# Management's discussion and analysis

All dollar amounts in our tables are presented in thousands of Canadian dollars, except rental rates, unit and per unit amounts.

## SECTION I – OVERVIEW AND FINANCIAL HIGHLIGHTS

### KEY PERFORMANCE INDICATORS

| | **As at December 31, 2014** | As at September 30, 2014 | As at December 31, 2013 |
|---|---|---|---|
| **Portfolio** | | | |
| Number of properties[1] | **266** | 279 | 296 |
| Gross leasable area ("GLA") (in square feet)[1] | **14,839,661** | 15,839,035 | 15,705,425 |
| Occupancy rate – including committed (period-end)[1][2] | **85.3%** | 87.1% | 86.4% |
| Occupancy rate – in-place (period-end)[1][2] | **84.7%** | 85.9% | 85.9% |
| Average in-place net rent per square foot (period-end)[1] | **€ 8.86** | € 8.90 | € 8.46 |
| Market rents above in-place net rents[1] | **2.9%** | 2.0% | 2.2% |

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2014**[3] | 2013[3] | **2014**[3] | 2013[3] |
| **Operating results** | | | | |
| Investment properties revenue[4] | **$ 61,690** | $ 62,528 | **$ 257,725** | $ 220,220 |
| Net rental income[5] | | | | |
| Total portfolio | **43,069** | 41,872 | **179,464** | 144,853 |
| Initial Properties | **16,537** | 20,033 | **76,202** | 79,126 |
| Acquisition Properties | **26,532** | 21,839 | **103,262** | 65,727 |
| Funds from operations ("FFO")[6] | **23,428** | 24,235 | **97,496** | 84,422 |
| Adjusted funds from operations ("AFFO")[7] | **22,401** | 22,259 | **91,370** | 78,007 |
| **Distributions** | | | | |
| Declared distributions | **$ 22,263** | $ 21,910 | **$ 88,547** | $ 79,784 |
| DRIP participation ratio (for the period) | **16%** | 17% | **16%** | 13% |
| **Per unit amounts**[8] | | | | |
| Distribution | **$ 0.20** | $ 0.20 | **$ 0.80** | $ 0.80 |
| **Basic:** | | | | |
| FFO | **0.21** | 0.22 | **0.88** | 0.85 |
| AFFO | **0.20** | 0.20 | **0.83** | 0.79 |
| **Diluted:** | | | | |
| FFO | **0.21** | 0.22 | **0.87** | 0.84 |
| AFFO | **0.20** | 0.20 | **0.82** | 0.79 |
| **Payout ratio:**[9] | | | | |
| Distribution/AFFO (basic) | **100%** | 100% | **96%** | 101% |

| | As at December 31, 2014 | As at September 30, 2014 | As at December 31, 2013 |
|---|---|---|---|
| **Financing** | | | |
| Weighted average effective interest rate on debt (period-end)[1] | **3.54%** | 3.63% | 3.72% |
| Weighted average face rate of interest on debt (period-end)[1] | **3.23%** | 3.28% | 3.37% |
| Interest coverage ratio[1][10][11] | **3.26 times** | 3.30 times | 3.40 times |
| Debt-to-adjusted EBITDFV (years)[1][10][11] | **9.18** | 9.56 | 8.80 |
| Level of debt (net debt-to-gross book value, net of cash)[1][10][11] | **51%** | 56% | 54% |
| Debt – average term to maturity (years)[1][11][12] | **4.3** | 4.1 | 4.6 |
| Unsecured convertible debentures | **$ 152,365** | $ 151,841 | $ 150,326 |

(1) Reflects Owned Share of joint venture properties starting in Q4 2014. Number of properties includes the joint venture properties. Joint venture properties are accounted for using the equity method in our consolidated financial statements.

(2) Occupancy rates as at December 31, 2014 and September 30, 2014 include space covered by a head lease that was classified as vacant space in the prior year. The December 31, 2013 occupancy rate has not been restated.

(3) Results from operations were converted into Canadian dollars from euros using the average exchange rates found on page 30.

(4) Investment properties revenue (non-GAAP measure) is defined as total revenue, including the share of investment property revenue from investments in joint ventures from the date of closing of the sale of the respective properties. The reconciliation of investment property revenue can be found in the section "Non-GAAP measures and other disclosures".

(5) Net rental income (non-GAAP measure) is defined as total of net rental income, including the share of net rental income from investment in joint ventures from the date of closing of the sale of the respective properties. The reconciliation of net rental income can be found in the section "Non-GAAP measures and other disclosures".

