback mortgage receivable was originally recorded at the fair value of the consideration received at inception and is subsequently measured under the expected credit loss ("ECL") model. 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. All other repairs and maintenance are charged to consolidated statements of comprehensive income during the reporting period in which they are incurred. Restricted cash is accounted for at cost. Intangible assets were initially recorded at the fair value of property management contracts for co-owned properties and are amortized on a straight-line basis over the term of the agreements. The unamortized portion of intangible assets are written off when the co-owned property is sold. Deposits are recorded at amortized cost.

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

Cash and cash equivalents

Cash and cash equivalents include all short-term investments with an original maturity of three months or less, and exclude cash subject to restrictions that prevent its use for current purposes. Excluded from cash and cash equivalents are amounts held for repayment of tenant security deposits, as required by various lending agreements. Restricted cash is included in other non-current assets (see Note 9).

Financial instruments

Classification and measurement of financial instruments

The following summarizes the Trust's classification and measurement of financial assets and financial liabilities in accordance with IFRS 9, "Financial Instruments" ("IFRS 9"):

	Classification and measurement
Financial assets	
Vendor takeback mortgage receivable(1)	Financial asset at amortized cost
Restricted cash and deposits(1)	Financial asset at amortized cost
Amounts receivable	Financial asset at amortized cost
Cash and cash equivalents	Financial asset at amortized cost
Financial liabilities	
Mortgages(2)	Financial liability at amortized cost
Demand revolving credit facilities(2)	Financial liability at amortized cost
Debentures(2)	Financial liability at amortized cost
Subsidiary redeemable units	Financial liability at amortized cost
Deferred Unit Incentive Plan	Financial liability at amortized cost
Tenant security deposits(3)	Financial liability at amortized cost
Finance lease liabilities(3)	Financial liability at amortized cost
Amounts payable and accrued liabilities	Financial liability at amortized cost

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

(2) Included within current and non-current debt in the consolidated balance sheets.

(3) Included within other non-current liabilities in the consolidated balance sheets.

Financial assets

Classification

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

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

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

Measurement

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

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

Impairment

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

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

Financial liabilities

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

- those to be measured subsequently at fair value through profit or loss; and
- those to be measured at amortized cost.

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

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

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

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

Equity

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

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

Distributions

Distributions to unitholders are recognized in the period in which the distributions are declared and are recorded as an addition to deficit.

Unit-based compensation plan

As described in Note 13, the Trust has a Deferred Unit Incentive Plan ("DUIP") that provides for the granting of deferred trust units and income deferred trust units to trustees, officers, employees and employees of affiliates.

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

Revenue recognition

Rental income

Effective January 1, 2019, the Trust has adopted IFRS 16, "Leases" ("IFRS 16") on a modified retrospective basis with no restatement of comparatives (see Note 3). IFRS 16 applies to base rental income and property tax recoveries earned from leases ("rental income"). The prior comparative period was reported under IAS 17, "Leases" ("IAS 17"). The adoption had no impact on the timing or amount of revenue recognized.

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

Revenue from contracts with customers

Effective January 1, 2018, the Trust adopted IFRS 15, "Revenue from contracts with customers" ("IFRS 15") on a modified retrospective basis with no restatement of comparatives. The Trust has obligations to provide ongoing services related to its leases. These services include common area maintenance services, utilities and other services at its properties (collectively "CAM services"). The Trust's performance obligations on CAM services are satisfied over time as services are provided during the period which tenants occupy the premises. When providing CAM services, the Trust is entitled to recoveries from tenants to the extent of costs incurred to provide such services. The Trust recognizes revenue as the CAM services are provided over time, at the best estimate of the amounts earned for those services, which reflects actual costs incurred. Tenants are billed monthly based on estimates. To the extent that costs exceed billings, a receivable is recognized; if the billings exceed costs, a payable is recognized. These current assets or liabilities are settled with tenants annually.

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

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

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

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

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

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

Significant judgments in applying IFRS 15

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

Estimation of transaction prices

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

Scoping of revenues

The Trust exercises judgment in determining which of its revenue streams that arise from lease agreements are in scope of IFRS 15 and which are not. Specifically, the Trust considers whether a revenue stream related to a lease agreement is for the lease of an asset or is for the provision of a distinct service. Revenues of the latter type are determined to be in scope of IFRS 15, while the former are in scope of IFRS 16 (for the year ended December 31, 2019) or IAS 17, “Leases” (for the year ended December 31, 2018).

Principal versus agent determination

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

Interest on debt

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

Income taxes

Dream Office REIT is taxed as a mutual fund trust for Canadian income tax purposes. The Trust expects to distribute all of its taxable income to its unitholders, which enables the Trust 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 of the Trust, income taxes are accounted for using the asset and liability method. Under this method, deferred income taxes are recognized for the expected future tax consequences of temporary differences between the carrying value of balance sheet items and their corresponding tax values. Deferred income taxes are computed using substantively enacted income tax rates or laws for the years in which the temporary differences are expected to reverse or settle. Deferred tax assets are recognized only to the extent that they are realizable.

Provisions

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

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

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

Impairment

The Trust assesses the possibility and amount of any impairment loss or write-down as it relates to the investment in Dream Industrial REIT and other equity accounted investments, property and equipment and intangible assets.

IAS 28, "Investments in Associates and Joint Ventures" ("IAS 28"), requires management to use judgment in determining the recoverable amount of equity accounted investments that are tested for impairment, including the investment in Dream Industrial REIT. Judgment is also involved in estimating the value-in-use of the investment in Dream Industrial REIT, including estimates of future cash flows, discount rates and terminal rates. The values assigned to these key assumptions reflect past experience and are consistent with external sources of information.

Leases where the Trust is a lessee

Effective January 1, 2019, the Trust has adopted IFRS 16, "Leases" ("IFRS 16") on a modified retrospective basis with no restatement of comparative figures (see Note 3). IFRS 16 applies to all leases where the Trust is a lessee. The prior comparative period was reported under IAS 17, "Leases" ("IAS 17").

At the inception of a lease contract where the Trust is a lessee, the Trust recognizes a right-of-use ("ROU") asset and a lease liability based on the present value of the lease payments under the lease discounted using the rate implicit in the lease or, where this rate is not determinable, based on an estimated incremental borrowing rate for borrowings secured by a similar asset for a similar term. Subsequently, ROU assets for investment properties are accounted for under the fair value model while ROU assets for property and equipment are depreciated on a straight-line basis over the lesser of the useful life of the asset and the term of the lease. Lease liabilities are amortized using the effective interest rate method over the term of the lease. Leases for a term of less than 12 months, or for low-value assets (determined by the Trust to be less than $10), are expensed evenly over the term of the lease.

Segment reporting

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

Foreign currencies

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

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

Critical accounting judgments, estimates and assumptions

Preparing the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported. Management bases its judgments, estimates and assumptions 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 judgments, estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Critical accounting judgments

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

Investment properties

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

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

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

Judgment is also applied in determining whether certain costs are additions to the carrying amount of the investment property. For properties under development, the Trust exercises judgment in determining when development activities have commenced, when and how much borrowing costs are to be capitalized to the development project, and the point of practical completion.

Impairment

The Trust assesses the possibility and amount of any impairment loss or write-down as it relates to the investment in Dream Industrial REIT and other equity accounted investments, amounts receivable, property and equipment and intangible assets.

IFRS 9 requires management to use judgment in determining if the Trust's financial assets are impaired. In making this judgment, the Trust evaluates, among other factors, the credit risk of the counterparty, whether there are indicators that credit risk on a financial instrument has changed significantly since initial recognition or the last reassessment of credit risk. Where the credit risk of a financial asset has increased significantly since initial recognition, the Trust records a loss allowance equal to the lifetime expected credit losses arising from that financial asset.

IAS 36, "Impairment of Assets" ("IAS 36"), requires management to use judgment in determining the recoverable amount of assets and equity accounted investments that are tested for impairment, including the investment in Dream Industrial REIT and other equity accounted investments. Judgment is also involved in estimating the value-in-use of the investment in Dream Industrial REIT and other equity accounted investments, including estimates of future cash flows, discount rates and terminal rates. The values assigned to these key assumptions reflect past experience and are consistent with external sources of information.

Note 3

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Trust has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2019. These changes were made in accordance with the applicable transitional provisions as described below.

Changes in accounting policies

Leases

Effective January 1, 2019, the Trust has adopted IFRS 16. IFRS 16 sets out the principles for the recognition, measurement and disclosure of leases. While accounting for leases where the Trust is acting as the lessor is substantially unchanged, there have been significant changes to the accounting for leases previously classified as operating leases where the Trust is acting as the lessee.

Prior to January 1, 2019, where the Trust was a lessee, operating leases were expensed over the term of the lease; however, IFRS 16 requires that the Trust recognize a ROU asset and a lease liability at the inception of a lease contract. Subsequently, ROU assets for investment properties are accounted for under the fair value model while ROU assets for property and equipment are depreciated on a straight-line basis over the lesser of the useful life of the asset and the term of the lease. Lease liabilities are amortized using the effective interest rate method over the term of the lease. Leases for a term of less than 12 months, or for low-value assets (determined by the Trust to be less than $10), are expensed evenly over the term of the lease.

The Trust has applied IFRS 16 on a modified retrospective basis. On adoption of IFRS 16, the Trust recognized investment property ROU assets and related lease liabilities totalling $4,499 in the consolidated balance sheet based on an estimated weighted average incremental borrowing rate of 5.12% for borrowings secured by similar assets and for similar terms as the leases.

The following table reconciles the undiscounted operating lease obligation under IAS 17, and the IFRS 16 finance lease liability included in other non-current liabilities on January 1, 2019:

Undiscounted operating lease payments under IAS 17 as at December 31, 2018	$	11,263
Less: Undiscounted lease payments for low-value assets		(469)
Undiscounted lease payments under IFRS 16		10,794
Less: Effect of discounting at a rate of 5.12%		(6,295)
Discounted lease payment liability as at January 1, 2019	$	4,499

The Trust is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. The Trust accounts for its leases in accordance with IFRS 16 from the date of initial application.

