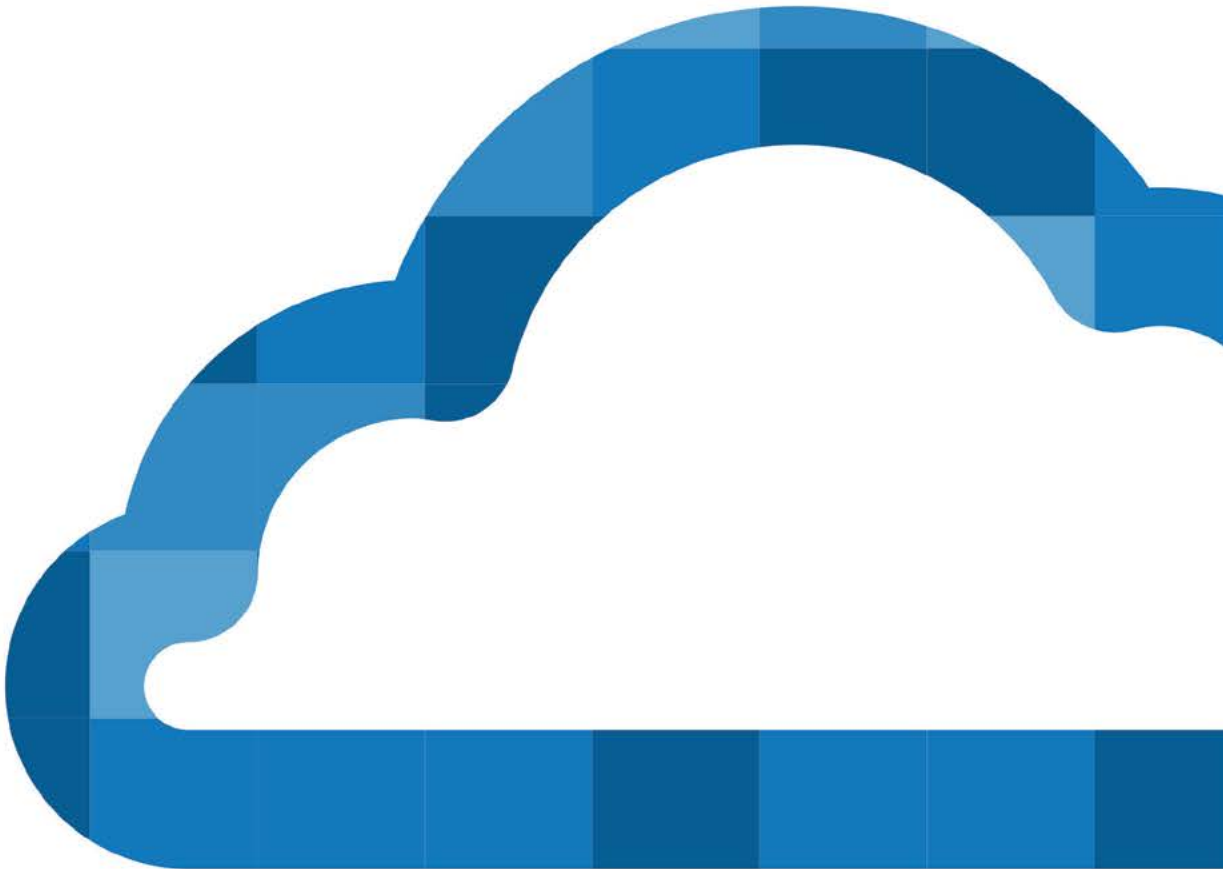
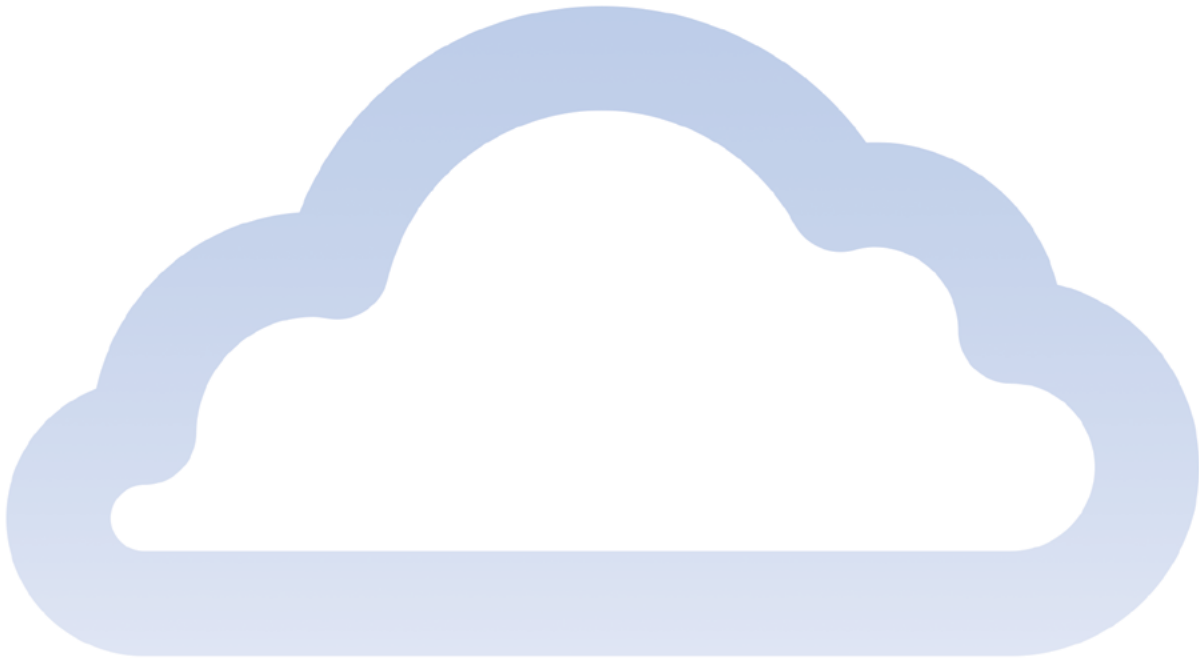






Dream (TSX:DRM) is an award-winning Canadian real estate company with ~\$14.0 billion of assets in North America and Europe. The scope of the business includes residential land development, housing and condominium development, asset management and management services for four Toronto Stock Exchange (“TSX”)-listed trusts and institutional partnerships, investments in and management of Canadian renewable energy infrastructure and commercial property ownership.

Letter to Shareholders

We had a significant year in 2016, delivering strong financial results, successfully repatriating our capital and profits from delivering and closing over 1,450 condominium units in downtown Toronto, executing on several acquisitions of incredible future residential, mixed-use and commercial development sites in Toronto, securing the highest ever future sale commitments within our land business in Western Canada and ending the year with a strong liquidity position.

Over the past few years, Dream has shifted its business more towards development. The changes include: the development of retail centres within our master-planned communities in Western Canada; the recent emergence of commercial development on our lands; and the significant expansion of condominium and mixed-use within our urban developments.

We expect that we will add approximately 100,000 square feet of newly developed retail properties on our lands annually at attractive returns. The operating income generated from these properties will become more and more significant to our income and business over the next few years. We are also in the advanced planning stages to build our first commercial properties on our lands in Western Canada. We are also adding to our income properties in Toronto by retaining the urban retail developed within our condominium properties. We now own about 50% of the 500,000 square feet of retail we have in Toronto, which includes the Distillery District. We expect this will increase by a few hundred thousand square feet based on the number of developments that we have planned over the next few years. In 2016, we successfully closed on condominium units within: The Carnaby; The Taylor; Twenty; and the Canary District, repaying approximately \$175 million of debt on our balance sheet. We generated \$234 million of revenue and \$41 million of net margin from our Toronto condominium business in 2016 – a record high for the company.



Michael J. Cooper
President & Chief Responsible Officer

Over and above this, we continue to execute on opportunities to acquire urban development sites, which are expected to commence over the next few years. In addition, we continue to have a backlog of future Toronto condominium developments at the Distillery District, the Canary District and within our other joint ventures in downtown Toronto. We are also progressing with the Zibi development in Ottawa. Within our current pipeline of development, Dream is currently managing sites which can support the development of over 8,000 condominium units, with over 6,000 units in Toronto and the rest in Ottawa. We expect that we will have continued profitability in our condominium division as a result of our low cost land, excellent locations and our track record. Overall, we are excited about the prospects of our entire development business.

Notwithstanding the significant housing demand changes in Western Canada, we continue to generate reasonable earnings in Dream from our land and housing operations. We are making progress on securing our land approvals, re-aligning our operations to suit changes in the market and achieving pre sales for future years. We expect that our land and housing profits will increase in the future as we achieve more approvals, our lot volumes increase and we receive the full benefit of all our operational improvements we have implemented. We have already secured deposits for approximately 570 lots and 15 acres for 2017 sales – which is in excess of our results for all of 2016. We are pleased with the velocity of our pre-sales activity and believe it is a positive indication for the profitability of our land business.

Although we cannot overcome the drag of a much slower economy, we are adapting to perform as well as we can currently and position ourselves for success as the economic activity increases.

Our asset management business also had a strong year in 2016, with record net margin generated as a result of fees earned for completion of milestones related to urban development projects. In addition, we continue to make great progress in turning over the assets within the Dream Alternatives portfolio which includes executing on more urban condominium/mixed-use development projects together with Dream as the lead developer. On this front, we secured two key sites with Dream Alternatives in 2016: a 74-acre waterfront property in Mississauga's Port Credit area; and a 5.3-acre waterfront property in downtown Toronto located at 351-369 Lakeshore Boulevard East which represents an exceptional waterfront development site planned for a mixed-use development with potential for over one million square feet of density. We continue to see many opportunities to grow our asset management business, both with respect to managing income properties and earning fees from managing complex development projects.

We ended the year with strong liquidity with \$117 million of undrawn credit available on our \$290 million operating line. Over and above this, the total fair value of units held by Dream in the Publicly Listed Funds (collective Dream Office REIT, Dream Global REIT and Dream Alternatives) was approximately \$260 million, representing over one-third of Dream's total market capitalization. We believe our balance sheet, liquidity position and conservative leverage offers us significant flexibility to operate our business opportunistically.

Taken altogether, we continue to build long-term value in Dream Unlimited and thank you for your interest in and support for our business.

Sincerely,



Michael J. Cooper

President & Chief Responsible Officer

February 28, 2017



Portfolio at-a-Glance

DECEMBER 31, 2016

APPROXIMATELY
\$14 billion
IN ASSETS UNDER MANAGEMENT
AS AT DECEMBER 31, 2016

20+year

HISTORY AS A
REAL ESTATE DEVELOPER,
OWNER & MANAGER



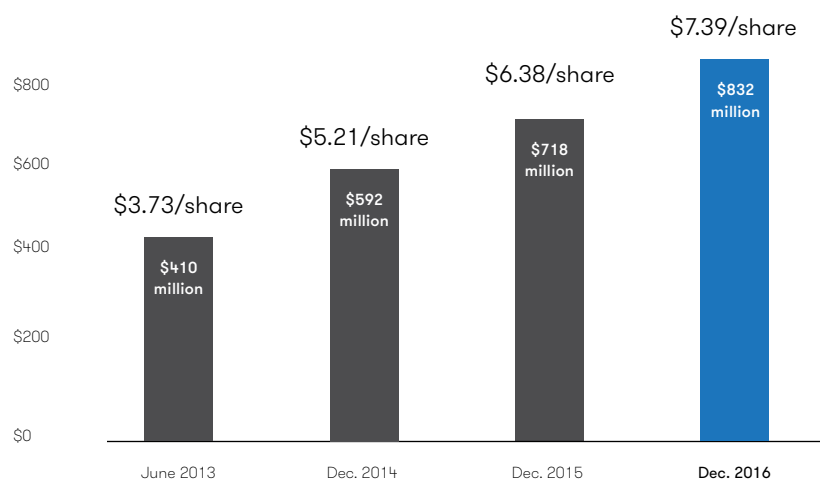


Brighton Marketplace, Saskatoon, SK

Financial Highlights

	DECEMBER 31, 2016	DECEMBER 31, 2015
Revenue	\$340,167	\$333,365
Earnings before income taxes	\$135,624	\$202,225
Earnings per period	\$95,364	\$173,834
Earnings for the period, excluding reorganizaion of an asset management contract	\$95,364	\$63,438
Basic earnings per share	\$0.85	\$1.54
Basic earnings per share, excluding reorganizaion of an asset management contract	\$0.85	\$0.57
Total equity	\$831,511	\$717,854

Total equity per share since becoming a publicly listed company (\$ in millions)



22% CAGR in
Total Equity
to 2016

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

10,000 acres

INCLUDING LANDS
UNDER COMMITMENT
IN WESTERN CANADA

COMPLETED OVER

\$20 billion*

OF REAL ESTATE & RENEWABLE
POWER TRANSACTIONS



The Carnaby, Toronto, Ontario



Arapahoe Basin, Colorado

APPROXIMATELY

32% IRR*

DELIVERED TO SHAREHOLDERS OVER THE LAST
13+ YEARS, BASED ON MARKET CAPITALIZATION

* As of Dec. 31, 2016

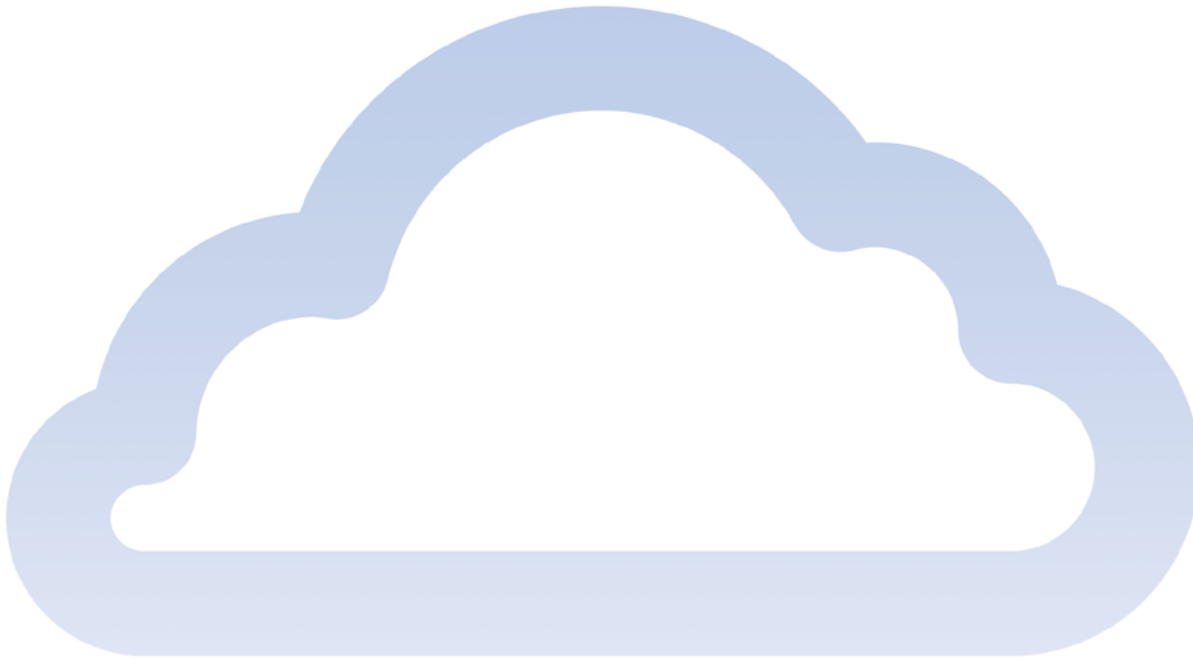


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Management's Discussion and Analysis

The Management's Discussion and Analysis ("MD&A") is intended to assist readers in understanding Dream Unlimited Corp. (the "Company" or "Dream"), its business environment, strategies, performance and risk factors. This MD&A should be read in conjunction with the audited consolidated financial statements of Dream, including the notes thereto, as at and for the year ended December 31, 2015 and the year ended December 31, 2016 which can be found in the Company's annual filings on the System for Electronic Document Analysis and Retrieval ("SEDAR") (www.sedar.com). The financial statements underlying this MD&A, including 2015 comparative information, have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain disclosures included herein are Non-IFRS measures. For further details, see page 55 of this MD&A.

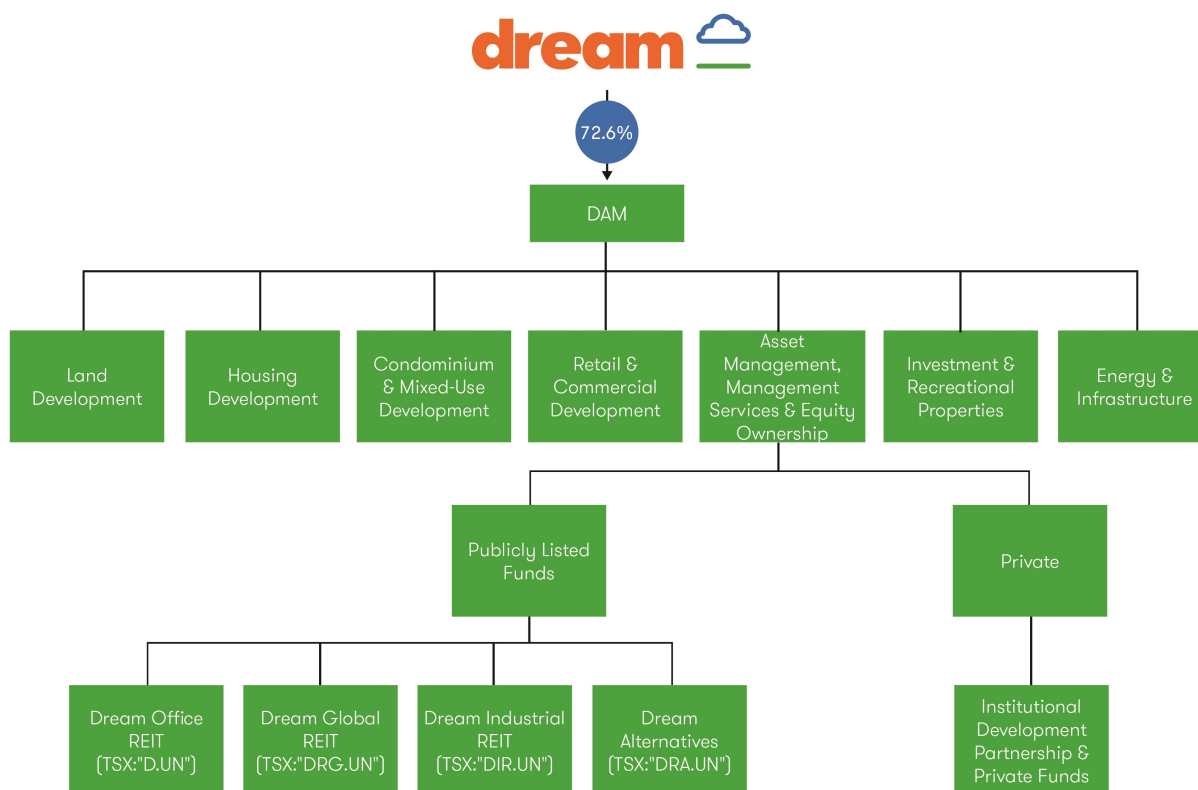
All dollar amounts in tables within this MD&A are in thousands of Canadian dollars, unless otherwise specified. Unless otherwise specified, all references to "we", "us", "our" or similar terms refer to Dream and its subsidiaries. This MD&A is dated as of February 28, 2017.

Business Overview

Dream is one of Canada's leading real estate companies with approximately \$14.0 billion of assets under management in North America and Europe. The scope of the business includes residential land development, housing and condominium development, asset management and management services for four Toronto Stock Exchange ("TSX")—listed trusts and institutional partnerships, investments in and management of Canadian renewable energy infrastructure and commercial property ownership. Dream has an established track record for being innovative and for its ability to source, structure and execute on compelling investment opportunities.

From the outset, we have successfully identified and executed on opportunities for the benefit of the business and shareholders, including the creation of Dundee Realty Corporation ("Dundee Realty") in 1996 as a public company, its subsequent privatization in 2003, the creation of Dream Office REIT (formerly Dundee REIT) in 2003 and its sale of substantial assets in 2007, the establishment of our asset management business, and the creation of Dream Global REIT (formerly Dundee International REIT), Dream Industrial REIT (formerly Dundee Industrial REIT) and Dream Hard Asset Alternatives Trust ("Dream Alternatives") in 2011, 2012 and 2014, respectively.

Dream holds a 72.6% interest in Dream Asset Management Corporation ("DAM") with the remaining interest owned by a company controlled by the President and Chief Responsible Officer ("CRO"), Michael Cooper. The President and CRO has an approximate 31% economic interest in the Company and holds an 80% voting interest in Dream. Refer to Note 25 of the Company's audited consolidated financial statements for the year ended December 31, 2016 for complete details on the above transaction.



Summary of Activities – Fourth Quarter and Year Ended 2016

Toronto Condominium and Mixed-Use Development Projects Deliver Record Margin Contribution

In the year ended December 31, 2016, we achieved 1,456 condominium unit closings (711 at Dream's share) within our completed downtown Toronto projects, the highest volume in any fiscal year in the Company's history. We successfully closed condominium units within: The Carnaby, The Taylor, Twenty, and the Canary District, repaying approximately \$175 million in debt at Dream's share, significantly reducing the amount of capital allocated to our condominium segment. In the three months ended December 31, 2016, we achieved 21 condominium unit occupancies (9 at Dream's share) and completed the sale of 41,100 square feet ("sf") of retail space to a national grocery tenant within The Carnaby, generating aggregate revenue of \$12.9 million and net margin of \$1.7 million. In the year ended December 31, 2016, we achieved 1,258 condominium unit occupancies including equity accounted investments (616 at Dream's share), generating \$234.2 million of revenue and \$41.0 million of net margin – a record high for the Company.

We continue to execute on opportunities to acquire land development sites for our Toronto condominium and mixed-use business, which are expected to commence over the next few years. These are in addition to launching new projects over the next year on condominium lands already owned in our inventory: Riverside Square – 690 units at project level in Phase 1 and 238 units in Phase 2, the Canary District – approximately 1,200 units and the Distillery District – approximately 500 to 600 units.

Stage 1 of the Canary District includes a YMCA, a 500 bed George Brown College student residence, 253 affordable housing rental units and 810 market condominium units, which are now sold out and closed. As part of the Stage 2 lands (which comprises three separate development Blocks), the partnership expects to develop another 1,200 condominium units and 30,000 sf of retail in addition to the 30,000 sf in Stage 1, which is 72% leased to date. Management expects that the existing Canary District retail will be fully leased within 2017. With respect to Stage 2, planning for the development of Block 16, expected to consist of a 12-storey residential building with approximately 200 condominium units and 9,000 sf of retail, is currently underway. Marketing for the condominium units is expected to launch in March 2017, with all substantial entitlements and approvals successfully achieved. Subject to achieving sales milestones, Dream currently expects to begin construction in the fourth quarter of 2017, for first occupancy by late 2019.

Subsequent to year end, the Company successfully secured a commitment for a land loan from a Canadian bank secured by the Stage 2 lands of the Canary District, which is expected to close in March 2017. The land loan commitment is for \$32.0 million (\$16.0 million at Dream's share), for a term of 3 years. The land loan is expected to be repaid in stages as construction financings are secured to develop the three Blocks. The loan can be prepaid in whole or in part at any time without penalty.

With respect to new investments, in the three months ended December 31, 2016, Dream successfully secured a \$3.8 million equity investment in a development partnership for a 12.5% ownership interest in a 5.3-acre waterfront property in downtown Toronto located at 351-369 Lakeshore Boulevard East (the "Lakeshore East" development). Dream Alternatives, an entity managed by the Company, owns a 37.5% equity interest in the development partnership. The residual third-party partner/co-developer, Great Gulf Residential, is an award-winning builder and developer of new homes and condominiums in the Greater Toronto Area ("GTA"), with 40 years of experience. Together, Dream and Great Gulf Residential will act as co-developers for the project/partnership. The Lakeshore East development represents an exceptional waterfront development site and is complementary to our existing development activities in the east end of Toronto and our investment in the Distillery District, which is located just north of the site.

In the three months ended December 31, 2016, the Company, together with Dream Alternatives and a consortium of partners, entered into an agreement to purchase a 31% ownership interest (to be split 25/75% Dream and Dream Alternatives) in a 74-acre waterfront property in Mississauga's Port Credit area, to be redeveloped into a large master-planned residential/mixed-use community. The site is currently a decommissioned oil refinery owned by Imperial Oil. The transaction is expected to close in the first quarter of 2017, at which time more details of the project will be disclosed. Dream and its partners intend on working closely with the City of Mississauga to develop a community that will fulfill important city building objectives through positive public engagement, inspirational design and major public realm space.

Other Notable Acquisitions in the GTA – During the three months ended December 31, 2016, Dream completed the acquisition of a 73-acre commercial/industrial property in Etobicoke, Ontario. The property is located within the South Etobicoke Employment Area in close proximity to both the Etobicoke Centre, a designated and growing mixed-use area, and the Kipling subway station, with a number of planned transit improvements. Given the size, scope and location of the lands, in the heart of the GTA and in close proximity to transit, a number of long-term alternative uses are viable for the future development of the site.

Activity in Western Canada

Residential Land and Housing Activity

In the three months ended December 31, 2016, we achieved 216 lot sales and 53 housing unit occupancies (three months ended December 31, 2015 – 412 lot sales and 41 housing unit occupancies). In the year ended December 31, 2016, we achieved 501 lot sales and 140 housing unit occupancies (year ended December 31, 2015 – 868 lot sales and 209 housing unit occupancies). Approximately 83% of our lots sold year to date (90% of our quarter to date lot sales) were within our active developments, Brighton (Holmwood) in Saskatoon, Harbour Landing in Regina and the Meadows in Edmonton. As at February 24, 2017, Dream has secured deposits or sale commitments for approximately 570 lots and 15 acres for sales that are expected to close in 2017. Our lot backlog represents the total pre-sold lots under construction and lots on which we have received a deposit but construction has yet to commence. This level of backlog for 2017 is the highest level of advanced commitments from third-party purchasers in our history and is in line with our revised operating model and development strategy within our land business.

We continue to focus on executing on our strategy to participate in more of the market share within our new communities by developing more single family homes, retail and commercial properties ourselves. As we build out and sell, lease or rent these properties, we intend to capture the development profit on both the land and building components and add to our recurring income sources by holding any income properties developed. We are focusing on building out our existing communities and strategically evaluating when servicing should commence in new communities.

On November 22, 2016, the Province of Alberta approved the Town of Beaumont's request to annex nearly 3,400 acres of Leduc County land into its municipal boundaries. The annexation, effective January 1, 2017, encompasses approximately 371 acres of our land. This significant milestone provides substantial clarity concerning timing of development and allows Dream to continue advancing planning approvals. Dream expects the development of these lands could begin as early as 2019. Current projections estimate the lands could accommodate approximately 4,000 residential units and roughly 11,000 people at full build-out over the next 10 years.

Retail and Commercial Developments

In the year ended December 31, 2016, we continued to make progress on our active retail development projects in Western Canada. At December 31, 2016, Dream had approximately 481,500 sf of active retail projects under construction in Saskatoon and Edmonton, which had committed leases of 65.0% and a weighted average lease term of 14.2 years (256,400 sf of active retail projects under construction, 73.5% and 13.9 years at December 31, 2015). Dream expects to earn a development yield of approximately 7.6% on these retail projects, based on the estimated stabilized net operating income ("NOI") at completion and the total estimated cost of development, including land and excluding any rental revenue earned during the development phase. At December 31, 2016, Dream's active retail projects under construction were recorded on the balance sheet at \$77.0 million with management's estimated value upon their respective completion dates in 2017-2020 expected to be \$153.6 million at Dream's share, using market capitalization rates in the range of 6-6.25%. For additional details please refer to page 28 of this MD&A.

In the three months ended December 31, 2016, Dream added Brighton Marketplace in Saskatoon as an active retail project under construction. The 21.5-acre retail site is strategically located in the southwest quadrant of College Drive and McOrmand Drive, allowing the future shopping centre to cater to the needs of the existing large population immediately to the north and west and the rapidly growing Brighton neighbourhood of 15,000 residents immediately to the south. Upon completion in 2020, the site is expected to comprise 231,000 sf of gross leasable area ("GLA"), of which 50% is at Dream's share. As at February 24, 2017, Dream had committed and conditional leases for approximately 62% of the aggregate GLA, from tenants such as: Save-On-Foods, Magic Lantern, Liquor Depot, Motion Fitness, Shoppers Drug Mart, TWA Vision, Pet Valu and The Keg. Dream is actively developing 121 acre equivalents of residential land in Brighton and has an additional 2,810 acres held for future development.

Strong Liquidity Position & Update on Increased Unencumbered Investment in Publicly Listed Funds

In the three months ended December 31, 2016, we renewed our \$290.0 million operating line with a syndicate of Canadian financial institutions. The operating line bears interest, at the Company's option, at a rate per annum equal to either the bank's prime lending rate plus 1.25% or at the bank's then prevailing bankers' acceptance rate plus 2.50%. As part of the renewal, the maturity date of the facility was extended from June 30, 2017 to January 31, 2019. As at December 31, 2016, we had \$117.2 million of undrawn credit availability on our operating line, providing the Company with ample excess liquidity, even before considering unencumbered assets held.

During and subsequent to the year ended December 31, 2016, Dream purchased approximately 3.1 million units in Dream Office REIT (TSX: D.UN) for a total cost of \$59.1 million and 4.4 million units in Dream Alternatives (TSX: DRA.UN) for a total cost of \$24.2 million. As at February 24, 2017, Dream held a total of 6.3 million units in Dream Alternatives, representing an ownership interest of approximately 9%, and a total of 9.1 million units in Dream Office REIT (including LP B units), representing an ownership interest of approximately 8%. As at February 24, 2017, the total fair value of units held by Dream in the Publicly Listed Funds (collectively Dream Office REIT, Dream Global REIT and Dream Alternatives) was approximately \$260.0 million, representing 34% of the Company's total market capitalization.

Other Notable Financing Activities – During the year ended December 31, 2016, Firelight Infrastructure Fund LP ("Firelight"), a closed-ended renewable energy fund that we co-manage, successfully completed the refinancing of \$230.9 million of 15 to 17-year term debt relating to four solar projects taking advantage of current market conditions of low interest rates and a high demand for Canadian operational solar assets. Additional gross proceeds were generated as a result of additional debt financing received, allowing Firelight to distribute \$25.4 million of cash to the respective partners (of which Dream's portion was \$5.1 million) in 2016.

Completed over
\$20 billion
of real estate and
renewable power transaction

Approximately
\$14.0 billion
of assets under
management as at
December 31, 2016

Approximately
32% IRR
delivered to shareholders over
last 13+ years, based on market
capitalization, at December 31, 2016

Strategy and Business Focus

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

More Land in Production in Growing Markets

We own and have under contract approximately 10,000 acres of land in Western Canada, of which over 9,200 acres are in 10 large master-planned communities at various stages of approval. We estimate that, when approved, these master-planned communities will supply lots for the next 30 to 40 years. We are working to increase the number of lots that we develop in each of these markets. Annually, we estimate that we consume approximately 3%–4% of our acres that we have available for development, to generate margin from land development activities. We plan to continue to leverage our expertise to develop phased, master-planned communities.

Build More on Our Owned Lands and Further Diversify Revenue Streams

We expect to increase our profitability by increasing the amount of development on our owned lands. Historically, we have sold all multi-family sites, retail sites and commercial sites to third parties and have constructed single family homes in Saskatoon and Regina. Over time, the development approval process has become increasingly difficult, making approved land scarcer, and also more valuable. We have expanded our operations to include development on our owned lands by i) increasing homebuilding activities in Saskatoon and Regina and having newly established homebuilding capabilities in Calgary; and ii) developing income producing retail and commercial properties within our master-planned communities.

Asset Management, Management Services and Equity Interests in Related Parties

As the manager of four publicly listed funds and numerous institutional and development partnerships, we are on the front line and well-positioned to observe, in real time, the impact of economic trends on the drivers of demand for real property, such as demand for space, urbanization trends and employment levels in each of the markets in which we operate. This access to real-time economic data may provide us with a competitive advantage.

In 2015, Dream and Canadian Pacific Railway Limited ("Canadian Pacific") (NYSE/TSX: CP) announced an agreement to form a joint venture called Dream Van Horne Properties. The joint venture will maximize the value of Canadian Pacific's surplus real estate portfolio in Canada and the United States (U.S.) by leveraging the experience and expertise of Dream to develop real estate assets over the next several years. Under the terms of the joint venture with Canadian Pacific, Dream will earn development and management fees as properties are developed by the joint venture. Dream is entitled to an equity interest in these properties. In 2016, we continue to make advances on the partnership and identify opportunities for value add on identified real estate assets.

We will continue to be proactive in seeking out opportunities to independently manage third parties and/or create new, unique investment vehicles or partnerships that can provide value to investors. We have demonstrated our skills and track record in sourcing unique investment opportunities and generating high risk-adjusted returns through active asset management.

Development Life

It will take time to see the results from our strategy outlined above, as it takes longer to achieve results from building on owned land than from selling it to a third party. It will also take us time to ramp up as we can only develop our land when it is approved for development. Building on owned land delays the recognition of revenue, as the land sale is not recognized until the home being built on the lot is occupied by the buyer. In comparison, when selling land to a third party, revenue is typically recognized on receipt of a 15% deposit from the land buyer and when there is substantial completion of the underground servicing work. Results may be slower than prior years due to the economy in Western Canada. As such, we may not make new investments in undeveloped land at the same rate as in past years unless the lands are considered strategic by management to existing land positions already owned by the Company. Nevertheless, we expect that we will generate significant returns from building on our owned land in the future.

New Investment Activity

We are continuously looking to increase and/or develop more of our land inventory and intend to reinvest a significant portion of our profits from residential development into our core business lines which include: Western Canada residential and retail/commercial development; Toronto condominium and mixed-use development; asset management, including investments in publicly listed funds; and select opportunistic and/or strategic land acquisitions as they become available.

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

Description of Our Operating Segments

Land Development

Dream actively develops land in Saskatoon, Regina, Calgary and Edmonton. Land development involves the conversion of raw land to the stage where homes and commercial buildings may be constructed on the land. This process begins with the purchase or control of raw land, generally known as land held for

development, and is followed by the entitlement and development of the land. Once the process of converting raw or undeveloped land for end use has begun, that portion of the land that we conduct activity on is generally known as land under development.

Each year, we try to maintain flexibility to manage the number of lots we produce and manage our capital requirements to meet demand. Lots and acres are brought to market throughout the year, a process through which we offer fully serviced lots and acres to third-party developers who then construct, market and sell residential (single or multi-family) and commercial properties. We also retain a portion of lots and acres to build houses, multi-family and retail commercial space, which are marketed for sale to end customers by our team.

Housing Development

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

Condominium and Mixed-Use Development

Our core high-rise condominium and mixed-use development business consists of operations in Toronto, where we have over 2,800 condominium units (1,300 units at Dream's share) in inventory or in the planning stages. We also own interest in projects in Toronto and Ottawa with additional highrise residential density, which are in the planning or approval stages. We have another 5,200 residential condominium density units (1,300 units at Dream's share) in partnership investments in Toronto and Ottawa, in addition to commercial space in various stages of pre-construction or active development. High-rise condominium development typically does not commence until a substantial number of units have been pre-sold. A few months after substantial completion and customer occupancy of the building, the developer obtains all necessary approvals and the building is registered, purchasers pay the balance of the purchase price and title is transferred.

Asset Management, Management Services and Equity Interests in Publicly Listed Funds

Our asset management and management services team consists of real estate and energy/infrastructure professionals with backgrounds in property management, architecture, urban planning, engineering, development and re-development, construction, finance, accounting and law. The team brings experience from a range of the major organizations in Canada; is actively involved with internal training opportunities; and has expertise in capital markets, structured finance, real estate investments, renewable power and management across a broad spectrum of property types in diverse geographic markets. We carry out our own research and analysis, financial modelling, due diligence and financial planning, and have completed over \$20 billion of commercial real estate and renewable power transactions over the past 20 years.

We provide asset management and/or management services to four publicly listed funds, our renewable power business and various institutional partner/third-party real estate and development assets. The majority of our asset management fee and investment income in 2016 was derived from fees earned with development partnerships and from providing asset management and management services and/or having equity interests in the following publicly listed funds: Dream Office REIT, Dream Global REIT (TSX: DRG.UN), Dream Industrial REIT (TSX: DIR.UN) and Dream Alternatives. We participate in numerous mezzanine loans and equity investments on an opportunistic basis and invest in and manage Dream CMCC Capital Funds I and II. Dream CMCC Capital Funds I and II are investment vehicles formed through the collaboration of Dream and its partner, Canadian Mortgage Capital Corporation ("CMCC"), to provide an opportunity for investors to invest with partners who are market leaders in developing, managing and financing real estate development projects.

Investment and Recreational Properties

Our investment properties include interests in commercial and retail properties both under development and fully income producing comprising over 1 million sf of GLA, including the Distillery District, retail developments in Western Canada, a recently acquired 73-acre commercial site in Toronto, and through jointly controlled entities. Our recreational properties include a ski area in Colorado and a 50% interest in the Broadview Hotel in a neighbourhood just east of downtown Toronto which is under development. In 2015, we achieved first ever tenant occupancies with three retail developments on our owned land and anticipate first tenant occupancy on our fourth retail site in early 2017. In many cases, the construction is not overly complex and the demand for retail is created by our development of the master-planned community. Currently Dream Centres, our internal retail development division, has approximately 46 net acres of active retail projects, which will result in over 480,000 sf of GLA upon completion. In total, we are actively developing approximately 150 net acres in Western Canada that are in various stages of approvals. Refer to page 27 of this MD&A for further details.

Renewable Power

We are the co-manager of a closed-ended renewable energy infrastructure fund, Firelight, with a major Canadian pension fund. We own 20% of the renewable power fund, which is included in our equity accounted investments. The fund invests in and manages renewable power projects with a focus on wind and solar projects. Dream has pursued growth and intends to do so in the renewable power industry through Dream Alternatives in the future.

Key Financial Information and Performance Indicators

Selected Financial Information – Balance Sheet

A substantial part of the Company's future cash flows will be derived from its land inventory. As a result, management regularly reviews the Company's land holdings to determine each acre's best use in order to maximize the value of our inventory.

	December 31, 2016	December 31, 2015
Land held for development	\$ 413,485	\$ 442,558
Land under development	191,002	150,843
Housing inventory	50,662	48,167
Condominium inventory	55,634	91,323
Investment properties	237,982	141,966
Recreational properties	32,872	29,031
Other financial assets	238,898	162,800
	\$ 1,220,535	\$ 1,066,688

Dream also carries investments in the development of the Canary District in Toronto, the development of Zibi – a master-planned community in Ottawa/Gatineau, units of Dream Alternatives, and a renewable energy infrastructure fund, Firelight, which are excluded from the table above. For further details, see Equity Accounted Investments on page 31 of this MD&A.

Selected Financial Information – Income Statement

(in thousands of dollars, except per share and outstanding share amounts)	Three Months Ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Revenue	\$ 88,628	\$ 89,326	\$ 340,167	\$ 333,365
Gross margin	\$ 38,027	\$ 34,741	\$ 148,396	\$ 119,199
Gross margin (%) ⁽¹⁾	42.9%	38.9%	43.6%	35.8%
Net margin	\$ 25,102	\$ 25,102	\$ 100,958	\$ 80,734
Net margin (%) ⁽²⁾	28.3%	28.1%	29.7%	24.2%
Earnings before income taxes	\$ 37,078	\$ 23,104	\$ 135,624	\$ 202,225
Earnings for the year	\$ 26,694	\$ 17,003	\$ 95,364	\$ 173,834
Basic earnings per share ⁽³⁾	\$ 0.24	\$ 0.15	\$ 0.85	\$ 1.54
Diluted earnings per share ⁽³⁾	\$ 0.23	\$ 0.14	\$ 0.83	\$ 1.46
Weighted average number of shares outstanding	80,919,175	78,456,452	79,260,180	78,837,047
Total issued and outstanding shares	80,919,175	78,385,662	80,919,175	78,385,662
Total earnings for the period attributable to:				
Shareholders	\$ 19,329	\$ 11,880	\$ 67,638	\$ 121,898
Non-controlling interest	\$ 7,365	\$ 5,123	\$ 27,726	\$ 51,936

⁽¹⁾ Gross margin % (see Non-IFRS measures) represents gross margin as a percentage of revenue.