(6) FFO (non-GAAP measure) – The reconciliation of FFO to net income can be found in the section "Our results of operations" under the heading "Funds from operations and adjusted funds from operations".

(7) AFFO (non-GAAP measure) – The reconciliation of AFFO cash flow from operations can be found in the section "Non-GAAP measures and other disclosures" under the heading "Cash generated from operating activities to AFFO reconciliation".

(8) A description of the determination of basic and diluted amounts per unit can be found in the section "Non-GAAP measures and other disclosures" under the heading "Weighted average number of units".

(9) Payout ratio is calculated as the ratio of the distribution rate divided by basic AFFO per unit.

(10) The calculation of the following non-GAAP measures are included in the section "Non-GAAP measures and other disclosures" under the headings "Interest coverage ratio", "Debt-to-adjusted EBITDFV" and "Level of debt (debt-to-gross book value)".

(11) This metric includes the REIT's share of the mortgages on the POBA properties starting in Q4 2014.

(12) This metric excludes the revolving credit facility.

## FINANCIAL OVERVIEW

The fourth quarter results were in line with our expectations with funds from operations ("FFO") and adjusted funds from operations ("AFFO") of $23.4 million and $22.4 million, respectively, compared with $24.2 million and $22.3 million, respectively, for Q4 2013. The acquisitions completed over the course of 2014 were able to compensate for the impact from the Deutsche Post lease terminations and the Lonestar guarantee expiry, which were effective July 1, 2014. For the year, FFO and AFFO increased to $97.5 million and $91.4 million, respectively, from $84.4 million and $78.0 million, respectively, in 2013. On a per unit basis, basic FFO and basic AFFO both increased in 2014 to 88 cents and 83 cents, respectively, from 85 cents and 79 cents, respectively, in 2013. The increases in 2014 are a result of the acquisitions we completed in 2013 and 2014 as well as the strong leasing activity in 2014.

In the fourth quarter, we completed the sale of a 50% interest in seven assets from our Acquired Properties portfolio to the Public Officials Benefit Association ("POBA") joint venture and were able to reinvest over two-thirds of the net proceeds into new acquisitions. The balance of the proceeds will be invested in Q1 2015 with the closing of the Millerntorplatz property in Hamburg. Our retained 50% interest in the joint venture assets is reflected as an investment in joint ventures on the consolidated balance sheet and is equity accounted for in our consolidated financial statements.

Leasing momentum and the leasing pipeline remain strong going into 2015, despite negative leasing absorption in the fourth quarter of 2014. During the fourth quarter, the previously identified expiry of short-term lease extensions in connection with Deutsche Post's 2014 lease terminations resulted in negative leasing absorption for the quarter. The sale of the 50% interest in the seven assets also impacted our leasing and occupancy metrics in that we reflect only our 50% share of the properties we sold. Our overall in-place and committed occupancy was 85.3% at the end of 2014, a year-over-year decrease of 1.1% from 86.4% at the end of 2013. Contributing to the decline were the Deutsche Post terminations as well as the sale of 50% of the joint venture assets. The overall effect of the 2014 terminations was significantly mitigated by strong leasing and renewals across our entire portfolio as well as the acquisitions we completed.

Year-over-year, in-place rents increased from €8.46 per square foot in Q4 2013 to €8.86 in Q4 2014, largely due to the completed acquisitions, which have a higher average per square foot rent. At €9.12 per square foot, average market rents in our portfolio remain approximately 2.9% above in-place rents at the end of Q4 2014.

The Trust's average face interest rate decreased to 3.23% at the end of Q4 2014, from 3.37% at the end of Q4 2013. Our leverage declined to 51% (net of cash) at the end of Q4 2014 from 54% at the end of Q4 2013, largely as a result of the sale to POBA of our 50% interest in seven assets, which resulted in slightly higher cash balances at the end of 2014 compared to 2013. Also contributing to the reduction in our leverage was the increase in valuations of our investment properties in 2014. Subsequent to the closing of the Millerntorplatz acquisition in Q1 2015, the leverage ratio will increase and we will continue to operate in the targeted range of 50% to 60% debt-to-book value (net of cash).

On an overall basis, management was pleased with the Trust's performance in Q4 2014.

## OUTLOOK

The fourth quarter of 2014 was an exciting quarter for the REIT with the closing of the POBA joint venture. Subsequent to year-end, we further expanded our partnership with POBA through the sale of a 50% interest in Officium, one of our recent acquisitions in Stuttgart. With the closing of the acquisition of Millerntorplatz 1 in Hamburg for $136.1 million (€95.9 million) on February 6, 2015, the balance of the proceeds from the sale to POBA is fully redeployed. Our ability to reinvest the proceeds from these sales into properties of equal or better value will enable us to continue to grow and develop our platform.