Income taxes

On January 1, 2019, the Trust adopted IFRIC 23, "Uncertainty over Income Tax Treatments" ("IFRIC 23"), which has clarified 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 did not have an impact on the Trust's consolidated financial statements.

Note 4

FUTURE ACCOUNTING POLICY CHANGES

Business combinations

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

Note 5

INVESTMENT PROPERTY ACQUISITION

On September 12, 2019, the Trust acquired an investment property in Toronto, Ontario for gross proceeds before transaction costs of $45,500.

Detailed below is the consideration paid for the acquired investment property:

	Note		
Cash paid		$	34,929
Assumed mortgage			10,306
Assumed non-cash working capital and capital expenditure obligations			265
Total consideration paid before transaction costs		$	45,500
Transaction costs and land transfer taxes			1,954
Total consideration paid for investment property	6	$	47,454

Note 6

INVESTMENT PROPERTIES

		Year ended December 31, 2019			Year ended December 31, 2018		
	Note	**Active properties**	**Properties under development**	**Investment properties**	Active properties	Properties under development	Investment properties
Balance, beginning of year		**$ 2,704,241**	**$ 74,585**	**$ 2,778,826**	$ 2,919,438	$ —	$ 2,919,438
Right-of-use assets recognized on adoption of IFRS 16	3	**4,499**	**—**	**4,499**	—	—	—
Adjusted balance, beginning of year		**2,708,740**	**74,585**	**2,783,325**	2,919,438	—	2,919,438
Additions:							
Investment property acquisition	5	**47,454**	**—**	**47,454**	—	—	—
Building improvements		**24,237**	**24,981**	**49,218**	18,143	3,447	21,590
Lease incentives and initial direct leasing costs		**26,089**	**1,252**	**27,341**	53,219	3,152	56,371
Capitalized interest		**—**	**488**	**488**	—	24	24
Total additions to investment properties		**97,780**	**26,721**	**124,501**	71,362	6,623	77,985
Transfers, dispositions, assets held for sale and other:							
Active properties transferred to properties under development		**—**	**—**	**—**	(66,348)	66,348	—
Investment properties disposed of during the year	24	**(172,033)**	**—**	**(172,033)**	(97,418)	—	(97,418)
Investment properties classified as held for sale during the year	24	**(354,946)**	**—**	**(354,946)**	(152,578)	—	(152,578)
Other		**(363)**	**—**	**(363)**	(8,393)	—	(8,393)
Total transferred, disposed, classified as held for sale and other		**(527,342)**	**—**	**(527,342)**	(324,737)	66,348	(258,389)
Changes included in net income:							
Fair value adjustments to investment properties		**54,519**	**1,210**	**55,729**	45,266	1,693	46,959
Change in straight-line rent		**91**	**(14)**	**77**	546	(11)	535
Amortization and write-off of lease incentives		**(12,998)**	**(156)**	**(13,154)**	(11,422)	(68)	(11,490)
Total changes included in net income		**41,612**	**1,040**	**42,652**	34,390	1,614	36,004
Change included in other comprehensive income:							
Foreign currency translation adjustment		**(2,191)**	**—**	**(2,191)**	3,788	—	3,788
Total change included in other comprehensive income		**(2,191)**	**—**	**(2,191)**	3,788	—	3,788
Balance, end of year		**$ 2,318,599**	**$ 102,346**	**$ 2,420,945**	$ 2,704,241	$ 74,585	$ 2,778,826
Change in unrealized income included in net income for the year							
Change in fair value of investment properties		**$ 60,831**	**$ 1,210**	**$ 62,041**	$ 48,264	$ 1,693	$ 49,957

Investment properties includes $12,801 (December 31, 2018 – $18,893) related to straight-line rent receivables.

The following table summarizes the investment properties pledged as security for debt of the Trust:

	December 31, 2019	December 31, 2018
Investment properties pledged as security for mortgages	**$ 1,950,085**	$ 2,030,937
Investment properties pledged as security for demand revolving credit facilities	**360,305**	607,624
Investment properties not pledged as security for debt	**110,555**	140,265
Total investment properties	**$ 2,420,945**	$ 2,778,826

Valuations of externally appraised properties

The following table summarizes the investment properties valued by qualified external valuation professionals for the years ended December 31, 2019 and December 31, 2018:

	December 31, 2019	December 31, 2018
Investment properties valued by qualified external valuation professionals	**$ 1,073,130**	$ 759,868
Number of investment properties valued by qualified external valuation professionals	**10**	11
Percentage of the total investment properties valued by qualified external valuation professionals	**44%**	27%

Fair value adjustments to investment properties

During 2018, a previous land transfer tax accrual of $8,393 that had been included in property transaction costs was reversed as payment was no longer probable. As a result of this adjustment to transaction costs, the fair value adjustment to investment properties recorded in that year was correspondingly increased in continuing operations.

The fair value of the investment properties as at December 31, 2019 and December 31, 2018 represents the Trust's best estimate based on the internally and externally available information as at the end of each 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.

Zoning approval

On January 29, 2020, the Trust received approval of its application to amend the zoning of its property at 250 Dundas Street West in downtown Toronto. The revised zoning permits the Trust to convert the office property to a multi-use development comprising commercial office, multi-residential rental and retail components. As at December 31, 2019, this property was valued under the cap rate method consistent with the highest and best use of the property on that date.

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

As at December 31, 2019, the Trust's investment properties, excluding properties under development, a property with redevelopment potential and certain properties where bids were received by the Trust during the period, were valued using the cap rate method.

As at December 31, 2018, the Trust's investment properties, excluding investment properties in Alberta, properties under development, a property with redevelopment potential and certain properties where bids were received during that quarter, were valued using the cap rate method. Effective January 1, 2019, the Trust changed its valuations methodology for its investment properties in Alberta from the discounted cash flow method to the cap rate method as the operations in those remaining investment properties have stabilized.

The critical valuation metrics by segment as at December 31, 2019 and December 31, 2018 are set out below:

	December 31, 2019		December 31, 2018	
	Range (%)	**Weighted average (%)**	Range (%)	Weighted average (%)
Toronto downtown	**4.50–6.00**	**4.81**	4.50–6.00	4.82
Mississauga and North York			5.75–6.25	5.97
Other markets (including Alberta)(1)	**6.00–8.00**	**6.95**		
Other markets (excluding Alberta)(2)			6.00–8.00	7.65
Total portfolio	**4.50–8.00**	**5.08**	4.50–8.00	5.19

(1) Excludes a property with redevelopment potential and certain properties where bids were received by the Trust at December 31, 2019.

(2) Excludes investment properties in Alberta, a property with redevelopment potential and certain properties where bids were received by the Trust at December 31, 2018.

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.

The following sensitivity table outlines the potential impact on the fair value of investment properties (excluding investment properties under development, a property with redevelopment potential and certain properties where bids were received by the Trust), assuming a change in the weighted average cap rate by 25 basis points ("bps") as at December 31, 2019.

	Impact of change to weighted average cap rates	
	+25 bps	–25 bps
Increase (decrease) in value	$ (103,570)	$ 114,550

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

As at December 31, 2019, the Trust's investment properties under development and a property with redevelopment potential were valued using the discounted cash flow method. As at December 31, 2018, the Trust's investment properties located in Alberta, properties under development and a property with redevelopment potential were valued using the discounted cash flow method.

The critical valuation metrics as at December 31, 2019 and December 31, 2018 are set out below:

	December 31, 2019		December 31, 2018	
	Range	**Weighted average**	Range	Weighted average
Discount rates (%)(1)	**5.25–8.25**	**7.09**	6.00–8.25	7.48
Terminal cap rates (%)(1)	**5.00–7.50**	**6.69**	5.50–7.50	6.99
Market rents (in dollars per square foot)(1)(2)	**$ 10.00–45.00**	**$ 24.67**	$ 10.00–45.00	$ 22.38
Discount rates for properties in Alberta (%)(3)			8.00–8.75	8.05
Terminal cap rates for properties in Alberta (%)(3)			7.00–8.25	7.13
Market rents for properties in Alberta (in dollars per square foot)(2)(3)			$ 12.00–16.50	$ 15.33

(1) Includes investment properties under development and a property with redevelopment potential.

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

(3) Includes investment properties in Alberta, and excludes certain properties where bids were received by the Trust at December 31, 2018.

In addition to the assumptions noted above, leasing cost assumptions for new and renewed leasing were within the range of $5.00 and $40.00 per square foot for the year ended December 31, 2019.

For the year ended December 31, 2018, leasing cost assumptions for new and renewed leasing were within the range of $5.00 and $60.00 per square foot.

For the year ended December 31, 2018, the Trust's investment properties in Alberta were valued using the discounted cash flow method and as at December 31, 2019 have been valued using the capitalization rate method.

Sensitivities on assumptions

The following sensitivity table outlines the potential impact on the fair value of investment properties under development and a property with redevelopment potential, assuming a change in the weighted average discount rates and terminal cap rates by a respective 25 bps as at December 31, 2019.

	Impact of change to weighted average discount rates		Impact of change to weighted average terminal cap rates	
	+25 bps	–25 bps	+25 bps	–25 bps
Increase (decrease) in value	$ (2,643)	$ 2,712	$ (3,137)	$ 3,419

The following sensitivity table outlines the potential impact on the fair value of investment properties under development and a property with redevelopment potential, 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, 2019.

	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	$ 1,404	$ (1,412)	$ (539)	$ 539

Generally, a decrease in vacancy rate assumptions will result in an increase to the fair value of investment properties under development and a property with redevelopment potential, while an increase in vacancy rate assumptions will result in a decrease to the fair value of investment properties under development and a property with redevelopment potential.

Note 7

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".