⁽²⁾ Net margin % (see Non-IFRS measures) represents net margin as a percentage of revenue.

⁽³⁾ See Note 34 of the Company's audited consolidated financial statements for the year ended December 31, 2016 for further details on the calculation of basic and diluted earnings per share.

The Company evaluates its land, housing and condominium development results using gross and net margin, as defined in the notes to the table above. The asset management and management services segment and recreational properties segment are evaluated using net margin. Investment properties are evaluated using both net operating income and net margin for the segment. Stated as a percentage to evaluate operational efficiency, these margins are used as fundamental business considerations for updating budgets, forecasts and strategic planning.

Selected Annual Information

(in thousands of dollars, except per share amounts)	Year ended December 31,		
	2016	2015	2014
Revenue	\$ 340,167	\$ 333,365	\$ 388,415
Total earnings before income taxes	\$ 135,624	\$ 202,225	\$ 109,316
Total earnings attributable to shareholders	\$ 67,638	\$ 121,898	\$ 54,010
Basic earnings per share	\$ 0.85	\$ 1.54	\$ 0.69
Diluted earnings per share	\$ 0.83	\$ 1.46	\$ 0.69
Total assets	\$ 1,612,314	\$ 1,463,264	\$ 1,223,198
Total liabilities	\$ 780,803	\$ 745,410	\$ 631,365

Quarterly Business Trends

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

<i>(in thousands of dollars, except per share amounts)</i>	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015	Mar 31, 2015
Revenue	\$ 88,628	\$ 53,852	\$ 96,391	\$ 101,296	\$ 89,326	\$ 130,350	\$ 65,538	\$ 48,151
Earnings for the period	26,694	16,783	32,912	18,975	17,003	27,571	125,795	3,465
Basic earnings per share	0.24	0.15	0.29	0.17	0.15	0.24	1.12	0.03
Diluted earnings per share	0.23	0.15	0.29	0.17	0.14	0.24	1.07	0.01

Timing of Income Recognition and Impact of Seasonality

The Company's housing and condominium operations recognize revenue at the time of occupancy and, as a result, revenues and direct costs vary depending on the number of units occupied in a particular reporting period. The Company's land operations recognize revenue when a 15% deposit has been received from the third-party purchaser, ultimate collection of the full purchase price is reasonable assured, and certain other development milestones are substantially met. Revenue from land is deferred until occupancy by a third-party customer, when the land is sold as part of a home constructed by our housing division. Marketing expenses for condominiums are typically incurred prior to the occupancy of these units and accordingly are not tied to the number of units occupied in a particular period. These costs are expensed in income as incurred and reduce reported net margin.

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

As a result of the above, the Company's results can vary significantly from quarter to quarter. The Company has segregated the net margin from condominium, housing and land operations from the Company's remaining activities. We have identified the net margin from asset management and management services, investment and recreational properties as recurring sources of annual income. Due to the seasonal nature of wind and solar assets within the renewable power segment, we expect higher returns on our investment in Firelight in the spring and summer months, compared to the fall and winter. A quarterly summary is presented below.

Contribution of Quarterly Net Margin and Income by Business Segment

<i>(in thousands of dollars, except per share amounts)</i>	Dec 31, 2016	Sep 30, 2016	June 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015	Mar 31, 2015
Land development ⁽¹⁾	\$ 5,003	\$ 8,567	\$ 374	\$ 23,270	\$ 18,315	\$ 13,127	\$ 11,732	\$ (479)
Housing development ⁽¹⁾	275	(49)	(999)	(1,438)	170	1,596	1,835	(94)
Condominium development	1,103	911	4,597	1,578	(511)	10,538	(811)	(7)
	6,381	9,429	3,972	23,410	17,974	25,261	12,756	(580)
Investment and recreational properties ⁽²⁾	786	(2,022)	3,397	5,497	588	(1,976)	2,833	3,399
Asset management and management services	19,736	5,098	24,980	4,896	7,484	4,543	4,098	9,721
	20,522	3,076	28,377	10,393	8,072	2,567	6,931	13,120
Total net margin	\$ 26,903	\$ 12,505	\$ 32,349	\$ 33,803	\$ 26,046	\$ 27,828	\$ 19,687	\$ 12,540
Income amounts included below net margin								
Firelight Infrastructure Partners LP (Energy and Infrastructure) ⁽³⁾	(589)	2,594	3,446	(46)	(659)	1,755	3,179	(5,851)
Dundee Kilmer Developments LP (Canary District) ⁽⁴⁾	489	16,529	16,941	880	(516)	(508)	(335)	(381)
Other share of earnings (losses) from equity accounted investments	2,180	1,378	262	(1,232)	433	2,068	156	129
Total share of earnings (losses) from equity accounted investments	2,080	20,501	20,649	(398)	(742)	3,315	3,000	(6,103)
Investment income earned from publicly listed funds	\$ 3,242	\$ 2,608	\$ 1,500	\$ 3,135	\$ 2,907	\$ 3,033	\$ 2,919	\$ 1,183

⁽¹⁾ Results include land net margin on internal lot sales to our housing division, as the homes have been sold to external customers by the housing division during the periods presented. Net margin results recognized in both the land and housing divisions are eliminated on consolidation.

⁽²⁾ The decline in net margin during the September quarter end periods are due to the seasonal closure of the Arapahoe Basin ski resort, which generally closes operations from July to September.

⁽³⁾ The decline in net earnings during the March and December quarter end periods is primarily due to the seasonality of the renewable energy projects. The net earnings for the three months ended March 31, 2015 included a \$6.0 million impairment for Xeneca Limited Partnership. For additional details, refer to page 38 of this MD&A.

⁽⁴⁾ Included in earnings (losses) from equity accounted investments for the three months ended June 30, 2016 and September 30, 2016 was occupancy income generated from condominium units. Refer to page 23 of this MD&A for further details.

Growth in Asset Management Services and Investment Income

Fees generated within our asset management operations relating to publicly listed funds are generally contractual in nature. It is important to note that fees earned on acquisition activity in a period are not recurring in nature and will impact related margins. Fees related to development activities and partnerships included within this segment can fluctuate significantly depending on the number of active projects and meeting certain milestones as the development manager. In the year ended December 31, 2016, significant development milestones were achieved resulting in higher revenue and net margin earned on asset management services, relative to comparative periods.

Recurring Sources of Income

Historically, a large proportion of our pre-tax income was driven by our land development business and the Company expects this will generally be the case over the long term. Our housing and condominium segments are also recurring income sources, although they are subject to more volatility from period to period. In addition to this business, the Company has several non-development business lines, which it considers to be sources of recurring annual income. Below is a summary of income from the Company's significant assets generating recurring income and their applicable fair value or carrying value as at December 31, 2016. The Company views recurring income as a source of funds to meet ongoing interest and fixed operating costs of the business.

Investment and Recreational properties	Segment	Ownership %	Pre-tax income measure ⁽¹⁾	Balance sheet measure	IFRS asset value at December 31, 2016	IFRS asset value at December 31, 2015	2016 pre-tax income	2015 pre-tax income
Arapahoe Basin ski hill (Colorado)	Recreational properties	100%	Net operating income	Book value	\$ 20,068	\$ 19,328	\$ 8,223	\$ 6,811
Distillery District (inclusive of retail and parking)	Investment properties	50%	Net operating income	Fair value	111,049	91,071	5,249	4,658
Western Canada retail under development – Tamarack ⁽²⁾	Investment properties	100%	Net operating income	Fair value	58,550	48,915	2,218	345
Toronto retail and mixed-use properties	Equity accounted investments	50%	Net operating income	Fair value	10,703	10,427	467	265
Total assets and recurring income from investment and recreational properties					\$ 200,370	\$ 169,741	\$ 16,157	\$ 12,079
Other sources of recurring income	Segment	Ownership %	Pre-tax income measure ⁽¹⁾	Balance sheet measure	IFRS asset value at December 31, 2016	IFRS asset value at December 31, 2015	2016 YTD pre-tax income	2015 YTD pre-tax income
Income earned from contracts with publicly listed funds	Asset management	100%	Net margin	Book value	\$ 43,000	\$ 43,000	\$ 20,132	\$ 20,654
Direct equity investments held in publicly listed funds ⁽³⁾	Investment income/other	100%	Investment income	Fair value	204,208	138,916	10,485	10,042
Firelight Infrastructure ⁽⁴⁾	Equity accounted investments	20%	Net earnings	Book value	39,602	46,468	5,405	5,595
Other sources of recurring income					\$ 286,810	\$ 228,384	\$ 36,022	\$ 36,291
Total assets and recurring income from investment and recreational properties and other sources					\$ 487,180	\$ 398,125	\$ 52,179	\$ 48,370

⁽¹⁾ Refer to page 55 of this MD&A for definitions of Non-IFRS measures, including net operating income.

⁽²⁾ Our Western Canada retail assets in Tamarack are currently earning rental revenues from select tenants who have taken occupancy during the development phases. The assets are not expected to be fully stabilized until their completion dates in 2017 and 2018.

⁽³⁾ Refer to page 26 of this MD&A for details on the movement in investment and other income. The Company's investment income for 2016 would have been \$12.4 million had our investments held in publicly listed funds remained constant for the entire fiscal year. IFRS asset value at December 31, 2016 and 2015 excludes the Company's investment in Dream Global REIT deferred trust units. The Company's investment of \$30.2 million was excluded from the IFRS asset value for the publicly listed funds as at December 31, 2016.

⁽⁴⁾ Net earnings for the year ended December 31, 2015 has been normalized for \$7.0 million of non-cash impairment charges recorded in the period.

Selected Operating Metrics

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

	For the three months ended December 31,			For the year ended December 31,		
(in thousands of dollars, except average selling price and units)	2016		2015	2016		2015
LAND DEVELOPMENT						
Lot revenue	\$	26,736	\$	48,974	\$	63,433
Acre revenue	\$	5,679	\$	3,248	\$	47,065
Total revenue ⁽¹⁾	\$	32,415	\$	52,222	\$	110,498
Gross margin ⁽¹⁾	\$	10,635	\$	21,314	\$	53,905
Gross margin (%) ⁽²⁾		32.8%		40.8%		48.8%
Net margin ⁽¹⁾	\$	5,003	\$	18,315	\$	37,214
Net margin (%) ⁽²⁾		15.4%		35.1%		33.9%
Lots sold		216		412		501
Average selling price – lot units	\$	124,000	\$	119,000	\$	127,000
Undeveloped acres sold		2		—		178
Average selling price – undeveloped acres	\$	431,000	\$	—	\$	237,000
Developed acres sold		7		3		7
Average selling price – developed acres	\$	660,000	\$	916,000	\$	660,000
HOUSING DEVELOPMENT						
Housing units occupied		53		41		140
Revenue ⁽¹⁾	\$	19,315	\$	15,083	\$	51,258
Gross margin ⁽¹⁾	\$	3,891	\$	2,936	\$	10,022
Gross margin (%) ⁽²⁾		20.1%		19.5%		19.6%
Net margin ⁽¹⁾	\$	275	\$	170	\$	(2,211)
Net margin (%) ⁽²⁾		1.4%		1.1%		(4.3%)
Average selling price – housing units	\$	364,000	\$	368,000	\$	366,000
Average square feet of homes sold		1,475		1,328		1,432
Average selling price per square foot for occupied units	\$	247	\$	277	\$	256
CONDOMINIUM DEVELOPMENT						
Attributable to Dream, including direct and equity accounted investments ⁽²⁾ :						
Condominium occupancies – units, project level ⁽³⁾		21		48		1,258
Condominium closings – units, project level ⁽³⁾		922		312		1,456
Commercial sales/transfers to investment property – sf, project level		87,600		14,100		144,100
Total revenue ⁽³⁾	\$	12,872	\$	6,287	\$	234,171
Gross margin ⁽⁴⁾	\$	3,571	\$	1,326	\$	58,806
Gross margin (%) ⁽²⁾		27.7%		21.1%		25.1%
Net margin	\$	1,690	\$	(995)	\$	40,964
Net margin (%) ⁽²⁾		13.1%		(15.8%)		17.5%
Average selling price of condominiums occupied:						
Per unit	\$	523,000	\$	294,000	\$	350,000
Per square foot	\$	522	\$	510	\$	511

⁽¹⁾ Results include housing land sales to external customers, which are recognized in both the land and housing divisions and eliminated on consolidation. For more details, please refer to pages 12 and 13 of this MD&A.

⁽²⁾ Gross margin (%); net margin (%); Condominium Development revenue, gross margin and net margin attributable to Dream, direct and equity accounted investments; and fee earning assets under management are non-IFRS measures. Refer to page 55 of this MD&A for further details.

⁽³⁾ In normal course, there is a 3 - 6 month delay between the occupancy of a condominium unit (the point at which revenue is recognized) and its closing date. The delay typically occurs as the project completes the final municipal approvals required for condominium registration and unit closings.

⁽⁴⁾ Gross margin for condominium operations includes interest expense, which is capitalized during the development period and expensed through cost of sales as units are occupied.

Selected Operating Metrics

	For the three months ended December 31,			For the year ended December 31,		
(in thousands of dollars, except average selling price and units)	2016	2015		2016	2015	
ASSET MANAGEMENT AND MANAGEMENT SERVICES						
Fee-earning assets under management – publicly listed funds ⁽¹⁾	\$ 5,165,000	\$ 5,100,000		\$ 5,165,000	\$ 5,100,000	
Fees earned on publicly listed funds	\$ 7,776	\$ 7,000		\$ 25,549	\$ 29,970	
Development and other asset management fees	13,909	2,489		38,414	4,726	
Total asset management revenue	\$ 21,685	\$ 9,489		\$ 63,963	\$ 34,696	
Net margin	\$ 19,736	\$ 7,584		\$ 54,710	\$ 26,558	
Net margin (%)	91.0%	79.9%		85.5%	76.5%	
INVESTMENT INCOME EARNED ON INVESTMENTS IN PUBLICLY LISTED FUNDS⁽²⁾						
Investment income earned – recognized in statement of earnings:						
Dream Office REIT	\$ 2,876	\$ 2,488		\$ 8,009	\$ 8,149	
Other distributions from publicly listed funds	366	419		2,476	1,893	
Interest and other income	39	943		3,312	3,324	
Total	\$ 3,281	\$ 3,850		\$ 13,797	\$ 13,366	
INVESTMENT AND RECREATIONAL PROPERTIES						
Attributable to Dream, direct investments						
Revenue	\$ 10,574	\$ 10,271		\$ 46,471	\$ 43,361	
Net operating income – investment properties, Ontario	1,577	1,320		5,755	4,923	
Net operating income – development properties, Western Canada	666	401		2,230	345	
Net operating income – recreational properties	648	874		8,028	6,822	
Total net operating income	2,891	2,595		16,013	12,090	
Total net margin ⁽³⁾	\$ 786	\$ 488		\$ 7,658	\$ 4,132	
Total net margin (%)	7.4%	4.7%		16.5%	9.5%	

⁽¹⁾ Gross margin (%); net margin (%); and fee-earning assets under management are non-IFRS measures. Refer to page 55 of this MD&A for details.

⁽²⁾ Distributions earned from publicly listed funds relate to the portion allocated as investment income and are not total cash distributions received. See "Investment and Other Income" on page 26 of this MD&A for further details.

⁽³⁾ Net margin for investment and recreational properties includes depreciation expense.

Segmented Financial Position

The Company's segmented financial position is as follows:

As at December 31, 2016							
	Land development	Housing development	Condominium development	Asset management and advisory services	Investment and recreational properties	Total	
Inventory	\$ 604,487	\$ 50,662	\$ 55,634	\$ —	\$ —	\$	710,783
Properties	—	—	—	—	270,854		270,854
Total real estate assets ⁽¹⁾	\$ 604,487	\$ 50,662	\$ 55,634	\$ —	270,854	\$	981,637
Intangible asset	—	—	—	43,000	—		43,000
Non-segmented assets ⁽²⁾							587,677
Total assets						\$	1,612,314
Provision for real estate development costs	\$ 35,858	\$ 1,307	\$ 4,633	\$ —	\$ —	\$	41,798
Customer deposits	4,188	5,760	18,299	—	1,409		29,656
Construction loans	4,825	31,598	20,044	—	33,892		90,359
Mortgages and term debt	3,141	—	10,450	—	99,066		112,657
Total segmented liabilities	\$ 48,012	\$ 38,665	\$ 53,426	\$ —	134,367	\$	274,470
Non-segmented liabilities ⁽³⁾							506,333
Total liabilities						\$	780,803

As at December 31, 2015							
	Land development	Housing development	Condominium development	Asset management and advisory services	Investment and recreational properties	Total	
Inventory	\$ 593,401	\$ 48,167	\$ 91,323	\$ —	\$ —	\$	732,891
Properties	—	—	—	—	170,997		170,997
Total real estate assets ⁽¹⁾	\$ 593,401	\$ 48,167	\$ 91,323	\$ —	170,997	\$	903,888
Intangible asset	—	—	—	43,000	—		43,000
Non-segmented assets ⁽²⁾							516,376
Total assets						\$	1,463,264
Provision for real estate development costs	\$ 40,389	\$ 1,085	\$ 10,123	\$ —	\$ —	\$	51,597
Customer deposits	952	306	23,038	—	969		25,265
Construction loans	—	37,682	62,055	—	23,999		123,736
Mortgages and term debt	—	—	10,750	—	57,625		68,375
Total segmented liabilities	\$ 41,341	\$ 39,073	\$ 105,966	\$ —	82,593	\$	268,973
Non-segmented liabilities ⁽³⁾							476,437
Total liabilities						\$	745,410

⁽¹⁾ Real estate assets exclude investments in jointly controlled entities, which are equity accounted.

⁽²⁾ Included in non-segmented assets are cash, accounts receivable, other financial assets, equity accounted investments, and capital and other operating assets, which include balances not directly attributable to a specific operating segment. Balances relating to the \$219.8 million Dream Office REIT and Dream Global REIT units and the Company's investment of \$30.2 million in Dream Alternatives are included within this figure.

⁽³⁾ Included in non-segmented liabilities are certain amounts of accounts payable and other liabilities, income and other taxes payable, operating line, Preference shares, series 1 and deferred income taxes, which are not directly attributable to a specific operating segment.

Segmented Results of Operations

The Company's segmented results of operations are as follows:

For the three months ended December 31, 2016								
	Land development ⁽¹⁾	Housing development ⁽¹⁾	Condominium development	Asset management and advisory services	Investment and recreational properties	Eliminations ⁽¹⁾	Total	
Revenues	\$ 32,415	\$ 19,315	\$ 9,656	\$ 21,685	\$ 10,574	\$ (5,017)	\$	88,628
Direct operating costs	(21,780)	(15,424)	(6,981)	—	(7,683)	3,216		(48,652)
Asset management and advisory services expenses	—	—	—	(1,949)	—	—		(1,949)
Gross margin	10,635	3,891	2,675	19,736	2,891	(1,801)		38,027
Selling, marketing and other operating costs	(5,632)	(3,616)	(1,572)	—	(2,105)	—		(12,925)
Net margin	\$ 5,003	\$ 275	\$ 1,103	\$ 19,736	\$ 786	\$ (1,801)	\$	25,102
Net margin (%)	15.4%	1.4%	11.4%	91.0%	7.4%	35.9%		28.3%
Fair value changes in investment properties	—	—	—	—	18,597	—		18,597
Investment and other income	475	—	287	2,519	—	—		3,281
Earnings (losses) before the following:	\$ 5,478	\$ 275	\$ 1,390	\$ 22,255	\$ 19,383	\$ (1,801)	\$	46,980
General and administrative expenses								(7,409)
Share of earnings from equity accounted investments ⁽²⁾								2,080
Fair value gain on derivative financial instruments								163
Interest expense								(4,736)
Income tax expense								(10,384)
Earnings for the period ⁽³⁾							\$	26,694

For the three months ended December 31, 2015								
	Land development ⁽¹⁾	Housing development ⁽¹⁾	Condominium development	Asset management and advisory services	Investment and recreational properties	Eliminations ⁽¹⁾	Total	
Revenues	\$ 52,222	\$ 15,083	\$ 4,747	\$ 9,489	\$ 10,271	\$ (2,486)	\$	89,326
Direct operating costs	(30,908)	(12,147)	(3,782)	—	(7,385)	1,542		(52,680)
Asset management and advisory services expenses	—	—	—	(1,905)	—	—		(1,905)
Gross margin	21,314	2,936	965	7,584	2,886	(944)		34,741
Selling, marketing and other operating costs	(2,999)	(2,766)	(1,476)	—	(2,398)	—		(9,639)
Net margin	\$ 18,315	\$ 170	\$ (511)	\$ 7,584	\$ 488	\$ (944)	\$	25,102
Net margin (%)	35.1%	1.1%	(10.8%)	79.9%	4.7%	38.0%		28.1%
Fair value changes in investment properties	—	—	—	—	1,335	—		1,335
Investment and other income	448	—	202	3,149	51	—		3,850
Earnings (losses) before the following:	\$ 18,763	\$ 170	\$ (309)	\$ 10,733	\$ 1,874	\$ (944)	\$	30,287
General and administrative expenses								(3,592)
Gain on sale of recreational properties								2,183
Share of losses from equity accounted investments ⁽²⁾								(742)
Fair value loss on derivative financial instruments								(343)
Interest expense								(4,689)
Income tax expense								(6,101)
Earnings for the period ⁽³⁾							\$	17,003

⁽¹⁾ Results include housing land sales to external customers, which are recognized in both the land and housing divisions and eliminated on consolidation.

⁽²⁾ Results from operations through equity accounted investments are excluded from gross and net margin and are included in share of earnings from equity accounted investments.

⁽³⁾ Includes earnings attributable to non-controlling interest.

For the year ended December 31, 2016

	Land development ⁽¹⁾	Housing development ⁽¹⁾	Condominium development	Asset management and advisory services	Investment and recreational properties	Eliminations ⁽¹⁾	Total
Revenues	\$ 110,498	\$ 51,258	\$ 80,773	\$ 63,963	\$ 46,471	\$ (12,796)	\$ 340,167
Direct operating costs	(56,593)	(41,236)	(62,425)	—	(30,458)	8,194	(182,518)
Asset management and advisory services expenses	—	—	—	(9,253)	—	—	(9,253)
Gross margin	53,905	10,022	18,348	54,710	16,013	(4,602)	148,396
Selling, marketing and other operating costs	(16,691)	(12,233)	(10,159)	—	(8,355)	—	(47,438)
Net margin	\$ 37,214	\$ (2,211)	\$ 8,189	\$ 54,710	\$ 7,658	\$ (4,602)	\$ 100,958
Net margin (%)	33.7%	(4.3%)	10.1%	85.5%	16.5%	36.0%	29.7%
Fair value changes in investment properties	—	—	—	—	17,902	—	17,902
Investment and other income	1,293	—	783	11,721	—	—	13,797
Earnings (losses) before the following:	\$ 38,507	\$ (2,211)	\$ 8,972	\$ 66,431	\$ 25,560	\$ (4,602)	\$ 132,657
General and administrative expenses							(20,469)
Share of earnings from equity accounted investments ⁽²⁾							42,832
Fair value loss on derivative financial instruments							(430)
Interest expense							(18,966)
Income tax expense							(40,260)
Earnings for the year ⁽³⁾							\$ 95,364

For the year ended December 31, 2015

	Land development ⁽¹⁾	Housing development ⁽¹⁾	Condominium development	Asset management and advisory services	Investment and recreational properties	Eliminations ⁽¹⁾	Total
Revenues	\$ 126,053	\$ 82,598	\$ 61,492	\$ 34,696	\$ 43,361	\$ (14,835)	\$ 333,365
Direct operating costs	(72,546)	(67,011)	(45,512)	—	(30,427)	9,468	(206,028)
Asset management and advisory services expenses	—	—	—	(8,138)	—	—	(8,138)
Gross margin	53,507	15,587	15,980	26,558	12,934	(5,367)	119,199
Selling, marketing and other operating costs	(10,812)	(12,080)	(6,771)	—	(8,802)	—	(38,465)
Net margin	\$ 42,695	\$ 3,507	\$ 9,209	\$ 26,558	\$ 4,132	\$ (5,367)	\$ 80,734
Net margin (%)	33.9%	4.2%	15.0%	76.5%	9.5%	36.2%	24.2%
Fair value changes in investment properties	—	—	—	—	11,158	—	11,158
Investment and other income	1,695	367	537	10,716	51	—	13,366
Gain on reorganization of asset management agreement	—	—	—	127,313	—	—	127,313
Earnings (losses) before the following:	\$ 44,390	\$ 3,874	\$ 9,746	\$ 164,587	\$ 15,341	\$ (5,367)	\$ 232,571
General and administrative expenses							(16,211)
Gain on sale of recreational and investment properties							2,183
Share of losses from equity accounted investments ⁽²⁾							(530)
Fair value gain on derivative financial instruments							1,227
Interest expense							(19,263)
Gain on settlement of debt							2,248
Income tax expense							(28,391)
Earnings for the year ⁽³⁾							\$ 173,834

⁽¹⁾ Results include housing land sales to external customers, which are recognized in both the land and housing divisions and eliminated on consolidation.

⁽²⁾ Results from operations through equity accounted investments are excluded from gross and net margin and are included in share of earnings from equity accounted investments.

⁽³⁾ Includes earnings attributable to non-controlling interest.

Land Development

Real estate assets include inventory of land held for development and land under development.

Raw land is usually unentitled property without the regulatory approvals that would allow the construction of residential, industrial, commercial and mixed-use developments. Acquiring and developing raw land requires significant time and capital expenditures and has associated carrying costs related to the approval process. Typically, to be considered land under development, the properties have received preliminary approval, a building permit can generally be obtained within the next 12 months and substantial development work is underway (such as grading; installation of water and sewer services; and/or provision of roads, power and landscaping). Where our land discussion includes references to acres, this is a gross acre measure, which includes both developable and non-developable land. Examples of non-developable land include roads, parks, and municipal and environmental reserves, which may not be identified until after the land is purchased and subsequently approved during the planning process.

As at December 31, 2016, our land portfolio, including land held for development and land under development, consisted of 9,335 acres and 1,339 lots in various stages of development. This represents 9,541 acre equivalents. Dream also has commitments to purchase an additional 461 acres, for a total of 10,002 acres.

(in thousands of dollars, except lots and acres)

As at December 31, 2016

	Land held for development			Land under development				Total
	Cost	Acres	Cost per acre	Cost	Acres	Lots	Cost per acre equivalent	
Saskatoon	\$ 78,218	3,057	\$ 26	\$ 76,313	79	571	\$ 434	\$ 154,531
Regina	143,334	2,779	52	53,627	131	363	304	196,961
Calgary	150,336	2,322	65	31,095	56	177	339	181,431
Edmonton	40,919	883	46	28,397	14	228	678	69,316
Other ⁽¹⁾	678	—	n/a	1,570	14	—	112	2,248
Total inventory	\$ 413,485	9,041	\$ 46	\$ 191,002	294	1,339	\$ 383	\$ 604,487
Land under commitment	\$ 9,605	461	\$ 21					\$ 9,605

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

A summary of the changes in land inventory during the year ended December 31, 2016 is included below:

(in thousands of dollars)

	Land held for development	Land under development	Total
Balance, December 31, 2015	\$ 442,558	\$ 150,843	\$ 593,401
Acquisitions	17,836	112	17,948
Development	4,220	51,650	55,870
Lot and acre sales ⁽¹⁾	(15,933)	(40,012)	(55,945)
Transfers	(35,196)	35,196	—
Transfers to housing inventory	—	(8,777)	(8,777)
Transfers from condominium inventory ⁽¹⁾	—	1,990	1,990
Balance, December 31, 2016	\$ 413,485	\$ 191,002	\$ 604,487

⁽¹⁾ In the three months ended December 31, 2016, the Company transferred a 3-acre site previously identified for internal multi-family development back to land inventory for external sale. The site was sold to a third party in the same period.

The carrying value of our land portfolio increased to \$604.5 million as at December 31, 2016, from \$593.4 million as at December 31, 2015, representing a net increase of \$11.1 million, primarily due to development spending and acquisitions during the period, partially offset by lot and acre sales during the period.

Breakdown of Land under Commitment

Dream has entered into various agreements to purchase land, as outlined below. Until the final payment is made, this land does not form part of our land held for development inventory.

Remaining commitments

(in thousands of dollars, except for acres)	Total commitment	Acquisition deposits	Remaining commitment	Acres ⁽¹⁾	2017	2018	2019	2020	Total
Land purchase deposits and future commitments	\$ 9,605	\$ 5,332	\$ 4,273	461	\$ 3,142	\$ 566	\$ 565	—	\$ 4,273

⁽¹⁾ Acres under commitment are located primarily in Saskatoon and are adjacent to lands already owned by the Company.

A summary of the changes in the land under commitment is presented below.

	Total commitments	Acquisition deposits	Acres
Opening balance, December 31, 2015	\$ 19,375	\$ 10,371	626
Deposits made	—	6,179	—
Additional commitments	8,043	1,023	337
Deposits transferred to land inventory upon final payment	(17,813)	(12,241)	(502)
Closing balance, December 31, 2016	\$ 9,605	\$ 5,332	461

Selected Operating Metrics – Land

A summary of selected operating metrics for the land divisions is below:

	For the three months ended December 31,		For the year ended December 31,	
(in thousands of dollars, except for average selling prices and acre/lot statistics)	2016	2015	2016	2015
Land revenue⁽¹⁾				
Saskatoon	\$ 9,485	\$ 25,997	\$ 23,992	\$ 43,893
Regina	5,200	16,199	15,117	35,550
Calgary	2,006	4,094	42,968	5,307
Edmonton	14,863	5,432	27,560	40,803
Other	861	500	861	500
Total	\$ 32,415	\$ 52,222	\$ 110,498	\$ 126,053
Land net margin⁽¹⁾				
Saskatoon	\$ 268	\$ 9,092	\$ 3,895	\$ 20,386
Regina	2,210	6,646	3,307	12,955
Calgary	(1,794)	1,332	21,753	187
Edmonton	4,284	1,263	8,181	9,213
Other	35	(18)	78	(46)
Total	\$ 5,003	\$ 18,315	\$ 37,214	\$ 42,695
Net margin (%)⁽¹⁾				
Saskatoon	2.8%	35.0%	16.2%	46.4%
Regina	42.5%	41.0%	21.9%	36.4%
Calgary	n/a	32.5%	50.6%	n/a
Edmonton	28.8%	23.3%	29.7%	22.6%
Other	n/a	n/a	n/a	n/a
Total	15.4%	35.1%	33.7%	33.9%
Lots sold⁽¹⁾				
Saskatoon	48	221	131	298
Regina	43	115	126	267
Calgary	5	28	18	38
Edmonton	120	48	226	265
Total	216	412	501	868
Lot revenue⁽¹⁾				
Saskatoon	\$ 5,865	\$ 25,997	\$ 17,940	\$ 35,518
Regina	5,200	13,451	15,117	28,104
Calgary	808	4,094	2,816	5,307
Edmonton	14,863	5,432	27,560	34,810
Total	\$ 26,736	\$ 48,974	\$ 63,433	\$ 103,739
Average lot selling price⁽¹⁾				
Saskatoon	\$ 122,000	\$ 118,000	\$ 137,000	\$ 119,000
Regina	121,000	117,000	120,000	105,000
Calgary	162,000	146,000	156,000	140,000
Edmonton	124,000	113,000	122,000	131,000
Total	\$ 124,000	\$ 119,000	\$ 127,000	\$ 120,000
Acres sold				
Saskatoon	6	—	10	13
Regina	—	3	—	52
Calgary	1	—	173	—
Edmonton	—	—	—	7
Other	2	—	2	—
Total	9	3	185	72
Acre revenue⁽¹⁾				
Saskatoon	\$ 3,620	\$ —	\$ 6,052	\$ 8,375
Regina	—	2,748	—	7,446
Calgary	1,198	—	40,152	—
Edmonton	—	—	—	5,993
Other	861	—	861	—
Total	\$ 5,679	\$ 2,748	\$ 47,065	\$ 21,814
Average acre selling price				
Saskatoon	\$ 603,000	\$ —	\$ 605,000	\$ 644,000
Regina	—	916,000	—	143,000
Calgary	922,000	—	232,000	—
Edmonton	—	—	—	856,000
Other	431,000	—	431,000	—
Total	\$ 631,000	\$ 916,000	\$ 254,000	\$ 303,000

⁽¹⁾ Results include land revenues and net margin on internal lot sales to our housing division, as the homes have been sold to external customers by the housing division during the period. The revenue and net margin recognized in both the land and housing divisions have been eliminated on consolidation. For more details, please refer to pages 12 and 13 of this MD&A.

Results of Operations – Land

The results of operations for our land development divisions in Saskatoon, Regina, Calgary and Edmonton are as follows:

	For the three months ended December 31,				For the year ended December 31,			
<i>(in thousands of dollars, except for average selling prices and acre/lot statistics)</i>	2016		2015		2016		2015	
Lot revenue	\$	26,736	\$	48,974	\$	63,433	\$	103,739
Acre revenue	\$	5,679	\$	3,248	\$	47,065	\$	22,314
Total revenue	\$	32,415	\$	52,222	\$	110,498	\$	126,053
Gross margin	\$	10,635	\$	21,314	\$	53,905	\$	53,507
Gross margin (%)		32.8%		40.8%		48.8%		42.4%
Net margin	\$	5,003	\$	18,315	\$	37,214	\$	42,695
Net margin (%)		15.4%		35.1%		33.7%		33.9%
Lots sold		216		412		501		868
Average selling price – lots	\$	124,000	\$	119,000	\$	127,000	\$	120,000
Undeveloped acres sold		2		—		178		45
Average selling price – undeveloped acres	\$	431,000	\$	—	\$	237,000	\$	19,000
Developed acres sold		7		3		7		27
Average selling price – developed acres	\$	660,000	\$	916,000	\$	660,000	\$	769,000

In the year ended December 31, 2016, we achieved 501 lot sales compared to 868 lot sales in the prior year. Despite lower volumes relative to the prior year, sales activity in the current period was in line with management expectations. Given the current environment in Western Canada, we are continuously reviewing our land supply to ensure the inventory we bring to market is paced with demand. Additionally, as we execute on our strategy to participate in more of the market share within our new communities by developing more single family homes, retail and commercial properties ourselves, our external lot and acre sales volumes are expected to gradually decline from prior years. As we build out and sell, lease or rent these properties, we intend to capture the development profit on both the land and building components and add to our recurring income sources by holding any income properties developed.

As at February 24, 2017, Dream has secured deposits or sale commitments for approximately 570 lots and 15 acres for sales that are expected to close in 2017. This level of expected backlog for 2017 is the highest level of advanced commitments from third-party purchasers in our history and is in line with our revised operating model and development strategy within our land business. Our lot backlog represents the total pre-sold lots under construction and lots on which we have received a deposit but construction has yet to commence.

In the year ended December 31, 2016, 172 acres of undeveloped land were sold in Providence to the Province of Alberta to construct parts of the Southwest Calgary Ring Road, a major infrastructure project that will transform Southwest Calgary. The Company recognized revenue and gross margin of \$39.0 million and \$24.5 million, respectively, in connection with this transaction, which contributed to relatively stable net margins generated from land in 2016 relative to 2015, despite significantly lower lot volumes.

A breakdown and discussion of each of our four major regions is below.

Saskatoon, Saskatchewan

	For the three months ended December 31,				For the year ended December 31,			
<i>(in thousands of dollars, except for average selling prices and acre/lot statistics)</i>	2016		2015		2016		2015	
Lot revenue	\$	5,865	\$	25,997	\$	17,940	\$	35,518
Acre revenue	\$	3,620	\$	—	\$	6,052	\$	8,375
Total revenue	\$	9,485	\$	25,997	\$	23,992	\$	43,893
Gross margin	\$	2,021	\$	9,747	\$	9,056	\$	22,933
Gross margin (%)		21.3%		37.5%		37.7%		52.2%
Net margin	\$	268	\$	9,092	\$	3,895	\$	20,386
Net margin (%)		2.8%		35.0%		16.2%		46.4%
Lots sold		48		221		131		298
Average selling price – lots	\$	122,000	\$	118,000	\$	137,000	\$	119,000
Undeveloped acres sold		—		—		4		—
Average selling price – undeveloped acres	\$	—	\$	—	\$	640,000	\$	—
Developed acres sold		6		—		6		13
Average selling price – developed acres	\$	603,000	\$	—	\$	603,000	\$	644,000

In the year ended December 31, 2016, net margin was generated primarily by sales within three developments in Saskatoon: Brighton (Holmwood), Stonebridge and Blairmore (Kensington). We have continued to wind down our remaining inventory in Stonebridge, which has been an active development since 2005. Our newer development, Brighton, is an 867-acre community within Holmwood that, upon completion in 7-10 years, will include more than 6,400 homes for 15,000 residents and over 250,000 sf of retail, which is being developed by Dream Centres, our retail division.

In the three months ended December 31, 2016, revenue and net margin decreased by \$16.5 million and \$8.8 million, respectively, from the prior year, primarily due to a lower volume of lot sales. Net margin as a percentage of revenue decreased in the three months ended December 31, 2016, relative to prior year, due to higher selling and marketing costs and indirect operating costs in the current period that were not able to be absorbed by the lower volume of lot sales.

Included in net margin for the three and twelve months ended December 31, 2016 was a write-off of \$1.0 million in planning costs that were incurred in 2015 and 2016 for a 3-acre multi-family site. As these acres were sold externally during the period, these costs were expensed.

In the year ended December 31, 2016, revenue and net margin decreased by \$19.9 million and \$16.5 million, respectively, compared to the prior year due to fewer acre and lot sales, and higher indirect costs incurred in the current period. In addition, \$4.3 million of favourable cost recoveries relating to the release of contingencies at the end of development phases was included in net margin in the twelve months ended December 31, 2015, with no comparable adjustment in 2016.

Regina, Saskatchewan

	For the three months ended December 31,				For the year ended December 31,			
<i>(in thousands of dollars, except for average selling prices and acre/lot statistics)</i>	2016		2015		2016		2015	
Lot revenue	\$	5,200	\$	13,451	\$	15,117	\$	28,104
Acre revenue	\$	—	\$	2,748	\$	—	\$	7,446
Total revenue	\$	5,200	\$	16,199	\$	15,117	\$	35,550
Gross margin	\$	3,275	\$	7,708	\$	7,440	\$	15,958
Gross margin (%)		63.0%		47.6%		49.2%		44.9%
Net margin	\$	2,210	\$	6,646	\$	3,307	\$	12,955
Net margin (%)		42.5%		41.0%		21.9%		36.4%
Lots sold		43		115		126		267
Average selling price – lots	\$	121,000	\$	117,000	\$	120,000	\$	105,000
Undeveloped acres sold		—		—		—		45
Average selling price – undeveloped acres	\$	—	\$	—	\$	—	\$	19,000
Developed acres sold		—		3		—		7
Average selling price – developed acres	\$	—	\$	916,000	\$	—	\$	943,000

In the year ended December 31, 2016, lot revenue was generated primarily within our Harbour Landing community, which has been an active development since 2008. In the comparative year end period, the Company sold 45 undeveloped acres to the Saskatchewan Ministry of Highways and Infrastructure for \$0.8 million for the development of road infrastructure. This sale contributed approximately \$0.2 million to gross margin in the year ended December 31, 2015.

In the three months ended December 31, 2016, total revenue and net margin decreased by \$11.0 million and \$4.4 million, respectively, due to a reduction in lot and acre sales relative to the comparative period. Included in gross margin in the three months ended December 31, 2016, was \$0.4 million of favourable contingencies and recoveries achieved at the end of completed phases for Harbour Landing were released, with no comparable adjustment in 2015, which drove a higher gross margin as a percentage of revenue in the current period.

In the year ended December 31, 2016, revenue and net margin decreased by \$20.4 million and \$9.6 million, respectively, primarily due to lower volumes of lot and acre sales relative to 2015 and higher indirect costs incurred in the current period, which were not able to be absorbed by the lower volume of lot and acre sales. Net margin as a percentage of revenues was 21.9%, down from 36.4% due to the aforementioned reasons.

