Brookfield

Brookfield Canada Office Properties

Frequently Asked Questions from unitholders related to 2016 Canadian tax reporting

Note: All per unit numbers disclosed herein assume the unit was held by the same unitholder throughout the year.

1) Why am I being taxed on amounts I haven't received?

- You aren't. You are only subject to tax on amounts that you have received, specifically the $0.76/unit of investment income and the $1.56/unit of taxable capital gains. Furthermore, you have received $0.58/unit on which you will not be subject to tax.

- Where units are held by an individual, the amounts are reported on a T1 tax return, as follows: The other income of $0.76/unit will be reported on Line 130 of the T1 return, the taxable capital gains of $1.56/unit will be reported on Line 127 of the T1 return, and the $0.58/unit of non-taxable portion of capital gains will not be included in income on the tax return.

2) Why does the amount on the T3 slip show a capital gain of $3.12/unit, when I only received capital gains of $2.14/unit?

- We agree that unitholders received $2.14/unit of capital gains (of which $1.56/unit is taxable and $0.58/unit is not), but it is necessary to report an amount of $3.12/unit in Box 21 of the T3 slip to ensure that unitholders are able to properly complete their tax returns. When a unitholder reports the T3 slip in their Canadian tax return they will see that the tax return only includes $1.56/unit of taxable capital gains (i.e. 50% of the $3.12/unit reported in Box 21) in their taxable income, which is correct.

- Neither the $0.58/unit of non-taxable portion of capital gains or the $0.98/unit of undistributed non-taxable capital gains will be included in income.

3) The report I received from my broker indicated that I received $0.98/unit more that I actually received. Why?

- The $0.98/unit likely represents the non-taxable portion of the capital gains that was retained in the REIT. This amount was not distributed to any unitholders. We understand that some brokers may have reported this undistributed amount in a manner which indicated that the amount was actually distributed, but this was not the case.

4) Why did the REIT declare a special cash distribution of $1.60/unit?

- Pursuant to the terms of the Declaration of Trust, the REIT is required to distribute its annual income (which includes the taxable portion of capital gains) to the unitholders. As the REIT's 2016 income was expected to be greater than the regular $0.76/unit distributions, the REIT declared a special cash distribution in April 2016 of $1.60/unit to ensure that total 2016 distributions exceeded income earned in 2016.

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5) Why did the REIT distribute the full amount of the taxable capital gain but only part of the non-taxable portion of the capital gain?

- As mentioned above, the REIT is required to distribute all income, including taxable capital gains, to the unitholders. The non-taxable portion of capital gains is not included in taxable income. Accordingly, there is no requirement that the REIT distribute the full amount of the non-taxable portion of any capital gains that it realizes.

6) Can the undistributed portion of the non-taxable capital gains of $0.98/unit be distributed in 2017 or subsequent years without being considered a return of capital?

- Yes, based on a CRA Technical Interpretation, it is our understanding that any post-2016 distributions of these funds to a unitholder could be considered a distribution of the 2016 non-taxable capital gains provided the unitholder held their unit continuously since 2016.

- The advantage of this is that distributions to a unitholder that are on account of the non-taxable portion of capital gains will not reduce the adjusted cost base of the unitholder's units. Accordingly, where a portion of the REIT's 2016 distributions would otherwise be considered a return of capital, the REIT should be able to designate such portion of the post-2016 distributions as the non-taxable portion of 2016 capital gains to the extent not previously distributed. However, this beneficial tax treatment will only be available to unitholders that continue to hold their units subsequent to 2016.

7) I still have questions on 2016 Canadian tax reporting – Is there someone I can call?

- Yes, please contact Joshua Walker, CPA, CA at KPMG (Phone: 416-777-8500 / Email: joshuawalker@kpmg.ca).