The Millerntorplatz office property becomes the Trust's largest asset in Hamburg. The multi-tenant property, built in 1997 and situated in a vibrant city centre location in Hamburg, is leased to a variety of tenants including Deutsche Rentenversicherung, Germany's largest state pension fund, and the City of Hamburg. The Trust acquired the property at a going-in cap rate of 6.1% and has financed it with a ten-year mortgage at an interest rate of 1.71%.

We continued with our dispositions program in Q4 and sold 14 properties from our Initial Properties for gross proceeds of $69.4 million. In total for 2014, we sold 35 properties for $130.7 million, which represented 101% of book value for those assets. For 2015, we will continue to dispose of properties from our Initial Properties portfolio and redeploy the proceeds into newer multi-tenant properties located in major German office markets.

The German economy continues to perform well in a difficult global environment and benefits from strong domestic demand. The fundamentals in the office sector in our key markets remain solid with overall net absorption of office space continuing to be positive across the "Big 7" office markets and a further decline in the office vacancy rates.

Our focus since the initial public offering has been to improve the stability and quality of the underlying cash flows in our portfolio. Throughout 2014, we continued to execute on this goal and for 2015, this goal will remain our focus.

## BASIS OF PRESENTATION

Our discussion and analysis of the financial position and results of operations of Dream Global Real Estate Investment Trust ("Dream Global REIT", the "REIT" or the "Trust") should be read in conjunction with the audited consolidated financial statements of the Trust for the year ended December 31, 2014.

The Trust's basis of financial reporting is International Financial Reporting Standards ("IFRS").

The REIT complies with IFRS 11, Joint Arrangements, and accounts for investments in joint ventures in its audited consolidated financial statements using the equity method of accounting. All references herein to "consolidated" refer to amounts as reported under IFRS. For the purpose of this management's discussion and analysis ("MD&A"), all references to "REIT's Interest" or "Owned Share" refer to a non-GAAP financial measure representing Dream Global REIT's proportionate share of the financial position and results of operations of its entire portfolio, including equity accounted investments, under the assumption that all investments in joint ventures have been proportionately consolidated. For a reconciliation of the Trust's results of operations and statement of financial position, please see "Non-GAAP measures and other disclosures" in this MD&A. Entities that are consolidated in our consolidated financial statements are included at 100% for the purpose of the MD&A.

This MD&A has been dated as at February 18, 2015. For simplicity, throughout this discussion, we may make reference to the following:

- "Debentures", meaning the 5.5% convertible unsecured subordinated debentures of the Trust due July 31, 2018;
- "GLA", meaning gross leasable area;
- "GRI", meaning gross rental income;
- "Initial Properties", meaning the income-producing properties we acquired on August 3, 2011;
- "Acquisition Properties", meaning the income-producing properties acquired subsequent to the Trust's initial public offering on August 3, 2011;
- "Units", meaning the Units of the Trust; and
- "POBA", meaning Public Officials Benefit Association.

Certain information has been obtained from CB Richard Ellis Germany ("CBRE"), Colliers International ("Colliers") and Jones Lang LaSalle ("JLL"), commercial firms that provide information relating to the German real estate industry. Although we believe this information is reliable, the accuracy and completeness of this information is not guaranteed. We have not independently verified this information and make no representation as to its accuracy.

When we use terms such as "we", "us" and "our", we are referring to the REIT and its subsidiaries.

When we refer to Deutsche Post as being the lessee or the tenant of the Initial Properties, we are referring to Deutsche Post Immobilien GmbH ("DPI"), which is a wholly owned subsidiary of Deutsche Post. Deutsche Post has provided a letter of support with respect to DPI and its ability to carry out its obligations under leases for the Initial Properties.

Market rents disclosed throughout the MD&A are management's estimates and are based on current leasing fundamentals. The current estimated market rents are at a point in time and are subject to change based on future market conditions.

In addition, certain disclosure incorporated by reference into this report includes information regarding our largest tenants that has been obtained from publicly available information. We have not independently verified any such information.

Certain information herein contains or incorporates comments that constitute forward-looking information within the meaning of applicable securities legislation. Forward-looking information is based upon a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond Dream Global REIT's control, which could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking information. These risks and uncertainties include, but are not limited to, global and local economic, business and government conditions; the financial condition of tenants; concentration of our tenants; our ability to refinance maturing debt; leasing risks, including those associated with the ability to lease vacant space and the timing of lease terminations; our ability to source and complete accretive acquisitions; changes in tax and other laws or the application thereof; and interest and currency rate fluctuations.