Calgary, Alberta

	For the three months ended December 31,				For the year ended December 31,			
<i>(in thousands of dollars, except for average selling prices and acre/lot statistics)</i>	2016		2015		2016		2015	
Lot revenue	\$	808	\$	4,094	\$	2,816	\$	5,307
Acre revenue	\$	1,198	\$	—	\$	40,152	\$	—
Total revenue	\$	2,006	\$	4,094	\$	42,968	\$	5,307
Gross margin	\$	321	\$	1,559	\$	26,444	\$	2,612
Gross margin (%)		16.0%		38.1%		61.5%		49.2%
Net margin	\$	(1,794)	\$	1,332	\$	21,753	\$	187
Net margin (%)		n/a		32.5%		50.6%		n/a
Lots sold		5		28		18		38
Average selling price – lot units	\$	162,000	\$	146,000	\$	156,000	\$	140,000
Undeveloped acres sold		—		—		172		—
Average selling price – undeveloped acres	\$	—	\$	—	\$	226,000	\$	—
Developed acres sold		1		—		1		—
Average selling price – developed acres	\$	922,000	\$	—	\$	922,000	\$	—

In the year ended December 31, 2016, revenue and net margin were generated from lot sales within our Evansridge and Crossfield (Vista Crossing) developments and the sale of 172 acres of raw land in Providence to the Province of Alberta. Vista Crossing is a 156-acre community north of Airdrie which we expect to service for the next five years. It is not in the normal course of business to sell undeveloped land acres, outside of infrastructure requirements by provincial or other government authorities. Lot sales in the comparative year ended December 31, 2015 were within our High River and Vista Crossing developments.

Consistent with prior periods, we did not expect significant lot sales to occur within Calgary in 2016, as we have minimal lot inventory available for sale. In the three months ended December 31, 2016, negative net margin of \$1.8 million was incurred as a result of higher fixed overhead incurred that could not be absorbed by current sales volumes. Our team in Calgary was expanded in 2016 to centralize our Western Canada operations and capture synergies in future periods.

In the year ended December 31, 2016, total revenue and net margin increased by \$37.7 million and \$21.6 million, respectively, from the comparative period due to the aforementioned land sale to the Province of Alberta.

Edmonton, Alberta

	For the three months ended December 31,				For the year ended December 31,			
<i>(in thousands of dollars, except for average selling prices and acre/lot statistics)</i>	2016		2015		2016		2015	
Lot revenue	\$	14,863	\$	5,432	\$	27,560	\$	34,810
Acre revenue	\$	—	\$	—	\$	—	\$	5,993
Total revenue	\$	14,863	\$	5,432	\$	27,560	\$	40,803
Gross margin	\$	5,019	\$	1,799	\$	10,966	\$	11,503
Gross margin (%)		33.8%		33.1%		39.8%		28.2%
Net margin	\$	4,284	\$	1,263	\$	8,181	\$	9,213
Net margin (%)		28.8%		23.3%		29.7%		22.6%
Lots sold		120		48		226		265
Average selling price – lot units	\$	124,000	\$	113,000	\$	122,000	\$	131,000
Developed acres sold		—		—		—		7
Average selling price – developed acres	\$	—	\$	—	\$	—	\$	856,000

The Meadows is our active development in Edmonton with 201 acre equivalents remaining in inventory as at December 31, 2016, which we expect to remain involved in through 2022. This includes our Laurel, Maple Crest and Tamarack communities. Notwithstanding general market conditions in Alberta, net margin generated from our Edmonton land operations was relatively stable in fiscal 2016 compared to 2015.

In the three months ended December 31, 2016, total revenue and net margin increased by \$9.4 million and \$3.0 million, respectively, from the prior year due to increased lot sales at a higher average selling price relative to the comparative period. Lots sold in the three months ended December 31, 2016 were located in more mature phases of the Meadows development and were larger in size relative to the comparative period, driving the difference in the average selling price.

In the year ended December 31, 2016, total revenue decreased by \$13.2 million from the prior year due to slightly fewer lot and acre sales in the current period. Net margin for the year ended December 31, 2016 was \$1.0 million lower than the comparative period due to fewer lots and acres sold to absorb

indirect operating costs during the period. Included in net margin for the year ended December 31, 2015 was \$2.3 million of reserves taken at the end of development phases in the second quarter of 2015.

Housing Development

As at December 31, 2016, our housing inventory consisted of 440 units under various stages of construction and lots held for future development, in Saskatchewan and Alberta. The carrying value of our housing inventory increased slightly to \$50.7 million as at December 31, 2016 from \$48.2 million as at December 31, 2015, primarily due to land transferred internally from our land division to develop future housing lots.

<i>(in thousands of dollars, except units)</i>	Saskatoon		Regina		Calgary		Total
	No. of units	Cost	No. of units	Cost	No. of units	Cost	Cost
Balance of inventory, December 31, 2015	88	\$ 14,245	316	\$ 31,339	19	\$ 2,583	\$ 48,167
Acquisitions	—	—	2	212	—	—	212
Transfers from land development	74	5,653	67	2,205	14	919	8,777
Development	—	7,701	—	10,816	—	8,031	26,548
Housing units occupied	(67)	(15,197)	(66)	(15,942)	(7)	(1,903)	(33,042)
Balance of inventory, December 31, 2016	95	\$ 12,402	319	\$ 28,630	26	\$ 9,630	\$ 50,662

Breakdown of Housing under Construction

The total housing units under construction is summarized in the following table:

<i>(number of units)</i>	December 31, 2016	December 31, 2015
Total units under construction	232	111
Total units held for future construction	208	312
Total units in inventory	440	423

Results of Operations – Housing

<i>(in thousands of dollars, except units)</i>	For the three months ended December 31,		For the year ended December 31,	
	2016	2015	2016	2015
Housing units occupied	53	41	140	209
Revenue ⁽¹⁾	\$ 19,315	\$ 15,083	\$ 51,258	\$ 82,598
Gross margin ⁽¹⁾	\$ 3,891	\$ 2,936	\$ 10,022	\$ 15,587
Gross margin (%)	20.1%	19.5%	19.6%	18.9%
Net margin ⁽¹⁾	\$ 275	\$ 170	\$ (2,211)	\$ 3,507
Net margin (%)	1.4%	1.1%	(4.3%)	4.2%
Average selling price – housing units	\$ 364,000	\$ 368,000	\$ 366,000	\$ 395,000
Average square foot of housing units occupied	1,475	1,328	1,432	1,415
Average selling price per square foot for occupied units	\$ 247	\$ 277	\$ 256	\$ 279

⁽¹⁾ Results include land revenues and net margin on internal lot sales to our housing division, as the homes have been sold to external customers by the housing division during the period. The revenue and net margin recognized in both the land and housing divisions have been eliminated on consolidation. For more details, please refer to pages 12 and 13 of this MD&A.

In the year ended December 31, 2016, approximately one half of the 140 housing units occupied during the period related to inventory constructed in prior periods. In an effort to repatriate working capital from older inventory, management made a decision to sell these units at discounted prices, or with higher sales incentives. As a result, at December 31, 2016, there was minimal inventory remaining from prior periods. The margins achieved on the other half of inventory occupied and constructed in the twelve months ended December 31, 2016, are in line with the Company's revised operating model and yielded significantly higher gross margins.

Additionally, in 2016, our homebuilding division made significant progress as we implemented process changes that will enable the Company to focus on planning the best communities and have a competitive housing platform in the markets in which we operate. We continue to expect to see these efforts result in the division's profitability in 2017 and 2018 as new inventory is developed and sold in line with our revised operating model.

As part of the aforementioned operational changes, the homebuilding division commenced occupancy of Dream's first homes in Calgary's northwest communities of Evansridge and Vista Crossing in the year ended December 31, 2016. Evansridge is a family-oriented master-planned community developed by the Company's land division with an extensive network of pathways and green spaces. It forms part of the larger neighbourhood of Evanston, one of the fastest-growing and most attractive neighbourhoods in Calgary. Vista Crossing, a community north of Airdrie, is our newest development in Alberta and is expected to accommodate nearly 1,000 units at full build-out for a projected population of approximately 3,000 people.

In the three months ended December 31, 2016, we achieved 53 unit occupancies (29 units in Saskatoon, 19 units in Regina and 5 units in Calgary) up from 41 in the three months ended December 31, 2015 (10 units in Saskatoon and 31 units in Regina). Revenue increased by \$4.2 million in the three months ended

December 31, 2016 relative to the comparative period, primarily due to the increase in units sold. Net margin remained relatively unchanged year over year due to higher selling and indirect costs during the period.

In the year ended December 31, 2016, the Company achieved 140 unit occupancies (67 units in Saskatoon, 66 units in Regina and 7 units in Calgary), down from 209 unit occupancies (80 units in Saskatoon and 129 units in Regina) in the prior year. Revenue declined by \$31.3 million in the year ended December 31, 2016 relative to prior year as a result of lower volumes of homes that were occupied and lower average selling prices relative to the prior year. Net margin declined by \$5.7 million in the year ended December 31, 2016, due to indirect operating costs incurred during the period that were not able to be absorbed by the lower level of occupancies achieved and sales incentive decisions made by management in the current period.

A breakdown and discussion of our results for the three active housing regions with sales activity is below.

Saskatoon, Saskatchewan

	For the three months ended December 31,				For the year ended December 31,			
(in thousands of dollars, except units)	2016		2015		2016		2015	
Housing units occupied	29		10		67		80	
Revenue ⁽¹⁾	\$	10,191	\$	3,641	\$	24,274	\$	31,717
Gross margin ⁽¹⁾	\$	1,653	\$	738	\$	4,294	\$	6,829
Gross margin (%)		16.2%		20.3%		17.7%		21.5%
Net margin ⁽¹⁾	\$	243	\$	(290)	\$	(1,260)	\$	1,539
Net margin (%)		2.4%		(8.0%)		(5.2%)		4.9%
Average selling price – housing units	\$	351,000	\$	364,000	\$	362,000	\$	396,000
Average square foot of housing units occupied		1,445		1,343		1,456		1,430
Average selling price per square foot for occupied units	\$	243	\$	271	\$	249	\$	277

⁽¹⁾ Results include housing land sales to external customers, which are recognized in both the land and housing divisions and eliminated on consolidation. For more details please refer to pages 12 and 13 of this MD&A.

Housing units occupied during the three and twelve months ended December 31, 2016 were sold primarily from our Stonebridge and South Kensington communities.

In the three months ended December 31, 2016, revenue and net margin increased by \$6.6 million and \$0.5 million, respectively, due to an increase in occupancies relative to the prior year, partially offset by a decrease in the average selling price relative to the comparative period.

In the year ended December 31, 2016, revenue and net margin decreased by \$7.4 million and \$2.8 million, respectively, due to a reduction in occupancies relative to the prior year and lower average selling prices relative to the comparative period.

Included in housing results for the year ended December 31, 2016, were 22 home occupancies within our South Kensington development. Our South Kensington development is facing temporary excess supply and as a result, homes with larger lot sizes were sold for lower average selling prices. Excluding sales from this development, the average selling price for homes occupied would have been \$278 per square foot for the year ended December 31, 2016, in line with the prior year. As at December 31, 2016, we have minimal housing lot inventory remaining to sell in South Kensington.

Regina, Saskatchewan

	For the three months ended December 31,				For the year ended December 31,			
(in thousands of dollars, except units)	2016		2015		2016		2015	
Housing units occupied	19		31		66		129	
Revenue ⁽¹⁾	\$	6,746	\$	11,442	\$	23,540	\$	50,881
Gross margin ⁽¹⁾	\$	1,694	\$	2,197	\$	4,911	\$	8,757
Gross margin (%)		25.1%		19.2%		20.9%		17.2%
Net margin ⁽¹⁾	\$	396	\$	460	\$	9	\$	1,968
Net margin (%)		5.9%		4.0%		n/a		3.9%
Average selling price – housing units	\$	355,000	\$	369,000	\$	357,000	\$	394,000
Average square foot of housing units occupied		1,412		1,323		1,350		1,402
Average selling price per square foot for occupied units	\$	251	\$	279	\$	264	\$	281

⁽¹⁾ Results include housing land sales to external customers, which are recognized in both the land and housing divisions and eliminated on consolidation. For more details, please refer to pages 12 and 13 of this MD&A.

Housing units occupied during the year ended December 31, 2016 occurred in Harbour Landing, a Dream community, Hawkstone and the Creeks, which are not part of Dream's core land holdings.

In the three months ended December 31, 2016, revenue decreased by \$4.7 million due to fewer units sold in the current period and the particular product mix sold. Net margin of \$0.4 million was relatively consistent with the prior year as the factors described above were partially offset by lower indirect costs incurred in the period.

In the year ended December 31, 2016, revenue decreased by \$27.3 million due to a reduction in occupancies and lower average selling prices relative to the prior year. Homes that were occupied in 2016 had a smaller square footage, and when combined with additional discounting, resulted in a lower average selling price per unit relative to 2015.

In the year ended December 31, 2016, net margin declined by \$2.0 million due to the lower volume of homes sold. Net margin as a percentage of revenue was negligible for the year ended December 31, 2016, as fixed costs incurred during the period were not able to be absorbed by the lower level of occupancies.

Calgary, Alberta

In the fourth quarter of 2016, we achieved our first occupancies in our Vista Crossing community. In the three and twelve months ended December 31, 2016, revenue of \$2.4 million and \$3.4 million, respectively, was earned from occupancies within our Evansridge and Vista Crossing communities. The results in Calgary are consistent with management's expectations given the low availability of inventory during the period.

In the three and twelve months ended December 31, 2016, negative net margin of \$0.4 million and \$1.0 million, respectively, was incurred as fixed costs during the period were not able to be absorbed by the low level of occupancies that took place.

Condominium Development

As at December 31, 2016, our condominium inventory consisted of 1,106 units in projects under and/or in pre-construction, with 965 units held through direct ownership (351 units at Dream's share) and 141 units held through equity accounted investments (70 units at Dream's share).

In the year ended December 31, 2016, we achieved 1,456 condominium unit closings (711 at Dream's share) within our completed downtown Toronto projects, the highest volume in any fiscal year in the Company's history. We successfully closed condominium units within: The Carnaby, The Taylor, Twenty, and the Canary District.

The changes in condominium inventory at Dream's share within direct ownership and equity accounted projects are summarized below.

<i>(in thousands of dollars, except units)</i>	Direct ownership		Equity accounted investments		Total
Balance of inventory, December 31, 2015	\$	91,323	\$	109,189	\$ 200,512
Acquisitions		13,274		7,250	20,524
Development		24,981		64,834	89,815
Condominium units occupied		(62,425)		(112,940)	(175,365)
Transfers to investment properties		(9,529)		(5,665)	(15,194)
Transfers to land inventory		(1,990)		—	(1,990)
Balance of inventory, December 31, 2016	\$	55,634	\$	62,668	\$ 118,302

In the three months ended December 31, 2016, \$9.5 million of condominium unit inventory was transferred to investment properties upon achieving first multi-family tenant occupancy. The site is the Company's first multi-family rental building, comprised of 48 rental units located in Saskatoon. Refer to Note 3 of the audited consolidated financial statements for the year ended December 31, 2016 for the Company's policy on transfers from inventory to investment properties. In addition, in the three months ended December 31, 2016, \$2.0 million of inventory previously identified for a multi-family site was transferred to land inventory for external sale to a third party. Refer to page 14 of this MD&A for further details.

In the year ended December 31, 2016, Dream added \$13.3 million to its condominium inventory primarily due to the acquisition of land at 677 Queen Street East and an increase in ownership in our Riverside Square development in downtown Toronto. Riverside Square is a 5-acre, two-phased, mixed-use development located in downtown Toronto on the south side of Queen Street East and immediately east of the Don Valley Parkway. Included in condominium inventory as at December 31, 2016 is \$28.6 million related to the development. Dream has a 32.5% interest in the project as at December 31, 2016 (up from 25.0% as at December 31, 2015) and its residual partners include a condominium/mixed-use developer and an automotive group.

In the year ended December 31, 2016, the net carrying value of condominium inventory held by equity accounted investments decreased by \$46.5 million due to the occupancies within the Canary District (Dundee Kilmer Development LP or "Dundee Kilmer") and was partially offset by development spending in Zibi, as described on pages 38 and 39 of this MD&A. As at December 31, 2016, all condominium units within Stage 1 of the Canary District have been sold and closed. In addition, during the year ended December 31, 2016, \$5.7 million of inventory in the Canary District was transferred to investment properties related to approximately 31,000 sf of completed retail space, upon the first retail tenant taking occupancy. At December 31, 2016, in-place occupancy at the Canary District (retail) was 59% and in-place and committed occupancy, which includes tenants expecting to occupy in the future periods was 72%.

Results of Operations – Condominiums

A summary of the results of operations for the condominium division is presented below.

Attributable to Dream	For the three months ended December 31, 2016			For the three months ended December 31, 2015		
	Directly owned	Equity accounted investments	Total	Directly owned	Equity accounted investments	Total
Revenue	\$ 9,656	\$ 3,216	\$ 12,872	\$ 4,747	\$ 1,540	\$ 6,287
Gross margin ⁽¹⁾	\$ 2,675	\$ 896	\$ 3,571	\$ 965	\$ 361	\$ 1,326
Gross margin (%)	27.7%	27.9%	27.7%	20.3%	23.4%	21.1%
Selling, marketing and other indirect costs	(1,572)	(309)	(1,881)	(1,476)	(845)	(2,321)
Net margin	\$ 1,103	\$ 587	\$ 1,690	\$ (511)	\$ (484)	\$ (995)
Net margin (%)	11.4%	18.3%	13.1%	(10.8%)	(31.4%)	(15.8%)
Condominium occupancy units (project level)	3	18	21	25	23	48
Condominium occupancy units (Dream's share)	2	7	9	13	4	17
Per unit ⁽²⁾	\$ 732,000	\$ 461,000	\$ 523,000	\$ 303,000	\$ 284,000	\$ 294,000
Per square foot	\$ 430	\$ 550	\$ 522	\$ 515	\$ 510	\$ 510

⁽¹⁾ Gross margin for condominium operations includes interest expense, which is capitalized during the development period and expensed through cost of sales as units are occupied.

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

In the three months ended December 31, 2016, both revenue and net margin increased relative to the prior year, though prior year comparisons are not relevant as different projects or phases were in occupancy during each respective period. In the three months ended December 31, 2016, revenue and net margin of \$12.9 million and \$1.7 million, respectively, was primarily generated from the sale of retail space to a national grocery chain within one of our condominium projects in downtown Toronto, and condominium unit occupancies in the Canary District and the King Edward Hotel. As of December 31, 2016, there was no inventory remaining at the Canary District or the King Edward Hotel.

Attributable to Dream	For the year ended December 31, 2016			For the year ended December 31, 2015		
	Directly owned	Equity accounted investments	Total	Directly owned	Equity accounted investments	Total
Revenue	\$ 80,773	\$ 153,398	\$ 234,171	\$ 61,492	\$ 9,468	\$ 70,960
Gross margin ⁽¹⁾	\$ 18,348	\$ 40,458	\$ 58,806	\$ 15,980	\$ 2,021	\$ 18,001
Gross margin (%)	22.7%	26.4%	25.1%	26.0%	21.3%	25.4%
Selling, marketing and other indirect costs	(10,159)	(7,683)	(17,842)	(6,771)	(2,349)	(9,120)
Net margin	\$ 8,189	\$ 32,775	\$ 40,964	\$ 9,209	\$ (328)	\$ 8,881
Net margin (%)	10.1%	21.4%	17.5%	15.0%	(3.5%)	12.5%
Condominium occupancy units (project level)	397	861	1,258	369	157	526
Condominium occupancy units (Dream's share)	203	413	616	185	28	213
Per unit ⁽²⁾	\$ 338,000	\$ 356,000	\$ 350,000	\$ 303,000	\$ 306,000	\$ 304,000
Per square foot	\$ 470	\$ 530	\$ 511	\$ 475	\$ 475	\$ 475

⁽¹⁾ Gross margin for condominium operations includes interest expense, which is capitalized during the development period and expensed through cost of sales as units are occupied.

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

In the year ended December 31, 2016, revenue of \$234.2 million and net margin of \$41.0 million, respectively, was generated from condominium unit occupancies in projects held through both direct and equity accounted ownership, specifically The Carnaby (226 units, 113 units at Dream's share), The Taylor (96 units, 33 units at Dream's share), Twenty (113 units, 57 at Dream's share) and the Canary District (808 units, 404 at Dream's share).

Included in selling, marketing and other indirect costs in the three and twelve months ended December 31, 2016 was \$0.5 million and \$4.3 million of costs incurred relating to projects expected to occupy in future periods.

Owned Condominiums and Results of Pre-Sale Activity for Condominiums

The results of our sales or pre-sales activity for condominium projects, which are in the marketing, development or construction phases is summarized below. We currently have 1,106 units in inventory, including equity accounted investments as at December 31, 2016 (421 at Dream's share), which have achieved a market launch.

Project	Ownership	Status	Dream ownership %	Development	# Units (at project level)	Units in inventory as at December 31, 2016	% Units sold or pre-sold as at December 31, 2016	Expected closing
The Southwood	Direct	Under Construction	50%	Toronto Condo	108	108	81%	2017
Riverside Square – Phase 1 and 2	Direct	Under Construction	32.5%	Toronto Condo	830	830	97%	2018–2020
Sub-total – Toronto Projects					938	938	95%	
Other projects	Direct/Equity Accounted	Various	50%-100%	Various	177	168	56%	2017–2019
					1,115	1,106	89%	

Asset Management, Management Services and Equity Ownership

We provide asset management and/or management services to four publicly listed funds, our renewable power business, various institutional partners, and development projects and partnerships. As at December 31, 2016, Dream managed assets with a value of approximately \$14.0 billion (December 31, 2015 – \$15.0 billion). For additional details, refer to Note 37 of the audited consolidated financial statements of the Company for the year ended December 31, 2016.

Asset Management and Management Services Agreements

Asset management (for which base fees are generated) includes the overall management of the publicly listed funds' businesses, including the provision of a Chief Executive Officer and Chief Financial Officer and overseeing the operations of accounting and property management. As the asset manager, Dream also provides acquisition and disposition personnel and, on a cost recovery basis, oversees debt and equity financing. Dream has not recognized any incentive fees pertaining to these agreements as at December 31, 2016.

Details of the fee structure for Dream Global REIT and Dream Industrial REIT are included below.

- Base management fee of 0.25% (Dream Industrial REIT) and 0.35% (Dream Global REIT) on historical cost of assets.
- Acquisition fee equal to: (i) 1.0% of the purchase price of a property on the first \$100 million of properties acquired in each fiscal period; (ii) 0.75% of the purchase price of a property on the next \$100 million of properties acquired in each fiscal period; and (iii) 0.50% of the purchase price on properties acquired in excess of \$200 million in each fiscal period.
- Financing fee equal to 0.25% of the debt and equity of all financing transactions completed; the financing fee is adjusted on an annual basis to ensure the fee does not exceed the amount of actual expenses incurred by Dream in supplying services relating to financing transactions.
- Incentive fees of 15% of AFFO (adjusted funds from operations) earned above a benchmark. The benchmarks vary by fund and increase by 50% of the increase in the relevant consumer price index.
- Capital expenditure fees equal to 5.0% of all hard construction costs incurred on each capital project with costs in excess of \$1.0 million, excluding work done on behalf of tenants or any maintenance capital expenditures.

Dream receives fees in respect of services to Dream Alternatives, which include:

- Base annual management fee calculated and payable on a monthly basis, equal to 1.0% of the gross value of assets.
- Acquisition/origination fee equal to: (i) 0.40% of the principal amount of any loan originated by Dream Alternatives or a subsidiary having an expected term of less than five years; (ii) 1.0% of the principal amount of any loan originated by Dream Alternatives or a subsidiary having an expected term of five years or more; and (iii) 1.0% of the gross cost of any asset acquired or originated by Dream Alternatives or a subsidiary represented by all other investments, assets or projects.
- Disposition fee equal to 0.25% of the gross sale proceeds of any asset (including all indebtedness) sold by Dream Alternatives or any subsidiary represented by loans, investments, assets or projects disposed of during the fiscal year, including any part of the initial assets, except for the disposition of individual loans having a term to maturity of 12 months or less (other than as part of a portfolio disposition), or the disposition of assets (other than initial assets unless approved by the independent trustees) acquired in the preceding 12 months and excluding the regular and scheduled repayment of loans.

Reorganization of Asset Management Agreement with Dream Office REIT

On April 2, 2015, the Company and Dream Office REIT announced a reorganization where the Company received 4,850,000 LP Class B Units, Series 1, of Dream Office LP, a subsidiary of Dream Office REIT, which are exchangeable for 4,850,000 Dream Office REIT units. In return, the annual management fee, acquisition fee and capital expenditure fee payable by Dream Office REIT to Dream under its asset management agreement were eliminated.

The Company and Dream Office REIT have entered into a Management Services Agreement effective April 2, 2015, pursuant to which the Company will continue to provide certain management services, including services of a Chief Executive Officer to Dream Office REIT as requested.

Breakdown of Fees Earned

The following table summarizes the types of fees included in asset management and management services revenue, including those further described in Note 37 of the Company's audited consolidated financial statements for the year ended December 31, 2016:

	For the three months ended December 31,		For the year ended December 31,	
	2016	2015	2016	2015
Fee-earning assets under management – publicly listed funds ⁽¹⁾	\$ 5,165,000	\$ 5,100,000	\$ 5,165,000	\$ 5,100,000
Fees earned from publicly listed funds				
Base asset management fees – cash	\$ 5,876	\$ 4,744	\$ 21,445	\$ 23,535
Base asset management fees – deferred units ⁽²⁾	—	308	881	1,318
Acquisition fees and other	1,900	1,948	3,223	5,117
Total fees earned from asset management agreements with publicly listed funds	7,776	7,000	25,549	29,970
Development and other asset management fees from third-party arrangements	13,909	2,489	38,414	4,726
	\$ 21,685	\$ 9,489	\$ 63,963	\$ 34,696

⁽¹⁾ Refer to page 55 for the definition of the Non-IFRS measure fee-earning assets under management.

⁽²⁾ The consideration received for a portion of the asset management services provided to Dream Global REIT prior to August 2016 was received in deferred trust units of Dream Global REIT. The deferred trust units carry a five-year vesting condition from the date of grant. As a result, the deferred trust units are recorded, when earned, at a discount to the publicly traded price. This discount fluctuates each period based on observable inputs and, as a result, the amount of revenue recognized by Dream will fluctuate year over year based on the changes in the discount rate applied. The inputs used to determine the discount applied to the deferred trust units is outlined in Note 32 of the audited consolidated financial statements for the year ended December 31, 2016.

In the three months ended December 31, 2016, base asset management fees earned from publicly listed funds increased by \$0.8 million compared to the prior year. This increase was partially attributable to the Company receiving cash in lieu of receiving deferred units (which are discounted in the financial statements) as consideration for a portion of asset management services provided to Dream Global REIT, upon reaching its five year anniversary on August 3, 2016, which is consistent with the terms of the agreement.

Base asset management fee revenue for the year ended December 31, 2016 decreased by \$2.5 million compared to the prior year due to the reorganization of the asset management agreement with Dream Office REIT, which occurred on April 2, 2015, and was partially offset by higher base fees from Dream Global REIT. Acquisition fees and other revenue earned from publicly listed funds decreased by \$1.9 million in the year ended December 31, 2016, primarily due to the volume of activity within the funds, which can fluctuate period over period.

In the three months ended December 31, 2016, development and other asset management fees increased by \$11.4 million compared to the prior year due to a greater number of development management arrangements in the current period. Included in development and other asset management fees in the three months ended December 31, 2016 was \$12.5 million in fees earned for the completion of milestones related to urban development projects. For the year ended December 31, 2016, over 50% of asset management revenue was earned on development arrangements for the completion of certain milestones. Fees earned from development arrangements may fluctuate period over period and are dependent on the varying terms of each arrangement and timing of successful achievement of development, leasing and/or financing milestones.

Breakdown of Asset Management and Management Services Expenses Incurred to Generate Net Margin

The types of asset management and management services expenses are detailed in the following table:

	For the three months ended December 31,		For the year ended December 31,	
	2016	2015	2016	2015
Salary and other compensation	\$ 1,029	\$ 1,237	\$ 6,495	\$ 5,167
Corporate, service and professional fees	664	644	2,246	2,196
General office and other operating costs	256	24	512	775
	\$ 1,949	\$ 1,905	\$ 9,253	\$ 8,138

In the three months ended December 31, 2016, total expenses remained relatively stable compared to the prior period. In the year ended December 31, 2016, expenses increased by \$1.1 million from the prior period, primarily due to higher compensation related expenses for the onboarding of development management personnel, as a result of growth in certain business arrangements.

Results of Operations – Asset Management and Management Services

	For the three months ended December 31,		For the year ended December 31,	
	2016	2015	2016	2015
Revenue	\$ 21,685	\$ 9,489	\$ 63,963	\$ 34,696
Net margin	\$ 19,736	\$ 7,584	\$ 54,710	\$ 26,558
Net margin (%)	91.0%	79.9%	85.5%	76.5%

During the three months ended December 31, 2016, net margin increased by \$12.2 million, primarily due to increased fees earned from development arrangements. In the year ended December 31, 2016, net margin increased by \$28.2 million and net margin as a percentage of revenue increased from 76.5% to 85.5%, primarily due to the aforementioned development management fees for achieving various project completion milestones.

Investment and Other Income

A summary of the components of investment and other income are presented below.

	For the three months ended December 31,		For the year ended December 31,	
	2016	2015	2016	2015
Dream Office REIT	\$ 2,876	\$ 2,488	\$ 8,009	\$ 8,149
Other distributions from publicly listed funds	366	419	2,476	1,893
Interest and other income	39	943	3,312	3,324
	\$ 3,281	\$ 3,850	\$ 13,797	\$ 13,366

Investments in Publicly Listed Funds (Dream Office REIT, Dream Global REIT and Dream Alternatives)

The Company holds units in Dream Office REIT and Dream Global REIT which are presented within other financial assets on the Company's statement of financial position. Any changes in the fair value of the investments are recognized through other comprehensive income. Distribution income earned on these units are recognized in investment income, net of the portion considered to be a return of capital. As at December 31, 2016, the Company's investment in Dream Alternatives was included in equity accounted investments. Refer to page 31 of this MD&A for further details.

During and subsequent to the year ended December 31, 2016, Dream purchased approximately 3.1 million units in Dream Office REIT for a total cost of \$59.1 million and 4.4 million units in Dream Alternatives for a total cost of \$24.2 million. As at February 24, 2017, Dream held a total of 6.3 million units in Dream Alternatives, representing an ownership interest of approximately 9%, and a total of 9.1 million units in Dream Office REIT (including LP B units), representing an ownership interest of approximately 8%. As of February 24, 2017, the total fair value of units held by Dream in the Publicly Listed Funds (collectively Dream Office REIT, Dream Global REIT and Dream Alternatives) was approximately \$260.0 million, representing 34% of the Company's total market capitalization.

Details of the Company's investments in publicly listed funds as at December 31, 2016 are presented below.

As at December 31, 2016								
(in thousands of dollars, except unit and per unit amounts)	Annual distribution per unit	Current annual pre-tax cash flow distributions ⁽¹⁾	Distributions received in the year ended December 31, 2016	Investment income recognized in year ended December 31, 2016	Units held	Market price as at December 31, 2016	Fair Value	
<i>Included within Other Financial Assets</i>								
Dream Office REIT	\$ 1.50	\$ 5,787	\$ 1,594	\$ 1,307	3,858,153	\$ 19.55	\$ 75,427	
Dream Office REIT LP B	\$ 1.50	\$ 7,851	\$ 8,173	\$ 6,702	5,233,823	\$ 19.55	\$ 102,321	
Dream Global REIT	\$ 0.80	\$ 2,240	\$ 2,240	\$ 1,254	2,800,000	\$ 9.45	\$ 26,460	
Dream Global REIT, deferred trust units	\$ n/a	\$ n/a	\$ n/a	\$ 1,222	2,134,289	\$ n/a	\$ 15,564	
<i>Included within Equity Accounted Investments</i>								
Dream Alternatives	\$ 0.40	\$ 2,365	\$ 1,790	\$ n/a	5,911,900	\$ 6.26	\$ 37,008	
	\$	\$ 18,243	\$ 13,797	\$ 10,485			\$ 256,780	

⁽¹⁾ Annualized pre-tax cash flows are based on annual distributions and units held as at December 31, 2016.

As at December 31, 2015								
(in thousands of dollars, except unit and per unit amounts)	Annual distribution per unit	Current annual pre-tax cash flow distributions	Distributions received in the year ended December 31, 2015	Investment income recognized in year ended December 31, 2015	Units held	Market price as at December 31, 2015	Fair Value	
<i>Included within Other Financial Assets</i>								
Dream Office REIT	\$ 2.24	\$ 1,734	\$ 1,734	\$ 1,248	773,939	\$ 17.37	\$ 13,443	
Dream Office REIT LP B	\$ 2.24	\$ 11,724	\$ 9,007	\$ 6,901	5,233,823	\$ 17.37	\$ 90,912	
Dream Global REIT	\$ 0.80	\$ 2,240	\$ 2,240	\$ 1,036	2,800,000	\$ 8.66	\$ 24,248	
Dream Global REIT, deferred trust units	\$ n/a	\$ n/a	\$ n/a	\$ 812	1,792,344	\$ n/a	\$ 10,609	
Dream Alternatives	\$ 0.40	\$ 726	\$ 264	\$ 45	1,815,600	\$ 5.68	\$ 10,313	
	\$	\$ 16,424	\$ 13,245	\$ 10,042			\$ 149,525	

Refer to Note 32 of the Company's audited consolidated financial statements for the year ended December 31, 2016 for details on the fair value measurement approach and the vesting schedule for the Dream Global REIT deferred trust units.

In the year ended December 31, 2016, investment income earned on distributions from the Company's investments in publicly listed funds remained relatively stable year over year.

Dream Office REIT is an unincorporated real estate investment trust and operates high-quality, affordable business premises in key markets across Canada. It is focused on owning, acquiring, leasing and managing urban and suburban office properties in Canada. Dream Global REIT is an unincorporated, open-ended real estate investment trust that provides investors with the opportunity to invest in commercial real estate exclusively outside of Canada. Dream Alternatives is a mutual fund trust focused on hard asset alternative investments, including real estate, real estate lending, and infrastructure and renewable power.

Investment and Recreational Properties

Our investment properties include interests in commercial and retail properties both under development and fully income producing, including the Distillery District, Western Canada retail developments and a 73-acre commercial/industrial property in Etobicoke, Ontario. Our recreational properties include a ski area in Colorado and a 50% interest in the Broadview Hotel in a neighbourhood just east of downtown Toronto.

Summary of Combined Results

The following table shows a continuity of the carrying value of real estate assets and the operating results for the investment properties and recreational properties division held by Dream through direct ownership:

<i>(in thousands of Canadian dollars)</i>		Investment properties – Ontario		Development properties – Western Canada ⁽¹⁾		Recreational properties		Total
Balance, December 31, 2015	\$	93,051	\$	48,915	\$	29,031	\$	170,997
Acquisitions ⁽¹⁾		44,777		12,684		—		57,461
Additions		1,579		9,444		7,527		18,550
Transfer from condominium inventory		—		9,529		—		9,529
Fair value adjustments		18,802		(900)		—		17,902
Amortization and other		(33)		134		(3,686)		(3,585)
Balance, December 31, 2016	\$	158,176	\$	79,806	\$	32,872	\$	270,854

⁽¹⁾ Acquisitions balance includes future retail/commercial development projects that are not yet active sites.

	For the three months ended December 31,		For the year ended December 31,	
	2016	2015	2016	2015
Revenue	\$ 10,574	\$ 10,271	\$ 46,471	\$ 43,361
Net operating income ⁽¹⁾	2,891	2,595	16,013	12,090
Net margin	\$ 786	\$ 488	\$ 7,658	\$ 4,132
Net margin (%)	7.4%	4.8%	16.5%	9.5%

⁽¹⁾ Net operating income is a Non-IFRS measure as defined and reconciled on page 55 of this MD&A.

Development Properties—Western Canada

In the three months ended December 31, 2016, Brighton Marketplace was added to our active retail project pipeline. The 21.5-acre site had committed and conditional leases of 62% as at February 24, 2017 with a weighted average lease term of 15.1 years. The retail centre will comprise of 231,000 sf of GLA and will include tenants such as: Save-On-Foods, Magic Lantern Theatres and Motion Fitness.

In the three months ended December 31, 2016, \$9.5 million of condominium unit inventory (held at cost) was transferred to investment properties (held at fair value) upon achieving first multi-family tenant occupancy. The site is the Company's first multi-family rental building, comprised of 48 rental units. Refer to Note 3 of the audited consolidated financial statements for the year ended December 31, 2016 for the Company's policy on transfers from inventory to development investment properties. The fair value of the residential rental building is included within Western Canada investment properties as of December 31, 2016.

In the year ended December 31, 2016, Dream strategically acquired 17.4 acres immediately adjacent to the Company's Tamarack neighbourhood in southeast Edmonton near the intersection of 17 and Whitemud for a purchase price of \$12.7 million. The lands are situated at the heart of a 1.2 million sf commercial node, which includes a Home Depot, Real Canadian Superstore, Shoppers Drug Mart and recently opened Walmart Supercentre. The acquired site is zoned for a mixed-use commercial development that can accommodate both retail and office uses and at full build is anticipated to provide a pedestrian friendly, transit supported, commercial centre for up to 750,000 sf of space that will act as a hub for entertainment and shopping in the Tamarack community.

As at December 31, 2016, Dream had committed leases for Tamarack (North, North East and South East), for approximately 76% of the aggregate GLA with a weighted average lease term of 11.4 years. Management expects that the properties, comprising 178,400 sf upon completion will be fully leased by their expected completion dates in 2017 and 2018. Refer to Note 10 of the Company's audited consolidated financial statements for the year ended December 31, 2016 for details on our valuation methodology of retail properties.

In the year ended December 31, 2016, Dream commenced construction on its 6.5-acre retail site in South Kensington for its first tenant, Save-On-Foods. When open in June 2017, the 34,000 sf Save-On-Foods location will be the first in the Saskatoon market. The total shopping centre will comprise 72,100 sf of GLA and will include other tenants such as Scotiabank and Shoppers Drug Mart. As at December 31, 2016, Dream had secured leases for approximately 82% of

the site for a weighted average lease term of 17.1 years. Management expects that Shops of South Kensington will be fully leased upon its expected completion date in 2018 and expects to achieve its first tenant occupancy in early 2017.

Highlights of Dream's active retail development projects as at December 31, 2016 are shown in the table below. Including the active projects below, Dream Centres, our internal retail development division, is actively developing approximately 150 net acres in Western Canada that are at various stages of approvals. Further details on active developments are below.

Active Retail Projects under Construction

	Balance sheet classification as at December 31, 2016	Dream ownership	Measurement for accounting purposes	Net estimated acres to develop	Estimated GLA at completion	Committed leases ⁽¹⁾	Committed leases %	Weighted average lease term ⁽²⁾	Estimated stabilized NOI at completion ⁽³⁾	Development yield on cost ⁽³⁾	Estimated completion date
Saskatoon											
Shops of South Kensington	Land under development	100%	Cost	6.5	72,100	59,000	81.8%	17.1			2018
Brighton Marketplace	Equity accounted investment	50%	Cost	21.5	231,000	117,700	51.0%	16.1			2020
Edmonton											
Tamarack North East	Investment properties	100%	Fair value	5.6	57,600	28,600	49.7%	12.8			2018
Tamarack North	Investment properties	100%	Fair value	3.2	24,900	21,100	84.7%	15.3			2017
Tamarack South East	Investment properties	100%	Fair value	9.1	95,900	86,700	90.4%	10.0			2018
Total retail development (100%)				45.9	481,500	313,100	65.0%	14.2	\$ 12,200	7.6%	

<i>(in thousands of dollars, except per square foot)</i>	Major tenants	Estimated cost of development including land ⁽³⁾	Costs incurred to date	Estimated costs to complete ⁽³⁾	Estimated value upon completion ⁽³⁾	Estimated cost per square foot	Estimated value per square foot upon completion
Saskatoon							
South Kensington	Shoppers Drug Mart, Save-On-Foods	\$ 20,500	\$ 11,400	\$ 9,100	\$ 29,400	\$ 284	\$ 407
Brighton Marketplace	Save-On-Foods, Magic Lantern Theatres, Motion Fitness	80,200	11,900	68,300	97,600	347	423
Edmonton							
Tamarack North East	GoodLife Fitness	18,200	11,100	7,100	22,600	316	392
Tamarack North	Petro Canada, McDonald's	7,900	5,600	2,300	11,500	318	462
Tamarack South East	Michaels, Sport Chek, Shoppers Drug Mart, Tim Hortons, Liquor Depot	34,700	29,500	5,200	41,300	362	431
Total retail developments (100%)		\$ 161,500	\$ 69,500	\$ 92,000	\$ 202,400	\$ 335	\$ 420
Total retail developments (Dream's share)		\$ 121,400	\$ 63,600	\$ 57,900	\$ 153,600	\$ 332	\$ 420
Carrying value of retail developments as at December 31, 2016 (100%)					\$ 84,081		
Fair value of retail developments as at December 31, 2016 (Dream's share)					\$ 76,987		

⁽¹⁾ Committed leases represent the GLA under an agreement to lease between a tenant and the Company as at December 31, 2016.