For the year ended December 31, 2019, the Trust purchased Dream Industrial REIT units through its distribution reinvestment plan totalling 1,591,434 Dream Industrial REIT units for a total cost of $19,114 (for the year ended December 31, 2018 – 1,769,595 Dream Industrial REIT units for a total cost of $17,265).

	Year ended December 31,	
	2019	2018
Balance, beginning of year	**$ 266,583**	$ 220,796
Dream Industrial REIT units purchased through distribution reinvestment plan	**19,114**	17,265
Distributions earned	**(19,222)**	(17,914)
Share of net income	**51,304**	45,091
Net dilution gain (accretion loss)	**4,774**	(1,966)
Share of other comprehensive income (loss)	**(2,258)**	3,311
Balance, end of year	**$ 320,295**	$ 266,583
Dream Industrial REIT units held, end of year[1]	**8,792,170**	7,200,736
Dream Industrial LP Class B limited partnership units held, end of year[2]	**18,551,855**	18,551,855
Total units held, end of year	**27,344,025**	25,752,591
Ownership as a percentage of units outstanding, end of year	**17.8%**	23.3%

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

(2) 9,551,160 Dream Industrial LP Class B limited partnership units are pledged as security for the $300,000 demand revolving credit facility.

The fair value of the Trust's interest in Dream Industrial REIT of $359,300 (December 31, 2018 – $245,165) was determined using the Dream Industrial REIT closing unit price of $13.14 per unit at period-end multiplied by the number of units held by the Trust as at December 31, 2019.

On February 12, 2020, Dream Industrial REIT completed a public offering in which the Trust did not participate and issued 16,859,000 REIT units. Subsequent to this offering, the Trust's ownership of Dream Industrial REIT was reduced to 16.1%.

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

	At 100%		At % ownership interest	
		December 31,		December 31,
	2019	2018	**2019**	2018
Non-current assets	**$ 2,441,445**	$ 2,141,907	**$ 433,629**	$ 489,730
Current assets	**451,446**	18,668	**80,182**	4,268
Total assets	**2,892,891**	2,160,575	**513,811**	493,998
Non-current liabilities	**1,230,916**	1,059,289	**419,100**	378,430
Current liabilities	**102,403**	111,961	**18,187**	25,598
Total liabilities	**1,333,319**	1,171,250	**437,287**	404,028
Net assets	**$ 1,559,572**	$ 989,325	**$ 76,524**	$ 89,970
Add-back:				
Subsidiary redeemable units			**243,771**	176,613
Investment in Dream Industrial REIT			**$ 320,295**	$ 266,583

	At 100%		At % ownership interest	
		Year ended December 31,		Year ended December 31,
	2019	2018	**2019**	2018
Net rental income	**$ 139,026**	$ 114,235	**$ 27,429**	$ 27,954
Other revenue and expenses, fair value adjustments and other items	**37,747**	28,360	**(57,184)**	(13,250)
Income (loss) from continuing operations, net of taxes	**176,773**	142,595	**(29,755)**	14,704
Income from discontinued operations, net of taxes	**2,659**	14,933	**525**	3,654
Net income (loss) for the period	**179,432**	157,528	**(29,230)**	18,358
Other comprehensive income (loss)	**(11,382)**	12,082	**(2,258)**	3,311
Comprehensive income (loss) before the undernoted adjustments	**$ 168,050**	$ 169,610	**$ (31,488)**	$ 21,669
Add-back:				
Interest on subsidiary redeemable units			**13,376**	13,376
Fair value adjustments to subsidiary redeemable units			**67,158**	13,357
Share of comprehensive income from investment in Dream Industrial REIT			**$ 49,046**	$ 48,402
Add (deduct):				
Share of other comprehensive income (loss) from investment in Dream Industrial REIT			**2,258**	(3,311)
Share of net income from investment in Dream Industrial REIT			**$ 51,304**	$ 45,091
Add (deduct):				
Net dilution gain (accretion loss)			**4,774**	(1,966)
Share of income from investment in Dream Industrial REIT			**$ 56,078**	$ 43,125

Note 8

JOINT ARRANGEMENTS

Joint ventures

The Trust holds a 50% interest in a partnership that is accounted for as a joint venture that was formed for the purpose of acquiring an investment property. On August 22, 2019, this partnership acquired 220 King Street West in Toronto, Ontario, for gross proceeds of $26,036, including $1,036 of transaction costs ($13,018, including $518 of transaction costs, at the Trust's 50% share). The partnership's acquisition was funded by the assumption of a mortgage of $8,292 ($4,146 at the Trust's share) and working capital of $124 ($62 at the Trust's share) with the balance paid in cash.

During the year ended December 31, 2018, the Trust, along with Dream Asset Management Corporation ("DAM"), a subsidiary of Dream Unlimited Corp., entered into a joint investment in Alate Partners, an investment company focused on the property technology market. The Trust and DAM each hold a 25% interest in the equity accounted investment. At December 31, 2019, the Trust had funded $4,591 into the joint investment (December 31, 2018 – $1,531).

The following amounts represent the Trust's ownership interest in the assets, liabilities, revenues, expenses of its investment in joint ventures:

	Net assets at % ownership interest	
	December 31, 2019	December 31, 2018
Non-current assets	**$ 17,129**	$ 1,159
Current assets	**1,287**	375
Total assets	**18,416**	1,534
Non-current liabilities	**4,220**	—
Current liabilities	**261**	3
Total liabilities	**4,481**	3
Net assets	**$ 13,935**	$ 1,531

	Share of comprehensive income (loss) at % ownership interest for the year ended December 31,	
	2019	2018
Net rental income	**$ 47**	$ —
Other income and expenses, fair value adjustments, net losses on transactions and other activities	**(688)**	—
Share of net loss from joint ventures	**(641)**	—
Other comprehensive income from joint ventures	**225**	—
Share of comprehensive loss from joint ventures	**$ (416)**	$ —

Co-owned investment properties

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

		Ownership interest (%)	
Property	Location	**December 31, 2019**	December 31, 2018
50 & 90 Burnhamthorpe Road West (Sussex Centre)(1)	Mississauga, Ontario	**49.9**	49.9
700 De la Gauchetière Street West – retail(2)	Montréal, Québec	**—**	79.2
275 Dundas Street West (London City Centre)(1)(2)	London, Ontario	**—**	40.0
Centre 70(2)	Calgary, Alberta	**—**	15.0

(1) The Trust co-owns this investment property with DHAAT, a related party of the Trust (see Note 28).

(2) Investment property was sold during 2019 (see Note 24).

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 participated during the respective years.

	Net assets at % ownership interest	
	December 31, 2019	December 31, 2018(1)
Non-current assets	**$ 99,260**	$ 143,939
Current assets	**2,959**	2,859
Total assets	**102,219**	146,798
Non-current liabilities	**60,486**	78,170
Current liabilities	**3,825**	3,654
Total liabilities	**64,311**	81,824
Net assets	**$ 37,908**	$ 64,974

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

	Share of net income at % ownership interest for the year ended December 31,	
	2019	2018(1)
Net rental income	**$ 7,242**	$ 8,558
Other income and expenses, fair value adjustments, net losses on transactions and other activities	**(5,539)**	(4,079)
Share of net income from co-owned properties	**$ 1,703**	$ 4,479

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

Note 9

OTHER NON-CURRENT ASSETS

	Note	**December 31, 2019**	December 31, 2018
Vendor takeback mortgage receivable		**$ 34,100**	$ 34,100
Property and equipment, net of accumulated depreciation of $13,418 (December 31, 2018 – $12,136)		**2,385**	3,767
Restricted cash		**4,764**	1,247
Intangible assets, net of accumulated amortization of $2,819 (December 31, 2018 – $3,454)		**840**	1,416
Deposits	28	**248**	439
Total		**$ 42,337**	$ 40,969

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

Property and equipment primarily includes leasehold improvements, information and technology hardware, and furniture and fixtures. Restricted cash primarily represents tenant rent deposits and cash held as security for certain mortgages. Intangible assets represent the value attributed to the remaining co-ownership management contracts at the time of the Whiterock Real Estate Investment Trust business combination in 2012, net of accumulated amortization. Deposits comprises refundable utility deposits.

During the year ended December 31, 2019, the Trust derecognized intangible assets related to a co-owned property which was sold during the year with a carrying value of $133, net of $1,211 of accumulated amortization.

Note 10

AMOUNTS RECEIVABLE

As at December 31, 2019, amounts receivable are net of credit adjustments aggregating to $2,341 (December 31, 2018 – $3,044).

		December 31, 2019		December 31, 2018
Trade receivables	**$**	**4,950**	$	8,590
Less: Provision for impairment of trade receivables		**(855)**		(923)
Trade receivables, net		**4,095**		7,667
Other amounts receivable		**9,739**		12,338
Total	**$**	**13,834**	$	20,005

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

The Trust leases office properties to tenants under operating leases. Minimum rental commitments, including joint operations, on non-cancellable tenant operating leases over their remaining terms are as follows:

		December 31, 2019
2020	$	105,575
2021		94,998
2022		85,741
2023		67,944
2024		59,339
2025+		199,559
	$	613,156

Note 11

DEBT

		December 31, 2019		December 31, 2018
Mortgages(1)(2)	**$**	**1,003,081**	$	964,758
Demand revolving credit facilities(2)(3)(4)		**(2,709)**		291,686
Debentures(5)		**150,000**		149,769
Total		**1,150,372**		1,406,213
Less: Current portion		**(182,511)**		(91,567)
Non-current debt	**$**	**967,861**	$	1,314,646

(1) Net of financing costs of $4,230 (December 31, 2018 – $3,463).

(2) Secured by charges on specific investment properties (see Note 6).

(3) Secured by certain Dream Industrial REIT units and Dream Industrial LP Class B limited partnership units (see Note 7).

(4) Net of financing costs of $2,709 (December 31, 2018 – $3,016). As at December 31, 2019, there were no amounts drawn on the demand revolving credit facilities.