Although the forward-looking statements contained in this management's discussion and analysis are based upon what we believe are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements and information include, but are not limited to, general economic conditions; local real estate conditions, including the development of properties in close proximity to the Trust's properties; timely leasing of vacant space and re-leasing of occupied space upon expiration; dependence on tenants' financial condition; the uncertainties of acquisition activity; the ability to effectively integrate acquisitions; interest rates; availability of equity and debt financing; the Trust's continued exemption from the specified investment flow-through trust ("SIFT") rules under the *Income Tax Act* (Canada); and other risks and factors described from time to time in the documents filed by the Trust with securities regulators.

All forward-looking information is as of February 18, 2015, except where otherwise noted. Dream Global REIT does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise, except as required by law. Additional information about these assumptions and risks and uncertainties is contained in our filings with securities regulators. These filings are also available on our website at www.dreamglobalreit.ca.

## BACKGROUND

Dream Global REIT is an unincorporated, open-ended real estate investment trust that was formed to provide investors with the opportunity to invest in real estate exclusively outside of Canada. Dream Global REIT was founded by Dream Asset Management Corporation ("DAM"), a subsidiary of Dream Unlimited Corp. (TSX: DRM), which is our asset manager. Our Units are listed on the Toronto Stock Exchange under the trading symbol DRG.UN.

As at December 31, 2014, our portfolio consisted of 266 properties comprising approximately 14.8 million square feet of GLA located in Germany, including seven properties held within a joint venture of which Dream Global REIT retained a 50% ownership interest.

We will be exempt from the SIFT rules, taking into account all proposed amendments to such rules, as long as we comply at all times with our investment guidelines which, among other things, only permit us to invest in properties or assets located outside of Canada. We do not rely on the REIT exception under the *Income Tax Act* (Canada) in order to be exempt from the SIFT rules. As a result, we are not subject to the same restrictions on our activities as those that apply to Canadian real estate investment trusts that do rely on the REIT exception. This gives us flexibility in terms of the nature and scope of our investments and other activities. Because we do not own taxable Canadian property, as defined in the *Income Tax Act* (Canada), we are not subject to restrictions on our ownership by non-Canadian investors.

## OUR OBJECTIVES

We are committed to:

- managing our investments to provide stable, sustainable and growing cash flows through investments in commercial real estate located outside of Canada. To date, 100% of our portfolio is located in Germany;
- building a diversified portfolio of commercial properties;
- capitalizing on internal growth and seeking accretive acquisition opportunities in our target markets;
- increasing the value of our assets and maximizing the long-term value of our Units through the active and efficient management of our assets; and
- providing predictable cash distributions per unit, on a tax-efficient basis.

### Distributions

We currently pay monthly distributions to unitholders of 6.667 cents per unit, or 80 cents per unit on an annual basis. At December 31, 2014, approximately 15.2% of our total Units were enrolled in the Distribution Reinvestment and Unit Purchase Plan ("DRIP").

| | December 31, | | September 30, | | June 30, | | March 31, | |
|---|---|---|---|---|---|---|---|---|
| | **2014** | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Annualized distribution rate | **$ 0.80** | $ 0.80 | $ 0.80 | $ 0.80 | $ 0.80 | $ 0.80 | $ 0.80 | $ 0.80 |
| Monthly distribution rate | **$ 0.0667** | $ 0.0667 | $ 0.0667 | $ 0.0667 | $ 0.0667 | $ 0.0667 | $ 0.0667 | $ 0.0667 |
| Period-end closing unit price | **$ 8.57** | $ 8.42 | $ 9.08 | $ 9.41 | $ 9.82 | $ 9.94 | $ 9.28 | $ 10.64 |
| Annualized distribution yield on closing unit price | **9.33%** | 9.50% | 8.81% | 8.50% | 8.15% | 8.05% | 8.62% | 7.52% |

## OUR STRATEGY

Our core strategy to meet our objectives includes the following:

### Optimizing the performance, value and long-term cash flow of our properties

We manage our properties to optimize their performance, value and long-term cash flow. We seek to do this by achieving high occupancy and rental rates. Together with our management team in Canada, we also have an established management team in Germany and Luxembourg, bringing a history with our Initial Properties, deep market knowledge and established relationships with other market participants. Leasing, capital expenditure and construction initiatives are either internally managed or overseen by us, while property management services, including general maintenance, rent collection and administration of operating expenses and tenant leases, are carried out by third-party service providers under the oversight of our internal team.