⁽²⁾ The weighted average lease term is from the commencement date of the committed lease and excludes renewal options.

⁽³⁾ Refer to page 55 of this MD&A for definitions of Non-IFRS measures for the Estimated Cost of Development, Estimated Costs to Complete, Estimated Value Upon Completion, Development Yield and Estimated Stabilized NOI. At December 31, 2016, Dream's active retail projects under construction were recorded on the balance sheet at \$77.0 million (inclusive of \$15.0 million in cumulative fair value gains already recognized to date) with management's estimated value upon their respective completion dates in 2017-2020 expected to be \$153.6 million, using market capitalization rates in the range of 6.0% -6.25%.

Investment Properties—Direct Ownership

The fair value of investment properties held through Dream's direct ownership is summarized below.

	Nature of business	Location	Direct ownership %	December 31, 2016	December 31, 2015
Distillery District ⁽¹⁾	Historical heritage	Toronto	50%	\$ 111,049	\$ 91,071
Thornhill Woods	Retail	Toronto	32%	2,160	1,980
Investment properties – other	Retail/Commercial	Various	100%	44,967	—
Total investment properties – Ontario				\$ 158,176	\$ 93,051
Total related debt				\$ (73,773)	\$ (50,562)

⁽¹⁾ Includes retail space in our condominium developments and parking space.

	Nature of business	Location	Direct ownership %	December 31, 2016	December 31, 2015
Tamarack	Retail development	Edmonton	100%	\$ 58,550	\$ 48,915
Kensington	Multi-family rental	Saskatoon	100%	8,400	—
Development properties – other	Various	Edmonton	100%	12,856	—
Total development properties – Western Canada				\$ 79,806	\$ 48,915
Total related debt				\$ (40,534)	\$ (23,999)

The fair value of our income producing properties held through direct ownership increased by \$96.0 million from prior year, primarily due to a fair value gain of \$18.6 million on our Distillery District retail space and the acquisitions of a 73-acre commercial/industrial site in Toronto, Ontario and a 19.6-acre retail site in Kingston, Ontario. Refer to Note 10 of the audited consolidated financial statements for the year ended December 31, 2016 for details on our valuation methodology of investment properties.

Investment Properties—Equity Accounted Investments

The fair value of investment properties held through Dream's equity accounted investments is summarized below.

	Nature of business	Location	Equity accounted investment %	December 31, 2016	December 31, 2015
Canary District Retail	Retail/mixed-use	Toronto	50%	\$ 7,250	\$ —
Toronto Retail and Mixed-Use Properties	Retail/mixed-use	Toronto	50%	10,703	10,427
Brighton Marketplace	Retail development	Saskatoon	50%	7,094	—
Total investment properties – equity accounted investments				\$ 25,047	\$ 10,427
Total related debt				\$ (7,869)	\$ (8,274)

In the year ended December 31, 2016, Dream achieved approximately 18,000 sf of retail occupancies in the Canary District and transferred \$5.7 million from condominium inventory to investment properties within its equity accounted investment Dundee Kilmer, recognizing a fair value gain of \$1.2 million upon transfer.

	December 31, 2016	December 31, 2015
Number of commercial properties ⁽¹⁾	24	18
Total commercial area (sf) ^{(1),(2)}	1,148,000	527,000
Total parking stalls	484	484
Range for terminal capitalization rate	5.25% – 6.50%	5.75% – 6.50%

⁽¹⁾ The above includes 117,600 sf of GLA related to the portion of the Company's retail development in Western Canada that has been occupied by tenants. The Company will include the additional 60,800 sf of GLA at Tamarack sites as it is constructed and completed. See page 28 of this MD&A for further details.

⁽²⁾ The above excludes GLA for any of the Company's investment properties utilized for parking. These income producing parking stalls have been included in the number of parking stalls statistics.

The aggregated operating results of directly owned investment properties are summarized below.

	For the three months ended December 31,				For the year ended December 31,			
	Investment properties - Ontario	Development properties - Western Canada	2016	2015	Investment properties - Ontario	Development properties - Western Canada	2016	2015
Revenue	\$ 2,548	\$ 950	\$ 3,498	\$ 2,688	\$ 9,170	\$ 3,171	\$ 12,341	\$ 9,383
Distillery District	1,434	—	1,434	1,303	5,249	—	5,249	4,658
Other properties	143	666	809	418	506	2,230	2,736	610
Total net operating income	1,577	666	2,243	1,721	5,755	2,230	7,985	5,268
Net operating income %	61.9%	70.1%	64.1%	64.0%	62.8%	70.3%	64.7%	56.1%
Total net margin	\$ 1,244	\$ (156)	\$ 1,088	\$ 506	\$ 3,754	\$ (1,336)	\$ 2,418	\$ 951
Net margin (%)	48.8%	(16.4%)	31.1%	18.8%	40.9%	(42.1%)	19.6%	10.1%
Fair value changes in investment properties	\$ 19,323	\$ (726)	\$ 18,597	\$ 1,335	\$ 18,802	\$ (900)	\$ 17,902	\$ 11,158
Net segment earnings	\$ 20,567	\$ (882)	\$ 19,685	\$ 1,841	\$ 22,556	\$ (2,236)	\$ 20,320	\$ 12,109

In the three months ended December 31, 2016, revenue and net operating income increased by \$0.8 million and \$0.5 million, respectively, from the prior period primarily due to rental income earned during the development period of our retail properties in Western Canada. For similar reasons, in the year ended December 31, 2016, revenue and net operating income increased from the prior year by \$3.0 million and \$2.7 million, respectively. The majority of our retail properties in Western Canada are under development and will not be fully income producing until their estimated completion dates in 2017 - 2020. For further details, see the tables on page 28 of this MD&A.

Net margin in the three and twelve months ended December 31, 2016, improved year over year primarily due to the aforementioned increase in net rental income partially offset by increased overhead costs from continued growth in the retail division to support our future development activity.

In the three and twelve months ended December 31, 2016, fair value gains of \$19.3 million and \$18.8 million, respectively, were recognized on income producing properties in Ontario due to an increase in the fair value of our interest in the Distillery District in Toronto. The fair value increase was supported by an external appraisal at year end which utilized an overall capitalization rate of 4.75% to the stabilized NOI of the property, supported by comparable transactions and market data. The property was valued at a 5.25% capitalization rate in the year ended December 31, 2015. In the year ended December 31, 2015, the fair value gains on investment properties of \$11.1 million were primarily related to our Western Canada retail development properties, upon transfer from land inventory to investment properties.

The increase of \$17.8 million and \$8.2 million in net segment earnings in the three and twelve months ended December 31, 2016 compared to the prior year was primarily due to the fair value changes, as discussed above.

Recreational Properties

The carrying value of recreational properties is summarized below.

	Direct ownership %	December 31, 2016	December 31, 2015
Operational recreational properties:			
Arapahoe Basin ski hill (Colorado)	100%	\$ 20,068	\$ 19,328
Willows Golf Course (Saskatchewan)	100%	2,522	2,814
Recreational properties under development:			
Broadview Hotel (Ontario)	50%	10,282	6,889
Total recreational properties		\$ 32,872	\$ 29,031
Total related debt⁽¹⁾		\$ (18,651)	\$ (7,337)

⁽¹⁾ Included in the December 31, 2016 balance were loans related to Arapahoe Basin that had a carrying balance of \$11.6 million.

The carrying value of recreational properties increased by \$3.8 million from December 31, 2015 to December 31, 2016, mainly due to additions to the Broadview Hotel. Total debt on recreational properties increased by \$11.3 million, primarily due to new term loan financing raised with respect to Arapahoe Basin during the year ended December 31, 2016. Refer to the Debt and Preference Shares section of this MD&A for further details.

	Ownership interest	Current status ⁽¹⁾	Last season opening date	Last season closing date
Willows Golf Course (Saskatchewan)	100%	Closed	13-Apr-16	23-Oct-16
Arapahoe Basin ski hill (Colorado)	100%	Open	21-Oct-16	12-Jun-16
Broadview Hotel (Ontario)	50%	Under development	n/a	n/a

⁽¹⁾ As of February 24, 2017.

The operating results of recreational properties are summarized below.

	For the three months ended December 31,			For the year ended December 31,		
	2016	2015		2016	2015	
Revenue	\$ 7,076	\$ 7,583	\$	\$ 34,130	\$ 33,978	
Net operating income	648	874		8,028	6,822	
Net margin	\$ (302)	\$ (18)	\$	\$ 5,240	\$ 3,181	
Net margin (%)	(4.3%)	(0.2%)		15.4%	9.4%	

In the three months ended December 31, 2016, revenue and net operating income decreased by \$0.5 million and \$0.2 million, respectively, primarily due to lower non-recurring parking revenue and higher operational costs at the Willows Golf Course. Overall, in the year ended December 31, 2016, revenue and net operating income increased from the prior year by \$0.2 million and \$1.2 million, respectively, due to favourable ski conditions at Arapahoe Basin. Over the last five years, the ski hill has seen skier visits more than double and yield per skier visit has grown by nearly 20%. Arapahoe Basin continues to expand and represents a growing source of recurring income for the Company.

Equity Accounted Investments

The Company has entered into certain arrangements in the form of jointly controlled entities, primarily for the development of condominium and investment properties and for renewable energy investments. These entities include restrictions on the ability to access assets without the consent of all partners and through distribution conditions outlined in partnership agreements. These arrangements are accounted for under the equity method. Our share of earnings from equity accounted investments is included in earnings for each period. Earnings from each of the equity accounted investments may fluctuate significantly due to the nature of their operations and may depend on market forces or other operating conditions that may not necessarily be under our direct control.

The equity method of accounting is also applicable to investments in common stock in which Dream is deemed to be able to exercise significant influence over the investee company. The Company's investment in Dream Alternatives was determined to have met this criteria in 2016 under IFRS. In previous reporting periods, the Company's investment in Dream Alternatives was reported at fair value within other financial assets. In addition to its equity investment, Dream is party to a management agreement with Dream Alternatives. The management agreement with Dream Alternatives is recorded on the Company's balance sheet as an intangible asset and is described in Note 12 of the Company's audited consolidated financial statements for the year ended December 31, 2016. The full terms of the management agreement are described in the Company's annual filings on SEDAR (www.sedar.com).

As at December 31, 2016, Dream held approximately 5,911,900 units in Dream Alternatives (approximately 8% of units outstanding of Dream Alternatives). The Company considers the fair value of its investment in Dream Alternatives and the distributions earned on its investment to be relevant information to stakeholders and accordingly maintains this disclosure on page 26 of this MD&A.

In the year ended December 31, 2016, earnings from equity accounted investments was \$42.8 million, compared to losses of \$0.5 million in the prior year primarily as a result of \$34.8 million of income generated largely from condominium unit occupancies at the Canary District, which is owned through Dundee Kilmer. Refer to pages 22—23 of this MD&A for additional details on earnings generated from the Canary District during the period.

For the three months ended December 31, 2016

Equity accounted development investments	Brighton Marketplace	Dundee Kilmer Developments LP	Zibi	Dream CMCC Funds I and II	Other	Total
Project level (at 100%)						
Revenues	\$ —	\$ 6,204	\$ 52	\$ 8,944	\$ —	15,200
Earnings (losses)	(16)	978	96	7,381	(46)	8,393
Earnings (losses) before depreciation	(16)	978	(100)	7,381	(46)	8,197
Dream's ownership interest	50%	50%	50%	9%–40%	25%–50%	
Attributable to Dream:						
Revenues	\$ —	\$ 3,102	\$ 26	\$ 2,335	\$ —	5,463
Earnings (losses)	(8)	489	48	2,053	(13)	2,569
Earnings (losses) before depreciation	(8)	489	(50)	2,070	(13)	2,488
Income producing investments	Dream Alternatives⁽¹⁾	Firelight Infrastructure Partners LP	Distillery Restaurants LP	Toronto Condominiums and Mixed-Use Properties	Other	Total
Project level (at 100%)						
Revenues	\$ 26,373	\$ 24,955	\$ 10,570	\$ 430	\$ 1,413	63,741
Earnings (losses)	(12,491)	(2,945)	686	482	808	(13,460)
Earnings (losses) before depreciation	(11,356)	7,790	984	482	813	(1,287)
Dream's ownership interest	8%	20%	50%	50%	17%–78%	
Attributable to Dream:						
Revenues	\$ 1,887	\$ 4,991	\$ 5,285	\$ 215	\$ 411	12,789
Earnings (losses)	(708)	(589)	343	241	224	(489)
Earnings (losses) before depreciation	(609)	1,558	492	241	226	1,908
Total revenues					\$	18,252
Total earnings					\$	2,080
Total earnings before depreciation					\$	4,396

⁽¹⁾ The ownership interest in Dream Alternatives increased throughout the three months ended December 31, 2016 and was approximately 8% as at December 31, 2016.

For the three months ended December 31, 2015

For the three months ended December 31, 2013									
Equity accounted development investments	Dundee Kilmer Developments LP		Zibi	Dream CMCC Funds I and II		Other		Total	
Project level (at 100%)									
Revenues	\$	6	\$	—	\$	9,193	\$	—	\$ 9,199
Earnings (losses)		(1,032)		(2,506)		668		(249)	(3,119)
Earnings (losses) before depreciation		(1,032)		(2,506)		809		(249)	(2,978)
Dream’s ownership interest		50%		50%		9%–40%		50%	
Attributable to Dream:									
Revenues	\$	3	\$	—	\$	1,708	\$	—	\$ 1,711
Earnings (losses)		(516)		(297)		183		(62)	(692)
Earnings (losses) before depreciation		(516)		(297)		209		(62)	(666)
Income producing investments	Firelight Infrastructure Partners LP		Distillery Restaurants LP	Toronto Condominiums and Mixed-Use Properties		Other		Total	
Project level (at 100%)									
Revenues	\$	17,285	\$	9,726	\$	377	\$	648	\$ 28,036
Earnings (losses)		(3,295)		898		(43)		344	(2,096)
Earnings (losses) before depreciation		9,290		1,230		(43)		349	10,826
Dream’s ownership interest		20%		50%		50%		17%–78%	
Attributable to Dream:									
Revenues	\$	3,457	\$	4,863	\$	188	\$	325	\$ 8,833
Earnings (losses)		(659)		449		(21)		181	(50)
Earnings (losses) before depreciation		1,858		615		(21)		182	2,634
								\$	10,544
								\$	(742)
								\$	1,968

For the year ended December 31, 2016

Equity accounted development investments	Brighton Marketplace	Dundee Kilmer Developments LP	Zibi	Dream CMCC Funds I and II	Other	Total
Project level (at 100%)						
Revenues	\$ —	\$ 298,826	\$ 82	\$ 37,369	\$ —	\$ 336,277
Earnings (losses)	(21)	69,678	(2,573)	15,387	(320)	82,151
Earnings (losses) before depreciation	(21)	69,678	(2,573)	15,387	(320)	82,151
Dream's ownership interest	50%	50%	50%	9%–40%	25%–50%	
Attributable to Dream:						
Revenues	\$ —	\$ 149,413	\$ 41	\$ 7,508	\$ —	\$ 156,962
Earnings (losses)	(11)	34,839	(1,421)	3,438	(93)	36,752
Earnings (losses) before depreciation	(11)	34,839	(1,421)	3,438	(93)	36,752
Income producing investments	Dream Alternatives⁽¹⁾	Firelight Infrastructure Partners LP	Distillery Restaurants LP	Toronto Condominiums and Mixed-Use Properties	Other	Total
Project level (at 100%)						
Revenues	\$ 98,924	\$ 136,454	\$ 33,323	\$ 1,642	\$ 3,479	\$ 273,822
Earnings (losses)	(10,476)	27,025	885	246	1,759	19,439
Earnings (losses) before depreciation	(6,433)	69,350	2,099	246	1,780	67,042
Dream's ownership interest	8%	20%	50%	50%	17%–78%	
Attributable to Dream:						
Revenues	\$ 5,275	\$ 27,290	\$ 16,661	\$ 821	\$ 1,276	\$ 51,323
Earnings (losses)	(560)	5,405	428	123	684	6,080
Earnings (losses) before depreciation	(343)	13,870	1,035	123	695	15,380
Total revenues					\$	208,285
Total earnings					\$	42,832
Total earnings before depreciation					\$	52,132

⁽¹⁾ The ownership interest in Dream Alternatives increased throughout the year ended December 31, 2016 and was approximately 8% as at December 31, 2016.

For the year ended December 31, 2015

Equity accounted development investments	Dundee Kilmer Developments LP	Zibi	Dream CMCC Funds I and II	Other	Total
Project level (at 100%)					
Revenues	\$ 99	\$ —	\$ 55,624	\$ —	\$ 55,723
Earnings (losses)	(3,481)	(2,506)	11,495	(281)	5,227
Earnings (losses) before depreciation	(3,481)	(2,506)	11,636	(281)	5,368
Dream's ownership interest	50%	50%	9%–40%	50%	
Attributable to Dream:					
Revenues	\$ 50	\$ —	\$ 10,135	\$ —	\$ 10,185
Earnings (losses)	(1,740)	(297)	2,134	(78)	19
Earnings (losses) before depreciation	(1,740)	(297)	2,160	(78)	45
Income producing investments	Firelight Infrastructure Partners LP	Distillery Restaurants LP	Toronto Condominiums and Mixed-Use Properties	Other	Total
Project level (at 100%)					
Revenues	\$ 132,492	\$ 31,525	\$ 1,533	\$ 2,286	\$ 167,836
Earnings (losses)	(7,026)	973	(587)	1,232	(5,408)
Earnings (losses) before depreciation	37,147	2,068	(587)	1,252	39,880
Dream's ownership interest	20%	50%	50%	17%–78%	
Attributable to Dream:					
Revenues	\$ 26,498	\$ 15,763	\$ 766	\$ 1,144	\$ 44,171
Earnings (losses)	(1,405)	487	(293)	662	(549)
Earnings (losses) before depreciation	7,429	1,034	(293)	672	8,842
Total revenues				\$	54,356
Total losses				\$	(530)
Total earnings (losses) before depreciation				\$	8,887

The Company's equity accounted investments were \$159.0 million as of December 31, 2016, a net increase of \$52.2 million from the prior year. The net increase year over year was largely driven by Dream's investments in Dream Alternatives (\$30.8 million) and Brighton Marketplace (\$6.0 million).

In the year ended December 31, 2016, Dream contributed 7.6 acres of retail land and cash consideration to Brighton Marketplace, a partnership owned 50% by Dream, to equalize each partner's contribution to the joint venture at fair value. As a result, Dream acquired 21.5 acres of retail land (previously "Dream Wilson") located in our Brighton (Holmwood) development in Saskatoon. Upon completion in 2020, Brighton Marketplace is expected to comprise 231,000 sf of GLA. For additional details on the development, refer to page 27–28 in this MD&A.

The following tables summarize the Company's proportionate share of assets and liabilities in equity accounted investments as at December 31, 2016 and 2015.

Equity accounted development investments	Brighton Marketplace	Dundee Kilmer Developments LP	Zibi	Dream CMCC Funds I and II	Other	Total
Project level (at 100%)						
Assets	\$ 16,786	\$ 104,686	\$ 61,544	\$ 62,597	\$ 67,562	\$ 313,175
Liabilities	(240)	(31,377)	(21,906)	(6,314)	(38,404)	(98,241)
Net assets	\$ 16,546	\$ 73,309	\$ 39,638	\$ 56,283	\$ 29,158	\$ 214,934
Dream's ownership interest	50%	50%	50%	9%–40%	25%–50%	
Assets	\$ 8,393	\$ 52,343	\$ 31,735	\$ 6,872	\$ 8,878	\$ 108,221
Liabilities	(120)	(15,688)	(10,953)	(732)	(5,294)	(32,787)
Net assets	\$ 8,273	\$ 36,655	\$ 20,782	\$ 6,140	\$ 3,584	\$ 75,434
Excess of net assets over deemed cost of investment⁽²⁾	(2,285)	—	—	—	—	(2,285)
Total development investments	\$ 5,988	\$ 36,655	\$ 20,782	\$ 6,140	\$ 3,584	\$ 73,149
				Toronto Condominiums and Mixed-Use Properties		
Income producing investments	Dream Alternatives⁽¹⁾	Firelight Infrastructure Partners LP	Distillery Restaurants LP		Other	Total
Project level (at 100%)						
Assets	\$ 999,668	\$ 997,528	\$ 11,273	\$ 32,131	\$ 12,764	\$ 2,053,364
Liabilities	(349,044)	(799,520)	(5,246)	(15,419)	(1,052)	(1,170,281)
Net assets	\$ 650,624	\$ 198,008	\$ 6,027	\$ 16,712	\$ 11,712	\$ 883,083
Dream's ownership interest	8%	20%	50%	50%	17%–78%	
Assets	\$ 81,683	\$ 199,506	\$ 5,675	\$ 16,067	\$ 4,769	\$ 307,700
Liabilities	(28,521)	(159,904)	(2,471)	(7,710)	(207)	(198,813)
Net assets	\$ 53,162	\$ 39,602	\$ 3,204	\$ 8,357	\$ 4,562	\$ 108,887
Excess of net assets over deemed cost of investment⁽²⁾	(22,991)	—	—	—	—	(22,991)
Total income producing investments	\$ 30,171	\$ 39,602	\$ 3,204	\$ 8,357	\$ 4,562	\$ 85,896
Total					\$	159,045

⁽¹⁾ The ownership interest in Dream Alternatives increased throughout the year ended December 31, 2016 and was approximately 8% as at December 31, 2016.

⁽²⁾ The excess of net assets over the deemed cost of investment is due to Dream's proportionate share of the joint venture's share of net assets having a higher fair value than the Company's cost of the investment at December 31, 2016.

As at December 31, 2015

AS at December 31, 2015										
Equity accounted development investments	Dundee Kilmer Developments LP		Zibi	Dream CMCC Funds I and II		Other		Total		
Project level (at 100%)										
Assets	\$	272,698	\$	50,831	\$	92,060	\$	1,705	\$	417,294
Liabilities		(231,866)		(20,620)		(25,480)		(2,060)		(280,026)
Net assets	\$	40,832	\$	30,211	\$	66,580	\$	(355)	\$	137,268
Dream's ownership interest		50%		50%		9%–40%		25%–50%		
Assets	\$	136,349	\$	26,514	\$	12,070	\$	394	\$	175,327
Liabilities		(115,933)		(10,310)		(4,175)		(509)		(130,927)
Net assets	\$	20,416	\$	16,204	\$	7,895	\$	(115)	\$	44,400
Income producing investments		Firelight Infrastructure Partners LP		Distillery Restaurants LP		Toronto Condominiums and Mixed-Use Properties		Other		Total
Project level (at 100%)										
Assets	\$	1,028,063	\$	10,240	\$	30,404	\$	14,985	\$	1,083,692
Liabilities		(795,725)		(4,842)		(15,240)		(1,387)		(817,194)
Net assets	\$	232,338	\$	5,398	\$	15,164	\$	13,598	\$	266,498
Dream's ownership interest		20%		50%		50%		17%–78%		
Assets	\$	205,613	\$	5,120	\$	15,202	\$	5,996	\$	231,931
Liabilities		(159,145)		(2,421)		(7,620)		(297)		(169,483)
Net assets	\$	46,468	\$	2,699	\$	7,582	\$	5,699	\$	62,448
Total								\$		106,848

Firelight Infrastructure Partners LP

Dream has an investment in Firelight, which has funded \$283.6 million, net of return of capital, for renewable energy projects (of which Dream's portion is \$56.7 million, which includes letters of credit of \$8.1 million), as at December 31, 2016. A complete list of projects is provided below:

Project	Energy source	Province	Status	Completion	MW
Dalhousie Mountain	Wind	NS	Operational	Q1 2010	51.0
Amherst	Wind	NS	Operational	Q2 2012	15.4
Erie Ridge	Ground-mount solar	ON	Operational	Q3 2011	4.3
Sandhurst	Ground-mount solar	ON	Operational	Q2 2012	10.0
Norfolk Bloomsburg	Ground-mount solar	ON	Operational	Q1 2013	10.0
Rutley	Ground-mount solar	ON	Operational	Q1 2012	10.0
Firelight Solar	Rooftop solar	ON	Operational	2011–2014	17.8
Hwy 2	Ground-mount solar	ON	Operational	Q4 2013	10.0
Odessa	Ground-mount solar	ON	Operational	Q4 2013	10.0
Alfred	Ground-mount solar	ON	Operational	Q4 2013	10.0
Unity	Ground-mount solar	ON	Operational	Q1 2014	10.0
Welland	Ground-mount solar	ON	Operational	Q3 2014	10.0
Ray	Ground-mount solar	ON	Operational	Q4 2014	10.0
Newboro 4	Ground-mount solar	ON	Operational	Q4 2014	10.0
South Stormont	Ground-mount solar	ON	Operational	Q1 2015	10.0
Nova Scotia Wind	Wind	NS	Operational	Q4 2014	15.4
Total					213.9

Earnings reported in the three months ended December 31, 2016 were in line compared to the same reporting period in 2015. For the year ended December 31, 2016, Firelight generated \$5.4 million of earnings (year ended December 31, 2015 – \$1.4 million of equity losses). Typically earnings for Firelight are lower in the fourth quarter of a fiscal year due to the seasonal nature of wind and solar renewable power assets. Dream's investment in Firelight generated \$0.6 million of losses for the three months ended December 31, 2016 (three months ended December 31, 2015 – \$0.7 million of losses). Earnings reported from Firelight in the year ended December 31, 2016 were significantly higher than the same reporting period in the prior year due to a non-cash impairment charge of \$7.0 million recorded in 2015, primarily related to Xeneca Limited Partnership, a subsidiary of Firelight, with various waterpower electricity projects in the pre-development stage.

During the year ended December 31, 2016, Firelight completed the successful re-financing of \$230.9 million term debt relating to four solar projects, taking advantage of current market conditions of low interest rates and a high demand for Canadian operational solar assets. Three of the four debt amendments were accounted for as debt modifications with no impact on earnings. The remaining debt amendment was accounted for as an extinguishment, resulting in the write-off of \$1.9 million of unamortized financing costs (of which Dream's portion is \$0.4 million). As a result of the aforementioned transaction, Firelight distributed \$25.4 million of cash (of which Dream's portion was \$5.1 million), which was the primary driver of the decrease in net assets of Firelight to \$39.6 million (at Dream's share) as at December 31, 2016 from \$46.5 million as at December 31, 2015.

Dundee Kilmer Developments LP

Dream has a 50% interest in Dundee Kilmer, which is a partnership between Dream and Kilmer Van Nostrand Co. Limited for the purpose of developing the Canary District and the Toronto 2015 Pan/Parapan American Games Athletes' Village. Net earnings for the year ended December 31, 2016 of \$34.8 million were generated primarily from 808 condominium unit occupancies (404 units at Dream's share) within the Canary District. The project was fully sold and closed in the three months ended December 31, 2016.

The increase in the net assets of Dundee Kilmer (at Dream's share) from \$20.4 million at December 31, 2015 to \$36.7 million as at December 31, 2016 was primarily due to income from the condominium units that occupied in 2016 that were not distributed to partners by the end of the year.

Lakeshore East Development

In the three and twelve months ended December 31, 2016, the Company acquired a 12.5% ownership interest in GulfDream Limited Partnership (the "Lakeshore East" development), contributing \$3.8 million in the three months ended December 31, 2016 (included in 'other development investments'). Dream Alternatives owns a 37.5% equity interest in the development partnership. The residual third-party partner/co-developer, Great Gulf Residential, is an award winning builder and developer of new homes and condominiums in the GTA, with 40 years of experience. GulfDream Limited Partnership entered into a \$30.0 million mortgage to acquire 5.3 acres of waterfront property in Toronto located at 351-369 Lakeshore Boulevard East, of which the Company's share is \$3.8 million. Together, Dream and Great Gulf Residential will act as co-developers for the project/partnership. The Lakeshore East development represents an exceptional waterfront development site. The property is planned for a mixed-used development with potential for over 1 million sf of density across three development blocks bisected by an extension of Queens Quay East to Cherry Street, which will include LRT transportation running through a dedicated centre lane. The site is subject to several policy and planning initiatives designed to shape a new waterfront community for Toronto. The development proposal contemplates the aforementioned density, along with preservation of the Victory Soya Mills Silos (constructed in the 1940s and originally used to store soybeans and other commodities prior to transportation across Canada), through either adaptive use or rehabilitation providing for a unique architectural feature, which are located on the western boundary of the site. The lands are very complementary to our existing development activities in the east end and our investment in the Distillery District, which is located just north of the site.

Zibi

In 2015, Zibi (previously referred to as "Dream Windmill"), a partnership between Dream and Windmill Development Group Ltd., acquired 22 acres for \$16.5 million at Dream's share, located on the former Domtar lands along the Ottawa River in Gatineau, Québec for the purpose of developing a mixed-use master-planned community to be marketed under the name "Zibi". Zibi has an additional 15 acres of directly adjacent lands under contract, which it expects to acquire in early 2017, pending certain approvals. The project concept plan, inclusive of all 37 acres, includes over 3 million sf of density that consists of over 2,000 residential units and over 1 million sf of commercial space.

During the year ended December 31, 2016, \$1.4 million of losses were incurred by Zibi primarily relating to selling and marketing costs (as construction has not yet commenced at the development site.) Equity contributions of \$6.0 million were made to the project in the year ended December 31, 2016 to fund pre-development activities.

Dream CMCC Capital Funds

Dream CMCC Capital Funds I and II (the "Funds") are investment vehicles formed through the collaboration of Dream and its partner, CMCC, to provide an opportunity for investors to invest with partners who are market leaders in developing, managing and financing real estate development projects. Dream CMCC Capital Fund I was established in June 2011 with \$25.0 million of capital raised from high net worth investors; and Dream CMCC Capital Fund II was formed in September 2014 with \$65.0 million of capital raised through the same channel. Dream has approximately \$6.1 million of net assets in both Funds as at December 31, 2016.

In the year ended December 31, 2016, \$5.2 million in distributions were received from the Funds, primarily due to project closings during the year. In the three and twelve months ended December 31, 2016, net earnings were \$2.1 million and \$3.4 million, respectively, due to condominium unit occupancies in 2016.

Other Items

Other Financial Assets

Refer to the Investment and Other Income section of the MD&A for further information on investments in Dream Office REIT and Dream Global REIT.

Accounts Receivable

As at December 31, 2016, the carrying value of accounts receivable was \$140.4 million compared to \$187.8 million as at December 31, 2015. Approximately 82% (December 31, 2015 – 88%) of accounts receivable represents amounts receivable under contracted sales of land under development or under housing and condominium sales contracts. Accounts receivable may fluctuate from period to period, reflecting the cyclical nature of the completion and closing of large-scale real estate projects. The decrease in accounts receivable from the prior period is primarily due to timing of payments and land sales, and condominium unit closings in the period.

General and Administrative Expenses

In the three months ended December 31, 2016, we led and implemented an operational enhancement program to simplify and streamline the current shared service platform in place between the Company and Dream Office REIT, Dream Global REIT and Dream Industrial REIT. The program was carried out in order to establish more dedicated services on a cost efficient basis to the entire Dream group of companies. On a go forward basis, this initiative in relation to the shared service platform will impact the costs being allocated to the aforementioned Dream companies in accordance with the Administrative Services Agreement and Shared Services and Cost Sharing Agreements currently in place.

In the three and twelve months ended December 31, 2016, general and administrative expenses were \$7.4 million and \$20.5 million, respectively. The increase of \$3.8 million and \$4.3 million from the comparative periods was largely due to a non-recurring operational enhancement charge of \$1.7 million, a non-cash charge of \$0.9 million relating to a profit participation arrangement and an investment in a strategic corporate sponsorship.

Interest Expense

In the three and twelve months ended December 31, 2016, interest expense was \$4.7 million and \$19.0 million, compared to \$4.7 million and \$19.3 million in the prior year period; a reconciliation of the year over year variance is shown in the following table.

	For the three months ended December 31,		For the year ended December 31,	
	2016	2015	2016	2015
Project-specific and general debt interest	\$ 3,817	\$ 3,817	\$ 15,935	\$ 12,506
Interest on operating line	961	1,059	3,924	4,957
Cancellation fees paid on early repayment of mortgages ⁽¹⁾	—	—	—	1,250
Interest on amounts due to a shareholder ⁽²⁾	—	—	—	859
Dividends on Preference shares, series 1	502	636	2,160	2,637
Amortization of deferred financing costs	325	360	1,419	1,267
Project specific interest capitalized to real estate development projects	(875)	(1,192)	(4,499)	(4,248)
Accretion of effective interest	6	9	27	35
Interest expense	\$ 4,736	\$ 4,689	\$ 18,966	\$ 19,263
Add (deduct):				
Interest capitalized to real estate development projects	\$ 875	\$ 1,192	\$ 4,499	\$ 4,248
Amortization of deferred financing costs	(325)	(360)	(1,419)	(1,267)
Accretion expense	(6)	(9)	(27)	(35)
Mark to market adjustment	—	—	—	(202)
Accrued interest	794	(891)	457	(748)
Cash interest paid	\$ 6,074	\$ 4,621	\$ 22,476	\$ 21,259

⁽¹⁾ Included in interest expense for the year ended December 31, 2015 was a non-recurring \$1.1 million discharge fee for the early repayment of certain mortgages related to investment properties which were refinanced by the Company in the year.

⁽²⁾ The balance due to a shareholder was paid in full in the year ended December 31, 2015.

Income Tax Expense

The effective income tax rate was 29.7% for the year ended December 31, 2016 (year ended December 31, 2015 – 14.0%). The effective income tax rate for 2016 is higher than the statutory combined federal and provincial tax rate of 26.7% mainly due to non-deductible expenses and future tax impact on U.S. operations related to foreign exchange and the difference between Canadian and U.S. tax rates.

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

Debt and Preference Shares

As at December 31, 2016, total debt was \$512.7 million (December 31, 2015 – \$494.4 million), which included \$28.6 million of Preference shares, series 1 (December 31, 2015 – \$34.8 million). A breakdown of interest bearing debt and Preference shares, series 1, is detailed in the table below.

(in thousands of Canadian dollars)	Operating line ⁽¹⁾	Non-revolving term facility ⁽²⁾	Construction loans	Mortgages and term debt	Preference shares, series 1	Total
Balance, December 31, 2015	\$ 92,500	\$ 175,000	\$ 123,736	\$ 68,375	\$ 34,779	\$ 494,390
Borrowings	154,500	—	64,636	61,597	—	280,733
Repayments	(141,000)	—	(98,013)	(17,602)	—	(256,615)
Redemption of Preference shares, series 1	—	—	—	—	(6,163)	(6,163)
Other	—	—	—	287	27	314
Balance, December 31, 2016	\$ 106,000	\$ 175,000	\$ 90,359	\$ 112,657	\$ 28,643	\$ 512,659

⁽¹⁾ Excludes unamortized financing costs offset against the balance of \$1.5 million as at December 31, 2016 (December 31, 2015 – \$1.5 million).

⁽²⁾ Excludes unamortized financing costs offset against the balance of \$0.6 million as at December 31, 2016 (December 31, 2015 – \$1.0 million).

Operating Line

The Company has established a revolving term credit facility (the “operating line”) available up to a formula-based maximum not to exceed \$290.0 million with a syndicate of Canadian financial institutions. As at December 31, 2016, funds available under this facility were \$290.0 million, as determined by the formula-based maximum calculation, net of \$66.8 million of letters of credit issued against the facility. The operating line bears interest, at the Company's option, at a rate per annum equal to either the bank's prime lending rate plus 1.25% or at the bank's then prevailing bankers' acceptance rate plus 2.50%. The operating line is secured by a general security agreement and a first charge against various real estate assets in Western Canada. Interest expense relating to the operating line for the three and twelve months ended December 31, 2016 was \$1.0 million and \$3.9 million (three and twelve months ended

December 31, 2015 – \$1.1 million and \$5.0 million). In the three and twelve months ended December 31, 2016, borrowings on the operating line related to general business and land development activities in Western Canada.

At December 31, 2016, \$106.0 million was drawn under the Company's operating line. The Company had \$66.8 million of outstanding letters of credit, leaving an undrawn credit capacity of up to \$117.2 million.

In the three and twelve months ended December 31, 2016, the operating line facility was renewed and the maturity date was extended from June 30, 2017 to January 31, 2019. Additionally, certain debt covenants between DAM and its lenders in relation to the operating line and non-revolving term facility were amended.

Development and Construction Loan Facilities

As at December 31, 2016, \$69.8 million (December 31, 2015 – \$62.5 million) of aggregate development, construction loans and term debt (excluding unamortized financing costs on the operating line and non-revolving term facility) were subject to a fixed, weighted average interest rate of 4.82% (December 31, 2015 – 4.86%) and will mature between 2017 and 2025. A further \$412.1 million (December 31, 2015 – \$395.8 million) of real estate debt was subject to a weighted average variable interest rate of 3.51% (December 31, 2015 – 3.67%) and matures between 2017 and 2023. Included within the real estate debt is \$185.1 million of variable debt that the Company has hedged through fixed interest rate swaps.

In the year ended December 31, 2016, construction loans were drawn relating to our retail properties under development, condominium projects under construction and housing developments in Western Canada. Repayments in the period included the full repayment of project debt for our housing and condominium projects, including The Carnaby and Twenty, which closed in the three months ended December 31, 2016.

In the year ended December 31, 2016, mortgages and term debt borrowings included \$52.1 million of new financing related to our land, investment and recreational properties including the below mentioned term loan for Arapahoe Basin and investment properties acquired in Ontario, Canada. Additional draws were made on land loans for investment, recreational and condominium projects under development. Repayments in the period primarily related to investment and recreational properties, and land loans relating to condominium projects that commenced construction.

Term Loan Secured by Arapahoe Basin

On January 14, 2016, the Company successfully closed a US\$9.5 million, seven-year, fully amortizing loan secured by Arapahoe Basin, which generated \$13.2 million of gross proceeds in Canadian dollars. The loan is fully amortizing over a term of seven years at an interest rate of 3.69%. Interest and debt service requirements are expected to be funded from the operations of the ski resort. The carrying value of Arapahoe Basin (depreciated cost) as at December 31, 2016 was \$20.1 million. The financing was subject to an appraisal of the asset by the lender, which was significantly in excess of the carrying value.

Debt Covenants and Renewal of the Operating Line and Non-revolving Term Facility of DAM

The following are related to covenants between DAM and its lenders in relation to DAM's operating line and the non-revolving term facility, with the exception of the adjusted asset coverage ratio, which is only applicable to the non-revolving term facility.

Adjusted net worth, as defined per the credit agreement	Covenant minimum	\$	500,000
Adjusted net worth to debt ratio, as defined per the credit agreement	Covenant maximum		1.5
Ratio of total interest expense to EBITDA of DAM, as defined per the credit agreement	Covenant minimum		3.00
Adjusted asset coverage ratio, as defined per the credit agreement	Covenant minimum	\$	875,000

As at December 31, 2016, DAM was in compliance with the above covenants.

Preference Shares, Series 1

The Preference shares, series 1, may be redeemed, at the option of Dream, at any time on or after December 31, 2015, at a price of \$7.16 per share.

The Preference shares, series 1, are redeemable by the holders at any time on or after December 31, 2016 at \$7.16 per share.

<i>(number of shares)</i>	December 31, 2016	December 31, 2015
Issued and outstanding, beginning of period	4,868,419	5,428,900
Redeemed by holders for cash	(862,690)	(560,481)
Issued and outstanding, end of period	4,005,729	4,868,419

As at February 24, 2017, there were 4,005,729 Preference shares, series 1, issued and outstanding.