(5) Net of financing costs of $nil (December 31, 2018 – $231).

Continuity of debt

The following tables provide a continuity of debt for the years ended December 31, 2019 and December 31, 2018:

	Note	Mortgages	Demand revolving credit facilities	Debentures	Total
		Year ended December 31, 2019			
Balance as at January 1, 2019		**$ 964,758**	**$ 291,686**	**$ 149,769**	**$ 1,406,213**
Cash items:					
Principal repayments		**(15,067)**	**—**	**—**	**(15,067)**
Borrowings		**292,900**	**118,000**	**—**	**410,900**
Lump sum repayments		**(56,650)**	**(412,702)**	**—**	**(469,352)**
Financing costs additions		**(1,905)**	**(670)**	**—**	**(2,575)**
Lump sum repayment on property disposition		**(18,000)**	**—**	**—**	**(18,000)**
Non-cash items:					
Debt assumed on acquisition of investment property	5	**10,306**	**—**	**—**	**10,306**
Debt classified as liabilities related to assets held for sale	24	**(172,316)**	**—**	**—**	**(172,316)**
Foreign currency translation adjustment		**(1,468)**	**—**	**—**	**(1,468)**
Other adjustments(1)		**523**	**977**	**231**	**1,731**
Balance as at December 31, 2019		**$ 1,003,081**	**$ (2,709)**	**$ 150,000**	**$ 1,150,372**

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

	Note	Mortgages	Demand revolving credit facilities	Debentures	Total
		Year ended December 31, 2018			
Balance at January 1, 2018		$ 1,080,702	$ (3,192)	$ 290,140	$ 1,367,650
Cash items:					
Principal repayments		(19,472)	—	—	(19,472)
Borrowings		—	580,702	—	580,702
Lump sum repayments		(9,225)	(286,000)	(140,755)	(435,980)
Financing costs additions		—	(1,391)	—	(1,391)
Non-cash items:					
Debt classified as liabilities related to assets held for sale	24	(90,697)	—	—	(90,697)
Foreign currency translation adjustment		2,523	—	—	2,523
Other adjustments(1)		927	1,567	384	2,878
Balance as at December 31, 2018		$ 964,758	$ 291,686	$ 149,769	$ 1,406,213

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

Effective January 1, 2019, the Trust changed its accounting policy for the presentation of overdraft balances in debt. Prior to January 1, 2019, the Trust presented drawings and repayments on its overdraft facility on a gross basis. Effective January 1, 2019, the Trust has elected to change the presentation of overdraft activity to show the net activity for the period in order to provide more meaningful information to users. As a result of this policy change, the Trust reduced gross drawings and repayments for the demand revolving credit facilities by $256,777 for the year ended December 31, 2018.

Demand revolving credit facilities

On March 21, 2019, the Trust reduced its existing demand revolving credit facility from $500,000 to $435,000 and extended the maturity date from March 1, 2021 to March 1, 2022. On December 19, 2019, the Trust further reduced its demand revolving credit facility from $435,000 to $300,000. The interest rate remained in the form of rolling one-month bankers' acceptances ("BA") bearing interest at the BA rate plus 170 bps or at the bank's prime rate plus 70 bps. Furthermore, the minimum number of investment properties pledged as security was reduced from five to four and the number of Dream Industrial LP Class B limited partnership units pledged as security was reduced from 18,551,855 to 9,551,160.

The amounts available and drawn under the demand revolving credit facilities as at December 31, 2019 and December 31, 2018 are summarized in tables below:

							December 31, 2019
	Maturity date	Interest rates on drawings	**Face interest rate**	**Borrowing capacity**	**Drawings**	**Letters of credit**	**Amount available**
Formula-based maximum not to exceed $300,000(1)	March 1, 2022	BA + 1.70% or Prime + 0.70%	**n/a**	**$ 300,000**	**$ —**	**$ (1,830)**	**$ 298,170**
Formula-based maximum not to exceed $20,000(2)	March 31, 2021	BA + 2.00% or Prime + 0.85%	**n/a**	**20,000**	**—**	**—**	**20,000**
				$ 320,000	**$ —**	**$ (1,830)**	**$ 318,170**

(1) The $300,000 demand revolving credit facility is secured by four investment properties and 9,551,160 Dream Industrial LP Class B limited partnership units.

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

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

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

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

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.

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

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.

On January 21, 2020, the Trust repaid the Series C Debentures with an aggregate principal amount of $150,000 with a combination of cash on hand and drawings on its demand revolving credit facilities.

Debt weighted average effective interest rates and maturities

	Weighted average effective interest rates[1]			Debt amount			
	December 31, 2019	December 31, 2018	Maturity dates[2]		**December 31, 2019**		December 31, 2018
Fixed rate							
Mortgages	**3.89%**	4.14%	2020–2029	**$**	**1,003,081**	$	887,234
Debentures	**4.25%**	4.25%	2020		**150,000**		149,769
Total fixed rate debt	**3.94%**	4.16%			**1,153,081**		1,037,003
Variable rate							
Mortgages	**—**	4.23%	n/a		**—**		77,524
Demand revolving credit facilities	**—**	4.41%	2021–2022		**(2,709)**		291,686
Total variable rate debt	**—**	4.37%			**(2,709)**		369,210
Total debt	**3.94%**	4.21%		**$**	**1,150,372**	$	1,406,213

(1) The effective interest rate method includes the impact of financing costs and fair value adjustments on assumed debt.
(2) As at December 31, 2019.
n/a – not applicable

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

		Mortgage balances due at maturity		Scheduled principal repayments on mortgages		Total contractual payments for mortgages		Demand revolving credit facilities		Debentures		Total
2020	$	14,523	$	19,377	$	33,900	$	—	$	150,000	$	183,900
2021		104,317		17,123		121,440		—		—		121,440
2022		59,880		15,370		75,250		—		—		75,250
2023		139,951		15,006		154,957		—		—		154,957
2024		17,205		12,266		29,471		—		—		29,471
2025–2029		579,258		12,593		591,851		—		—		591,851
	$	915,134	$	91,735	$	1,006,869	$	—	$	150,000	$	1,156,869
Financing costs						(4,230)		(2,709)		—		(6,939)
Fair value adjustments						442		—		—		442
					$	1,003,081	$	(2,709)	$	150,000	$	1,150,372

Note 12

SUBSIDIARY REDEEMABLE UNITS

The Trust has the following subsidiary redeemable units outstanding:

		Year ended December 31, 2019			Year ended December 31, 2018		
	Note	**Number of units issued and outstanding**		**Amount**	Number of units issued and outstanding		Amount
Balance, beginning of year		**5,233,823**	**$**	**116,662**	5,233,823	$	115,981
Remeasurement of carrying value of subsidiary redeemable units	22	**—**		**46,267**	—		681
Balance, end of year		**5,233,823**	**$**	**162,929**	5,233,823	$	116,662

During the year ended December 31, 2019, the Trust incurred $5,234 (December 31, 2018 – $5,234) in distributions on the subsidiary redeemable units, which is included as interest expense in the consolidated statements of comprehensive income (see Note 21).

Dream Office LP, a subsidiary of Dream Office REIT, is authorized to issue an unlimited number of LP Class B limited partnership units. These units have been issued in two series: LP Class B Units, Series 1 (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, 2019 and December 31, 2018, 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, 2019 and December 31, 2018, 5,233,823 Special Trust Units were issued and outstanding.

Note 13

DEFERRED UNIT INCENTIVE PLAN

The Deferred Unit Incentive Plan ("DUIP") provides for the grant of deferred trust units to trustees, officers and employees as well as employees of affiliates. Deferred trust units are granted at the discretion of the trustees and earn income deferred trust units based on the payment of distributions. Once granted, each deferred trust unit and the related distribution of income deferred trust units vest immediately for Board of Trustees, evenly over a five-year period and three-year period on the anniversary date of the grant for officers and the remaining participants, respectively. 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, 2019 and December 31, 2018, 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:

		Year ended December 31,	
	Note	**2019**	2018
Balance, beginning of year		**$ 18,180**	$ 17,280
Compensation expense	20	**2,736**	3,415
REIT A Units issued for vested deferred trust units		**(2,397)**	(3,205)
Remeasurements of carrying value of deferred trust units	22	**8,895**	690
Cash settlement of deferred trust units		**(350)**	—
Balance, end of year		**$ 27,064**	$ 18,180

	Year ended December 31,	
	2019	2018
Outstanding and payable at beginning of year	**903,571**	889,301
Granted	**111,141**	120,618
Income deferred trust units	**36,478**	37,950
REIT A Units issued	**(96,234)**	(139,657)
REIT A Units settled in cash	**(14,466)**	(64)
Cancelled	**(12,869)**	(4,577)
Outstanding and payable at end of year(1)	**927,621**	903,571

(1) Includes 687,960 of vested but not issued deferred trust units as at December 31, 2019 (December 31, 2018 – 621,043).

For the year ended December 31, 2019, 111,141 deferred trust units were granted to trustees, officers and employees as well as employees of affiliates with the grant price ranging from $23.68 to $31.14 per unit. Of the units granted, 64,341 units relate to key management personnel. For the year ended December 31, 2018, 120,618 deferred trust units were granted to trustees, officers and employees as well as employees of affiliates with the grant price ranging from $21.11 to $24.66 per unit. Of the units granted, 48,318 units related to key management personnel.

Note 14

INCOME TAXES

The Trust is subject to taxation in the United States ("U.S.") on the taxable income earned by its investment properties located in the U.S. at a combined state and federal tax rate of approximately 27% as at December 31, 2019 and December 31, 2018. Deferred tax assets arise from timing differences in the U.S. subsidiaries, and are recognized only to the extent that they are realizable. Deferred tax liabilities arise from the temporary differences between the carrying value and the tax basis of the net assets of the U.S. subsidiaries.