Shareholders' Equity

Dream is authorized to issue an unlimited number of Dream Class A subordinate voting shares (the "Subordinate Voting Shares") and an unlimited number of Dream Class B common shares ("Class B Shares"). The total number of shares outstanding as at December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016		December 31, 2015	
	Number of shares	Amount	Number of shares	Amount
Issued and outstanding, beginning of period	75,270,150	\$ 951,251	76,220,777	\$ 959,113
Class B shares converted into Subordinate Voting Shares	48	1	—	—
Subordinate Voting Shares issued under Exchange Agreement	2,670,813	20,752	—	—
Subordinate Voting Shares repurchased	(137,300)	(953)	(950,627)	(7,862)
Issued and outstanding, end of period	77,803,711	\$ 971,051	75,270,150	\$ 951,251

The following table summarizes the changes in the Dream Class B shares issued during the year ended December 31, 2016.

	December 31, 2016		December 31, 2015	
	Number of shares	Amount	Number of shares	Amount
Issued and outstanding, beginning of period	3,115,512	\$ 38,788	3,115,512	\$ 38,788
Class B Shares converted into Subordinate Voting Shares	(48)	(1)	—	—
Issued and outstanding, end of period	3,115,464	\$ 38,787	3,115,512	\$ 38,788

Equity Transaction with Non-Controlling Interest

Sweet Dream Corp. ("SDC") has a 27.4% non-controlling interest in DAM and is wholly owned by the President and CRO of DAM and Dream, located in Toronto. SDC is entitled to receive 31,533,682 Subordinate Voting Shares of Dream at any time by exercising its right to exchange its DAM shares for a fixed number of Subordinate Voting Shares of Dream, pursuant to the Exchange Agreement dated May 30, 2013 between Dream, SDC and DAM (the "Exchange Agreement"). On a diluted basis, including Subordinate Voting Shares of Dream and Class B shares held or controlled directly or indirectly by the President and CRO, this represents an approximate 31% economic interest in the Company as at December 31, 2016.

On August 15, 2016, the Company received an exchange notice from SDC pursuant to the Exchange Agreement, exercising SDC's right to receive 2,670,813 newly issued Subordinate Voting Shares of the Company on August 18, 2016 in consideration for the transfer to the Company of 22.15 non-voting common shares and Class C voting preference shares of DAM. Upon completion of the exchange on August 18, 2016, the Company owned 691.21 non-voting common shares of DAM, representing approximately 72.6% of the outstanding equity. SDC continues to own 261.52 non-voting common shares, representing 27.4% of the outstanding equity of DAM. SDC continues to be entitled to receive 31,533,682 Subordinate Voting Shares at any time by exercising its right to exchange its non-voting common shares and Class C voting preference shares of DAM for Subordinate Voting Shares of Dream under the Exchange Agreement. Dream and SDC had previously entered into an agreement (the "Permitted Sales Agreement") that provided for "put rights" in favour of each of them upon the occurrence of certain triggering events. The Permitted Sales Agreement was terminated in accordance with its terms following the acquisition of control of the Company by the President and CRO in the third quarter of 2016.

Normal Course Issuer Bid

Dream renewed its normal course issuer bid (the "Bid"), which commenced on September 20, 2016 and will remain in effect until the earlier of September 19, 2017 or the date on which Dream has purchased the maximum number of Subordinate Voting Shares permitted under the Bid. Under the Bid, Dream will have the ability to purchase for cancellation up to a maximum of 3,245,397 of its Subordinate Voting Shares through the facilities of the TSX at prevailing market prices and in accordance with the rules and policies of the TSX. The actual number of Subordinate Voting Shares that may be purchased and the timing of any such purchases will be determined by Dream, subject to a maximum daily purchase limitation of 8,194 shares except where purchases are made in accordance with block purchase exemptions under applicable TSX rules. In the year ended December 31, 2016, 137,300 Subordinate Voting Shares were purchased for cancellation by the Company at an average price of \$6.94 (December 31, 2015 – 950,627 Subordinate Voting Shares at an average price of \$8.27). As at February 24, 2017, there were 77,803,774 Subordinate Voting Shares and 3,115,401 Class B Shares issued and outstanding.

Share-Based Compensation

Dream has a stock option plan under which key officers and employees are granted options to purchase Subordinate Voting Shares. Each option granted can be exercised for one Subordinate Voting Share. As at December 31, 2016, 1,678,500 options were outstanding under the stock option plan, collectively. In the three and twelve months ended December 31, 2016, compensation expense of \$0.3 million and \$1.2 million (three and twelve months ended December 31, 2015 - \$0.6 million and \$0.7 million) related to the stock option plan was recognized in general and administrative expense.

Grant date	October 2013	February 2015	December 2015	May 2016
Number of options granted and outstanding as at December 31, 2016	150,000	705,000	705,000	118,500
Weighted average exercise price	\$ 13.88	\$ 8.96	\$ 7.25	\$ 7.76
Vesting period	5 years	5 years	5 years	3 years
Number of options vested as at December 31, 2016	90,000	141,000	141,000	—

In addition, Dream has a deferred share unit incentive plan pursuant to which deferred share and income deferred share units ("DSUs") may be granted to eligible directors, senior management and certain service providers. As at December 31, 2016 there were 142,949 DSUs outstanding (December 31, 2015 – 66,329 units outstanding). During the three and twelve months ended December 31, 2016, compensation expense of \$0.3 million and \$0.9 million, of which \$0.4 million related to prior periods (three and twelve months ended December 31, 2015 – \$nil and \$0.1 million) related to this plan was recognized in general and administrative expense.

In the year ended December 31, 2016, the Board of Directors of DAM declared dividends of \$6.5 million to Dream and the non-controlling interest of DAM, respectively, on its non-voting common shares (year ended December 31, 2015 – \$11.4 million). Dividends attributable to the Company are eliminated in the audited consolidated financial statements of Dream.

Liquidity and Capital Resources

Our capital consists of construction loans, an operating line, a non-revolving term facility, mortgages and term debt, preference shares and shareholders' equity. Our objective in managing capital is to ensure adequate operating funds are available to fund land, housing and condominium development costs, to cover leasing costs, overhead and capital expenditures for investment and recreational properties; to provide for resources needed to acquire new properties and invest in new ventures at reasonable interest costs; and to generate a target rate of return on investments. No material changes have occurred in future contractual obligations since December 31, 2016. A summary of the classification of the Company's balance sheet is included below.

As at December 31, 2016					
(in thousands of Canadian dollars)	Less than 12 months	Greater than 12 months	Non-determinable	Total	
Assets					
Cash and cash equivalents	\$ 23,432	\$ —	\$ —	\$ 23,432	
Accounts receivable	114,409	25,985	—	140,394	
Other financial assets	—	238,898	—	238,898	
Housing inventory	—	—	50,662	50,662	
Condominium inventory	—	—	55,634	55,634	
Land inventory	—	—	604,487	604,487	
Investment properties	—	237,982	—	237,982	
Recreational properties	—	32,872	—	32,872	
Equity accounted investments	—	—	159,045	159,045	
Capital and other operating assets	4,867	21,041	—	25,908	
Intangible asset	—	43,000	—	43,000	
Total assets	\$ 142,708	\$ 599,778	\$ 869,828	\$ 1,612,314	
Liabilities					
Accounts payable and accrued liabilities	\$ 69,072	\$ 27,036	\$ —	\$ 96,108	
Income and other taxes payable	47,123	—	—	47,123	
Provision for real estate development costs	41,798	—	—	41,798	
Customer deposits	—	—	29,656	29,656	
Construction loans ⁽¹⁾	47,759	42,600	—	90,359	
Operating line ⁽¹⁾	—	104,526	—	104,526	
Non-revolving term facility	—	174,403	—	174,403	
Mortgages and term debt	16,422	96,235	—	112,657	
Preference shares, series 1	28,643	—	—	28,643	
Deferred income taxes	—	55,530	—	55,530	
Total liabilities	\$ 250,817	\$ 500,330	\$ 29,656	\$ 780,803	

⁽¹⁾ The amounts presented are consistent with the contractual terms of repayment, which may be due on demand.

As at December 31, 2015

		Less than 12 months	Greater than 12 months	Non-determinable	Total
Assets					
Cash and cash equivalents	\$	29,983	\$ —	\$ —	29,983
Accounts receivable		149,148	38,621	—	187,769
Other financial assets		—	162,800	—	162,800
Housing inventory		—	—	48,167	48,167
Condominium inventory		—	—	91,323	91,323
Land inventory		—	—	593,401	593,401
Investment properties		—	141,966	—	141,966
Recreational properties		—	29,031	—	29,031
Equity accounted investments		—	—	106,848	106,848
Capital and other operating assets		5,057	23,919	—	28,976
Intangible asset		—	43,000	—	43,000
Total assets	\$	184,188	\$ 439,337	\$ 839,739	\$ 1,463,264
Liabilities					
Accounts payable and accrued liabilities	\$	96,400	\$ 10,557	\$ —	106,957
Income and other taxes payable		35,207	—	—	35,207
Provision for real estate development costs		51,597	—	—	51,597
Customer deposits		—	—	25,265	25,265
Construction loans ⁽¹⁾		55,677	68,059	—	123,736
Operating line ⁽¹⁾		—	90,968	—	90,968
Non-revolving term facility		—	174,006	—	174,006
Mortgages and term debt		17,953	50,422	—	68,375
Preference shares, series 1		34,779	—	—	34,779
Deferred income taxes		—	34,520	—	34,520
Total liabilities	\$	291,613	\$ 428,532	\$ 25,265	\$ 745,410

¹⁾ The amounts presented are consistent with the contractual terms of repayment, which may be due on demand.

As at December 31, 2016 there are adequate resources to address the Company's short-term liquidity requirements. Certain financial instruments that are callable or due on demand are presented as due within 12 months, which is inconsistent with the repayment timing expected by management. Due to the nature of our development business, the Company expects to fund a portion of our current liabilities through sales of housing, condominium and land inventory, which are all classified as 'non-determinable'. In addition, as at December 31, 2016, \$106.0 million was drawn under the Company's operating line. The Company had \$66.8 million of outstanding letters of credit, leaving an undrawn credit capacity of up to \$117.2 million.

Significant Sources and Uses of Cash

	For the three months ended December 31,		For the year ended December 31,	
	2016	2015	2016	2015
Net cash flows from operating activities	\$ 38,018	\$ 8,447	\$ 83,811	\$ (19,557)
Net cash flows used in investing activities	(89,779)	(11,499)	(138,806)	(33,386)
Net cash flows from financing activities	54,813	9,136	48,444	52,241
Change in cash and cash equivalents	\$ 3,052	\$ 6,084	\$ (6,551)	\$ (702)

In the three months ended December 31, 2016, the Company had cash inflows from operating activities of \$38.0 million primarily due to positive net earnings for the period, partially offset by repayments of construction loans and acquisition of land held for development. In the year ended December 31, 2016, the Company had cash inflows from operating activities of \$83.8 million primarily attributable to condominium occupancies which were in excess of development spending and changes in non-cash working capital.

In the three months ended December 31, 2016, there were cash outflows from investing activities of \$89.8 million mainly related to acquisitions and additions to investment and recreational properties, and the acquisition of Dream Office REIT units and Dream Alternatives units on the open market. In the year ended December 31, 2016, there were cash outflows from investing activities of \$138.8 million. The primary use of funds for investing activities related to acquisitions and additions to investment and recreational properties and the acquisition of additional Dream Office REIT units.

For the three and twelve months ended December 31, 2016, we had cash inflows from financing activities of \$54.8 million and \$48.4 million, respectively. In the three months ended December 31, 2016, there were cash inflows on financing activities mainly related to \$17.8 million of net borrowings on mortgages and term debt facilities and \$37.0 million net advances on the operating line. Significant financing activities in the year ended December 31, 2016 included \$44.0 million of net mortgage borrowings and \$13.5 million of net advances on the operating line, partially offset by \$6.2 million of redemptions on the Preference shares, series 1 over the same period.

For more information, refer to the statement of cash flows in the audited consolidated financial statements for the year ended December 31, 2016.

Cash Requirements

The nature of the real estate business is such that we require capital to fund non-discretionary expenditures with respect to existing assets, as well as to fund growth through acquisitions and developments. As at December 31, 2016, we had \$23.4 million (December 31, 2015 – \$30.0 million) in cash and cash equivalents. Our intention is to meet short-term liquidity requirements through cash from operating activities, working capital reserves and operating debt facilities. In addition, we anticipate that cash from operations will continue to provide the cash necessary to fund operating expenses and debt service requirements.

Contractual Obligations

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

	2017	2018	2019	2020	2021	2022 and thereafter	Total
Financial liabilities⁽¹⁾							
Financial instruments included in accounts payable and other liabilities	\$ 65,882	\$ 20,304	\$ —	\$ —	\$ —	\$ 6,732	\$ 92,918
Construction loans ⁽²⁾	47,759	33,892	8,708	—	—	—	90,359
Operating line ⁽²⁾	—	—	106,000	—	—	—	106,000
Non-revolving term facility	—	175,000	—	—	—	—	175,000
Mortgages and term debt	20,890	17,485	27,794	3,127	2,998	40,775	113,069
Preference shares, series 1	28,681	—	—	—	—	—	28,681
	\$ 163,212	\$ 246,681	\$ 142,502	\$ 3,127	\$ 2,998	\$ 47,507	\$ 606,027
Commitments							
Leases and other commitments	\$ 1,778	\$ 1,728	\$ 1,545	\$ 1,536	\$ 1,548	\$ 3,998	\$ 12,133
Land and other purchase agreements	5,319	2,696	565	—	—	—	8,580
	\$ 170,309	\$ 251,105	\$ 144,612	\$ 4,663	\$ 4,546	\$ 51,505	\$ 626,740

⁽¹⁾ This table excludes customer deposits of \$29.7 million, as the timing of the related obligation is not determinable.

⁽²⁾ The amounts presented are shown consistent with the contractual terms of repayment, which may be due on demand.

Off Balance Sheet Arrangements

We conduct our real estate activities from time to time through joint arrangements with third-party partners. As at December 31, 2016, we were contingently liable for the obligations of the other owners of the unincorporated joint operations in the amount of \$nil (December 31, 2015 – \$6.8 million). The Company was contingently liable for the obligations of the other owners of the unincorporated joint ventures of \$12.4 million as at December 31, 2016 (December 31, 2015 – \$11.8 million). We have available to us other venturers' shares of assets to satisfy the obligations, if any, that may arise, such as cost overruns.

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

Commitments and Contingencies

As part of our various agreements to purchase land and housing, we have remaining commitments totalling \$8.6 million as at December 31, 2016 (December 31, 2015 – \$14.4 million), which will become payable in future periods upon the satisfaction of certain conditions pursuant to such agreements. For further details, refer to page 14 of this MD&A.

Levies relating to signed municipal agreements received by Dream as at December 31, 2016 may result in future obligations totalling \$2.3 million (December 31, 2015 – \$3.0 million).

The Company is contingently liable for letters of credit and surety bonds that have been provided to support land developments and other activities in the amount of \$79,260 (December 31, 2015 – \$63,186). In addition, letters of credit in the amount of \$10,051 were outstanding as at December 31, 2016 (December 31, 2015 – \$26,175) relating to various equity accounted investments.

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

Shareholder Arrangements

Dream and SDC had previously entered the Permitted Sales Agreement that provided for “put rights” in favour of each of them upon the occurrence of certain triggering events. The Permitted Sales Agreement was terminated in accordance with its terms following the acquisition of control of the Company by the President and CRO of DAM in the third quarter of 2016. For further details on equity transactions in the period, refer to Note 25 of the audited consolidated financial statements for the year ended December 31, 2016.

Transactions with Related Parties

The Company has agreements for asset management and management services, shared services and cost sharing administrative services with related parties. The Company also has other transactions conducted with related parties, which are outlined in Note 37 of our audited consolidated financial statements for the year ended December 31, 2016.

Supplemental Segmented Information

Revenue by Geographic Region

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

	For the three months ended December 31,					For the year ended December 31,			
	2016		2015		2016		2015		
Saskatchewan									
<i>Saskatoon</i>	\$	16,874	19.0%	\$ 29,371	32.8%	\$ 46,225	13.6%	\$ 72,750	21.8%
<i>Regina</i>		11,014	12.4%	26,233	29.4%	34,841	10.2%	80,474	24.1%
		27,888	31.4%	55,604	62.2%	81,066	23.8%	153,224	46.0%
Alberta									
<i>Edmonton</i>		15,813	17.8%	5,873	6.6%	30,731	9.0%	41,490	12.4%
<i>Calgary</i>		3,575	4.0%	4,594	5.1%	45,186	13.3%	5,807	1.7%
		19,388	21.8%	10,467	11.7%	75,917	22.3%	47,297	14.2%
Ontario									
<i>Toronto</i>		12,205	13.8%	7,571	8.5%	90,005	26.5%	73,979	22.2%
Canada		59,481	67.0%	73,642	82.4%	246,988	72.6%	274,500	82.3%
United States		7,462	8.4%	6,195	7.0%	29,216	8.6%	24,169	7.3%
Non-segmented (asset management)		21,685	24.6%	9,489	10.6%	63,963	18.8%	34,696	10.4%
Total	\$	88,628	100.0%	\$ 89,326	100.0%	\$ 340,167	100.0%	\$ 333,365	100.0%

Net Margin by Geographic Region

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

	For the three months ended December 31,					For the year ended December 31,			
	2016		2015		2016		2015		
Saskatchewan									
<i>Saskatoon</i>	\$	(1,241)	(4.9%)	\$ 8,836	35.2%	\$ (784)	(0.8%)	\$ 18,115	22.4%
<i>Regina</i>		2,342	9.3%	6,662	26.5%	2,186	2.2%	13,174	16.3%
		1,101	4.4%	15,498	61.7%	1,402	1.4%	31,289	38.8%
Alberta									
<i>Edmonton</i>		4,128	16.4%	1,105	4.4%	6,845	6.8%	7,538	9.3%
<i>Calgary</i> ⁽¹⁾		(2,474)	(9.9%)	1,314	5.2%	20,291	20.1%	169	0.2%
		1,654	6.6%	2,419	9.6%	27,136	26.9%	7,707	9.5%
Ontario									
<i>Toronto</i>		3,888	15.5%	719	2.9%	11,858	11.7%	12,010	14.9%
Canada		6,643	26.5%	18,636	74.2%	40,396	40.0%	51,006	63.2%
United States		(1,277)	(5.1%)	(1,118)	(4.4%)	5,852	5.8%	3,170	3.9%
Non-segmented (asset management)		19,736	78.6%	7,584	30.2%	54,710	54.2%	26,558	32.9%
Total	\$	25,102	100.0%	\$ 25,102	100.0%	\$ 100,958	100.0%	\$ 80,734	100.0%

⁽¹⁾ The Company had minimal inventory available for sale during the year ended December 31, 2016. For full details refer to pages 19 and 22 of this MD&A.

Critical Accounting Estimates

A detailed summary of the significant judgments and estimates made by management in the preparation and analysis of our financial results is included in Note 4 of our audited consolidated financial statements for the year ended December 31, 2016. The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent assets and liabilities. Critical accounting estimates represent estimates made by management that are, by their very nature, uncertain. We evaluate our estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that we believe are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amount of revenues and expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The following discusses the most significant accounting judgments, estimates and assumptions that the Company has made in the preparation of its consolidated financial statements.

Joint Arrangements and Associates

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

Business Combinations

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

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

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

Consolidation

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

Net Realizable Value

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

Provisions

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

Capitalization of Borrowing Costs

The Company capitalizes borrowing costs to qualifying assets by determining whether the borrowings are general or specific to a project. Judgment is involved in this determination. Borrowing costs are capitalized to qualifying real estate assets that necessarily take a substantial period of time to prepare for their intended use or sale. The Company considers a substantial period of time to be a period longer than one year to complete.

Fair Value of Investment Properties

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

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

Fair Value of Development Investment Properties

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

Impairment of Recreational Properties, Capital Assets and Intangible Assets

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

Income Taxes

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

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

Fair Value and Impairment of Financial Instruments

Certain financial instruments are recorded in the Company's consolidated statements of financial position at values that are representative of or approximate fair value. The fair value of a financial instrument that is traded in active markets at each reporting date is determined by reference to its quoted market price or dealer price quotations. Investments in equity instruments whose fair value cannot be reliably measured are carried at cost.

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

The Company assesses, at each reporting date, whether there is any objective evidence that a financial instrument, including equity accounted investments, is impaired. The assessment of impairment of a financial instrument requires significant judgment, where management evaluates, among other factors, the duration and extent to which the carrying value or fair value of an investment is less than its cost and the financial health of and short-term business outlook for the investee.

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

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

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

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

Fair Value of Hedging Instruments and Effectiveness

Critical judgments are made in respect of assumptions used to estimate the fair value of hedging instruments and to assess the effectiveness of the hedging arrangement. The basis of valuation and assessment of effectiveness for the Company's derivatives is set out in Notes 19 and 20; however, the fair values reported may differ from how they are ultimately recognized if there is volatility in interest rates between the valuation date and settlement date.

Transfer of Inventory to Development Investment Properties

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

Internal Control over Financial Reporting

At December 31, 2016, financial year-end, the President and CRO and the Chief Financial Officer (the "Certifying Officers"), along with the assistance of senior management, have evaluated the design and effectiveness of the Company's disclosure controls and procedures ("DC&P"), as defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" ("NI 52-109"). Based on that evaluation, the Certifying Officers have concluded that, as at December 31, 2016, the DC&P are adequate and effective in order to provide reasonable assurance that material information has been accumulated and communicated to management, to allow timely decisions of required disclosures by the Company and its consolidated subsidiary entities, within the required time periods.

The Company's internal control over financial reporting ("ICFR") (as defined by NI 52-109) is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of audited consolidated financial statements for external purposes in accordance with IFRS. Using the framework established in "2013 Committee of Sponsoring Organizations (COSO) Internal Control Framework", published by the Committee of Sponsoring Organizations of the Treadway Commission, the Certifying Officers, together with other members of management, have evaluated the design and operation of the Company's ICFR. Based on that evaluation, the Certifying Officers have concluded that the Company's ICFR was effective as at December 31, 2016.

There were no changes in the Company's ICFR during the year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Future Changes in Significant Accounting Policies

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

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

IFRS 2 clarifies how to account for certain types of share-based payment transactions. It was amended to address (i) certain issues related to the accounting for cash settled awards, and (ii) the accounting for equity settled awards that include a "net settlement" feature in respect of employee withholding taxes. The amendments to IFRS 2 are effective for years beginning on or after January 1, 2018. The Company is currently assessing the impact of IFRS 2 on the consolidated financial statements.

IFRS 7, "Financial Instruments - Disclosure" ("IFRS 7")

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

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

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

IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”)

IFRS 15 specifies how and when revenue should be recognized, in addition to requiring more informative and relevant disclosures. The IFRS 15 revenue recognition model requires management to exercise significant judgment and make estimates that affect revenue recognition. This standard supersedes IAS 18, “Revenue”, IAS 11, “Construction Contracts”, and a number of revenue-related interpretations. IFRS 15 must be applied for periods beginning on or after January 1, 2018, with early application permitted. The Company will not be early adopting IFRS 15 however, the Company has elected to adopt IFRS 15 using the full retrospective method. The Company is currently assessing the impact of IFRS 15 on the consolidated financial statements.

IFRS 16, “Leases” (“IFRS 16”)

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

IAS 7, “Disclosures” (“IAS 7”)

IAS 7 requires entities to provide disclosures in their financial statements about changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments to IAS 7 are effective for years beginning on or after January 1, 2017. The Company does not expect the amendments to have a material impact on the financial statements.

IAS 12, “Income taxes - Deferred Tax” (“IAS 12”)

IAS 12 clarifies the recognition of deferred tax assets for unrealized losses. It was amended to specify (i) the requirements for recognizing deferred tax assets on unrealized losses; (ii) deferred tax where an asset is measured at a fair value below the asset's tax base; and (iii) certain other aspects of accounting for deferred tax assets. The amendments to IAS 12 are effective for years beginning on or after January 1, 2017. The Company does not expect the amendments to have a material impact on the financial statements.

IAS 40, “Investment Property” (“IAS 40”)

IAS 40 clarifies the principles for transfers into, or out of, investment property when there has been a change in use. The amendments to IAS 40 are effective prospectively for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently assessing the impact of IAS 40 on the consolidated financial statements.

Financial Instruments

A detailed discussion of our strategy and risk management in respect of financial instruments is provided in Note 32 of our audited consolidated financial statements for the year ended December 31, 2016.

Risk Factors

We are exposed to various risks and uncertainties, many of which are beyond our control and could have an impact on our business, financial condition, operating results and prospects. Shareholders should consider those risks and uncertainties when assessing our outlook in terms of investment potential. For a discussion of the risks and uncertainties identified by the Company, please refer to our 2016 Annual Report and our most recent Annual Information Form filed on SEDAR (www.sedar.com).

General Risk

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

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

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

Asset Management

Our ability to successfully expand our asset management activities is dependent on a number of factors, including certain factors that are outside our control. In the event that the asset base of our funds were to decline, our management fees could decline as well. In addition, we could experience losses on our

investments of our own capital in our funds as a result of poor performance by our funds. Termination of an asset management agreement in accordance with its terms by any of our funds would also result in a decline in our management fees.

Mortgage Rates and Regulations

Increases in mortgage rates, decreases in the availability of mortgage financing or changes in laws or regulations relating to mortgage lending practices could depress the market for new homes. Even if potential customers do not need financing, changes in mortgage interest rates and mortgage availability could make it harder for them to sell their homes to potential buyers who need financing, which would result in reduced demand for new homes. As a result, rising mortgage rates and reduced mortgage availability could adversely affect our ability to sell new homes and/or the price(s) at which we can sell them.

Regulatory Risks

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

Environmental Risks

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

Geographic Concentration

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

Given the prominence of the oil and gas industry in Alberta and Saskatchewan, the economies of these provinces can be significantly impacted by the price of oil. Similarly, because of our substantial land and housing development operations in Alberta and Saskatchewan, any substantial decline in the price of oil could also adversely affect the Company's operating results. We continuously evaluate the economic health of the markets in which we operate through various means to ensure that we have identified and, where possible, mitigated risks to the Company, including the potential impacts of changes in the price of oil. Additionally, the land development process is longer term in nature, which, to some extent, mitigates the impacts of short term fluctuations in the health of the economies in which we operate. As of December 31, 2016 the Company had not identified any material adverse effect on our business as a result of the current softening of oil prices.

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

Supply of Materials and Services

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

Competition

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

Our ability to successfully expand asset management activities in the future is dependent on our reputation with clients. We believe that our track record, the expertise of our asset management team and the performance of the assets currently under management will enable us to continue to develop productive relationships with these companies and to grow the assets under management. However, if we are not successful in doing so, our business and results of operations may be adversely affected.

Joint Venture Risks

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

Seasonality

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

Adverse Weather Conditions and Natural Disasters

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

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

Financing Risk

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

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

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

Risks Related to Master-Planned Communities

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

Home Warranty and Construction Defect Claims

As a homebuilder, we are subject to construction defect and home warranty claims arising in the ordinary course of our business. These claims are common in the homebuilding industry and can be costly. Where we act as the general contractor, we will be responsible for the performance of the entire contract, including work assigned to subcontractors. Claims may be asserted against us for construction defects, personal injury or property damage caused by the subcontractors, and if successful these claims give rise to liability. Where we hire a general contractor, if there are unforeseen events such as the bankruptcy of, or an uninsured or under-insured loss claimed against our general contractor, we will sometimes become responsible for the losses or other obligations of the general contractor. The costs of insuring against construction defect and product liability claims are high and the amount of coverage offered by insurance

companies may be limited. There can be no assurance that this coverage will not be further restricted and become more costly. If we are not able to obtain adequate insurance against these claims in the future, our business and results of operations may be adversely affected.

Reliance on Key Clients

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

Regulatory Regime, Political Environment and Permits

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

Inability to Negotiate Purchase Agreements

Securing new power purchase agreements ("PPAs") in Ontario is a key component of our growth strategy. We expect that we will continue to enter into PPAs for the sale of power. PPAs are mainly obtained through participation in competitive requests for proposals processes. During these processes, we face competitors ranging from large utilities to small independent power producers. There is no assurance that we will be selected as power supplier following any particular request for proposals in the future or that existing PPAs will be renewed or will be renewed on acceptable terms and conditions upon the expiry of their respective terms. Failure to secure or renew PPAs on acceptable terms will limit the expansion and growth of the renewable power business and could adversely affect our business, operating results, financial condition or prospects.

Contract Performance

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

Delays and Cost Over-runs

Delays and cost over-runs may occur in completing the construction of development projects, prospective projects and future projects that may be undertaken. A number of factors that could cause such delays or cost over-runs include, but are not limited to, permitting delays, changing engineering and design requirements, the performance of contractors, labour disruptions, adverse weather conditions and the availability of financing. In addition, if one of our development projects is not brought into commercial operation within the time stipulated in its related PPA, it may be subject to penalty payments or the counterparty may be entitled to terminate the related PPA.

Changes in Technology

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

Assessment of Wind Resource and Associated Wind Energy

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

Variability in Hydrology

Revenues generated by hydropower facilities are correlated to the amount of electricity generated, which in turn is dependent upon available water flows. Hydrology varies naturally from period to period and may also change permanently because of climate change or other factors, and a natural disaster could impact water flows within the watersheds in which we operate. A sustained decline in water flow at our hydropower facilities could materially adversely affect revenues and cash flow from such facilities.

Transmission Capacity and Curtailment

Electrical distribution grid systems have finite capacity to accommodate additional electricity that is supplied to the system. In order for projects to be developed, they need to be connected to the distribution grid system in a location where there is sufficient capacity to handle the additional electricity produced by the project. In most cases the distribution grid system can be upgraded in order to accommodate such increased capacity; however, we are generally required to cover all or a portion of costs and expenses in connection with any construction and/or upgrades that are required, which impacts the financial viability of such projects. There is also a potential risk associated with transmission curtailment measures being contemplated by the Ontario transmission system operator. These measures could be imposed in the future on renewable energy generators in Ontario. The curtailments may reduce the amount of annual revenue generated by our projects below the forecasted financial models, thus reducing the expected investment return from these projects.

Rollover of Leases

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

Market Conditions

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

Real Estate Ownership

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

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

Changes in Law

We are subject to 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 commercial properties (including with retroactive effect). Any changes in the laws to which we are subject or in the jurisdictions where the commercial properties in which we have an interest are operated could adversely affect us and the revenues we are able to generate from our investments.

Tax Risk

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

Forward-Looking Information

Certain information in this MD&A may constitute “forward-looking information” within the meaning of applicable securities legislation, including but not limited to statements relating to our objectives, strategies to achieve those objectives, our beliefs, plans, estimates, projections and intentions, and similar statements concerning anticipated future events, future growth, results of operations, performance, business prospects and opportunities, acquisitions or divestitures, tenant base, future maintenance and development plans and costs, capital investments, financing, the availability of financing sources, income taxes, vacancy and leasing assumptions, litigation and the real estate industry in general, including specifically statements in respect of the timing of retail developments (including leasing timelines), expected development yields on retail projects, our development plans and proposals for future retail and condominium and mixed-use projects and future stages of current retail and condominium and mixed-use projects, future land acquisitions and financings and the timing thereof, our estimated performance metrics for our retail projects (including estimated acres to develop, estimated GLA at completion, estimated

stabilized NOI at completion, estimated completion date, estimated cost of development including land, estimated cost to complete, estimated value upon completion, estimated cost per square foot, estimated value per square foot upon completion), development timelines and anticipated returns on current and future condominium and mixed-use projects, the timing of condominium occupancies and closings, anticipated current and future lot and acre sales and housing occupancies, projected population and density in our housing developments, our ability to increase development on our owned lands, timing of opening of the Broadview Hotel, our expansion plans for recreational properties and the anticipated effect on revenue, performance of the land development, housing development, condominium and mixed-use development and retail and commercial developments divisions, and our financial performance, profitability and liquidity for future years. The forward-looking information in this MD&A is presented for the purpose of providing disclosure of the current expectations of our future events or results, having regard to current plans, objectives and proposals, and such information may not be appropriate for other purposes. Forward-looking information may also include information regarding our respective future plans or objectives and other information that is not comprised of historical fact. Forward-looking information is predictive in nature and depends upon or refers to future events or conditions; as such, this MD&A uses words such as “may”, “would”, “could”, “should”, “will”, “likely”, “expect”, “anticipate”, “believe”, “intend”, “plan”, “forecast”, “project”, “estimate” and similar expressions suggesting future outcomes or events to identify forward-looking information.

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

However, whether actual results and developments will conform with the expectations and predictions contained in the forward-looking information is subject to a number of risks and uncertainties, many of which are beyond our control, and the effects of which can be difficult to predict. Factors that could cause actual results or events to differ materially from those described in the forward-looking information include, but are not limited to: adverse changes in general economic and market conditions; our inability to raise additional capital; our inability to execute strategic plans and meet financial obligations; and risks associated with our anticipated real estate operations and investment holdings in general, including environmental risks, market risks, and risks associated with inflation, changes in interest rates and other financial exposures. For a further description of these and other factors that could cause actual results to differ materially from the forward-looking information contained, or incorporated by reference, see Risk Factors on page 49 of this MD&A.

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

Non-IFRS Measures

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

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

“Committed leases” represent the GLA under an agreement to lease between a tenant and the Company as at December 31, 2016.

“Development yield” is calculated using the Estimated Stabilized NOI at completion and the total estimated cost of development, including land and excluding rental revenue earned during development.

“Earnings for the period, excluding reorganization of an asset management contract” and “basic earnings per share, excluding reorganization of an asset management contract” represents earnings and basic EPS adjusted for the gain relating to the reorganization of the Dream Office REIT asset management contract in the year ended December 31, 2015 and are calculated as follows:

(in thousands of dollars, except per share and weighted average share amounts)	For the three months ended December 31,		For the year ended December 31,	
	2016	2015	2016	2015
Earnings for the period	\$ 26,694	\$ 17,003	\$ 95,364	\$ 173,834
Reorganization of an asset management contract	—	—	—	127,313
Tax impact	—	—	—	(16,917)
Reorganization of an asset management contract, net of tax	—	—	—	110,396
Earnings for the period, excluding reorganization of an asset management contract	\$ 26,694	\$ 17,003	\$ 95,364	\$ 63,438
Earnings for the period, excluding reorganization of an asset management contract attributable to:				
Shareholders	\$ 19,329	\$ 11,880	\$ 67,638	\$ 44,553
Non-controlling interest	7,365	5,123	27,726	18,885
	\$ 26,694	\$ 17,003	\$ 95,364	\$ 63,438
Total basic weighted average number of shares	80,919,175	78,456,452	79,260,180	78,837,047
Basic earnings per share, as reported	\$ 0.24	\$ 0.15	\$ 0.85	\$ 1.54
Basic earnings per share impact of reorganization of an asset management contract	—	—	—	(0.97)
Basic earnings per share, excluding reorganization of an asset management contract	\$ 0.24	\$ 0.15	\$ 0.85	\$ 0.57

“Estimated cost of development” represents the total estimated costs to develop each retail site specified to the point where the space is completed and leasable to retail tenants and includes the cost of land, building, interest and other carrying costs. Estimated cost of development is forward-looking information and the actual cost of development may differ materially from the estimates used herein.

“Estimated costs to complete” represents the estimated costs yet to be incurred by the Company in order to complete the development of the real estate asset, including land, building, interest and other carrying costs. The estimated costs to complete are forward-looking information and the actual costs of completion may differ materially from the estimates used herein.

“Estimated Stabilized NOI” represents expected income for the property at completion that reflects relatively stable operations.

“Estimated value upon completion” represents the estimated value of a real estate asset upon completion of the development of such asset. The estimated value upon completion is forward-looking information and may differ materially from the estimates used herein.

“Fee earning assets under management” represents assets under management that are managed under contractual arrangements that entitle the Company to earn asset management revenues.

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

“Internal rate of return” or “IRR” is an important measure of average annual returns delivered over a period of time, calculated based on Dream’s market capitalization (including non-controlling interests) as at December 31, 2016. The internal rate of return for the Dream CMCC Capital Funds is calculated based on the estimated returns and completion date of the investments within the Fund, net of fund expenses and management fees. The internal rate of return for condominium development projects is calculated based on the estimated net cash flow expected to be generated from each project considering real estate development revenues, expenditures, construction timelines and sale dates.

“Net margin %” is an important measure of operating earnings in each business segment of Dream and represents net margin as a percentage of revenue.

“Net Operating Income” or “NOI” represents revenue less direct operating costs, asset management and management services expenses, and selling marketing and other operating costs. NOI less general, administrative, and overhead expenses, and amortization, is equal to net margin as per the audited consolidated statement of earnings. NOI for the investment and recreational properties segment for the three and twelve months ended December 31, 2016 and 2015 is calculated as follows:

For the three months ended December 31, 2016

		Investment Properties – Ontario		Development Properties – Western Canada		Recreational Properties		Total
Revenue	\$	2,548	\$	950	\$	7,076	\$	10,574
Direct operating costs		990		265		6,428		7,683
Selling, marketing and other indirect costs		314		841		950		2,105
Net margin	\$	1,244	\$	(156)	\$	(302)	\$	786
Depreciation		—		—		300		300
General and administrative expenses		333		822		650		1,805
Net operating income	\$	1,577	\$	666	\$	648	\$	2,891

For the three months ended December 31, 2015

		Investment Properties – Ontario		Development Properties – Western Canada		Recreational Properties		Total
Revenue	\$	2,247	\$	441	\$	7,583	\$	10,271
Direct operating costs		139		39		7,207		7,385
Selling, marketing and other indirect costs		1,444		560		394		2,398
Net margin	\$	664	\$	(158)	\$	(18)	\$	488
Depreciation		—		—		830		830
General and administrative expenses		656		559		62		1,277
Net operating income	\$	1,320	\$	401	\$	874	\$	2,595

For the year ended December 31, 2016

		Investment Properties – Ontario		Development Properties – Western Canada		Recreational Properties		Total
Revenue	\$	9,170	\$	3,171	\$	34,130	\$	46,471
Direct operating costs		3,416		941		26,101		30,458
Selling, marketing and other indirect costs		2,000		3,566		2,789		8,355
Net margin	\$	3,754	\$	(1,336)	\$	5,240	\$	7,658
Depreciation		—		—		2,104		2,104
General and administrative expenses		2,001		3,566		684		6,251
Net operating income	\$	5,755	\$	2,230	\$	8,028	\$	16,013

For the year ended December 31, 2015

		Investment Properties – Ontario		Development Properties – Western Canada		Recreational Properties		Total
Revenue	\$	8,696	\$	687	\$	33,978	\$	43,361
Direct operating costs		2,986		341		27,100		30,427
Selling, marketing and other indirect costs		3,084		2,021		3,697		8,802
Net margin	\$	2,626	\$	(1,675)	\$	3,181	\$	4,132
Depreciation		—		—		3,338		3,338
General and administrative expenses		2,297		2,020		303		4,620
Net operating income	\$	4,923	\$	345	\$	6,822	\$	12,090

"Revenue, gross margin and net margin of the Condominium Development Segment attributable to Dream, including direct and equity accounted investments" includes condominium developments held through both direct ownership and projects held through equity accounted investments. In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", revenue, gross margin and net margin of the Condominium Development Segment attributable to Dream, including direct and equity accounted investments has been reconciled to revenue, gross margin and net margin of the Condominium Development Segment attributable to Dream, including direct and equity accounted investments under the heading "Results of Operations – Condominiums".

Additional Information

Additional information relating to Dream is available on SEDAR at www.sedar.com. The Subordinate Voting Shares trade on the TSX under the symbol “**DRM**” and Dream Preferred shares, series 1, trade under the symbol “**DRM.PR.A**”.

Management's responsibility for consolidated financial statements

Management of Dream is responsible for the preparation of the Annual Report, which includes the consolidated financial statements, the notes thereto and management's discussion and analysis. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, using management's best estimates and judgments when appropriate.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and for overseeing management's performance of its financial reporting. The Board of Directors carries out these responsibilities primarily through an Audit Committee, which is composed entirely of independent directors. The Audit Committee meets periodically with management, our internal auditors and independent auditors to review the scope and results of the annual audit and to review the consolidated financial statements and related reporting and internal control matters before the consolidated financial statements are approved by the Board of Directors and submitted to the shareholders.

PricewaterhouseCoopers LLP, the independent auditors, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards. The auditors have full and unrestricted access to the audit committee, with or without management present.

A handwritten signature in dark ink, appearing to read 'MJ Cooper', with a long horizontal flourish extending to the right.

Michael J. Cooper
President and Chief Responsible Officer

A handwritten signature in dark ink, appearing to read 'Pauline Alimchandani', with a long horizontal flourish extending to the right.

Pauline Alimchandani
Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Dream Unlimited Corp.

We have audited the accompanying consolidated financial statements of Dream Unlimited Corp. and its subsidiaries (together, Dream), which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

(Signed) "PricewaterhouseCoopers LLP"

**Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario**

Consolidated Statements of Financial Position

As at December 31, 2016 and 2015

<i>(in thousands of Canadian dollars)</i>	Note	2016	2015
Assets			
Cash and cash equivalents	38	\$ 23,432	\$ 29,983
Accounts receivable	5	140,394	187,769
Other financial assets	6	238,898	162,800
Housing inventory	7	50,662	48,167
Condominium inventory	8	55,634	91,323
Land inventory	9	604,487	593,401
Investment properties	10	237,982	141,966
Recreational properties	11	32,872	29,031
Equity accounted investments	12	159,045	106,848
Capital and other operating assets	13	25,908	28,976
Intangible asset	14	43,000	43,000
Total assets		\$ 1,612,314	\$ 1,463,264
Liabilities			
Accounts payable and other liabilities	15	\$ 96,108	\$ 106,957
Income and other taxes payable	22	47,123	35,207
Provision for real estate development costs	16	41,798	51,597
Customer deposits		29,656	25,265
Construction loans	17	90,359	123,736
Operating line	18	104,526	90,968
Non-revolving term facility	19	174,403	174,006
Mortgages and term debt	20	112,657	68,375
Preference shares, series 1	21	28,643	34,779
Deferred income taxes	22	55,530	34,520
Total liabilities		\$ 780,803	\$ 745,410
Shareholders' equity			
Share capital	23	1,009,838	990,039
Reorganization adjustment	23	(944,577)	(944,577)
Contributed surplus	33	3,719	1,599
Retained earnings		550,843	485,819
Accumulated other comprehensive loss	24	(1,350)	(14,997)
Total shareholders' equity		618,473	517,883
Non-controlling interest	25	213,038	199,971
Total equity		831,511	717,854
Total liabilities and equity		\$ 1,612,314	\$ 1,463,264

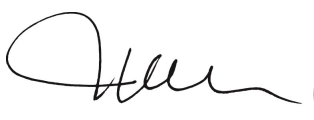
See accompanying notes to the consolidated financial statements.

Commitments and contingencies (Note 36)

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



Michael J. Cooper
Director



Ned Goodman
Chair

Consolidated Statements of Earnings

For the years ended December 31, 2016 and 2015

<i>(in thousands of Canadian dollars, except for per share amounts)</i>	Note	2016	2015
Revenues	\$	340,167	\$ 333,365
Direct operating costs	26	(182,518)	(206,028)
Asset management and advisory services expenses	27	(9,253)	(8,138)
Gross margin		148,396	119,199
Selling, marketing and other operating costs	28	(47,438)	(38,465)
Net margin		100,958	80,734
Other income (expenses):			
General and administrative expenses	29	(20,469)	(16,211)
Gain on sale of recreational and investment properties		—	2,183
Fair value changes in investment properties	10	17,902	11,158
Share of earnings (losses) from equity accounted investments	12	42,832	(530)
Investment and other income	30	13,797	13,366
Interest expense	31	(18,966)	(19,263)
Gain on reorganization of asset management agreement		—	127,313
Gain on settlement of debt		—	2,248
Fair value changes in derivative financial instruments	32	(430)	1,227
Earnings before income taxes		135,624	202,225
Income tax expense	22	(40,260)	(28,391)
Earnings for the year	\$	95,364	\$ 173,834
Total earnings for the period attributable to:			
Shareholders	\$	67,638	\$ 121,898
Non-controlling interest	25	27,726	51,936
Earnings for the year	\$	95,364	\$ 173,834
Basic earnings per share	34	\$ 0.85	\$ 1.54
Diluted earnings per share	34	\$ 0.83	\$ 1.46

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

<i>(in thousands of Canadian dollars)</i>	Note	2016	2015
Earnings for the year	\$	95,364	\$ 173,834
Other comprehensive income (loss)			
Unrealized gain (loss) on financial assets designated as available for sale, net of tax	22	19,652	(41,297)
Unrealized gain (loss) from foreign currency translation (reclassified to earnings on partial or full disposal of foreign operation)		(930)	4,087
Unrealized gain (loss) on interest rate hedge		491	(216)
Share of other comprehensive losses from equity accounted investments, net of tax	22	(152)	—
Total other comprehensive income (loss)		19,061	(37,426)
Other comprehensive income	\$	114,425	\$ 136,408
Total comprehensive income for the year attributable to:			
Shareholders	\$	81,314	\$ 95,613
Non-controlling interest	25	33,111	40,795
Comprehensive income	\$	114,425	\$ 136,408

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

<i>(in thousands of Canadian dollars)</i>	Dream share capital (Note 23)	Contributed surplus	Reorganization adjustment (Note 23)	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity	Non- controlling interest	Total equity
Balance, January 1, 2016	\$ 990,039	\$ 1,599	\$ (944,577)	\$ 485,819	\$ (14,997)	\$ 517,883	\$ 199,971	\$ 717,854
Earnings for the year	—	—	—	67,638	—	67,638	27,726	95,364
Other comprehensive income for the year (Note 24)	—	—	—	—	13,676	13,676	5,385	19,061
Dividends declared (Note 23)	—	—	—	—	—	—	(1,935)	(1,935)
Share repurchase under normal course issuer bid (Note 23)	(953)	—	—	—	—	(953)	—	(953)
Share-based compensation (Note 33)	—	2,120	—	—	—	2,120	—	2,120
Change in interest in subsidiary (Note 25)	20,752	—	—	(2,614)	(29)	18,109	(18,109)	—
Balance, December 31, 2016	\$ 1,009,838	\$ 3,719	\$ (944,577)	\$ 550,843	\$ (1,350)	\$ 618,473	\$ 213,038	\$ 831,511

<i>(in thousands of Canadian dollars)</i>	Dream share capital (Note 23)	Contributed surplus	Reorganization adjustment (Note 23)	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity	Non- controlling interest	Total equity
Balance, January 1, 2015	\$ 997,901	\$ 767	\$ (944,577)	\$ 363,873	\$ 11,288	\$ 429,252	\$ 162,581	\$ 591,833
Earnings for the year	—	—	—	121,898	—	121,898	51,936	173,834
Other comprehensive income for the year (Note 24)	—	—	—	—	(26,285)	(26,285)	(11,141)	(37,426)
Dividends declared (Note 23)	—	—	—	—	—	—	(3,405)	(3,405)
Share repurchase under normal course issuer bid (Note 23)	(7,862)	—	—	—	—	(7,862)	—	(7,862)
Share-based compensation (Note 33)	—	832	—	48	—	880	—	880
Balance, December 31, 2015	\$ 990,039	\$ 1,599	\$ (944,577)	\$ 485,819	\$ (14,997)	\$ 517,883	\$ 199,971	\$ 717,854

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

<i>(in thousands of Canadian dollars)</i>	Note	2016	2015
Operating activities			
Earnings for the year	\$	95,364	\$ 173,834
Adjustments for non-cash items:			
Depreciation and amortization		3,026	3,339
Gain on sale of recreational and investment properties	10,11	—	(2,183)
Fair value changes in investment properties	10	(17,902)	(11,158)
Gain on reorganization of asset management agreement	37	—	(127,313)
Share of (earnings) losses from equity accounted investments	12	(42,832)	530
Gain on settlement of debt		—	(2,248)
Deferred income taxes	22	17,825	23,536
Other adjustments	38	(1,691)	(1,389)
Changes in non-cash working capital	38	39,929	(67,456)
Acquisition of housing inventory	7	(212)	(540)
Acquisition of condominium inventory	8,38	(10,067)	(1,345)
Development of housing inventory, net of sales	7	6,494	36,772
Development of condominium inventory, net of sales	8	37,444	(10,816)
Advances for construction loan, net of repayments	17	(33,377)	35,092
Acquisition of land inventory	9	(10,265)	(17,322)
Development of land inventory, net of sales	9	75	(50,890)
Net cash flows provided by (used in) operating activities		83,811	(19,557)
Investing activities			
Acquisitions and additions to investment properties	10	(68,484)	(10,483)
Additions to recreational properties	11	(7,527)	(8,230)
Investments in equity accounted investments		(22,383)	—
Contributions to equity accounted investments		(27,661)	(28,150)
Distributions from equity accounted investments		50,750	13,052
Disposal of investment and recreational properties	10,11	—	10,882
Loans receivable advances		(5,568)	(4,985)
Acquisition of financial assets and other assets, net of distributions		(57,933)	(5,472)
Net cash flows used in investing activities		(138,806)	(33,386)
Financing activities			
Borrowings from mortgages and term debt facilities	20	61,597	53,771
Repayments of mortgages and term debt facilities	20	(17,602)	(57,632)
Repayment of shareholder loan		—	(58,939)
Advances (repayments) from operating line, net	18	13,500	(43,500)
Proceeds from issuance of non-revolving term facility, net of financing costs	19	—	173,810
Dividends paid to non-controlling interest		(1,935)	(3,405)
Redemption of Preference shares, series 1	21	(6,163)	(4,002)
Shares repurchased under normal course issuer bid	23	(953)	(7,862)
Net cash flows provided by financing activities		48,444	52,241
Change in cash and cash equivalents		(6,551)	(702)
Cash and cash equivalents, beginning of year		29,983	30,685
Cash and cash equivalents, end of year	38 \$	23,432	\$ 29,983

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

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

1. Business and structure

Dream Unlimited Corp. ("Dream" or the "Company"), through its 72.6% owned subsidiary, Dream Asset Management Corporation ("DAM"), is one of Canada's leading real estate companies with assets under management in North America and Europe. The scope of the business includes residential land development, commercial development, housing development, condominium and mixed-use development, asset management and management services for four TSX-listed public vehicles and numerous partnerships, investments in and management of Canadian renewable energy infrastructure and commercial property ownership.

Sweet Dream Corp. ("SDC") has a 27.4% non-controlling interest in DAM and is wholly owned by Michael Cooper, President and Chief Responsible Officer of DAM and Dream. The President and Chief Responsible Officer of DAM and Dream became the ultimate controlling party of Dream with a voting interest of approximately 80.0% on August 18, 2016. Refer to Note 25 for a description of equity transactions with non-controlling interests during the year ended December 31, 2016.

A reorganization of the Company's share capital took place in 2013, which is summarized in Note 23.

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

2. Basis of preparation

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

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

The consolidated financial statements for the year ended December 31, 2016 were approved by the Board of Directors for issue on February 28, 2017, after which date they may be amended only with the Board of Directors' approval.

3. Summary of significant accounting policies

The significant accounting policies adopted by the Company in the preparation of its consolidated financial statements are set out below. The Company has consistently applied these accounting policies throughout all years presented in the consolidated financial statements.

Basis of Measurement

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

Principles of Consolidation

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

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

Segmented Reporting

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

Notes to the Consolidated Financial Statements

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

Joint Arrangements and Associates

Investments in Joint Arrangements

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

Investments in Joint Ventures

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

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

Name of joint venture and location	Nature of business	Ownership interest	
		2016	2015
Bear Valley Mountain Resort, California	Ski facilities	50%	50%
Corktown Commercial Inc., Toronto	Investment property	50%	50%
Distillery Restaurants Limited Partnership, Toronto	Restaurant	50%	50%
Dream CMCC Funds I and II, Toronto	Mixed-use development	9% - 40%	9% - 40%
Dundee Kilmer Developments Limited, Toronto	Condominiums	50%	50%
Dundee Kilmer Developments LP, Toronto	Condominiums	50%	50%
Firelight Infrastructure Partners LP, Toronto	Renewable energy	20%	20%
Firelight Infrastructure Partners Management LP, Toronto	Renewable energy	50%	50%
King Edward Private Residence LP, Toronto	Condominiums	17%	17%
S/D Commercial Corporation, Toronto	Investment property	50%	50%
Westland Properties Ltd., Western Canada	Land	78%	78%
Dream VHP Limited Partnership, Toronto	Mixed-use development	25%	25%
Windmill Dream Zibi Master LP, Ottawa	Mixed-use development	50%	50%
Dream Wilson Brighton Development LP, Western Canada	Mixed-use development	50%	– %
GulfDream Limited Partnership, Toronto	Mixed-use development	12.5%	– %

Investments in Joint Operations

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

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

Name of joint operation and location	Nature of business	Ownership interest	
		2016	2015
Arbor Creek, Saskatoon	Land and housing	78%	78%
Distillery District, Toronto	Historical heritage district	50%	50%
Millswoods Robertson, Edmonton	Land and housing	70%	70%
Streetcar, Toronto	Condominiums	25% - 50%	25% - 50%
Thornhill Woods, Toronto	Land and housing	32%	32%

Investments in Associates

Investments in associates comprise those investments over which the Company has significant influence, but not control. Generally, the Company is considered to exert significant influence when it holds more than a 20% interest in an entity. However, determining significant influence is a matter of judgment and specific circumstances and, from time to time, the Company may hold an interest of more than 20% in an entity without exerting significant influence. Conversely, the Company may hold an interest of less than 20% and exert significant influence through representation on the board of directors, direction of management or through contractual agreements. The Company accounts for its investments in associates using the equity method of accounting described above. In the year ended December 31, 2016, the Company acquired additional interests in Dream Hard Asset Alternatives Trust ("Dream Alternatives"), increasing its holdings to an 8% ownership as at December 31, 2016, and together with other rights was deemed to have significant influence over Dream Alternatives.

Notes to the Consolidated Financial Statements

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

Impairment of Equity Accounted Investments

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

Business Combinations

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

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

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

Foreign Currency Translation

Functional and Presentation Currency

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

Functional Currency of Subsidiaries and Equity Accounted Investments

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

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

Foreign Currency Transactions

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

Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, other financial assets, financial instruments within accounts payable and other liabilities, customer deposits, construction loans, amounts borrowed pursuant to the Company's operating line, non-revolving term facility, mortgages and term debt, and Preference shares, series 1, including related redemption and retraction options that have been separately recognized and deposits and restricted cash that have been included in the consolidated financial statements under "Capital and other operating assets".

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

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

Notes to the Consolidated Financial Statements

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

Available-for-Sale Securities

Available-for-sale (“AFS”) securities are non-derivative financial instruments that are either specifically designated as available for sale or have not been classified in any other financial instrument category. AFS securities are initially recognized at cost upon acquisition, including directly attributable transaction costs, and are subsequently carried at fair value.

Certain investments included as “other financial assets” in the Company’s consolidated statements of financial position, including the Company’s investments in Dream Office Real Estate Investment Trust (“Dream Office REIT”) and Dream Global Real Estate Investment Trust (“Dream Global REIT”) (Note 6), have been included in this category.

Changes in the fair values of AFS securities are reported in OCI until the financial asset is sold or becomes impaired, at which time the accumulated gain or loss is removed from AOCI and recognized in earnings.

Also included as AFS securities are deferred trust units (“DTUs”) of Dream Global REIT, which the Company received as compensation for services provided pursuant to an asset management and advisory services agreement up to August 2016 (Note 37). The DTUs will vest to the Company in five equal annual installments, beginning in the sixth year following the grant of such DTUs until September 2026. The DTUs and the corresponding asset management and advisory services revenue are recognized at fair value, determined by applying a discount to the trading value of the underlying units of Dream Global REIT to reflect the vesting period. Subsequent to initial recognition, the DTUs are carried at fair value, with changes in fair value recognized in AOCI.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial instruments classified in this category include cash and cash equivalents, accounts receivable, loans receivable included in the Company’s portfolio of other financial assets, and deposits and restricted cash. Financial instruments designated as loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less a provision for impairment, if applicable.

Financial Liabilities at Amortized Cost

Financial liabilities at amortized cost include certain financial instruments included in accounts payable and other liabilities, customer deposits, construction loans, amounts borrowed pursuant to the Company’s operating line, non-revolving term facility, mortgages and term debt, amounts due to a shareholder, and the Company’s Preference shares, series 1. These amounts are initially measured at the amount required to be paid, less, when material, a discount to reduce the liabilities to fair value. Subsequently, these financial liabilities are measured at amortized cost using the effective interest method.

Fair Value Through Profit and Loss/(FVTPL)

Financial instruments in this category, which include the redemption and retraction options on the Preference shares, series 1, and the interest rate swap are initially and subsequently recognized at fair value. Gains and losses arising from changes in fair value are presented within net income in the consolidated statements of comprehensive income in the period in which they arise, unless they are derivative instruments that have been designated as hedges.

Hedging Instruments and Activities

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

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

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

Impairment of Financial Assets

At each reporting date, management assesses whether there is objective evidence that financial assets are impaired. Objective evidence may include a significant or prolonged decline in the trading value of an equity security below its cost, significant financial difficulty of the obligor, or delinquencies in interest and principal payments. If such evidence exists, an impairment loss is recognized equal to: (1) the difference between the weighted average cost of the financial asset and the present value of the estimated future cash flows, discounted using the instrument’s original effective interest rate, for financial assets carried at amortized cost; or (2) the difference between the weighted average cost of the asset and the fair value at the measurement date, less any previously recognized impairment loss, for financial assets designated as AFS securities.

Notes to the Consolidated Financial Statements

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

Real Estate Inventory

Housing and Condominiums

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

Land

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

Capitalized Costs

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

Provision for Real Estate Development Costs

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

Investment Properties

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

Development Investment Properties

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

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

Recreational Properties

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

Real Estate Borrowing Costs

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

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

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Capital and Other Operating Assets

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

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

Impairment of Non-Financial Assets

Non-financial assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss, if any, is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount of an asset is the greater of an asset's fair value, less costs to sell, and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows ("cash-generating units" or "CGUs"). If their carrying value is assessed as not recoverable, an impairment loss is recognized.

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

Intangible Asset

Upon the purchase of the right to manage Dream Alternatives, the Company entered into a new management contract, as described further in Notes 14 and 37, and the Company recognized an intangible asset with an indefinite life. Finite life intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses, and are amortized on a straight-line basis over their estimated useful lives. The Company's intangible asset has an indefinite life, as there is no foreseeable limit to the period over which the asset is expected to generate cash flows. Indefinite life intangible assets are recorded at cost unless an impairment is identified that requires a write-down to the recoverable amount. Indefinite life intangible assets are evaluated for impairment annually or more often if events or circumstances indicate there may be an impairment. Any impairment of the Company's indefinite life intangible asset is recorded in earnings for the period in which the impairment is identified. Impairment losses on intangible assets may be subsequently reversed in earnings.

Revenue Recognition

Revenue from sales of real estate inventory is generally recognized when the earnings process is virtually complete, the significant risks and rewards of ownership are transferred to the buyer, collectibility is reasonably assured, and the Company does not have a substantial continuing involvement with the asset to the degree normally associated with ownership.

Revenue relating to sales of land under development is recognized provided that the related agreement of purchase and sale is unconditional; an appropriate deposit of the sale proceeds has been received; collectibility of the remaining proceeds is reasonably assured; and the Company can reliably measure the necessary costs to complete the development of the asset. Until these criteria are met, any proceeds received are accounted for as customer deposits.

Revenue relating to sales of condominiums and housing projects or commercial property is recognized provided that the related agreement of purchase and sale is unconditional; the buyer occupies the unit; a reasonable portion of the sale proceeds has been received; collectibility of the remaining proceeds is reasonably assured; and the Company can reliably measure the necessary costs to complete the development of the asset. Until these criteria are met, any proceeds received are accounted for as customer deposits.

Revenue from investment properties includes base rents, recoveries of operating expenses including property taxes, percentage participation rents, lease cancellation fees, parking income and other incidental income. The Company uses the straight-line method of rental revenue recognition on investment properties whereby any contractual free-rent periods and rent increases over the term of a lease are recognized in earnings evenly over the lease term. Initial direct leasing costs incurred in negotiating and arranging tenant leases are added to the carrying amount of the investment properties and are amortized over the term of the lease. Lease incentives, which include costs incurred to make leasehold improvements to tenants' space and cash allowances provided to tenants, are added to the carrying amount of investment properties and are amortized on a straight-line basis over the term of the lease as a reduction in revenue from investment properties.

Amounts received for the sale of annual season passes to recreational properties are deferred and amortized on a straight-line basis over the term of the season. Other amounts received from the use of recreational properties are recognized as revenue when earned.

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Revenue from real estate asset management and advisory services is calculated based on a fee that is a formula specific to each advisory client and may include fee revenue calculated as a percentage of the capital managed, capital expenditures incurred, the purchase price of properties acquired, and the value of financing transactions completed. These fees are recognized on an accrual basis over the period during which the related service is rendered. Asset management and advisory services fee arrangements may also provide the Company with an incentive fee when the investment performance of the underlying assets exceeds established benchmarks. Incentive fees and other revenues are not recognized in earnings until the amounts can be established with certainty and are no longer dependent on future events.

The Company recognizes investment income from distributions on financial assets when the distributions are received or receivable, after adjusting for the portion considered to be a return of capital. The Company's basis of measurement for distributions from financial assets classified as investment income and return of capital is the Company's pro rata share of cash flows from operations of the investee.

Direct Operating Costs

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

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

Income Taxes

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

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

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

Non-Controlling Interest

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

Preference Shares, Series 1

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

Dream's Preference shares, series 1, are redeemable, at the option of Dream, at any time, and are retractable at the option of the holder, at any time (Note 21).

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

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Earnings per Share

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

Share-Based Compensation

Stock Option Plan

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

Deferred Share Incentive Plan

The Company has a deferred share incentive plan, as described in Note 33, that provides for the grant of deferred share units (DSUs) and income deferred share units to eligible directors, senior management and their service providers. Grants to directors, officers and employees are recognized as compensation expense and included in general and administrative expenses in the period in which they are granted. During the holding period, which is between the grant date and the vesting date, DSUs earn dividends declared by the Company in the form of additional fractional DSUs. Upon settlement of DSUs and their earned fractional DSUs, the amount recognized in contributed surplus for the grant is reclassified to share capital.

Adoption of Recent Accounting Pronouncements

The Company has adopted the following new or revised standards, including any consequential amendments thereto, for the year effective January 1, 2016. Changes in accounting policies adopted by the Company were made in accordance with the applicable transitional provisions as provided in those standards and amendments.

IFRS 5, "Non-Current Assets Held for Sale and Discontinued Operations" ("IFRS 5")

IFRS 5 specifies the accounting for assets held for sale, and the presentation and disclosure of discontinued operations. It was amended to clarify (i) the impact of reclassifications from "held for sale" to "held for distribution" and vice versa, and (ii) guidance on changes in a plan of sale. The adoption of this amendment did not have a material impact on the Company's consolidated financial statements.

IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), and IAS 28, "Investments in Associates and Joint Ventures" ("IAS 28")

IFRS 10 and IAS 28 establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities and prescribe the accounting for investments in associates, respectively. They were amended to clarify that a full gain or loss is recognized when a transaction involves a business combination and a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The adoption of these amendments did not have a material impact on the Company's consolidated financial statements.

Future Accounting Standards

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

IFRS 2 clarifies how to account for certain types of share-based payment transactions. It was amended to address (i) certain issues related to the accounting for cash settled awards, and (ii) the accounting for equity settled awards that include a "net settlement" feature in respect of employee withholding taxes. The amendments to IFRS 2 are effective for years beginning on or after January 1, 2018. The Company is currently assessing the impact of IFRS 2 on the consolidated financial statements.

IFRS 7, "Financial Instruments - Disclosure" ("IFRS 7")

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

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

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

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

IFRS 15 specifies how and when revenue should be recognized, in addition to requiring more informative and relevant disclosures. The IFRS 15 revenue recognition model requires management to exercise significant judgment and make estimates that affect revenue recognition. This standard supersedes IAS 18, "Revenue", IAS 11, "Construction Contracts", and a number of revenue-related interpretations. IFRS 15 must be applied for periods beginning on or after

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January 1, 2018, with early application permitted. The Company will not be early adopting IFRS 15 however, the Company has elected to adopt IFRS 15 using the full retrospective method. The Company is currently assessing the impact of IFRS 15 on the consolidated financial statements.

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

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

IAS 7, "Disclosures" ("IAS 7")

IAS 7 requires entities to provide disclosures in their financial statements about changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments to IAS 7 are effective for years beginning on or after January 1, 2017. The Company does not expect the amendments to have a material impact on the financial statements.

IAS 12, "Income taxes - Deferred Tax" ("IAS 12")

IAS 12 clarifies the recognition of deferred tax assets for unrealized losses. It was amended to specify (i) the requirements for recognizing deferred tax assets on unrealized losses; (ii) deferred tax where an asset is measured at a fair value below the asset's tax base; and (iii) certain other aspects of accounting for deferred tax assets. The amendments to IAS 12 are effective for years beginning on or after January 1, 2017. The Company does not expect the amendments to have a material impact on the financial statements.

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

IAS 40 clarifies the principles for transfers into, or out of, investment property when there has been a change in use. The amendments to IAS 40 are effective prospectively for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently assessing the impact of IAS 40 on the consolidated financial statements.

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4. Critical accounting estimates, judgments and assumptions

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

Joint Arrangements and Associates

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

Business Combinations

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

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

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

Consolidation

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

Net Realizable Value

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

Provisions

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

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Capitalization of Borrowing Costs

The Company capitalizes borrowing costs to qualifying assets by determining whether the borrowings are general or specific to a project. Judgment is involved in this determination. Borrowing costs are capitalized to qualifying real estate assets that necessarily take a substantial period of time to prepare for their intended use or sale. The Company considers a substantial period of time to be a period longer than one year to complete.

Fair Value of Investment Properties

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

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

Fair Value of Development Investment Properties

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

Impairment of Recreational Properties, Capital Assets and Intangible Assets

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

Income Taxes

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

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

Fair Value and Impairment of Financial Instruments

Certain financial instruments are recorded in the Company's consolidated statements of financial position at values that are representative of or approximate fair value. The fair value of a financial instrument that is traded in active markets at each reporting date is determined by reference to its quoted market price or dealer price quotations. Investments in equity instruments whose fair value cannot be reliably measured are carried at cost.

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

The Company assesses, at each reporting date, whether there is any objective evidence that a financial instrument, including equity accounted investments, is impaired. The assessment of impairment of a financial instrument requires significant judgment, where management evaluates, among other factors, the duration and extent to which the carrying value or fair value of an investment is less than its cost and the financial health of and short-term business outlook for the investee.

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

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

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

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

Fair Value of Hedging Instruments and Effectiveness

Critical judgments are made in respect of assumptions used to estimate the fair value of hedging instruments and to assess the effectiveness of the hedging arrangement. The basis of valuation and assessment of effectiveness for the Company's derivatives is set out in Notes 19 and 20; however, the fair values reported may differ from how they are ultimately recognized if there is volatility in interest rates between the valuation date and settlement date.

Transfer of Inventory to Development Investment Properties

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

5. Accounts receivable

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

		2016		2015
Contracted sales of land under development and recoveries	\$	103,712	\$	117,513
Condominium sales		9,869		47,329
Housing sales		1,164		1,907
Receivables relating to investment and recreational properties		4,607		4,966
Asset management and advisory services fees		16,797		12,087
Other		4,245		3,967
	\$	140,394	\$	187,769

Accounts receivable for contracted sales of land under development and housing and condominium sales are secured by the underlying real estate assets and have various terms of repayment. The carrying value of accounts receivable is reported net of a provision for impairment of \$759 (December 31, 2015 – \$958).

As at December 31, 2016, there were \$319 contracted sales of land under development (December 31, 2015 – \$3,010) that were past due.

6. Other financial assets

Other financial assets consisted of the following:

	Note	2016		2015
Investment in Dream Office REIT		75,427	\$	13,443
Investment in Dream Office REIT LP B units		102,321		90,912
Investment in Dream Global REIT		26,460		24,248
Investment in Dream Global REIT, deferred trust units		15,564		10,609
Investment in Dream Alternatives	12	—		10,313
Loans receivable		9,855		3,778
Investments in equity securities not quoted in an active market		7,054		7,029
Redemption option on Preference shares, series 1		841		1,460
Interest rate swaps	19,20	330		—
Other investments in equity securities quoted in an active market		1,046		1,008
	32	\$ 238,898	\$	162,800

In the year ended December 31, 2016, the Company reclassified its investments in Dream Alternatives to equity accounted investments. Refer to Note 12 for further details.

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Dream Office REIT

		2016	2015
Return of capital portion	\$	1,758	\$ 2,592
Investment income portion		8,009	8,149
Distributions earned on investment	\$	9,767	\$ 10,741

On April 2, 2015, the Company and Dream Office REIT announced a reorganization where the Company received 4,850,000 LP Class B Units, Series 1 (LP B units), of Dream Office LP, a subsidiary of Dream Office REIT, which are exchangeable for 4,850,000 Dream Office REIT units. These units are carried at fair value with subsequent changes to fair value recorded in OCI. Refer to Note 37 for further details. As at December 31, 2016, the Company held 3,858,153 Dream Office REIT units (December 31, 2015 – 773,939) and 5,233,823 Dream Office REIT LP B units (December 31, 2015 – 5,233,823).

Dream Global REIT

		2016	2015
Return of capital portion	\$	986	\$ 1,204
Investment income portion		1,254	1,036
Distributions earned on investment	\$	2,240	\$ 2,240

As at December 31, 2016 and 2015, the Company held 2,800,000 Dream Global units. In addition, the Company held 2,134,289 deferred trust units (“DTUs”) as at December 31, 2016 with a fair value of \$15,564 (December 31, 2015 – 1,792,344 DTUs with a fair value of \$10,609), which were received as compensation provided for services pursuant to an asset management and advisory services agreement between the Company and Dream Global REIT. Refer to Note 32 for the valuation methodology used to determine the fair value of the DTUs.

7. Housing inventory

The movement in housing inventory is as follows:

	Total
Balance, January 1, 2015	\$ 71,588
Acquisitions	540
Transfers from land inventory	13,402
Development	20,752
Housing units occupied	(57,524)
Other	(591)
Balance, December 31, 2015	\$ 48,167
Acquisitions	212
Transfers from land inventory	8,777
Development	26,548
Housing units occupied	(33,042)
Balance, December 31, 2016	\$ 50,662

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8. Condominium inventory

The movement in condominium inventory is as follows:

	Total
Balance, January 1, 2015	\$ 75,515
Acquisitions	1,345
Development	56,312
Condominium units occupied	(45,496)
Transfers from land inventory	3,647
Balance, December 31, 2015	\$ 91,323
Acquisitions	13,274
Development	24,981
Condominium units occupied	(62,425)
Transfers to investment properties	(9,529)
Transfers to land inventory	(1,990)
Balance, December 31, 2016	\$ 55,634

9. Land inventory

The movement in land inventory is as follows:

	Land held for development	Land under development	Total
Balance, January 1, 2015	\$ 383,751	\$ 143,209	\$ 526,960
Acquisitions	60,415	—	60,415
Development	8,539	113,184	121,723
Lot and acre sales	(726)	(70,107)	(70,833)
Transfers	(9,421)	9,421	—
Transfers to housing inventory	—	(13,402)	(13,402)
Transfers to investment properties	—	(27,815)	(27,815)
Transfers to condominium inventory	—	(3,647)	(3,647)
Balance, December 31, 2015	\$ 442,558	\$ 150,843	\$ 593,401
Acquisitions	17,836	112	17,948
Development	4,220	51,650	55,870
Lot and acre sales	(15,933)	(40,012)	(55,945)
Transfers	(35,196)	35,196	—
Transfers to housing inventory	—	(8,777)	(8,777)
Transfers from condominium inventory	—	1,990	1,990
Balance, December 31, 2016	\$ 413,485	\$ 191,002	\$ 604,487

In the year ended December 31, 2016, the Company made final cash payments of \$10,265 for lands in which deposits of \$7,683 had previously been made. This resulted in \$17,948 of acquisitions in the current period.

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

10. Investment properties

The movement in investment properties was as follows:

		Investment properties – Ontario		Development properties – Western Canada		Total
Balance, January 1, 2015	\$	94,656	\$	—	\$	94,656
Additions to investment properties:						
Land and building additions		1,358		9,125		10,483
Transfers from land inventory		—		27,815		27,815
Disposals		(2,104)		—		(2,104)
Gains (losses) included in earnings:						
Fair value changes of investment properties		(817)		11,975		11,158
Amortization of lease incentives		(47)		—		(47)
Change in straight-line rent		5		—		5
Balance, December 31, 2015	\$	93,051	\$	48,915	\$	141,966
Additions to investment properties:						
Acquisitions		44,777		12,684		57,461
Land and building additions		1,579		9,444		11,023
Transfers from condominium inventory		—		9,529		9,529
Gains (losses) included in earnings:						
Fair value changes of investment properties		18,802		(900)		17,902
Amortization and other		(46)		—		(46)
Change in straight-line rent		13		134		147
Balance, December 31, 2016	\$	158,176	\$	79,806	\$	237,982

During the year ended December 31, 2016, Dream achieved first tenant occupancies within its first multi-family rental building in Western Canada. The achievement of first tenant occupancy demonstrated a change of intent in use of the property which resulted in a change in classification under IFRS from condominium inventory (held at cost) to investment properties (held at fair value). As a result of occupancies achieved, Dream transferred the carrying value of the property of \$9,529 to investment properties and recognized a non-cash loss within fair value changes in investment properties in the statement of earnings.

During the year ended December 31, 2015, Dream achieved occupancies within its first retail development site in Western Canada. As a result of occupancies achieved, Dream transferred the carrying value of land of \$27,815 to investment properties and recognized a non-cash gain within fair value changes in investment properties in the statement of earnings.

Unrealized gains included in earnings for the year ended December 31, 2016, for investment properties were \$17,902 (year ended December 31, 2015 – gains of \$11,158).

Investment properties include \$736 (December 31, 2015 – \$589) relating to straight-line rent receivables.

Fair Value of Investment Properties

Fair values of investment properties are determined using valuations prepared by management using inputs that are Level 3 on the fair value hierarchy. To supplement the assessment of fair value, management obtains valuations of selected investment properties on a rotational basis from qualified external valuation professionals and verifies the results of such valuations with the external appraisers. As at December 31, 2016, investment properties of \$99,550 (December 31, 2015 – \$48,915) were externally appraised.

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

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

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

Notes to the Consolidated Financial Statements

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

Significant unobservable inputs were as follows for December 31, 2016 and December 31, 2015:

		December 31, 2016		December 31, 2015	
	Input	Range	Weighted average	Range	Weighted average
Ontario	Discount rate	5.75%–7.00%	5.8%	6.00%–7.50%	6.3%
	Terminal capitalization rate	5.25%–6.50%	5.3%	5.75%–6.75%	5.8%
Western Canada	Discount rate	7.0%	7.0%	7.0%	7.0%
	Terminal capitalization rate	5.75%–6.50%	6.4%	6.25%–6.50%	6.4%

Fair values of the Company's Ontario investment properties are most sensitive to changes in the terminal capitalization rates. An increase in the terminal capitalization rate will result in a decrease in the fair value of an investment property and vice versa. If the capitalization rate were to increase or decrease by 25 basis points ("bps"), the value of investment properties would decrease by \$5,579 and increase by approximately \$6,172, respectively, as at December 31, 2016 (December 31, 2015—approximately decrease by \$4,157 and increase by \$4,544).

Fair values of the Company's Western Canada investment properties are most sensitive to changes in the terminal capitalization rates. An increase in the terminal capitalization rate will result in a decrease in the fair value of an investment property and vice versa. If the terminal capitalization rate were to increase or decrease by 25 bps, the value of investment properties would decrease by \$1,437 and increase by approximately \$1,556, respectively, as at December 31, 2016 (December 31, 2015—approximately decrease by \$1,353 and increase by \$1,464).

Investment properties, including equity accounted investments, with a fair value of \$176,783 as at December 31, 2016 (December 31, 2015—\$103,193), are pledged as security for mortgages and term debt. Investment properties, including equity accounted investments, with a fair value of \$69,894 as at December 31, 2016 (December 31, 2015—\$48,915), are pledged as security for construction loans.

Fair Value of Ontario Investment Properties

Fair values of Ontario investment properties, which include commercial retail and other properties, are calculated using a discounted cash flow ("DCF") model, generally over an average period of 10 years, plus a terminal value based on the estimated cash flow in the final year of the detailed planning period. The DCF model incorporates, among other things, expected rental income from current leases, assumptions about rental income from future leases and implied vacancy rates, general inflation and projections of required cash outflows with respect to such leases. The significant unobservable inputs for the fair value of the Company's investment properties are provided above.

Fair Value of Western Canada Development Properties

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

The Company's future minimum rental commitments, including joint operations, from non-cancellable tenant operating leases as at December 31, 2016 were as follows:

No longer than 1 year	\$	7,671
Between 1 and 5 years		27,536
Longer than 5 years		29,815
	\$	65,022

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

11. Recreational properties

		2016		2015
Cost	\$	46,469	\$	42,010
Accumulated depreciation		(17,438)		(15,040)
Balance, beginning of year		29,031		26,970
Additions		7,527		8,230
Disposals		—		(6,595)
Depreciation		(2,443)		(2,398)
Other		(1,243)		2,824
Balance, end of year	\$	32,872	\$	29,031
Cost	\$	52,753	\$	46,469
Accumulated depreciation		(19,881)		(17,438)
Balance, end of year	\$	32,872	\$	29,031
		2016		2015
Operational recreational properties:				
Arapahoe Basin ski hill (Colorado)	\$	20,068	\$	19,328
Willows Golf Course (Saskatchewan)		2,522		2,814
Recreational properties under development:				
Broadview Hotel (Ontario)		10,282		6,889
	\$	32,872	\$	29,031

12. Equity accounted investments

The Company has entered into certain arrangements in the form of jointly controlled entities, for various residential and investment property developments, as well as renewable energy investments. These arrangements include restrictions on the ability to access assets without the consent of all partners and include distribution conditions outlined in partnership agreements. These arrangements are accounted for under the equity method. As at December 31, 2016, the carrying value of these arrangements was \$159,045 (December 31, 2015 – \$106,848).

The equity method of accounting is also applicable to investments in common stock in which the Company is deemed to be able to exercise significant influence over the investee company. During the year ended December 31, 2016, it was deemed that Dream met the criteria for significant influence over its investment in Dream Alternatives upon acquiring additional units in the open market and reclassified its investment in Dream Alternatives of \$10,313 at December 31, 2015, to equity accounted investments. As at December 31, 2016, Dream held approximately 5,911,900 units in Dream Alternatives (approximately 8% of units outstanding). As at December 31, 2015, the Company's investment of 1,815,600 units in Dream Alternatives (approximately 3% of units outstanding) was reported at fair value within other financial assets.

In addition to its equity investment, the Company is party to a management agreement with Dream Alternatives. The management contract with Dream Alternatives is recorded on the Company's balance sheet as an intangible asset and is described in Note 37.

In the year ended December 31, 2016, Brighton Marketplace, a partnership owned 50% by the Company, acquired 21.5 acres of land located in Saskatoon. To form this partnership, the Company contributed 7.6 acres of retail land and \$3,388 in cash consideration to equalize each partner's contribution to the joint venture at fair value.

In the year ended December 31, 2016, the Company acquired a 12.5% ownership interest in GulfDream Limited Partnership (the "Lakeshore East" development). Dream Alternatives owns a 37.5% ownership interest in Lakeshore East. In the year ended December 31, 2016, the Company contributed \$3,793 to the partnership. GulfDream Limited Partnership entered into a \$30,000 mortgage to acquire 5.3 acres of waterfront property in Toronto. Lakeshore East is included in "other development interests" as at December 31, 2016.

The following tables summarize the Company's proportionate share of assets and liabilities in equity accounted investments (segregated between development and income producing investments) as at December 31, 2016 and December 31, 2015.