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

		December 31, 2019		December 31, 2018
Deferred tax assets				
Deferred financing costs	**$**	**52**	$	96
Financial instruments		**117**		211
Other		**377**		460
		546		767
Deferred tax liabilities				
Investment property		**(2,888)**		(2,724)
Deferred tax liabilities, net	**$**	**(2,342)**	$	(1,957)

A reconciliation between the expected income taxes based upon the 2019 and 2018 statutory rates and the income tax expense recognized during the years ended December 31, 2019 and December 31, 2018 is as follows:

		December 31, 2019		December 31, 2018
Income taxes computed at the statutory rate of 0% that is applicable to the Trust	**$**	**—**	$	—
Current income taxes expense on a U.S. property		**—**		(794)
Deferred income taxes (expense) recovery on a U.S. property		**(486)**		452
	$	**(486)**	$	(342)

As part of the deferred tax balance, $103 is a result of a foreign exchange difference for the investment property in the U.S. (for the year ended December 31, 2018 – $141). This amount is included as part of accumulated other comprehensive income under unrealized foreign currency translation gain (loss).

Note 15

OTHER NON-CURRENT LIABILITIES

		December 31, 2019		December 31, 2018
Tenant security deposits	**$**	**8,033**	$	8,694
Finance lease liabilities[1]		**4,203**		—
Total	**$**	**12,236**	$	8,694

(1) On January 1, 2019 the trust adopted IFRS 16 and recognized finance lease liabilities totalling $4,499 for lease obligations previously accounted for as operating leases under IAS 17 (see Note 3).

Leases

As at December 31, 2019, subsidiaries of the Trust have long-term agreements in place at two of its investment properties, which meet the definition of a lease under IFRS 16. One of these leases is a ground lease and the other is for an outdoor area at an investment property. These lease agreements have terms expiring in 2046 and 2079, respectively. The ground lease has a 33-year extension option.

The Trust also has certain leases for low value office equipment. The Trust considers assets with a fair value of less than $10 at the inception of the lease to be of low value.

The following table summarizes the movements in the Trust's lease liability for the year ended December 31, 2019:

		Year ended December 31, 2019
Balance, beginning of year	$	—
Recognition of lease liability on adoption of IFRS 16		4,499
Adjusted balance, beginning of year		4,499
Lease liabilities paid in cash		(44)
Derecognition of lease liability on property disposition		(252)
Balance, end of year	$	4,203

During the year ended December 31, 2019 the Trust incurred $220 of interest expense on lease liabilities and $156 of lease payments for low-value office equipment.

The following table summarizes the undiscounted maturity of the Trust's lease liabilities included in other non-current liabilities as at December 31, 2019:

Due within one year	$	258
Due within one to five years		1,030
Due after five years		8,845
Total undiscounted lease liability payments		10,133
Less: Effect of discounting lease liability payments		(5,930)
Finance lease liabilities	$	4,203

Note 16

AMOUNTS PAYABLE AND ACCRUED LIABILITIES

	Note		December 31, 2019		December 31, 2018
Trade payables		**$**	**9,169**	$	4,042
Building improvement and leasing cost accruals			**25,306**		25,581
Investment properties operating expense accruals			**17,299**		20,749
Non-operating expense and other accruals			**11,601**		7,906
Accrued interest			**6,453**		6,904
Rent received in advance			**3,964**		4,354
Distributions payable	25		**4,686**		4,947
Total		**$**	**78,478**	$	74,483

Note 17

EQUITY

	Note	December 31, 2019 Number of REIT A Units		December 31, 2019 Amount	December 31, 2018 Number of REIT A Units		December 31, 2018 Amount
Unitholders' equity		**56,234,546**	**$**	**2,049,272**	59,369,278	$	2,124,760
Deficit		**—**		**(574,801)**	—		(634,513)
Accumulated other comprehensive income	18	**—**		**3,790**	—		6,495
Total		**56,234,546**	**$**	**1,478,261**	59,369,278	$	1,496,742

Dream Office REIT Units

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

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

Normal course issuer bid ("NCIB")

On August 16, 2019, the NCIB covering the period from August 15, 2018 to August 16, 2019 expired. On August 12, 2019, the TSX accepted a notice filed by the Trust to renew its prior NCIB for a one-year period. Under the bid, the Trust will have the ability to purchase for cancellation up to a maximum of 4,544,730 of its REIT A Units (representing 10% of the Trust's public float of 45,447,304 REIT A Units) through the facilities of the TSX. The renewed bid commenced on August 19, 2019 and will remain in effect until the earlier of August 18, 2020 or the date on which the Trust has purchased the maximum number of REIT A Units permitted under the bid. Daily purchases are limited to 30,145 REIT A Units, which equals 25% of the average daily trading volume during the prior six calendar months (being 120,580 REIT A Units per day), other than purchases pursuant to applicable block purchase exceptions.

In connection with the NCIB renewal, the Trust entered into an automatic securities repurchase plan (the "Repurchase Plan") with its designated broker in order to facilitate purchases of its REIT A Units under the NCIB. The Repurchase Plan allows for purchases by Dream Office REIT of REIT A Units at any time including, without limitation, when the Trust would ordinarily not be permitted to make purchases due to regulatory restrictions or self-imposed blackout periods. Purchases will be made by the Trust's broker based upon the parameters prescribed by the TSX and the terms of the parties' written agreement. Outside of such restricted or blackout periods, the REIT A Units may also be purchased in accordance with management's discretion. The Repurchase Plan will terminate on August 18, 2020.

For the year ended December 31, 2019, the Trust purchased for cancellation 3,230,966 REIT A Units under the NCIB at a cost of $77,818 (for the year ended December 31, 2018 – 4,475,664 REIT A Units cancelled for $100,716).

Substantial issuer bid ("SIB")

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

Note 18
ACCUMULATED OTHER COMPREHENSIVE INCOME

	Year ended December 31, 2019			2018		
	Opening balance January 1	**Net change during the year**	**Closing balance December 31**	Opening balance January 1	Net change during the year	Closing balance December 31
Unrealized gain (loss) on interest rate swaps, net of taxes	**$ (237)**	**$ 48**	**$ (189)**	$ (283)	$ 46	$ (237)
Realized and unrealized gain (loss) on foreign currency translation, net of taxes	**3,681**	**(720)**	**2,961**	2,489	1,192	3,681
Share of other comprehensive income (loss) from investment in Dream Industrial REIT	**3,051**	**(2,258)**	**793**	(260)	3,311	3,051
Share of other comprehensive income from investment in joint ventures	**—**	**225**	**225**	—	—	—
Accumulated other comprehensive income	**$ 6,495**	**$ (2,705)**	**$ 3,790**	$ 1,946	$ 4,549	$ 6,495

Note 19
INVESTMENT PROPERTIES REVENUE

	Year ended December 31, 2019	2018
Rental revenue	**$ 139,091**	$ 148,594
CAM and parking services revenue	**87,417**	92,132
Property management and other service fees	**2,510**	1,703
Total	**$ 229,018**	$ 242,429

Note 20
GENERAL AND ADMINISTRATIVE EXPENSES

	Note	Year ended December 31, 2019	2018
Salaries and benefits		**$ (3,353)**	$ (3,693)
Deferred compensation expense	13	**(2,736)**	(3,415)
Professional service fees, public reporting, overhead-related costs and other		**(4,757)**	(4,904)
Management Services Agreement with DAM	28	**—**	(464)
Total		**$ (10,846)**	$ (12,476)

Note 21

INTEREST

Interest on debt

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

	Note	Year ended December 31, 2019	2018
Interest expense incurred, at contractual rate of debt		**$ 49,342**	$ 50,927
Amortization of financing costs		**2,030**	2,779
Amortization of fair value adjustments on assumed debt		**(323)**	(308)
Capitalized interest	6	**(488)**	(24)
Interest expense on debt		**50,561**	53,374
Add (deduct):			
Amortization of financing costs		**(2,030)**	(2,779)
Amortization of fair value adjustments on assumed debt		**323**	308
Change in accrued interest		**(567)**	734
Cash interest paid for discontinued operations		**4,585**	7,271
Cash interest paid		**$ 52,872**	$ 58,908

For the year ended December 31, 2019, interest was capitalized to properties under development at a weighted average effective interest rate of 4.01% (for the year ended December 31, 2018 – 4.15%).

Certain debts assumed in connection with acquisitions have been adjusted to fair value using the estimated market interest rate at the time of the acquisition ("fair value adjustments"). The 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 part of depreciation and amortization under cash generated to (from) operating activities 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, 2019	2018
Paid in cash	**$ 5,234**	$ 5,234
Less: Interest payable at December 31, 2018 (December 31, 2017)	**(436)**	(436)
Plus: Interest payable at December 31, 2019 (December 31, 2018)	**436**	436
Interest expense on subsidiary redeemable units	**$ 5,234**	$ 5,234

Note 22

FAIR VALUE ADJUSTMENTS TO FINANCIAL INSTRUMENTS

	Note	Year ended December 31, 2019	2018
Remeasurement of carrying value of subsidiary redeemable units	12	**$ (46,267)**	$ (681)
Remeasurement of carrying value of deferred trust units	13	**(8,895)**	(690)
Total		**$ (55,162)**	$ (1,371)

Note 23

LEASING, TRANSACTION AND DEBT SETTLEMENT COSTS

	Year ended December 31, 2019	2018
Internal leasing costs	**$ (2,188)**	$ (2,683)
Costs attributable to sale of investment properties[1]	**(654)**	(2,347)
Debt settlement costs, net[2]	**(361)**	(1,932)
Other	**—**	(217)
Total	**$ (3,203)**	$ (7,179)

(1) Costs attributable to sale of investment properties consist of transaction costs, commissions and other expenses incurred in relation to the disposal of investment properties.

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

Note 24

ASSETS HELD FOR SALE, DISCONTINUED OPERATIONS AND DISPOSITIONS

Assets held for sale

As at December 31, 2019 and December 31, 2018, there were no investment properties classified as assets held for sale.