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

As at December 31, 2016

Development investments	Brighton Marketplace	Dundee Kilmer Developments LP	Zibi	Dream CMCC Funds I and II	Other	Total
Project level (at 100%)						
Assets	\$ 16,786	\$ 104,686	\$ 61,544	\$ 62,597	\$ 67,562	\$ 313,175
Liabilities	(240)	(31,377)	(21,906)	(6,314)	(38,404)	(98,241)
Net assets	\$ 16,546	\$ 73,309	\$ 39,638	\$ 56,283	\$ 29,158	\$ 214,934
Dream's ownership interest	50%	50%	50%	9%–40%	25%–50%	
Assets	\$ 8,393	\$ 52,343	\$ 31,735	\$ 6,872	\$ 8,878	\$ 108,221
Liabilities	(120)	(15,688)	(10,953)	(732)	(5,294)	(32,787)
Net assets	\$ 8,273	\$ 36,655	\$ 20,782	\$ 6,140	\$ 3,584	\$ 75,434
Excess of net assets over deemed cost of investment	(2,285)	—	—	—	—	(2,285)
Total development investments	\$ 5,988	\$ 36,655	\$ 20,782	\$ 6,140	\$ 3,584	\$ 73,149

Income producing investments	Dream Alternatives ⁽¹⁾	Firelight Infrastructure Partners LP	Distillery Restaurants LP	Toronto Condominiums and Mixed-Use Properties	Other	Total
Project level (at 100%)						
Assets	\$ 999,668	\$ 997,528	\$ 11,273	\$ 32,131	\$ 12,764	\$ 2,053,364
Liabilities	(349,044)	(799,520)	(5,246)	(15,419)	(1,052)	(1,170,281)
Net assets	\$ 650,624	\$ 198,008	\$ 6,027	\$ 16,712	\$ 11,712	\$ 883,083
Dream's ownership interest	8%	20%	50%	50%	17%–78%	
Assets	\$ 81,683	\$ 199,506	\$ 5,675	\$ 16,067	\$ 4,769	\$ 307,700
Liabilities	(28,521)	(159,904)	(2,471)	(7,710)	(207)	(198,813)
Net assets	\$ 53,162	\$ 39,602	\$ 3,204	\$ 8,357	\$ 4,562	\$ 108,887
Excess of net assets over deemed cost of investment	(22,991)	—	—	—	—	(22,991)
Total income producing investments	\$ 30,171	\$ 39,602	\$ 3,204	\$ 8,357	\$ 4,562	\$ 85,896
Total					\$	\$ 159,045

⁽¹⁾ The ownership interest in Dream Alternatives increased throughout the year ended December 31, 2016 and was approximately 8% as at December 31, 2016.

As at December 31, 2015

Development investments	Dundee Kilmer Developments LP	Zibi	Dream CMCC Funds I and II	Other	Total
Project level (at 100%)					
Assets	\$ 272,698	\$ 50,831	\$ 92,060	\$ 1,705	\$ 417,294
Liabilities	(231,866)	(20,620)	(25,480)	(2,060)	(280,026)
Net assets (liabilities)	\$ 40,832	\$ 30,211	\$ 66,580	\$ (355)	\$ 137,268
Dream's ownership interest	50%	50%	9%–40%	25%–50%	
Assets	\$ 136,349	\$ 26,514	\$ 12,070	\$ 394	\$ 175,327
Liabilities	(115,933)	(10,310)	(4,175)	(509)	(130,927)
Net assets (liabilities)	\$ 20,416	\$ 16,204	\$ 7,895	\$ (115)	\$ 44,400
Income producing investments	Firelight Infrastructure Partners LP	Distillery Restaurants LP	Toronto Condominiums and Mixed-Use Properties	Other	Total
Project level (at 100%)					
Assets	\$ 1,028,063	\$ 10,240	\$ 30,404	\$ 14,985	\$ 1,083,692
Liabilities	(795,725)	(4,842)	(15,240)	(1,387)	(817,194)
Net assets	\$ 232,338	\$ 5,398	\$ 15,164	\$ 13,598	\$ 266,498
Dream's ownership interest	20%	50%	50%	17%–78%	
Assets	\$ 205,613	\$ 5,120	\$ 15,202	\$ 5,996	\$ 231,931
Liabilities	(159,145)	(2,421)	(7,620)	(297)	(169,483)
Net assets	\$ 46,468	\$ 2,699	\$ 7,582	\$ 5,699	\$ 62,448
Total				\$	\$ 106,848

The following tables summarize the Company's proportionate share of revenues, earnings (losses) and earnings (losses) before depreciation in equity accounted investments for the years ended December 31, 2016 and 2015.

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

For the year ended December 31, 2016											
Development investments	Brighton Marketplace		Dundee Kilmer Developments LP		Zibi		Dream CMCC Funds I and II		Other		Total
Project level (at 100%)											
Revenues	\$	—	\$	298,826	\$	82	\$	37,369	\$	—	\$ 336,277
Earnings (losses)		(21)		69,678		(2,573)		15,387		(320)	82,151
Earnings (losses) before depreciation		(21)		69,678		(2,573)		15,387		(320)	82,151
Dream’s ownership interest		50%		50%		50%		9%–40%		25%–50%	
Attributable to Dream:											
Revenues	\$	—	\$	149,413	\$	41	\$	7,508	\$	—	\$ 156,962
Earnings (losses)		(11)		34,839		(1,421)		3,438		(93)	36,752
Earnings (losses) before depreciation		(11)		34,839		(1,421)		3,438		(93)	36,752
Income producing investments	Dream Alternatives ⁽¹⁾		Firelight Infrastructure Partners LP		Distillery Restaurants LP		Toronto Condominiums and Mixed-Use Properties		Other		Total
Project level (at 100%)											
Revenues	\$	98,924	\$	136,454	\$	33,323	\$	1,642	\$	3,479	\$ 273,822
Earnings (losses)		(10,476)		27,025		885		246		1,759	19,439
Earnings (losses) before depreciation		(6,433)		69,350		2,099		246		1,780	67,042
Dream’s ownership interest		8%		20%		50%		50%		17%–78%	
Attributable to Dream:											
Revenues	\$	5,275	\$	27,290	\$	16,661	\$	821	\$	1,276	\$ 51,323
Earnings (losses)		(560)		5,405		428		123		684	6,080
Earnings (losses) before depreciation		(343)		13,870		1,035		123		695	15,380
Total revenues										\$	208,285
Total earnings										\$	42,832
Total earnings before depreciation										\$	52,132

⁽¹⁾ The ownership interest in Dream Alternatives increased throughout the year ended December 31, 2016 and was approximately 8% as at December 31, 2016.

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

For the year ended December 31, 2015										
Development investments	Dundee Kilmer Developments LP		Zibi	Dream CMCC Funds I and II		Other		Total		
Project level (at 100%)										
Revenues	\$	99	\$	—	\$	55,624	—	\$	55,723	
Earnings (losses)		(3,481)		(2,506)		11,495	(281)		5,227	
Earnings (losses) before depreciation		(3,481)		(2,506)		11,636	(281)		5,368	
Dream’s ownership interest		50%		50%		9%–40%		50%		
Attributable to Dream:										
Revenues	\$	50	\$	—	\$	10,135	—	\$	10,185	
Earnings (losses)		(1,740)		(297)		2,134	(78)		19	
Earnings (losses) before depreciation		(1,740)		(297)		2,160	(78)		45	
Income producing investments	Firelight Infrastructure Partners LP		Distillery Restaurants LP	Toronto Condominiums and Mixed-Use Properties		Other		Total		
Project level (at 100%)										
Revenues	\$	132,492	\$	31,525	\$	1,533	\$	2,286	\$	167,836
Earnings (losses)		(7,026)		973		(587)		1,232		(5,408)
Earnings (losses) before depreciation		37,147		2,068		(587)		1,252		39,880
Dream’s ownership interest		20%		50%		50%		17%–78%		
Attributable to Dream:										
Revenues	\$	26,498	\$	15,763	\$	766	\$	1,144	\$	44,171
Earnings (losses)		(1,405)		487		(293)		662		(549)
Earnings (losses) before depreciation		7,429		1,034		(293)		672		8,842
Total revenues								\$	54,356	
Total losses								\$	(530)	
Total earnings before depreciation								\$	8,887	

The Company provides guarantees for certain debts of jointly controlled entities. These guarantees are generally limited to the Company's investment in the specific entity for which a guarantee is provided.

13. Capital and other operating assets

Capital and other operating assets consisted of the following:

	2016	2015
Deposits	\$ 6,948	\$ 11,629
Restricted cash	5,918	5,231
Capital assets	8,175	7,059
Prepaid expenses	3,797	4,143
Inventory	1,070	914
Total capital and other operating assets	\$ 25,908	\$ 28,976
Capital assets	\$ 11,323	\$ 9,624
Accumulated depreciation	(3,148)	(2,565)
Total capital assets	\$ 8,175	\$ 7,059

Deposits represent amounts paid by the Company for future land and housing acquisitions and to secure other projects. During the year ended December 31, 2016, the Company acquired certain lands for which deposits had been made and as a result, transferred the deposits made of \$12,241 to land inventory (Note 9).

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

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

14. Intangible asset

In the year ended December 31, 2014, the Company acquired the right to manage Dream Alternatives for \$43,000, which has been classified as an indefinite life intangible asset, as the new management contract entered into has no expiration. A portion of the purchase price was used by the vendor, pursuant to the purchase agreement, to acquire \$10,000 of Dream Alternatives units, which are held in escrow and which may be repaid to DAM if certain performance metrics are not maintained over the next five years. As at December 31, 2016, \$6,000 of these units were held in escrow. At this time, management expects that the performance criteria will be met in the foreseeable future and recovery of any consideration is not probable. If performance metrics are not met in the future, a gain would be recognized at the time management believes recovery of such amounts is virtually certain. As at December 31, 2016, the carrying value was \$43,000 (December 31, 2015 – \$43,000).

15. Accounts payable and other liabilities

The details of accounts payable and other liabilities are as follows:

	Note	2016	2015
Trade payables ⁽¹⁾	\$	19,271	\$ 31,881
Accrued liabilities		73,647	51,537
Deferred revenue		3,190	23,031
Interest rate swaps	19, 20	—	216
Retraction option on Preference shares, series 1	32	—	292
	\$	96,108	\$ 106,957

⁽¹⁾ Included in trade payables were bank overdraft balances of \$1,744 as at December 31, 2016 (December 31, 2015 – \$1,152).

16. Provision for real estate development costs

The following table details the movement in the provision for real estate development costs:

	2016	2015
Balance, beginning of year	\$ 51,597	\$ 55,036
Additional provisions	31,383	46,204
Utilized during the year	(41,182)	(49,643)
Balance, end of year	\$ 41,798	\$ 51,597

The provision for real estate development costs includes accrued costs based on the estimated costs to complete land, housing and condominium development projects for which revenue has been recognized. These amounts have not been discounted, as the majority are expected to be substantially utilized within one year.

17. Construction loans

	December 31, 2016			December 31, 2015		
	Western Canada	Toronto	Total	Western Canada	Toronto	Total
Balance, beginning of year	\$ 67,368	\$ 56,368	\$ 123,736	\$ 47,579	\$ 41,065	\$ 88,644
Advances	47,187	17,449	64,636	66,832	33,106	99,938
Repayments	(32,904)	(65,109)	(98,013)	(47,043)	(17,803)	(64,846)
Balance, end of year	\$ 81,651	\$ 8,708	\$ 90,359	\$ 67,368	\$ 56,368	\$ 123,736

Western Canada construction loans relate to housing and retail projects under development and are all due on demand with recourse provisions. The majority of Toronto construction loans relate to project-specific financing for condominiums under development and hold security against the underlying asset. Further details on the weighted average interest rates related to construction loans are included in Note 32.

18. Operating line

The Company has established a revolving term credit facility ("the operating line") available up to a formula-based maximum not to exceed \$290,000, with a syndicate of Canadian financial institutions. As at December 31, 2016, funds available under this facility were \$290,000, as determined by the formula-based maximum calculation, net of \$66,828 of letters of credit issued against the facility. The operating line bears interest, at the Company's option, at a rate per annum equal to either the bank's prime lending rate plus 1.25% or at the bank's then prevailing bankers' acceptance rate plus 2.50%. The operating line is secured by a general security agreement and a first charge against various real estate assets in Western Canada.

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

	2016	2015
Principal outstanding, beginning of year	\$ 92,500	\$ 136,000
Advances from operating line	154,500	92,500
Repayments to operating line	(141,000)	(136,000)
Principal outstanding, end of year	\$ 106,000	\$ 92,500
Unamortized financing costs	(1,474)	(1,532)
Carrying balance, end of year	\$ 104,526	\$ 90,968

As at December 31, 2016, the Company had issued letters of credit of \$66,828 (December 31, 2015 – \$73,902), which reduce the undrawn credit available under the operating line. Total unamortized financing costs of \$1,474 (December 31, 2015 – \$1,532) have been netted against the carrying value of the operating line as at December 31, 2016 and are amortized over the remaining term of the facility.

Interest expense relating to the facility for the year ended December 31, 2016 was \$3,924 (year ended December 31, 2015 – \$4,957).

In the year ended December 31, 2016, the operating line facility was renewed, and the maturity date was extended from June 30, 2017 to January 31, 2019.

19. Non-revolving term facility

On June 30, 2015, the Company established a three-year non-revolving term facility amounting to \$175,000 with a syndicate of Canadian financial institutions. The non-revolving term facility bears interest, at the Company's option, at a rate per annum equal to either the bank's prime lending rate plus 1.50% or at the bank's then prevailing bankers' acceptance rate plus 2.75%. The non-revolving term facility expires on June 30, 2018 and is secured by a general security agreement and a first charge against various real estate assets and other financial assets of the Company.

As at December 31, 2016, the non-revolving term facility had a carrying value of \$174,403 (December 31, 2015 – \$174,006), net of unamortized financing costs of \$597 (December 31, 2015 – \$994). Interest expense relating to the non-revolving term credit facility for the year ended December 31, 2016 was \$6,441 (year ended December 31, 2015 – \$3,359).

Interest rate swap

On July 17, 2015, the Company entered into an interest rate swap to effectively exchange the variable interest rate on the non-revolving term facility for a fixed rate of 3.65% per annum through the use of forward-purchase contracts that commenced on August 6, 2015, maturing on June 30, 2018 to coincide with the maturity of the non-revolving term facility. The Company has applied hedge accounting to this relationship, whereby the change in fair value of the effective portion of the hedging derivative is recognized in AOCI. Settlement of both the fixed and variable portions of the interest rate swap occurs on a monthly basis. The full amount of the hedge was determined to be effective as at December 31, 2016.

The following table summarizes the details of the interest rate swap, which has been classified as a hedging instrument, outstanding at December 31, 2016:

Maturity date	Notional amount hedged	Fixed interest rate	Financial instrument classification	Fair value of hedging instrument ⁽¹⁾
June 30, 2018	\$ 175,000	3.65%	Cash flow hedge \$	275

⁽¹⁾ Included in other financial assets as at December 31, 2016.

In the year ended December 31, 2016, the operating line facility was renewed resulting in the amendment of certain debt covenants between DAM and its lenders in relation to the non-revolving term facility.

20. Mortgages and term debt

	Total
Balance, January 1, 2015	\$ 72,094
Borrowings	53,771
Repayments	(57,632)
Interest and other	142
Balance, December 31, 2015	\$ 68,375
Borrowings	61,597
Repayments	(17,602)
Interest and other	287
Balance, December 31, 2016	\$ 112,657

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

Mortgages and term debt are provided by a variety of lenders. The balance of interest and other includes accrued interest adjustments for payment-free periods. The weighted average interest rates for the fixed and variable components of mortgages and term debt, and their expected dates of maturity, are as follows:

	Maturity dates	As at December 31, 2016		As at December 31, 2015	
		Balance outstanding	Weighted average interest rate	Balance outstanding	Weighted average interest rate
Properties – fixed rate	2017–2025	\$ 69,808	4.82%	\$ 60,425	4.69%
Properties – variable rate	2018–2023	\$ 42,849	3.69%	\$ 7,950	3.94%
Total		\$ 112,657	4.39%	\$ 68,375	4.61%

Interest rate swap

On January 21, 2016, the Company closed a US\$9,500, seven-year, fully amortizing loan secured by Arapahoe Basin, which generated \$13,153 of gross proceeds in Canadian dollars with a variable interest rate of the one-month LIBOR plus 2.26%. In order to manage the interest rate risk on the variable interest rate, the Company also entered into a seven-year interest rate swap agreement that fixed the interest rate on the term loan at 3.69%. At December 31, 2016, the aggregate value of the interest swap amounted to \$55 and is presented in other financial assets. The Company did not apply hedge accounting to this relationship, and therefore the change in fair value of the swap is recognized in earnings within fair value gains (losses) on derivative financial instruments during the year ended December 31, 2016.

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

Maturity date	Notional amount hedged	Fixed interest rate	Financial instrument classification	Fair value of hedging instrument ⁽¹⁾
January 14, 2023	\$ 13,153	3.69%	Fair value through profit or loss	\$ 55

⁽¹⁾ Included in other financial assets as at December 31, 2016.

21. Preference shares, series 1

As part of the Arrangement (Note 23), the Company issued 6,000,000, 7% Cumulative Redeemable First Preference shares, series 1 (“Preference shares, series 1”), with a liquidation amount of \$7.16 per share. The shares are classified and accounted for as a financial liability as they are convertible, at the sole discretion of Dream, into a variable number of Dream Subordinate Voting Shares, or are otherwise retractable at the option of the holder, at or after a particular date, for a fixed amount per share.

The Preference shares, series 1, may be redeemed, at the option of the Company, at any time at a price of \$7.16 per share, in accordance with the terms of the Preference shares, series 1.

The Company may elect to convert the Preference shares, series 1, into Dream Subordinate Voting Shares of the Company at any time, subject to regulatory approvals.

The Preference shares, series 1, are retractable by the holders at \$7.16 per share.

Each series of Preference shares, series 1, will be entitled to preference on the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding up of the Company over the Subordinate Voting Shares and Class B Shares (Note 23).

The Preference shares, series 1, issued and outstanding are as follows:

	Number of shares	Par value	Carrying value
Balance, January 1, 2015	5,428,900	\$ 38,871	\$ 38,746
Redemption of shares	(560,481)	(4,013)	(4,002)
Accretion using the effective interest method	—	—	35
Balance, December 31, 2015	4,868,419	\$ 34,858	\$ 34,779
Redemption of shares	(862,690)	(6,177)	(6,163)
Accretion using the effective interest method	—	—	27
Balance, December 31, 2016	4,005,729	\$ 28,681	\$ 28,643

In the year ended December 31, 2016, the Company declared and paid dividends on the Preference shares, series 1 of \$2,020 (year ended December 31, 2015 – \$2,637).

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22. Income taxes

During the year ended December 31, 2016, the Company recognized an income tax expense amount of \$40,260 (year ended December 31, 2015 – \$28,391), the major components of which include the following items:

	2016	2015
Current income taxes:		
Current income taxes with respect to profits in the year	\$ 20,246	\$ 13,116
Current tax adjustments with respect to prior years	6	(10,551)
Other items affecting current tax expense	2,183	2,290
Current income tax expense	22,435	4,855
Deferred income taxes:		
Origination and reversal of temporary differences	17,697	22,507
Expense arising from previously unrecognized temporary difference	213	365
Impact of changes in income tax rates	(85)	664
Deferred income tax expense	17,825	23,536
Income tax expense	\$ 40,260	\$ 28,391

Due to non-coterminous tax years of the Company's partnership and trust interests, taxable income of approximately \$62,915 for the year ended December 31, 2016 (year ended December 31, 2015 – \$18,194) relating to such partnership interests will be included in computing the Company's taxable income for its 2017 and 2016 taxation years.

The income tax expense amount on pre-tax earnings differs from the income tax expense amount that would arise using the combined Canadian federal and provincial statutory tax rate of 26.7% (December 31, 2015 – 26.6%), as illustrated in the table below. Cash paid for income taxes for the year ended December 31, 2016 was \$10,519 (year ended December 31, 2015 – \$24,996).

	2016	2015
Earnings before tax at statutory rate of 26.7% (2015 – 26.6%)	\$ 36,262	\$ 53,792
Effect on taxes of:		
Adjustment in expected future tax rates	(85)	664
Net income tax (recovery) in respect of prior periods	—	(9,446)
Non-taxable portion of capital gains	(1,494)	(19,496)
Other items	5,577	2,877
Income tax expense	\$ 40,260	\$ 28,391

The movement in the deferred income tax assets during the years ended December 31, 2016 and December 31, 2015, and the net components of the Company's net deferred income tax liabilities, are illustrated in the following table:

Asset/(Liability)	Accounts receivable	Investment and recreational properties	Non-coterminous tax year	Financial assets/equity accounted investments	Real estate inventory	Loss carry forwards	Equity issuance	Total
Balance, January 1, 2015	\$ (7,101)	\$ (18,062)	\$ (6,275)	\$ (3,849)	\$ 9,682	\$ 6,958	\$ 598	\$ (18,049)
(Charged) credited to:								
Earnings for the year	(3,229)	(4,413)	1,410	(16,635)	291	(809)	(151)	(23,536)
Other comprehensive income	—	1,144	—	5,921	—	—	—	7,065
Balance, December 31, 2015	\$ (10,330)	\$ (21,331)	\$ (4,865)	\$ (14,563)	\$ 9,973	\$ 6,149	\$ 447	\$ (34,520)
(Charged) credited to:								
Earnings for the year	1,912	(7,866)	(11,926)	(39)	2,095	(1,852)	(149)	(17,825)
Other comprehensive income	—	(421)	—	(2,764)	—	—	—	(3,185)
Balance, December 31, 2016	\$ (8,418)	\$ (29,618)	\$ (16,791)	\$ (17,366)	\$ 12,068	\$ 4,297	\$ 298	\$ (55,530)

As at December 31, 2016, the Company had tax losses of \$9,728 (December 31, 2015 – \$7,627) that expire between 2025 and 2036 and federal investment tax credits of \$nil (December 31, 2015 – \$1,841) that expire between 2025 and 2030. The Company also has capital losses of \$14 (December 31, 2015 – \$28) that can be carried forward indefinitely and U.S. capital losses, of \$1,131 (US\$848) (December 31, 2015 – \$1,174, US\$848) that expire in 2019. Deferred income tax assets have not been recognized in respect of these losses, as it is not probable that the Company will be able to utilize all of the losses against taxable profits in the future.

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The components of deferred income taxes in other comprehensive income for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Financial assets designed as available for sale	\$ (2,656)	\$ 5,863
Foreign currency translation	(421)	1,144
Interest rate hedge	(131)	58
Share of other comprehensive income from equity accounted investments	23	—
Total deferred income taxes in other comprehensive income	\$ (3,185)	\$ 7,065

23. Share capital

The Company is authorized to issue an unlimited number of Subordinate Voting Shares and an unlimited number of Class B Shares. Holders of Subordinate Voting Shares and Class B Shares are entitled to one vote and 100 votes, respectively, for each share held. The Class B Shares are convertible into Subordinate Voting Shares on a one-for-one basis at any time. Holders of Subordinate Voting Shares and Class B Shares are entitled to receive and participate equally as to dividends, share for share, as and when declared by the directors of the Company. In the event of a liquidation, dissolution or winding up of the Company, holders of Subordinate Voting Shares and Class B Shares will, after payment to the holders of Preference shares, series 1, be entitled to the remaining property and assets of the Company.

	As at December 31, 2016		As at December 31, 2015	
Issued and outstanding	Number of shares	Amount	Number of shares	Amount
Dream Subordinate Voting Shares	77,803,711	\$ 971,051	75,270,150	\$ 951,251
Dream Class B Shares	3,115,464	38,787	3,115,512	38,788
	80,919,175	\$ 1,009,838	78,385,662	\$ 990,039

The following table summarizes the changes in the Dream Subordinate Voting shares issued:

	As at December 31, 2016		As at December 31, 2015	
	Number of shares	Amount	Number of shares	Amount
Issued and outstanding, beginning of year	75,270,150	\$ 951,251	76,220,777	\$ 959,113
Class B shares converted into Subordinate Voting Shares	48	1	—	—
Subordinate Voting Shares issued under Exchange Agreement (Note 25)	2,670,813	20,752	—	—
Subordinate Voting Shares repurchased	(137,300)	(953)	(950,627)	(7,862)
Issued and outstanding, end of year	77,803,711	\$ 971,051	75,270,150	\$ 951,251

The following table summarizes the changes in the Dream Class B shares issued during the year ended December 31, 2016.

	As at December 31, 2016		As at December 31, 2015	
	Number of shares	Amount	Number of shares	Amount
Issued and outstanding, beginning of year	3,115,512	\$ 38,788	3,115,512	\$ 38,788
Class B Shares converted into Subordinate Voting Shares	(48)	(1)	—	—
Issued and outstanding, end of year	3,115,464	\$ 38,787	3,115,512	\$ 38,788

Dividends

In the year ended December 31, 2016, the Board of Directors of DAM declared dividends of \$4,565 and \$1,935 to the Company and the non-controlling interest of DAM, respectively, on its non-voting common shares (year ended December 31, 2015 – \$8,026 and \$3,405, respectively). Dividends attributable to the Company are eliminated in the consolidated statements of Dream.

Reorganization adjustment

On May 16, 2013, shareholders of Dundee Corporation unanimously voted in favour of a corporate restructuring, through a tax-efficient Plan of Arrangement, which resulted in Dundee Corporation transferring its 70.05% interest in DAM, formerly Dundee Realty Corporation, including DAM common shares and DAM Class C shares, to the Company, in exchange for shares of Dream (the "Arrangement").

As a result of the Arrangement, on May 30, 2013, Dundee Corporation effectively distributed to all of its shareholders certain shares of Dream, such that the shareholders of Dundee Corporation would hold a 71.43% interest in Dream (which represented an indirect 50.00% interest in DAM). The balance of the shares, which represented a 28.57% interest in Dream, are held directly by Dundee Corporation, which represented a 20.00% indirect interest in DAM. Holders of Dundee Corporation Preference shares, series 1 received Dream Preference shares, series 1, following the Arrangement.

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The Arrangement was accounted for as a corporate reorganization and the Company recognized the identifiable assets and liabilities of DAM transferred to Dream pursuant to the Arrangement at DAM's historical carrying values, with no fair value adjustments.

The effect of the Arrangement on shareholders' equity on May 30, 2013 was as follows:

1. Subordinate Voting Shares of Dream issued to Dundee Corporation and to the holders of Dundee Corporation Subordinate Voting Shares on a one-for-one basis as part of the Arrangement were recognized at \$12.45 per share based on the weighted average trading price of Dream Subordinate Voting Shares from May 30, 2013 to June 5, 2013;
2. Class B Shares of Dream issued to holders of Dundee Corporation common shares on a one-for-one basis as part of the Arrangement were recognized at \$12.45 per share, consistent with the value of Subordinate Voting Shares of Dream, as they are exchangeable on a one-for-one basis for Subordinate Voting Shares of Dream;
3. Preference shares, series 1, of Dream issued to the holders of Dundee Corporation Preference shares, series 1, as part of the Arrangement were recognized at \$7.16 per share, and embedded derivatives associated with the redemption and retraction options were recognized in the amounts of \$300 and (\$720), respectively;
4. Common shares and Class C shares of DAM transferred to Dream have been eliminated on consolidation;
5. The remaining common shares and Class C Preferred shares of DAM and a corresponding amount of retained earnings and OCI were recorded as non-controlling interest based upon the non-controlling shareholder's 29.95% interest in the net assets of DAM at the time of the Arrangement;
6. The Class D Preferred shares and Class F Preferred shares of DAM were classified as a liability with a net carrying value of \$nil, given that these amounts eliminate on consolidation with Dream;
7. Contributed surplus of \$3,370 was eliminated; and
8. The difference between the stated capital of Dream's issued shares and the previously recorded share capital and contributed surplus of DAM, and other minor adjustments, of \$944,577 was reflected as a separate component of equity described as "Reorganization adjustment".

The revised share structure of Dream is summarized above as a result of the Arrangement. Common and Preferred shares of DAM as at May 30, 2013 were as follows.

	Number of shares		Amount
Common shares			
DAM	947	\$	13,782
Preferred shares			
DAM Class C	947	\$	—
DAM Class D	512,108		—
DAM Class F	18,061,333		—

Shares of DAM

The following shares exist within DAM's share capital; they hold a carrying value of \$nil in the consolidated financial statements of Dream.

Class D Preferred Shares

The Class D Preferred shares of DAM, held by Sweet Dream Corp. ("SDC"), are non-voting and are not entitled to receive dividends. The Class D Preferred shares are redeemable by DAM, at its sole discretion, for an amount per share equal to the lesser of (i) \$10,447 divided by the aggregate number of Class D Preferred shares originally outstanding at the date of grant of the Class D Preferred shares, and (ii) an amount obtained by multiplying 512,108 by the closing market price of a Series A unit of Dream Office REIT at the time of such redemption, divided by the aggregate number of Class D Preferred shares originally outstanding at the date of grant of the Class D Preferred shares. In each case, the redemption amount is to be satisfied only to the extent of proceeds of a corresponding redemption of Preferred shares owned by DAM in SDC.

The Class D Preferred shares have been recognized as a liability with a net carrying value of \$nil (2015 – \$nil). The value attributable to DAM's investment in the Preferred shares of SDC has been offset against the Class D Preferred shares as a result of the right to set off the redemption amounts payable on the respective shares.

Class F Preferred Shares

The Class F Preferred shares of DAM, held by a subsidiary of Dundee Corporation ("Subco"), are non-voting and are entitled to receive dividends of up to 4% of the Class F redemption amount as and when declared by the directors of DAM. The Class F Preferred shares are redeemable by DAM and are retractable at the option of Subco at a price of \$10.00 per share, plus accrued and unpaid dividends.

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The Class F Preferred shares have been recognized as a liability with a net carrying value of \$nil (December 31, 2015 – \$nil). The value attributable to DAM's investment in the Preferred shares of Subco has been offset against the Class F Preferred shares as a result of the right to set off the redemption amounts payable of \$180,613 on the respective shares.

Preference Shares, Class G

Using the proceeds of the equity offering in the second quarter of 2014, the Company invested \$44,698 in Preference shares, Class G and \$10,767 in common shares of DAM. The Preference shares, Class G have similar terms to the Company's Preference shares, series 1, except that they do not have a conversion feature and have a subscription price of \$7.45 per share. The Preference shares, Class G held by the Company are eliminated on consolidation of DAM.

Normal Course Issuer Bid

Dream renewed its normal course issuer bid (the "Bid"), which commenced on September 20, 2016 and will remain in effect until the earlier of September 19, 2017 or the date on which Dream has purchased the maximum number of Subordinate Voting Shares permitted under the Bid. Under the Bid, Dream will have the ability to purchase for cancellation up to a maximum of 3,245,397 of its Subordinate Voting Shares through the facilities of the TSX at prevailing market prices and in accordance with the rules and policies of the TSX. The actual number of Subordinate Voting Shares that may be purchased and the timing of any such purchases will be determined by Dream, subject to a maximum daily purchase limitation of 8,194 shares except where purchases are made in accordance with block purchase exemptions under applicable TSX rules. In the year ended December 31, 2016, 137,300 Subordinate Voting Shares were purchased for cancellation by the Company at an average price of \$6.94 (December 31, 2015 – 950,627 Subordinate Voting Shares at an average price of \$8.27).

24. Accumulated other comprehensive income

The following table details the movement in AOCI:

	Interest rate hedge	Foreign currency translation	Available-for-sale securities/Equity accounted investments	Less: amounts attributable to non- controlling interest	Total
Balance, January 1, 2015	\$ —	\$ 5,401	\$ 14,871	\$ (8,984)	\$ 11,288
Other comprehensive income (loss) during the year	(216)	4,087	(41,297)	11,141	(26,285)
Balance, December 31, 2015	\$ (216)	\$ 9,488	\$ (26,426)	\$ 2,157	\$ (14,997)
Other comprehensive income (loss) during the year	491	(930)	19,500	(5,385)	13,676
Change in interest in subsidiary	—	—	—	(29)	(29)
Balance, December 31, 2016	\$ 275	\$ 8,558	\$ (6,926)	\$ (3,257)	\$ (1,350)

25. Non-controlling interest

The non-controlling interest represents the 27.4% equity interest in DAM owned by SDC, an entity wholly owned by the President and Chief Responsible Officer of DAM and Dream, located in Toronto. SDC is entitled to receive 31,533,682 Subordinate Voting Shares of Dream at any time by exercising its right to exchange its DAM shares for a fixed number of Subordinate Voting Shares of Dream, pursuant to the Exchange Agreement between Dream, SDC and DAM. On a diluted basis, including Subordinate Voting Shares of Dream and Class B shares held or controlled directly or indirectly by the President and Chief Responsible Officer, this represents an approximate 31% economic interest in the Company as at December 31, 2016.

On August 15, 2016, the Company received an exchange notice from SDC pursuant to the Exchange Agreement dated May 30, 2013 among Dream, DAM and SDC, exercising SDC's right to receive 2,670,813 newly issued Subordinate Voting Shares of the Company, in consideration for the transfer to the Company of 22.15 non-voting common shares and Class C voting preference shares of DAM. Upon completion of the exchange on August 18, 2016, the Company owned 691.21 non-voting common shares of DAM, representing approximately 72.6% of the outstanding equity. SDC continues to own 261.52 non-voting common shares, representing 27.4% of the outstanding equity of DAM. SDC continues to be entitled to receive 31,533,682 Subordinate Voting Shares at any time by exercising its right to exchange its non-voting common shares and Class C voting preference shares of DAM for Subordinate Voting Shares of Dream under the Exchange Agreement. Dream and SDC had previously entered into an agreement (the "Permitted Sales Agreement") that provided for "put rights" in favour of each of them upon the occurrence of certain triggering events. The Permitted Sales Agreement was terminated in accordance with its terms following the acquisition of control of the Company by the President and Chief Responsible Officer in the year ended December 31, 2016.

The change in DAM equity attributable to the Company was accounted for as an equity transaction with non-controlling interest, resulting in the following:

	Amount
Fair value of Subordinate voting shares issued (increase to Dream share capital)	\$ 20,752
Decrease in non-controlling interest	(18,109)
Increase in accumulated other comprehensive income/(loss)	(29)
Decrease in retained earnings	\$ (2,614)

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26. Direct operating costs

Direct operating costs consisted of the following:

		2016		2015
Direct costs of real estate inventory	\$	152,059	\$	175,589
Direct costs of operating investment, recreational properties and other		16,281		18,785
Salary and other compensation		14,178		11,654
	\$	182,518	\$	206,028

The Company has disaggregated total operating costs into direct operating costs; asset management and advisory services expenses; selling, marketing and other operating costs; and general and administrative expenses.

27. Asset management and advisory services expenses

Asset management and advisory services expenses consisted of the following:

		2016		2015
Salary and other compensation	\$	6,495	\$	5,163
Corporate, service and professional fees		2,246		2,055
General office and other		512		920
	\$	9,253	\$	8,138

28. Selling, marketing and other operating costs

Selling, marketing and other operating costs consisted of the following:

		2016		2015
Selling and marketing costs	\$	16,469	\$	9,637
Salary and other compensation		20,966		17,026
General office and other		10,003		11,802
	\$	47,438	\$	38,465

29. General and administrative expenses

General and administrative expenses consisted of the following:

		2016		2015
Salary and other compensation	\$	9,447	\$	6,515
Corporate, service and professional fees		7,040		7,490
General office and other		2,272		2,206
Operational enhancement charge		1,710		—
	\$	20,469	\$	16,211

In the year ended December 31, 2016, the Company completed an operational enhancement program to simplify and streamline the current shared service platform in place between the Company and Dream Office REIT, Dream Global REIT and Dream Industrial REIT. As a result of implementing this program, the Company recognized restructuring costs of \$1,710, primarily related to compensation related charges.

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30. Investment and other income

Investment and other income consisted of the following:

		2016		2015
Dream Office REIT	\$	8,009	\$	8,149
Other distributions from publicly listed funds		2,476		1,893
Interest and other income		3,312		3,324
	\$	13,797	\$	13,366

Investment income on publicly listed funds includes the income portion of distributions earned on the Company's investment in Dream Office REIT and Dream Global REIT. For details on the recognition of investment income on publicly listed funds, refer to Note 6.

31. Interest expense

Interest expenses consisted of the following:

		2016		2015
Project-specific and general debt interest	\$	15,935	\$	12,506
Interest on operating line		3,924		4,957
Cancellation fees paid on early repayment of mortgages		—		1,250
Interest on amounts due to a shareholder		—		859
Dividends on Preference shares, series 1		2,160		2,637
Amortization of deferred financing costs		1,419		1,267
Project-specific interest capitalized to real estate development projects		(4,499)		(4,248)
Accretion of effective interest		27		35
Interest expense	\$	18,966	\$	19,263
Add (deduct):				
Interest capitalized		4,499		4,248
Amortization of deferred financing costs		(1,419)		(1,267)
Accretion expense		(27)		(35)
Mark to market adjustment		—		(202)
Accrued interest		457		(748)
Cash interest paid	\$	22,476	\$	21,259

Interest expense was capitalized to real estate development projects for the year ended December 31, 2016 at a weighted average effective borrowing rate of 5.58% (year ended December 31, 2015 – 5.95%). Amounts of interest capitalized to real estate development projects flow through to direct operating costs as occupancies occur or when the assets are sold.

Cash interest paid for the year ended December 31, 2015 includes a \$1,250 discharge fee for the early repayment of mortgages during the year.

32. Financial instruments fair value and risk management

Measurement Categories

Financial instruments have been classified into categories that determine the basis of measurement and, for items carried at fair value, whether changes in fair value are recognized in the consolidated statements of earnings or in OCI. The following table illustrates the carrying values of financial instruments and their classification.

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As at December 31	2016	2015
Financial assets		
Available for sale		
Investment in Dream Office REIT	\$ 75,427	\$ 13,443
Investment in Dream Office REIT, LP Class B Units	102,321	90,912
Investment in Dream Global REIT	26,460	24,248
Investment in Dream Global REIT - deferred trust units	15,564	10,609
Investment in Dream Alternatives	—	10,313
Investments in equity securities not quoted in an active market	7,054	7,029
Interest rate swaps	330	—
Other investments in equity securities quoted in an active market	1,046	1,008
Loans and receivables		
Cash and cash equivalents	23,432	29,983
Accounts receivable	140,394	187,769
Loans receivable	9,855	3,778
Capital and other operating assets		
Deposits	6,948	11,629
Restricted cash	5,918	5,231
Fair value through profit and loss		
Redemption option on Preference shares, series 1	841	1,460
Financial liabilities		
Amortized cost		
Financial instruments included in accounts payable and other liabilities	92,918	83,418
Customer deposits	29,656	25,265
Construction loans	90,359	123,736
Operating line	104,526	90,968
Non-revolving term facility	174,403	174,006
Mortgages and term debt	112,657	68,375
Preference shares, series 1	28,643	34,779
Fair value through profit and loss		
Interest rate swap	—	216
Retraction option on Preference shares, series 1	—	292

Fair Value of Financial Instruments

The following table categorizes financial assets or liabilities measured or disclosed at fair value by level according to the significance of inputs used in making measurements. Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Company maximizes the use of observable inputs. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3.

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		December 31, 2016		December 31, 2015	
	Fair value hierarchy	Carrying value	Fair value	Carrying value	Fair value
Recurring measurement at fair value					
Financial assets					
Investment in Dream Office REIT	Level 1	\$ 75,427	\$ 75,427	\$ 13,443	\$ 13,443
Investment in Dream Office REIT, LP Class B Units	Level 2	102,321	102,321	90,912	90,912
Investment in Dream Global REIT	Level 1	26,460	26,460	24,248	24,248
Investment in Dream Global REIT – deferred trust units	Level 3	15,564	15,564	10,609	10,609
Investment in Dream Alternatives	Level 1	—	—	10,313	10,313
Investments in equity securities not quoted in an active market	n/a	7,054	n/a	7,029	n/a
Redemption option on Preference shares, series 1	Level 3	841	841	1,460	1,460
Interest rate swaps	Level 3	330	330	—	—
Other investments in equity securities quoted in an active market	Level 1	1,046	1,046	1,008	1,008
Financial liabilities					
Interest rate swaps	Level 3	—	—	216	216
Retraction option on Preference shares, series 1	Level 3	—	—	292	292
Fair values disclosed					
Construction loans	Level 3	90,359	90,359	123,736	123,709
Operating line	Level 3	104,526	106,000	90,968	92,500
Non-revolving term facility	Level 3	174,403	175,000	174,006	175,000
Mortgages and term debt	Level 3	112,657	110,262	68,375	68,999
Preference shares, series 1 (excluding redemption and retraction options)	Level 1	28,643	29,042	34,779	34,761

The fair values of cash and cash equivalents, accounts receivable, deposits, restricted cash, loans receivable, certain financial instruments included in accounts payable and other liabilities, and customer deposits approximate their carrying values due to their short-term nature.

The fair value of the Preference shares, series 1, is based on the market price as at December 31, 2016 of \$7.25 per share for the 4,005,729 issued and outstanding Preference shares, series 1.

Level 3 Fair Value Measurements

The Company used the following techniques to determine the fair value measurements categorized in Level 3:

Dream Global REIT Deferred Trust Units

The fair value of Dream Global REIT deferred trust units is based on the market price of Dream Global REIT units and applying an appropriate discount rate to reflect the vesting period. The significant unobservable inputs used in determining the discount rate include the following:

	For the year ended December 31, 2016	For the year ended December 31, 2015
Risk-free rate	0.8%–1.4%	0.6%–1.1%
Expected volatility	18.0%–21.0%	17.0%–36.0%

The volatility of the Dream Global REIT units is estimated based on comparable companies in both the German and Canadian real estate markets. The discount rate used to value the deferred trust units is calculated by weighting a put-and-call model calculated using the Black-Scholes model. A higher volatility or risk-free rate will decrease the value of the deferred trust units and vice versa.

	Total deferred units granted	Vesting period	Fair value as at December 31, 2016
Units as at December 31, 2016 closing price of \$9.45 per unit			\$ 20,169
Discount rate of 17% per unit for units issued in 2011	180,757	2017–2021	(290)
Discount rate of 19% per unit for units issued in 2012	495,377	2018–2022	(889)
Discount rate of 21% per unit for units issued in 2013	468,406	2019–2023	(929)
Discount rate of 25% per unit for units issued in 2014	448,434	2020–2024	(1,059)
Discount rate of 27% per unit for units issued in 2015	343,188	2021–2025	(876)
Discount rate of 30% per unit for units issued in 2016	198,127	2022–2026	(562)
Total	2,134,289		\$ 15,564

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	Total deferred units granted	Vesting period	Fair value as at December 31, 2015
Units as at December 31, 2015 closing price of \$8.66 per unit			\$ 15,522
Discount rate of 19% per unit for units issued in 2011	147,717	2017-2021	(243)
Discount rate of 21% per unit for units issued in 2012	357,170	2018-2022	(649)
Discount rate of 25% per unit for units issued in 2013	407,191	2019-2023	(882)
Discount rate of 30% per unit for units issued in 2014	452,581	2020-2024	(1,176)
Discount rate of 53% per unit for units issued in 2015	427,685	2021-2025	(1,963)
Total	1,792,344		\$ 10,609

Redemption and Retraction Options on Preference Shares, Series 1

The fair value of the Preference shares, series 1, redemption and retraction options is calculated using an interest rate option pricing method. The significant unobservable inputs used in the fair value measurement of the redemption and retraction options on the Preference shares, series 1, include the following:

	2016	2015
Credit spread	3.9%	4.7%
Reversion parameter	3.1%	3.6%
Expected volatility	34.3%	55.6%

A higher volatility will increase the value of the redemption and retraction options. A lower credit spread will decrease the value of the redemption and retraction options.

Interest Rate Swaps

The fair value measurement of the interest rate swaps were valued by qualified independent valuers based on the present value of the estimated future cash flows determined using observable yield curves.

Non-revolving Term Facility and Operating Line

The fair value measurement of the non-revolving term facility and operating line approximates the carrying value excluding unamortized financing costs. The non-revolving term facility bears interest, at the Company's option, at a rate per annum equal to either the bank's prime lending rate plus 1.50% or at the bank's then prevailing bankers' acceptance rate plus 2.75%. The non-revolving term facility is hedged against the interest rate swap to effectively exchange the variable interest rate for a fixed rate of 3.65%. The operating line bears interest, at the Company's option, at a rate per annum equal to either the bank's prime lending rate plus 1.25% or at the bank's then prevailing bankers' acceptance rate plus 2.50%.

Construction Loans and Mortgages and Term Debt

The fair value of the construction loans and mortgages and term debt has been calculated by discounting the expected cash flows of each loan using a discount rate specific to each individual loan. The discount rate is determined using the bond yield for similar instruments of similar maturity adjusted for each individual project's specific credit risk. In determining the adjustment for credit risk, the Company considers current market conditions and other indicators of the Company's creditworthiness.

Investments in Equity Securities Not Quoted in an Active Market

Investments in equity securities not quoted in an active market are neither measured nor disclosed at fair value since their fair value cannot be determined reliably. As at December 31, 2016, the Company's only investments in equity securities not quoted in an active market were investments in jointly owned real estate assets with entities affiliated with Dream Global REIT.

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The table below shows the reconciliation of investments in equity securities not quoted in an active market:

		2016		2015
Balance, beginning of year	\$	7,029	\$	5,630
Additional investments		—		1,440
Foreign exchange (loss) through OCI		25		(41)
Balance, end of year	\$	7,054	\$	7,029

Valuation Process

The Company's finance department is responsible for performing the valuation of fair value measurements or reviewing the fair value measurements provided by third-party appraisers. The Company has determined that third-party appraisers will be utilized for recurring measurements of derivatives instruments, such as the redemption and retraction options on the Preference shares, series 1, on a quarterly basis. On a quarterly basis, management will review the valuation policies, procedures and analysis of changes in fair value measurements.

The Company recognizes transfers into 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 \$nil transfers between levels during the year ended December 31, 2016 and 2015.

	Investment in Dream Global REIT – deferred trust units	Redemption option on Preference shares, series 1	Arapahoe Basin – interest rate swap	Non- revolving term facility – interest rate swap	Retraction option on Preference shares, series 1
Balance, December 31, 2015	\$ 10,608	\$ 1,460	\$ —	\$ (216)	\$ (292)
Issued or received during the year:					
Deferred trust units	2,104	—	—	—	—
Total gains or losses for the year included in net earnings:					
Change in fair value of redemption and retraction options ⁽¹⁾	—	(619)	—	—	292
Change in fair value of interest rate swap	—	—	55	—	—
Included in other comprehensive income:					
Change in fair value of deferred trust units	2,852	—	—	—	—
Change in fair value of interest rate swap	—	—	—	491	—
Balance, December 31, 2016	\$ 15,564	\$ 841	\$ 55	\$ 275	\$ —

⁽¹⁾ The change in fair value of redemption and retraction options of \$327 was included in the consolidated statement of earnings as fair value gains (losses) on derivative financial instruments.

	Investment in Dream Global REIT – deferred trust units	Redemption option on Preference shares, series 1	Arapahoe Basin – interest rate swap	Non- revolving term facility – interest rate swap	Retraction option on Preference shares, series 1
Balance, December 31, 2014	\$ 7,120	\$ —	\$ —	\$ —	\$ (109)
Issued or received during the year:					
Deferred trust units	1,740	—	—	—	—
Total gains or losses for the year included in net income:					
Change in fair value of redemption and retraction options ⁽¹⁾	—	1,460	—	—	(183)
Included in other comprehensive income:					
Change in fair value of deferred trust units	1,748	—	—	—	—
Change in fair value of interest rate swap	—	—	—	(216)	—
Balance, December 31, 2015	\$ 10,608	\$ 1,460	\$ —	\$ (216)	\$ (292)

⁽¹⁾ The change in fair value of redemption and retraction options of \$1,277 was included in the consolidated statement of earnings as fair value gains (losses) on derivative financial instruments.

Risk Management

The Company is exposed to financial risks due to the nature of its business and the financial assets and liabilities that it holds. The Company's overall risk management strategy seeks to minimize potential adverse effects on the Company's financial performance.

Market Risk

Market risk is the risk that a material loss may arise from fluctuations in the fair value of a financial instrument. For purposes of this disclosure, the Company segregates market risk into three categories: fair value risk, interest rate risk in its non-revolving term facility and currency risk.

Fair Value Risk

Fair value risk is the risk of a potential loss from adverse movements in the values of assets and liabilities, excluding movements relating to changes in interest rates and foreign exchange currency rates, because of changes in market prices. The Company's investments in Dream Office REIT and Dream Global REIT are

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listed on the Toronto Stock Exchange. A 10% absolute change in the market price of the units in Dream Office REIT and Dream Global REIT would increase (decrease) the carrying amount of the investments by \$22,082, before associated taxes, with a corresponding increase (decrease) in OCI.

Interest Rate Risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk primarily through its variable rate debt obligations. As at December 31, 2016, excluding the demand facility and Preference shares, series 1, variable rate debt represented 82% (December 31, 2015 – 83%) of total debt obligations. Interest rate risk is mitigated, in part, by borrowing long-term fixed rate mortgages with relatively consistent interest expense. The Company entered into interest rate swaps during the years ended December 31, 2015 and December 31, 2016 to mitigate interest rate risk. See Notes 19 and 20 for further details.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

Credit risk arises from the possibility that builders or other third-party purchasers of the Company's real estate inventory, or other entities to which the Company may have advanced funds, may not fulfill their contractual obligations to repay amounts due to the Company. The Company mitigates its credit risk by requiring graduated deposits from buyers and withholding real estate titles until final payments are received. The Company also mitigates credit risk by dealing only with builders and other third-party buyers that the Company considers to have secure financial standing and by diversifying the mix of builders and markets.

Credit risk also arises from the possibility that tenants in investment properties may not fulfill their lease or contractual obligations. The Company mitigates this credit risk by attracting tenants of sound financial standing and diversifying its mix of tenants. It also monitors tenant payment patterns and discusses potential tenant issues with property managers on a regular basis.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the maturity of financial liabilities. The Company manages its liquidity risk primarily through the management of its financial leverage. The Company uses various debt and equity ratios to monitor its capital adequacy and debt requirements, including interest coverage, minimum net worth, average term to debt maturity and the ratio of variable rate debt to aggregate debt. These ratios assist the Company in assessing the debt level maintained by the Company in order to ensure adequate cash flows for real estate development. The Company manages maturities of outstanding debt by matching them to project closing dates and monitoring the repayment dates to ensure sufficient capital will be available to cover obligations. Management also monitors the Company's availability under the operating line, which was renewed during the year ended December 31, 2016, extending the maturity date from June 30, 2017 to January 31, 2019.

A summary of the Company's contractual obligations as at December 31, 2016 is as follows:

	Western Canada construction loans	Toronto construction loans	Operating line	Mortgages and term debt	Non- revolving term facility	Preference shares, series 1	Total	Weighted average interest rate (face)
2017	\$ 47,759	\$ —	\$ —	\$ 20,890	\$ —	\$ 28,681	\$ 97,330	5.07%
2018	33,892	—	—	17,485	175,000	—	226,377	3.60%
2019	—	8,708	106,000	27,794	—	—	142,502	3.55%
2020	—	—	—	3,127	—	—	3,127	3.80%
2021 and thereafter	—	—	—	43,773	—	—	43,773	3.85%
	81,651	8,708	106,000	113,069	175,000	28,681	513,109	3.89%
Discount/unamortized financing costs	—	—	(1,474)	(412)	(597)	(38)	(2,521)	
	\$ 81,651	\$ 8,708	\$ 104,526	\$ 112,657	\$ 174,403	\$ 28,643	\$ 510,588	
Weighted average interest rate (face)	3.14%	4.60%	3.41%	4.39%	3.65%	7.00%	3.89%	

The contractual payments above include the principal repayments owing in future periods. The amounts presented above are shown consistent with their contractual repayments. Certain facilities may be due on demand.

33. Share-based compensation

Stock Option Plan

The Company has a stock option plan under which key officers and employees are granted options to purchase Subordinate Voting Shares. Each option granted can be exercised for one Subordinate Voting Share.

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	Options	Weighted average exercise price
Options outstanding, January 1, 2015	200,000	\$ 13.88
Granted	1,420,000	8.11
Forfeited	(60,000)	13.06
Options outstanding, December 31, 2015	1,560,000	\$ 8.66
Granted	140,000	7.76
Forfeited	(21,500)	7.76
Options outstanding, December 31, 2016	1,678,500	\$ 8.60
Options exercisable, December 31, 2016	372,000	\$ 9.50

As at December 31, 2016, 1,678,500 options were outstanding under the stock option plan, collectively. Grants that are outstanding in the year ended December 31, 2016 are as follows:

Grant date	October 2013	February 2015	December 2015	May 2016
Number of options granted and outstanding as at December 31, 2016	150,000	705,000	705,000	118,500
Weighted average exercise price	\$ 13.88	\$ 8.96	\$ 7.25	\$ 7.76
Vesting period	5 years	5 years	5 years	3 years
Fair value of stock options granted at grant date	\$ 5.08	\$ 2.05	\$ 2.06	\$ 1.57
Number of options vested as at December 31, 2016	90,000	141,000	141,000	—

The fair value of the stock options granted during the year ended and outstanding as at December 31, 2016 was estimated on the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free interest rate	0.59%
Estimated volatility ⁽¹⁾	26.17%
Expected life	3.50 years
Contractual life	5 years
Expected dividend yield	—%

⁽¹⁾ Estimated volatility is based on a blended rate of market comparables and the Company's historical volatility.

In the year ended December 31, 2016, the Company recognized \$1,240 (year ended December 31, 2015 – \$877) of share-based compensation expense related to stock options, offset by a recovery of \$12 from forfeited shares (year ended December 31, 2015 – \$144), recognized in asset management expense.

Deferred Share Unit Plan

The Company has a deferred share unit incentive plan pursuant to which deferred share and income deferred share units (“DSUs”) may be granted to eligible directors, senior management and certain service providers. As at December 31, 2016, there were 142,949 units outstanding (December 31, 2015 – 66,329 units outstanding). During the year ended December 31, 2016, compensation expense of \$892, of which \$442 related to prior periods (year ended December 31, 2015 – \$99) related to this plan was recognized as general and administrative expense.

	December 31, 2016	December 31, 2015
Units outstanding, beginning of period	66,329	18,000
Granted under deferred share unit plan	76,620	48,329
Settled deferred share units	—	—
Units outstanding, end of period	142,949	66,329

The net changes in contributed surplus relating to share-based compensation for both the stock option plan and deferred share unit plan were as follows:

	Total
Balance, January 1, 2015	\$ 767
Granted	976
Settled deferred share units	(144)
Balance, December 31, 2015	\$ 1,599
Granted, net of forfeitures	2,120
Balance, December 31, 2016	\$ 3,719

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34. Earnings per share

Basic earnings per share is calculated by dividing the Company's earnings attributable to outside shareholders of the Company by the weighted average number of shares outstanding during the period.

Diluted earnings per share is calculated by dividing the Company's earnings attributable to the outside shareholders of the Company by the weighted average number of shares outstanding after the dilutive effect of the Preference shares, series 1, stock options and deferred share units. The exercise rights provided to SDC entitles an exchange of DAM shares for Subordinate Voting Shares of Dream. The diluted weighted average number of shares used in the diluted earnings per share calculation is determined by assuming that the total proceeds received for the conversion of such units is used to repurchase Subordinate Voting Shares at the average selling price of such publicly traded units over the term of the calculation.

The following table summarizes the basic and diluted earnings per share and the weighted average number of shares outstanding:

	2016	2015
Earnings attributable to the outside shareholders of the Company	\$ 67,638	\$ 121,898
Diluted earnings per share adjustments for Preference shares, series 1	2,514	1,445
Earnings for diluted earnings per share	\$ 70,152	\$ 123,343
Weighted average number of shares outstanding as at year end:		
Dream Subordinate Voting Shares	76,144,689	75,721,535
Dream Class B Shares	3,115,491	3,115,512
Total weighted average number of shares	79,260,180	78,837,047
Effect of dilutive securities on weighted average number of shares outstanding at year end:		
Share-based compensation ⁽¹⁾	100,483	40,708
Preference shares, series 1	4,727,037	5,727,095
Total weighted average number of shares outstanding after dilution	84,087,700	84,604,850
Basic earnings per share	\$ 0.85	\$ 1.54
Diluted earnings per share	\$ 0.83	\$ 1.46

⁽¹⁾ For the year ended December 31, 2016, 1,678,500 stock options were considered anti-dilutive (December 31, 2015 — 1,560,000 stock options).

35. Capital management

The Company's capital consists of term debt, mortgages, non-revolving term facility, an operating line, Preference shares, series 1, and shareholders' equity. The Company's objectives in managing capital are to:

- i) Ensure adequate operating funds are available to fund the development of real estate inventory;
- ii) Ensure that the Company has adequate resources available to benefit from acquisition opportunities, should they arise; and
- iii) Generate a targeted rate of return on its investments.

The Company continuously monitors its debt structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying real estate industry.

36. Commitments and contingencies

Leases and Other

The Company, including joint operations, has operating lease and other commitments pursuant to which future minimum annual payments, exclusive of operating costs and realty taxes, as follows:

2017	\$	1,778
2018		1,728
2019		1,545
2020		1,536
2021		1,548
2022 and thereafter		3,998
	\$	12,133

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Land and Other Purchase Agreements

As at December 31, 2016 the Company had remaining commitments under land and housing purchase agreements totalling \$8,580 (December 31, 2015 – \$14,373), which will become payable in future periods upon the satisfaction of certain conditions pursuant to these arrangements. These amounts exclude future repayments of debt relating to land, which has been included in mortgages and term debt as at December 31, 2016.

Letters of Credit and Surety Bonds

The Company is contingently liable for letters of credit and surety bonds that have been provided to support land developments and other activities in the amount of \$79,260 (December 31, 2015 – \$63,186). In addition, letters of credit in the amount of \$10,051 were outstanding as at December 31, 2016 (December 31, 2015 – \$26,175) relating to various equity accounted investments.

The Company is committed to pay levies in the future of up to \$2,346 (December 31, 2015 – \$2,997) relating to signed municipal agreements upon the commencement of development of certain real estate assets. Additional development costs may also be required to satisfy the requirements of these municipal agreements.

Joint Operations and Co-Ownerships

The Company may conduct its real estate activities from time to time through joint operations with third-party partners. The Company was contingently liable for the obligations of the other owners of the unincorporated joint operations in the amount of \$nil as at December 31, 2016 (December 31, 2015 – \$6,762). The Company would have available to it the other venturers' share of assets to satisfy any obligations that may arise.

Joint Ventures and Associates

The Company may conduct its real estate activities from time to time through joint ventures with third-party partners. The Company was contingently liable for the obligations of the other owners of the unincorporated joint ventures of \$12,384 as at December 31, 2016 (December 31, 2015 – \$11,810). The Company would have available to it the other venturers' share of assets to satisfy any obligations that may arise.

Legal Contingencies

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

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

37. Asset management and management services agreements and related party transactions

Transactions with Dream Office REIT, Dream Global REIT, Dream Industrial REIT and Dream Alternatives Asset Management and Advisory Services Agreements

The Company has entered into agreements with each of Dream Office REIT (prior to April 2, 2015), Dream Global REIT and Dream Industrial REIT, pursuant to which the Company provides the REITs a broad range of management and advisory services related to their respective real estate holdings. The Company receives revenues in respect of these services, determined in accordance with a formula as outlined in the respective agreements and which include:

- A base annual management fee, calculated and paid monthly, equal to 0.25% of gross asset value of properties in the case of Dream Industrial REIT; or, in the case of Dream Global REIT, equal to 0.35% of the historical purchase price of the properties;
- An incentive fee of 15% of adjusted funds from operations in excess of \$0.93 per unit, increasing annually by 50% of the increase in weighted average consumer price index of the jurisdictions in which the properties are located, in the case of Dream Global REIT; and 15% of adjusted funds from operations in excess of \$0.80 per unit in the case of Dream Industrial REIT;
- A capital expenditures fee of 5% of all hard construction costs incurred on capital projects with costs in excess of \$1,000, excluding work done on behalf of tenants or any maintenance capital expenditures in the case of Dream Global REIT and Dream Industrial REIT;
- An acquisition fee equal to: (i) 1% of the purchase price on the first \$100,000 of properties acquired in a fiscal year; (ii) 0.75% of the purchase price of additional properties acquired in a fiscal year in excess of \$100,000 but not exceeding \$200,000; and (iii) 0.50% of the purchase price of additional properties acquired in any fiscal year should such purchases exceed \$200,000; and
- A financing fee equal to 0.25% of the debt and equity of all financing transactions completed; the financing fee is adjusted on an annual basis to ensure the fee does not exceed the amount of actual expenses incurred by Dream in supplying services relating to financing transactions.

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The Company entered into the management and advisory services agreement with Dream Global REIT on August 3, 2011 and with Dream Industrial REIT on October 4, 2012. Each of these agreements has an initial term of ten years and is renewable for further five-year terms. Subject to the termination provisions in the management and advisory services agreements, the Company is automatically reappointed at the expiration of each five-year term. The Company had previously entered into the management and advisory services agreement with Dream Office REIT on August 24, 2007 (amended on December 31, 2007). Refer to the reorganization of the asset management agreement with Dream Office REIT below.

On July 8, 2014, the Company entered into a management agreement with Dream Alternatives. The Company receives revenues in respect of these services, determined in accordance with a formula as outlined in the respective agreement, which includes:

- A base annual management fee calculated and payable on a monthly basis, equal to 1.0% of the gross value of the initial assets on July 8, 2014, plus the gross cost of any asset acquired on the date of such acquisition, plus the gross amount invested in any assets following acquisition, less the gross amount previously included in the calculation of this amount in respect of any asset disposed of or repaid;
- An acquisition/origination fee equal to: (i) 0.40% of the principal amount of any loan originated by Dream Alternatives or a subsidiary having an expected term of less than five years; (ii) 1.00% of the principal amount of any loan originated by Dream Alternatives or a subsidiary having an expected term of five years or more; and (iii) 1.00% of the gross cost of any asset acquired or originated by Dream Alternatives or a subsidiary represented by all other investments, assets or projects; and
- A disposition fee equal to 0.25% of the gross sale proceeds of any asset (including all indebtedness) sold by Dream Alternatives or any subsidiary represented by loans, investments, assets or projects disposed of during the fiscal year, including any part of the initial assets except for the disposition of individual loans having a term to maturity of 12 months or less, and excluding the regular and scheduled repayment of loans.

In addition, the Company will be reimbursed for out-of-pocket costs and expenses incurred in connection with the performance of the management services described in the management agreement on a cost recovery basis.

For the year ended December 31, 2016, the Company earned the following amounts pursuant to its asset management and advisory services agreements.

		2016		2015
Base asset management fees	\$	23,373	\$	25,891
Acquisition fees		2,149		4,431
Expense recoveries relating to financing arrangements and other		1,212		1,220
	\$	26,734	\$	31,542

In the case of Dream Global REIT, the Company had irrevocably elected to receive the first \$3,500 of the annual fees payable to it pursuant to these arrangements in DTUs of Dream Global REIT for the first five years until August 2016. The DTUs will vest to the Company in five equal annual installments, beginning in the sixth year following the grant of such DTUs until September 2017.

Reorganization of Asset Management Agreement with Dream Office REIT

On April 2, 2015, the Company and Dream Office REIT announced a reorganization where the Company received 4,850,000 LP Class B Units, Series 1, of Dream Office LP, a subsidiary of Dream Office REIT, which are exchangeable for 4,850,000 Dream Office REIT units. In return, the annual management fee, acquisition fee, financing fee and capital expenditure fee payable by Dream Office REIT to Dream under its asset management agreement were eliminated. These units were recorded at their fair value of \$127,313 based on the closing trading price of the Dream Office REIT units on April 2, 2015, with a corresponding gain on the statement of earnings in the year ended December 31, 2015.

Cost Recovery from Dream Office REIT

The Company and Dream Office REIT entered into a Management Services Agreement effective April 2, 2015, pursuant to which the Company will continue to provide certain management services, including services of a Chief Executive Officer to Dream Office REIT, as requested. The Company will be reimbursed for out-of-pocket costs and expenses incurred in connection with performance of the management services and costs incurred. This agreement will continue until it is terminated by either party in accordance with the termination provisions of the agreement.

		2016		2015
Costs recovered under Management Services Agreement	\$	3,161	\$	2,223

Costs recovered from Dream Office REIT in the year ended December 31, 2016 under the management services agreement related to treasury, legal and taxation services and compensation for services provided by a Chief Executive Officer.

The Company continues to be entitled to receive an incentive fee subject to the termination provisions of the Management Services Agreement. The incentive fee is determined in accordance with a formula based on 15% of Dream Office REIT's aggregate adjusted funds from operations, including the net gain on the sale of any properties during the term of the agreement, and the deemed sale of the remaining portfolio upon termination in excess of \$2.65 per Dream Office REIT unit. As at December 31, 2016, the Company has not accrued any incentive fees receivable from Dream Office REIT.

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Administrative Services Agreement

For the year ended December 31, 2016, the Company incurred expenses of \$7,774 under the administrative services agreement (year ended December 31, 2015 – \$6,529).

Shared Services and Cost Sharing Agreements

DAM has entered into shared services and cost sharing agreements (“shared services agreements”) with each of Dream Office REIT, Dream Industrial REIT, and Dream Global REIT. The agreements are for a one-year term and renew automatically for further one-year terms on the expiration date. Pursuant to the agreements, Dream Office REIT, Dream Industrial REIT and Dream Global REIT reimburse DAM for shared costs allocated in each calendar year on a cost recovery basis.

Effective January 1, 2016, a limited partnership agreement was created between DAM acting as general partner and a limited partner, Dream Office REIT, Dream Industrial REIT, Dream Global REIT, Dream Alternatives and Dream Technology Ventures LP (“DTV LP”). Each of the limited partners, including DAM, will fund DTV LP for costs incurred relating to technology personnel and technology-related platforms. The consolidated results of DTV LP have been included in the consolidated financial statements of the Company for the year ended December 31, 2016.

Costs recovered from Dream Office REIT, Dream Industrial REIT, Dream Global REIT and Dream Alternatives under the asset management agreements, as well as the shared services and cost sharing agreements are as follows:

	2016	2015
Dream Office REIT	\$ 2,967	\$ 1,947
Dream Industrial REIT	1,993	1,074
Dream Global REIT	2,148	1,241
Dream Alternatives	1,889	1,644
	\$ 8,997	\$ 5,906

Included in accounts receivable and other are balances due from Dream Office REIT, Dream Industrial REIT, Dream Global REIT and Dream Alternatives as follows:

	December 31, 2016	December 31, 2015
Dream Office REIT	\$ 825	\$ 5,124
Dream Industrial REIT	659	2,110
Dream Global REIT	3,501	4,125
Dream Alternatives	1,280	1,178
	\$ 6,265	\$ 12,537

Included in accounts payable are balances due to Dream Office REIT, Dream Industrial REIT and Dream Global REIT as follows:

	December 31, 2016	December 31, 2015
Dream Office REIT	\$ 1,078	\$ 831
Dream Industrial REIT	—	45
Dream Global REIT	7,671	7,143
	\$ 8,749	\$ 8,019

Distributions Earned from Investments

The Company earned distributions from Dream Office REIT, Dream Global REIT and Dream Alternatives (Notes 6 and 12).

Other Transactions

Included in other financial assets as at December 31, 2016 is \$6,974 relating to an investment in properties acquired jointly with Dream Global REIT. The acquisitions were primarily funded through loans from Dream Global REIT amounting to \$7,391, which were included in other financial assets and accounts payable and other liabilities as at December 31, 2016.

In the year ended December 31, 2015, the Company sold its interest in The Carlaw, a rental office building in Toronto to Dream Alternatives for gross proceeds of \$2,104.

Compensation of Key Management

Compensation expense for the year for key management personnel, including the President and Chief Responsible Officer, Chief Financial Officer, President of Asset Management, Senior Vice President of Land and Housing, Senior Vice President of Urban Development and the Company's directors, is shown in the table below.

Notes to the Consolidated Financial Statements

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

		2016		2015
Salaries and benefits	\$	2,686	\$	2,520
Share-based payments		1,038		721
Bonus		3,540		3,133
Directors' fees		1,064		707
	\$	8,328	\$	7,081

38. Supplementary cash flow information

Components of other adjustments include:

		2016		2015
Dream Global REIT deferred trust units	\$	(2,104)	\$	(2,098)
Accrued interest on loans receivables and other expenses		14		900
Share-based compensation expense		2,120		880
Loss (gain) on derivative financial instruments		272		(292)
Non-cash acquisition of condominium inventory on change in ownership		(3,207)		—
Other		1,214		(779)
	\$	(1,691)	\$	(1,389)

Components of changes in non-cash working capital include:

		2016		2015
Accounts receivable	\$	47,375	\$	(54,353)
Accounts payable and other liabilities		(10,341)		21,370
Income and other taxes payable		11,916		(20,141)
Provision for real estate development costs		(9,799)		(3,439)
Customer deposits		4,391		2,524
Deposits		(3,001)		(8,929)
Restricted cash		(687)		(2,637)
Inventory, prepaid and other assets		75		(1,851)
	\$	39,929	\$	(67,456)

The breakdown of cash and cash equivalents is as follows:

		2016		2015
Cash	\$	23,064	\$	29,492
Money market funds, term deposits and GICs		368		491
	\$	23,432	\$	29,983

39. Segmented information

Management has determined the operating segments based on the reports reviewed by the President and Chief Responsible Officer and senior management. Gross margin represents revenue, less direct operating costs and asset management and advisory services expenses, and excluding selling, marketing and other operating costs. Net margin represents gross margin, as defined above, including selling, marketing and other operating costs. Used as a percentage of revenue to evaluate operational efficiency, these margins are employed as fundamental business considerations in updating budgets, forecasts and strategic planning.

The allocation of other components of earnings would not assist management in the evaluation of the segments' contributions to earnings.

Segmented Revenues and Expenditures

Segmented revenues and expenditures for the years ended December 31, 2016 and 2015 are as follows:

Notes to the Consolidated Financial Statements

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

For the year ended December 31, 2016								
	Land development ⁽¹⁾	Housing development ⁽¹⁾	Condominium development	Asset management and advisory services	Investment and recreational properties	Eliminations ⁽¹⁾	Total	
Revenues	\$ 110,498	\$ 51,258	\$ 80,773	\$ 63,963	\$ 46,471	\$ (12,796)	\$	340,167
Direct operating costs	(56,593)	(41,236)	(62,425)	—	(30,458)	8,194		(182,518)
Asset management and advisory services expenses	—	—	—	(9,253)	—	—		(9,253)
Gross margin	53,905	10,022	18,348	54,710	16,013	(4,602)		148,396
Selling, marketing and other operating costs	(16,691)	(12,233)	(10,159)	—	(8,355)	—		(47,438)
Net margin	\$ 37,214	\$ (2,211)	\$ 8,189	\$ 54,710	\$ 7,658	\$ (4,602)	\$	100,958
Fair value changes in investment properties	—	—	—	—	17,902	—		17,902
Investment and other income	1,293	—	783	11,721	—	—		13,797
Earnings (losses) before the following:	\$ 38,507	\$ (2,211)	\$ 8,972	\$ 66,431	\$ 25,560	\$ (4,602)	\$	132,657
General and administrative expenses								(20,469)
Share of earnings from equity accounted investments ⁽²⁾								42,832
Fair value loss on derivative financial instruments								(430)
Interest expense								(18,966)
Income tax expense								(40,260)
Earnings for the year ⁽³⁾							\$	95,364

For the year ended December 31, 2015								
	Land development ⁽¹⁾	Housing development ⁽¹⁾	Condominium development	Asset management and advisory services	Investment and recreational properties	Eliminations ⁽¹⁾	Total	
Revenues	\$ 126,053	\$ 82,598	\$ 61,492	\$ 34,696	\$ 43,361	\$ (14,835)	\$	333,365
Direct operating costs	(72,546)	(67,011)	(45,512)	—	(30,427)	9,468		(206,028)
Asset management and advisory services expenses	—	—	—	(8,138)	—	—		(8,138)
Gross margin	53,507	15,587	15,980	26,558	12,934	(5,367)		119,199
Selling, marketing and other operating costs	(10,812)	(12,080)	(6,771)	—	(8,802)	—		(38,465)
Net margin	\$ 42,695	\$ 3,507	\$ 9,209	\$ 26,558	\$ 4,132	\$ (5,367)	\$	80,734
Fair value changes in investment properties	—	—	—	—	11,158	—		11,158
Investment and other income	1,695	367	537	10,716	51	—		13,366
Gain on reorganization of asset management agreement	—	—	—	127,313	—	—		127,313
Earnings (losses) before the following:	\$ 44,390	\$ 3,874	\$ 9,746	\$ 164,587	\$ 15,341	\$ (5,367)	\$	232,571
General and administrative expenses								(16,211)
Gain on sale of recreational and investment properties								2,183
Share of losses from equity accounted investments ⁽²⁾								(530)
Fair value gain on derivative financial instruments								1,227
Interest expense								(19,263)
Gain on settlement of debt								2,248
Income tax expense								(28,391)
Earnings for the year ⁽³⁾							\$	173,834

⁽¹⁾ Results include housing land sales to external customers, which are recognized in both the land and housing divisions and eliminated on consolidation.

⁽²⁾ Results from operations through equity accounted investments are excluded from gross and net margin and are included in share of earnings from equity accounted investments.

⁽³⁾ Includes earnings attributable to non-controlling interest.

Notes to the Consolidated Financial Statements

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

Segmented Assets and Liabilities

Segmented assets as at December 31, 2016 and December 31, 2015 were as follows:

As at December 31, 2016						
	Land development	Housing development	Condominium development	Asset management and advisory services	Investment and recreational properties	Total
Inventory	\$ 604,487	\$ 50,662	\$ 55,634	\$ —	\$ —	\$ 710,783
Properties	—	—	—	—	270,854	270,854
Total real estate assets ⁽¹⁾	\$ 604,487	\$ 50,662	\$ 55,634	\$ —	\$ 270,854	\$ 981,637
Intangible asset	—	—	—	43,000	—	43,000
Non-segmented assets ⁽²⁾						587,677
Total assets						\$ 1,612,314

As at December 31, 2015						
	Land development	Housing development	Condominium development	Asset management and advisory services	Investment and recreational properties	Total
Inventory	\$ 593,401	\$ 48,167	\$ 91,323	\$ —	\$ —	\$ 732,891
Properties	—	—	—	—	170,997	170,997
Total real estate assets ⁽¹⁾	\$ 593,401	\$ 48,167	\$ 91,323	\$ —	\$ 170,997	\$ 903,888
Intangible asset	—	—	—	43,000	—	43,000
Non-segmented assets ⁽²⁾						516,376
Total assets						\$ 1,463,264

⁽¹⁾ Real estate assets exclude investments in jointly controlled entities.

⁽²⁾ Included in non-segmented assets are cash and cash equivalents, accounts receivable, other financial assets, equity accounted investments and capital and other operating assets, which include balances not directly attributable to a specific operating segment. Balances relating to the \$219,772 Dream Office REIT and Dream Global REIT units and the Company's investment of \$30,171 in Dream Alternatives are included within this figure.

Segmented liabilities as at December 31, 2016 and December 31, 2015 were as follows:

As at December 31, 2016						
	Land development	Housing development	Condominium development	Asset management and advisory services	Investment and recreational properties	Total
Provision for real estate development costs	\$ 35,858	\$ 1,307	\$ 4,633	\$ —	\$ —	\$ 41,798
Customer deposits	4,188	5,760	18,299	—	1,409	29,656
Construction loans	4,825	31,598	20,044	—	33,892	90,359
Mortgages and term debt	3,141	—	10,450	—	99,066	112,657
Total segmented liabilities	\$ 48,012	\$ 38,665	\$ 53,426	\$ —	\$ 134,367	\$ 274,470
Non-segmented liabilities ⁽¹⁾						506,333
Total liabilities						\$ 780,803

As at December 31, 2015						
	Land development	Housing development	Condominium development	Asset management and advisory services	Investment and recreational properties	Total
Provision for real estate development costs	\$ 40,389	\$ 1,085	\$ 10,123	\$ —	\$ —	\$ 51,597
Customer deposits	952	306	23,038	—	969	25,265
Construction loans	—	37,682	62,055	—	23,999	123,736
Mortgages and term debt	—	—	10,750	—	57,625	68,375
Total segmented liabilities	\$ 41,341	\$ 39,073	\$ 105,966	\$ —	\$ 82,593	\$ 268,973
Non-segmented liabilities ⁽¹⁾						476,437
Total liabilities						\$ 745,410

⁽¹⁾ Included in non-segmented liabilities are certain amounts of accounts payable and other liabilities, income and other taxes payable, operating line, Preference shares, series 1, and deferred income taxes, which are not directly attributable to a specific operating segment.

Notes to the Consolidated Financial Statements

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

40. Classification of Items in Consolidated Statements of Financial Position

A summary of the classification between current and non-current assets and liabilities is presented below.

As at December 31, 2016					
	Less than 12 months	Greater than 12 months	Non-determinable	Total	
Assets					
Cash and cash equivalents	\$ 23,432	\$ —	\$ —	23,432	
Accounts receivable	114,409	25,985	—	140,394	
Other financial assets	—	238,898	—	238,898	
Housing inventory	—	—	50,662	50,662	
Condominium inventory	—	—	55,634	55,634	
Land inventory	—	—	604,487	604,487	
Investment properties	—	237,982	—	237,982	
Recreational properties	—	32,872	—	32,872	
Equity accounted investments	—	—	159,045	159,045	
Capital and other operating assets	4,867	21,041	—	25,908	
Intangible asset	—	43,000	—	43,000	
Total assets	\$ 142,708	\$ 599,778	\$ 869,828	\$ 1,612,314	
Liabilities					
Accounts payable and accrued liabilities	\$ 69,072	\$ 27,036	\$ —	96,108	
Income and other taxes payable	47,123	—	—	47,123	
Provision for real estate development costs	41,798	—	—	41,798	
Customer deposits	—	—	29,656	29,656	
Construction loans ⁽¹⁾	47,759	42,600	—	90,359	
Operating line ⁽¹⁾	—	104,526	—	104,526	
Non-revolving term facility	—	174,403	—	174,403	
Mortgages and term debt	16,422	96,235	—	112,657	
Preference shares, series 1	28,643	—	—	28,643	
Deferred income taxes	—	55,530	—	55,530	
Total liabilities	\$ 250,817	\$ 500,330	\$ 29,656	\$ 780,803	

⁽¹⁾ The amounts presented are shown consistent with the contractual terms of repayment, which may be due on demand.

Notes to the Consolidated Financial Statements

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

As at December 31, 2015

		Less than 12 months	Greater than 12 months	Non-determinable	Total
Assets					
Cash and cash equivalents	\$	29,983	\$ —	\$ —	29,983
Accounts receivable		149,148	38,621	—	187,769
Other financial assets		—	162,800	—	162,800
Housing inventory		—	—	48,167	48,167
Condominium inventory		—	—	91,323	91,323
Land inventory		—	—	593,401	593,401
Investment properties		—	141,966	—	141,966
Recreational properties		—	29,031	—	29,031
Equity accounted investments		—	—	106,848	106,848
Capital and other operating assets		5,057	23,919	—	28,976
Intangible asset		—	43,000	—	43,000
Total assets	\$	184,188	\$ 439,337	\$ 839,739	\$ 1,463,264
Liabilities					
Accounts payable and accrued liabilities	\$	96,400	\$ 10,557	\$ —	106,957
Income and other taxes payable		35,207	—	—	35,207
Provision for real estate development costs		51,597	—	—	51,597
Customer deposits		—	—	25,265	25,265
Construction loans ⁽¹⁾		55,677	68,059	—	123,736
Operating line ⁽¹⁾		—	90,968	—	90,968
Non-revolving term facility		—	174,006	—	174,006
Mortgages and term debt		17,953	50,422	—	68,375
Preference shares, series 1		34,779	—	—	34,779
Deferred income taxes		—	34,520	—	34,520
Total liabilities	\$	291,613	\$ 428,532	\$ 25,265	\$ 745,410

⁽¹⁾ The amounts presented are shown consistent with the contractual terms of repayment, which may be due on demand.

41. Comparative figures

Certain comparative balances have been reclassified from the consolidated financial statements previously presented to conform to the presentation of the 2016 consolidated financial statements.



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Toronto, Ontario, Canada
Corporate Director

Ind. Independent

- 1 Member of the Audit Committee
- 2 Member of the Governance and Nominating Committee
- 3 Member of the Organization, Design and Culture Committee
- 4 Member of Leaders and Mentors Committee
- 5 Chair of the Board

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STOCK EXCHANGE LISTING

The Toronto Stock Exchange

Listing Symbols:

Subordinate Voting Shares: DRM
Series 1 Preferred Shares: DRM.PR.A

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