The tables below summarize the activity of investment properties classified as assets held for sale and the associated debt for the years ended December 31, 2019 and December 31, 2018.

Investment properties held for sale

	Note	Year ended December 31, 2019	2018
Balance, beginning of year		**$ —**	$ 51,530
Add (deduct):			
Building improvements		**472**	60
Lease incentives and initial direct leasing costs		**475**	431
Investment properties classified as held for sale during the year	6	**354,946**	152,578
Investment properties disposed of during the year		**(356,804)**	(204,776)
Fair value adjustment to investment properties		**1,220**	574
Amortization of lease incentives and other		**(65)**	(397)
Derecognition of right-of-use asset		**(244)**	—
Balance, end of year		**$ —**	$ —

Debt related to investment properties held for sale

	Note	Year ended December 31, 2019	2018
Balance, beginning of year		**$ —**	$ —
Cash items:			
Principal repayments		**(583)**	—
Lump sum repayment on property dispositions		**(23,937)**	(90,697)
Non-cash items:			
Debt classified as liabilities related to assets held for sale[1]	11	**172,316**	90,697
Debt assumed by purchaser on disposal of investment properties		**(148,087)**	—
Amortization and write-off of financing costs		**291**	—
Balance, end of year		**$ —**	$ —

(1) As at December 31, 2019, includes $nil (December 31, 2018 – $264) of unamortized deferred financing costs.

Discontinued operations – Ottawa and Montréal segment

On July 17, 2019 and August 23, 2019, respectively, the Trust completed the sale of 700 De la Gauchetière Street West, Montréal and 150 Metcalfe Street, Ottawa.

The Trust presented separately the results of operations and cash flows from the Ottawa and Montréal segment for the years ended December 31, 2019 and December 31, 2018 as follows:

	Year ended December 31, 2019	2018
Investment properties revenue	**$ 21,231**	$ 42,778
Investment properties operating expenses	**(10,357)**	(19,645)
Net rental income	**10,874**	23,133
Other expenses, fair value adjustments, transaction and debt settlement costs		
Interest on debt	**(4,047)**	(7,344)
Fair value adjustments to investment properties	**(11,252)**	(5,953)
Costs attributable to sale of investment properties	**(2,882)**	—
Debt settlement costs, net(1)	**(1,259)**	—
	(19,440)	(13,297)
Income (loss) from discontinued operations	**$ (8,566)**	$ 9,836

(1) Net debt settlement costs comprise prepayment penalties of $(995) and write-off of associated unamortized financing costs of $(264).

	Year ended December 31, 2019	2018
Cash flow generated from (utilized in):		
Operating activities	**$ (4,662)**	$ 8,296
Investing activities(1)	**201,295**	(2,140)
Financing activities(2)	**(21,416)**	(5,796)
Increase in cash and cash equivalents from discontinued operations	**$ 175,217**	$ 360

(1) For the year ended December 31, 2019, investing activities includes $204,612 of net proceeds on disposition.

(2) For the year ended December 31, 2019, financing activities includes $(995) of prepayment penalties and $(16,870) of lump sum repayments on disposed properties.

Dispositions

Date disposed	Property	Ownership (%)	Disposed share of GLA (thousands of sq. ft.)	Sales price(1)
May 14, 2019	Centre 70, Calgary	15.0%	20	
July 2, 2019	Financial Building, Regina	100.0%	66	
July 17, 2019	700 De la Gauchetière Street West, Montréal	100.0%	986	
August 23, 2019	150 Metcalfe Street, Ottawa	100.0%	110	
September 30, 2019	Victoria Tower, Regina	100.0%	144	
December 13, 2019	275 Dundas Street West, London (London City Centre)	40.0%	216	
December 13, 2019	5001 Yonge Street, North York	100.0%	309	
Total dispositions for the year ended December 31, 2019			1,851	$ 528,837

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

On October 15, 2019, a parcel of land at 425 Bloor Street East, Toronto, Ontario was expropriated by the City of Toronto to construct an elevator that provides direct access to a Toronto Transit Commission station, for total gross proceeds of $363. The gross proceeds represented fair market value for the parcel of land. In addition to the gross proceeds, the Trust recorded a one-time compensation income of $384 in investment properties revenue for the year ended December 31, 2019, representing the lost rental revenue for temporary easements over the construction period.

For the year ended December 31, 2018, the Trust completed the sale of nine investment properties located in Alberta and Saskatchewan for gross proceeds net of adjustments and before transaction costs of $302,194.

Note 25

DISTRIBUTIONS

Dream Office REIT's Declaration of Trust, as amended and restated, provides the Board of Trustees with the discretion to determine the percentage payout of income that would be in the best interest of the Trust. The Trust determines the distribution rate by, among other considerations, its assessment of cash flows generated from (utilized in) operating activities. Cash flows from operating activities may differ from distributions declared, primarily due to: fluctuations in non-cash working capital; the impact of leasing costs, which fluctuate with lease maturities, renewal terms, the type of asset being leased, and when tenants fulfill the terms of their respective lease agreements; and the impact of investments in building improvements, which fluctuates with timing and extent of the capital projects, as well as age, type and condition of asset. These seasonal fluctuations or the unpredictability of when leasing costs are incurred are funded with our cash and cash equivalents on hand and, if necessary, with our existing demand revolving credit facilities. Monthly distribution payments to unitholders are payable on or about the 15th day of the following month.

For the years ended December 31, 2019 and December 31, 2018, the Trust declared distributions totalling $1.00 per unit.

The following table summarizes distribution payments for the years ended December 31, 2019 and December 31, 2018:

		Year ended December 31,	
	Note	**2019**	2018
Paid in cash		**$ 57,869**	$ 64,552
Less: Payable at December 31, 2018 (December 31, 2017)		**(4,947)**	(6,142)
Plus: Payable at December 31, 2019 (December 31, 2018)	16	**4,686**	4,947
Total distributions paid and payable		**$ 57,608**	$ 63,357

The following table summarizes our monthly distributions paid and payable subsequent to year-end:

Date distribution announced	Month of distribution	Date distribution was paid or is payable	Distribution per REIT A Unit	Total distribution paid or payable
December 19, 2019	December 2019	January 15, 2020	$ 0.08333	$ 4,686
January 22, 2020	January 2020	February 17, 2020	$ 0.08333	$ 4,689
February 20, 2020	February 2020	March 13, 2020	$ 0.08333	TBD

TBD – to be determined as at February 28, 2020.

Note 26

SUPPLEMENTARY CASH FLOW INFORMATION

The components of amortization and depreciation under operating activities include:

		Year ended December 31,	
	Note	**2019**	2018
Amortization and write-off of lease incentives	6, 24	**$ 13,277**	$ 11,825
Amortization and write-off of intangible assets	9	**576**	446
Amortization of financing costs	21	**2,087**	2,872
Amortization of fair value adjustments on assumed debt	21	**(323)**	(308)
Depreciation on property and equipment		**1,315**	1,753
Total amortization and depreciation		**$ 16,932**	$ 16,588

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

	Note		Year ended December 31, 2019		2018
Deferred unit compensation expense	13	**$**	**2,736**	$	3,415
Straight-line rent adjustment			**(94)**		(538)
Deferred income taxes expense (recovery)	14		**486**		(452)
Costs attributable to sale of investment properties	23, 24		**3,536**		2,347
Debt settlement costs, net	23, 24		**1,620**		1,098
Total other adjustments		**$**	**8,284**	$	5,870

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

		Year ended December 31, 2019		2018
Decrease (increase) in amounts receivable	**$**	**6,618**	$	(4,901)
Decrease (increase) in prepaid expenses and other assets		**(2,498)**		1,514
Decrease in other non-current assets		**57**		795
Increase (decrease) in amounts payable and accrued liabilities		**5,502**		(4,692)
Increase (decrease) in other non-current liabilities		**48**		(864)
Change in non-cash working capital	**$**	**9,727**	$	(8,148)

Note 27

SEGMENTED INFORMATION

Prior to January 1, 2019, the Trust's reportable operating segments of its investment properties and results of operations were segmented geographically, namely Calgary, Toronto downtown, Mississauga and North York, Ottawa and Montréal and Other markets. Effective January 1, 2019, the Trust has grouped its remaining four investment properties in Calgary into the Other markets segment, which better aligns with how the Trust views the operations and capital allocations of that particular market.

Effective June 30, 2019, the results of operations from the Ottawa and Montréal segment were presented separately as discontinued operations in the consolidated statements of comprehensive income, as both investment properties in that segment were classified as assets held for sale in the consolidated balance sheets.

Effective December 31, 2019, the Trust has further refined its reportable operating segments as a result of changes to the composition of the Trust's investment property portfolio. The Trust's remaining investment property in Mississauga, Ontario and the property previously classified as held for future redevelopment have both been reclassified to Other markets segment, which better aligns with how the Trust views the operations and capital allocations of that particular market relative to the Toronto downtown region.

For the years ended December 31, 2019 and December 31, 2018, the Trust's reportable operating segments of its investment properties and results of operations were segmented geographically, namely Toronto downtown and Other markets. The chief operating decision-maker measures and evaluates the performance of the Trust based on net operating income as presented by geographical location below. The performance of assets held for sale, properties under development, acquired properties and sold properties are considered separately by the chief operating decision-maker from properties in the regional segments. Accordingly, revenue, expenses and fair value adjustments related to these properties have been reclassified to "Not segmented" for segment disclosure along with property management and other service fees, lease termination fees, bad debt expense, straight-line rent and amortization of lease incentives at December 31, 2019 and December 31, 2018. The Trust did not allocate interest expense to these segments since leverage is viewed as a corporate function. The decision as to where to incur the debt is largely based on minimizing the cost of debt and is not specifically related to the segments. Similarly, other income, other expenses, fair value adjustments to financial instruments, leasing, transaction and debt settlement costs, and income taxes were not allocated to the segments.

Year ended December 31, 2019		Toronto downtown		Other markets		Segment total		Not segmented(1)		Total
Operations										
Investment properties revenue	**$**	**161,057**	**$**	**51,214**	**$**	**212,271**	**$**	**16,747**	**$**	**229,018**
Investment properties operating expenses		**(65,407)**		**(22,673)**		**(88,080)**		**(13,363)**		**(101,443)**
Net rental income (segment income)	**$**	**95,650**	**$**	**28,541**	**$**	**124,191**	**$**	**3,384**	**$**	**127,575**
Fair value adjustments to investment properties	**$**	**70,763**	**$**	**(8,086)**	**$**	**62,677**	**$**	**5,524**	**$**	**68,201**

(1) Includes revenue, expenses and fair value adjustments related to properties under development, acquired and sold properties during the year, property management and other service fees, lease termination fees, bad debt expense, straight-line rent and amortization of lease incentives during the year.

Year ended December 31, 2019		Toronto downtown		Other markets		Segment total		Not segmented(1)		Reconciliation(2)		Total
Capital expenditures(3)	**$**	**24,548**	**$**	**18,194**	**$**	**42,742**	**$**	**35,252**	**$**	**(947)**	**$**	**77,047**
Investment properties	**$**	**1,890,308**	**$**	**382,792**	**$**	**2,273,100**	**$**	**147,845**	**$**	**—**	**$**	**2,420,945**

(1) Includes activity of properties under development, acquired and sold (as applicable) during the year.

(2) Includes activity of assets held for sale during the year.

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

Year ended December 31, 2018		Toronto downtown		Other markets		Segment total		Not segmented(1)		Total
Operations										
Investment properties revenue	$	144,945	$	50,149	$	195,094	$	47,335	$	242,429
Investment properties operating expenses		(62,669)		(21,746)		(84,415)		(26,182)		(110,597)
Net rental income (segment income)	$	82,276	$	28,403	$	110,679	$	21,153	$	131,832
Fair value adjustments to investment properties	$	93,752	$	(33,666)	$	60,086	$	(6,600)	$	53,486

(1) Includes revenue, expenses and fair value adjustments related to properties under development, acquired and sold during the year, property management and other service fees, lease termination fees, bad debt expense, straight-line rent and amortization of lease incentives during the year.

Year ended December 31, 2018		Toronto downtown		Other markets		Segment total		Not segmented(1)		Reconciliation(2)		Total
Capital expenditures(3)	$	35,670	$	17,294	$	52,964	$	25,512	$	(491)	$	77,985
Investment properties	$	1,798,728	$	378,965	$	2,177,693	$	601,133	$	—	$	2,778,826

(1) Includes activity of properties under development, acquired and sold (as applicable) during the year.

(2) Includes activity of assets held for sale during the year.

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

Note 28

RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

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

Related party transactions with DAM

On May 15, 2019, the Trust entered into a shared services agreement (the "New Shared Services Agreement") with DAM, which replaces the existing Management Services Agreement, Shared Services and Cost Sharing Agreement and Administrative Services Agreement (the "Existing Agreements"). As a result of the termination of the Existing Agreements, any incentive fees that may have been payable to DAM in the future under the Management Services Agreement are eliminated. Under the New Shared Services Agreement, the Trust will act as the property manager for DAM's income properties in Canada and DAM will act as the development manager for the Trust's future development projects. In order to take advantage of the economies of scale it currently enjoys, the New Shared Services Agreement maintains certain resource-sharing arrangements between the Trust and DAM, such as information technology, human resources and insurance, among other services as requested, on a cost allocation basis.

Under the New Shared Services Agreement, in connection with each future development project, DAM will earn a development fee equal to 3.75% of the total net revenues of the development or, for rental properties, 3.75% of the fair value upon completion, without any promote or other incentive fees. In connection with the property management services provided by the Trust to DAM, the Trust will earn a fee equal to 3.5% of gross revenue of the managed income properties.

The following is a summary of costs processed by DAM and the Trust for the years ended December 31, 2019 and December 31, 2018:

	Year ended December 31,	
	2019	2018
Property management services fee charged by the Trust	**$ 221**	$ —
Costs processed by the Trust on behalf of DAM (cost recovery)	**7,064**	6,391
Development fees charged by DAM[1]	**(1,473)**	—
Costs processed by DAM on behalf of the Trust (cost recovery)	**(1,897)**	(3,477)
Net fees and reimbursements from DAM	**$ 3,915**	$ 2,914

(1) Development fees charged by DAM became effective May 15, 2019.

The following is a summary of the amounts due from (to) DAM as at December 31, 2019 and December 31, 2018:

	December 31, 2019	December 31, 2018
Amounts due from DAM	**$ 658**	$ 988
Amounts due to DAM	**(921)**	(531)
Net amounts due from (to) DAM	**$ (263)**	$ 457

Related party transactions with DHAAT

Dream Office Management Corp. ("DOMC") provides property management services to co-owned investment properties with DHAAT, which are accounted for as joint operations (see Note 8).

DOMC and DHAAT are parties to a Services Agreement, in which the Trust provides certain services to DHAAT on a cost recovery basis.

The following is a summary of the amounts that were charged to DHAAT for the years ended December 31, 2019 and December 31, 2018:

	Year ended December 31,	
	2019	2018
Property management and construction fees related to co-owned properties	**$ 1,130**	$ 1,400
Costs processed on behalf of DHAAT related to co-owned properties	**2,977**	1,739
Amounts charged to DHAAT under the Services Agreement	**366**	330
Total cost recoveries from DHAAT[1]	**$ 4,473**	$ 3,469

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

Amounts due from DHAAT as of December 31, 2019 were $102 (December 31, 2018 – $363).

Related party transactions with Dream Industrial REIT

DOMC and Dream Industrial REIT are parties to a Services Agreement, pursuant to which the Trust provides certain services to Dream Industrial REIT on a cost recovery basis.

The following is a summary of the cost recoveries from Dream Industrial REIT for the years ended December 31, 2019 and December 31, 2018:

	Year ended December 31,	
	2019	2018
Total cost recoveries from Dream Industrial REIT	**$ 4,037**	$ 3,304

Amounts due from Dream Industrial REIT relating to the Services Agreement as of December 31, 2019 were $302 (December 31, 2018 – $387).

Amounts due to Dream Industrial REIT as of December 31, 2019 were $2,275 (December 31, 2018 – $855).

Distribution and interest receivable (payable) with related parties

		December 31, 2019		December 31, 2018
Distributions receivable from Dream Industrial REIT[1]	**$**	**1,643**	$	1,535
Distributions payable to DAM[2]		**(958)**		(774)
Subsidiary redeemable interest payable to DAM[3]		**(436)**		(436)

(1) Distributions receivable is in relation to the 8,792,170 Dream Industrial REIT units and 18,551,855 Dream Industrial LP Class B limited partnership units held by the Trust as at December 31, 2019 (December 31, 2018 – 7,200,736 Dream Industrial REIT units and 18,551,855 Dream Industrial LP Class B limited partnership units). Included in distributions receivable are the bonus distributions pursuant to Dream Industrial REIT's distribution reinvestment plan.

(2) Distributions payable is in relation to the 11,490,702 REIT A Units held by DAM as at December 31, 2019 (December 31, 2018 – 9,284,938 REIT A Units).

(3) Subsidiary redeemable interest payable is in relation to the 5,233,823 subsidiary redeemable units held by DAM as at December 31, 2019 and December 31, 2018.

For the year ended December 31, 2019, total distributions earned and receivable from Dream Industrial REIT were $19,222 (December 31, 2018 – $17,914) and total distributions paid and payable to DAM for the year were $14,814 (December 31, 2018 – $13,347).

Compensation of key management personnel and trustees

Compensation of key management personnel and trustees for the years ended December 31, 2019 and December 31, 2018 is as follows:

	Year ended December 31,			
		2019		2018
Compensation and benefits	**$**	**1,746**	$	1,640
Unit-based awards[1]		**1,574**		1,121
Total	**$**	**3,320**	$	2,761

(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 29

COMMITMENTS AND CONTINGENCIES

Dream Office REIT and its operating subsidiaries are contingently liable under guarantees that are issued in the normal course of business, on certain debt assumed by purchasers of disposed investment properties, and with respect to litigation and claims that arise from time to time. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the consolidated financial statements as at December 31, 2019 and December 31, 2018.

In 2015, a subsidiary of the Trust received notices of reassessment from both the Canada Revenue Agency and the Alberta Minister of Finance with respect to its 2007, 2008 and 2010 taxation years. These reassessments relate to the deductibility of certain tax losses claimed by the subsidiary prior to its acquisition by the Trust. These federal and provincial reassessments if upheld could increase total current taxes payable, including interest and penalties, by $12,589. 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, 2019 and December 31, 2018.

At December 31, 2019, Dream Office REIT's future minimum commitments are as follows:

	Minimum payments due							
		Within 1 year		1–5 years		> 5 years		Total
Operating lease payments for low-value assets	$	156	$	322	$	—	$	478
Operating commitments		2,069		2,662		—		4,731
Fixed price contracts		222		888		2,134		3,244
Total	$	2,447	$	3,872	$	2,134	$	8,453

In 2018, the Trust originally committed US$7,250 to fund investments in real estate technologies of which US$3,483 was funded as at December 31, 2019 (December 31, 2018 – US$1,175).

The Trust is contingently liable under guarantees that are issued on certain debt assumed by purchasers of investment properties totalling $114,291 (December 31, 2018 – $148,733) with a weighted average term to maturity of 3.7 years (December 31, 2018 – 4.0 years).

In the event that a contemplated development project proceeds, the Trust has committed to contribute one of its investment properties with a fair value of $40,480 to the development project.

As part of the sale of F1RST Tower in 2018, the Trust committed to a construction loan facility of up to $12,500. The construction loan facility bears interest at 4.5%, matures on April 10, 2022 with an option to extend to April 10, 2023 and is secured by the property. At December 31, 2019, the Trust had not funded any amounts under the construction loan facility.

Note 30

CAPITAL MANAGEMENT

The Trust's capital consists of debt, including mortgages, demand revolving credit facilities, debentures, subsidiary redeemable units and unitholders' equity. The Trust's primary objectives in managing capital are to ensure adequate operating funds are available to maintain consistent and sustainable unitholder distributions and to fund leasing costs and capital expenditure requirements. The Trust's maximum credit exposure is equal to the trade receivables and the outstanding balance on the VTB mortgage receivable as at December 31, 2019 and December 31, 2018.

Various debt ratios and cash flow metrics 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 unpledged assets, weighted average interest rate, average term to maturity of debt and variable rate 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 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 as at December 31, 2019 and December 31, 2018. For the years ended December 31, 2019 and December 31, 2018, there were no events of default on any of the Trust's obligations under its demand revolving credit facilities, debentures or mortgage loans.

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, among other considerations, its assessment of cash flows generated from (utilized in) operating activities.

Note 31

RISK MANAGEMENT

IFRS 7, "Financial Instruments: Disclosures" ("IFRS 7"), places emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Trust manages those risks, including market, credit and liquidity risks.

Market risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk consists of interest rate risk, foreign currency risk and other market price risk. The Trust has exposure to interest rate risk primarily as a result of its variable rate debt. In addition, there is interest rate risk associated with the Trust's fixed rate debt due to the expected requirement to refinance such debts in the year of maturity. The Trust is exposed to the variability in market interest rates and credit spreads on maturing debt to be renewed. Variable rate debt at December 31, 2019 was nil% of the Trust's total debt (December 31, 2018 – 26.3%). In order to manage exposure to interest rate risk, the Trust endeavours to maintain an appropriate mix of fixed and variable rate debt, manage maturities of fixed rate debt and match the nature of the debt with the cash flow characteristics of the underlying asset.

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

	Amounts as at December 31, 2019	Interest rate risk −1% Income	Interest rate risk −1% Equity	Interest rate risk +1% Income	Interest rate risk +1% Equity
Financial assets					
Cash and cash equivalents[1]	$ 95,410	$ (954)	$ (954)	$ 954	$ 954
Financial liabilities					
Fixed rate debt due to mature in 2020	$ 164,523	$ 1,645	$ 1,645	$ (1,645)	$ (1,645)

(1) Cash and cash equivalents are short-term investments with an original maturity of three months or less, and exclude cash subject to restrictions that prevent the Trust's use for current purposes. These balances generally receive interest income at the bank's prime rate less 1.85% to 2.00%. Cash and cash equivalents as at December 31, 2019 are short-term in nature and may not be representative of the balance during the year.

The Trust is not exposed to significant foreign currency risk.

The Trust's assets mainly consist of investment properties. Credit risk arises from the possibility that tenants in investment properties may not fulfill their lease or contractual obligations. The Trust mitigates its credit risks by attracting tenants of sound financial standing and by diversifying its mix of tenants. As at December 31, 2019, the Government of Ontario represented 11.3% of the Trust's annual gross rental revenue. No other tenant accounts for more than 10% of the Trust's annual gross rental revenue. The Trust also monitors tenant payment patterns and discusses potential tenant issues with property managers on a regular basis. The Trust manages its credit risk on VTB mortgage receivables by lending to reputable purchasers of properties, retaining security interests in the sold investment properties, monitoring compliance with repayment schedules and evaluating the progress and estimated rates of returns of financed projects. Cash and cash equivalents, deposits and restricted cash carry minimal credit risk as all funds are maintained with highly reputable financial institutions. The Trust manages its credit risk on debt assumed by purchasers of investment properties by monitoring the ongoing repayment of assumed debt by the purchasers and evaluating market conditions that would affect the purchasers' ability to repay assumed debt.

Liquidity risk is the risk the Trust will encounter difficulty in meeting obligations associated with the maturity of financial obligations. As at December 31, 2019, current liabilities exceeded current assets by $146,819 (December 31, 2018 – current liabilities exceeded current assets by $131,028). The Trust's main sources of liquidity are its cash and cash equivalents on hand, revolving credit facilities and unencumbered assets. The Trust is able to use its revolving credit facilities on short notice, which eliminates the need to hold a significant amount of cash and cash equivalents on hand. Working capital balances fluctuate significantly from period to period depending on the timing of receipts and payments. The Trust manages maturities of the fixed rate debts, monitors the repayment dates and maintains adequate cash and cash equivalents on hand and availability on the demand revolving credit facilities to ensure sufficient capital will be available to cover obligations as they become due.

The Trust is exposed to changes in the residual value of properties at the end of current lease agreements. The residual value risk borne by the Trust is mitigated by active management of its property portfolio with the objective of optimizing tenant mix in order to: achieve the longest weighted average lease term possible; minimize vacancy rates across all properties; and minimize the turnover of tenants with high-quality credit ratings.

Note 32

FAIR VALUE MEASUREMENT

Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Trust maximizes the use of observable inputs. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3. The Trust's policy is to recognize transfers in and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between Levels 1, 2 and 3 for the years ended December 31, 2019 and December 31, 2018.

The following section summarizes the 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.

Investment properties

The Trust's accounting policy as indicated in Note 2 is applied in determining the fair value of investment properties by using the income approach, which is derived from one of two methods: the overall cap rate method and the discounted cash flow method. As a result, these measurements are classified as Level 3 in the fair value hierarchy as summarized in tables below.

		Carrying value as at	Fair value as at December 31, 2019		
	Note	**December 31, 2019**	**Level 1**	**Level 2**	**Level 3**
Investment properties	6	**$ 2,420,945**	**$ —**	**$ —**	**$ 2,420,945**

		Carrying value as at	Fair value as at December 31, 2018		
	Note	December 31, 2018	Level 1	Level 2	Level 3
Investment properties	6	$ 2,778,826	$ —	$ —	$ 2,778,826

Valuations of investment properties are most sensitive to changes in discount rates and cap rates. In applying the overall cap rate method the stabilized NOI of each property is divided by any appropriate cap rate.

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

Cap rate method

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

Discounted cash flow method

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

As at December 31, 2019 and December 31, 2018, there were no investment properties classified as assets held for sale.

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

Investment properties valuation process

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

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

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

Financial instruments

Financial instruments carried at amortized cost or accounted for as investments in associates where the carrying value does not approximate fair value are noted below:

	Note		Carrying value as at December 31, 2019		Fair value as at December 31, 2019 Level 1		Level 2		Level 3
Investment in Dream Industrial REIT	7	**$**	**320,295**	**$**	**115,529**	**$**	**243,771**	**$**	**—**
Non-current VTB mortgage receivable	9, 29		**34,100**		**—**		**—**		**33,084**
Mortgages	11		**1,003,081**		**—**		**—**		**1,016,143**
Demand revolving credit facilities	11		**(2,709)**		**—**		**—**		**—**
Debentures	11		**150,000**		**150,000**		**—**		**—**

	Note		Carrying value as at December 31, 2018		Fair value as at December 31, 2018 Level 1		Level 2		Level 3
Investment in Dream Industrial REIT	7	$	266,583	$	68,551	$	176,614	$	—
Non-current VTB mortgage receivable	9, 29		34,100		—		—		33,214
Mortgages	11		964,758		—		—		971,424
Demand revolving credit facilities	11		291,686		—		294,702		—
Debentures	11		149,769		150,923		—		—

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

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

Investment in Dream Industrial REIT

The Trust's investment in Dream Industrial REIT is accounted for as an investment in associate using the equity method. The Trust's ownership of Dream Industrial REIT is composed of its holdings of Dream Industrial REIT units and Dream Industrial LP Class B units. The Trust determines the fair value of the Dream Industrial REIT units using the units' trading price on or about December 31, 2019 and December 31, 2018, respectively. The Dream Industrial LP Class B units are economically equivalent to the Dream Industrial REIT units, but are not publicly traded. The Trust determines the fair value of the LP B units by reference to the trading price of Dream Industrial REIT units. Consequently, the fair values of the Dream Industrial REIT units and LP Class B units are Level 1 and Level 2 measurements in the fair value hierarchy, respectively.

Non-current VTB mortgage receivable

The fair value of the non-current VTB mortgage receivable as at December 31, 2019 is determined by discounting the expected cash flows of the VTB mortgage receivable using market discount rates. The discount rates are determined using the Government of Canada benchmark bond yield for instruments of similar maturity adjusted for the counterparty's specific credit risk. In determining the adjustment for credit risk, the Trust considers market conditions and indicators of the counterparty's creditworthiness. As a result, these measurements are classified as Level 3 in the fair value hierarchy.

Mortgages

The fair value of mortgages as at December 31, 2019 and December 31, 2018 are determined by discounting the expected cash flows of each mortgage using market discount rates. The discount rates are determined using the Government of Canada benchmark bond yield for instruments of similar maturity adjusted for the Trust's specific credit risk. In determining the adjustment for credit risk, the Trust considers market conditions, the fair value of the investment properties that the mortgages are secured by and other indicators of the Trust's creditworthiness. As a result, these measurements are classified as Level 3 in the fair value hierarchy.

Demand revolving credit facilities

Demand revolving credit facilities are variable rate debt priced at prevailing market interest rates plus a Trust-specific credit spread. Because the interest rate on the demand revolving credit facilities fluctuates with changes in market rates, the fair value of the demand revolving credit facilities is equivalent to amounts drawn on the facilities. Because the applicable interest rate is a combination of market rates plus a contractual spread, these are Level 2 measurements in the fair value hierarchy.

Debentures

The fair value of debentures that are traded as at December 31, 2019 and December 31, 2018 are based on the debentures' trading price on or about December 31, 2019 and December 31, 2018, respectively. As a result, these measurements are classified as Level 1 in the fair value hierarchy.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The Toronto Stock Exchange
Listing Symbol: REIT Units, Series A: D.UN

For more information, please visit
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