### Diversifying our portfolio to mitigate risk

We continuously seek to diversify our portfolio to increase value on a per unit basis, further improve the sustainability of our distributions and strengthen our tenant profile. We focus on adding high-quality tenants in the most desirable office markets in Germany in addition to increasing our overall asset base in the largest office markets in Germany. A key criterion when considering potential acquisitions is the multi-tenant nature of a property.

### Investing in stable income-producing properties outside of Canada

When considering acquisition opportunities, we look for properties with quality tenancies and strong occupancy, and assess how acquisition opportunities complement our properties and have the potential to create additional value. In considering future acquisitions, we intend to focus on countries with a stable business and operating environment, a liquid market for real estate investments, a legal framework that provides adequate rights and protections for owners of property, and a manageable foreign investment regime. We will consider investment opportunities in income-producing properties that are accretive, provide stable, sustainable and growing cash flows, and enable us to realize synergies within our portfolio of properties. The execution of this strategy will be continuously reviewed and will also include dispositions of properties and optimizing our capital structure.

### Maintaining and strengthening a conservative financial profile

We operate our investments in a disciplined manner, with a focus on financial analysis and balance sheet management to ensure we maintain a prudent capital structure and conservative financial profile. We intend to generate stable cash flows sufficient to fund our distributions while maintaining a conservative debt ratio. Our preference will be to stagger our debt maturities to mitigate our interest rate risk and limit refinancing exposure in any particular period. We have also implemented a foreign exchange hedging strategy to provide greater certainty regarding the payment of distributions to unitholders and interest to debenture holders.

## OUR ASSETS

Throughout this document, we make reference to the following two asset categories:

### Initial Properties

As at December 31, 2014, this category included 237 national and regional administration offices, mixed use retail, banking and distribution properties and regional logistics headquarters of Deutsche Post. The properties are generally strategically located near central train stations and main retail areas and are easily accessible by public transportation.

### Acquisition Properties

As at December 31, 2014, this category included 29 office properties, which were acquired since the beginning of 2012. These properties are high-quality, multi-tenant office buildings located in Germany's largest office markets and are generally newer or recently refurbished buildings. A 50% interest in seven of the 29 properties was sold during the year and these seven properties are now jointly owned with POBA, a South Korean pension fund.

The majority of our portfolio is concentrated in Germany's largest office markets:

| Geographic composition of portfolio[1] | Total GLA (sq. ft.) | Total GLA (%) | Total GRI (%) |
|---|---|---|---|
| Berlin | 506,436 | 3 | 4 |
| Cologne | 984,938 | 7 | 11 |
| Düsseldorf | 1,745,214 | 12 | 14 |
| Frankfurt | 1,173,287 | 8 | 10 |
| Hamburg | 1,312,376 | 9 | 14 |
| Hannover | 810,208 | 5 | 3 |
| Munich | 552,157 | 4 | 7 |
| Nuremberg | 627,357 | 4 | 6 |
| Stuttgart | 752,527 | 5 | 7 |
| Other | 6,375,161 | 43 | 24 |
| **Total** | **14,839,661** | **100** | **100** |

(1) Reflects the REIT's Owned Share basis.

## TENANTS

Through an active acquisitions and dispositions program that commenced in 2012, the Trust continues to focus on the diversification of its tenant base. The table below highlights the diversification away from the single-tenant nature of our Initial Properties. At the end of Q4 2014, Deutsche Post's GRI was approximately 29.5% of the Trust's overall occupied and committed GRI, down from 37.3% at the end of 2013.

| Tenant composition[1] | Total annualized GRI (%) | Credit rating[2][3] |
|---|---|---|
| Deutsche Post | 29.5 | BBB+ |
| Freshfields Bruckhaus Deringer | 3.5 | n/a |
| ERGO Direkt Lebensversicherungs AG | 3.1 | AA- |
| Imtech Deutschland GmbH & Co. KG | 2.4 | n/a |
| BNP Paribas Fortis SA/NV | 1.9 | A+ |
| Deutsche Postbank AG | 1.8 | A+ |
| CinemaxX Entertainment GmbH & Co. KG | 1.6 | n/a |
| Maersk Deutschland A/S & Co. KG | 1.4 | BBB+ |
| Google Germany GmbH | 1.3 | AA |
| Grohe AG | 1.3 | n/a |
| Other third-party tenants | 52.2 | n/a |
| **Total** | **100.0** | |

(1) Reflects the REIT's Owned Share.

(2) Source: Standard & Poor's, Fitch.

(3) n/a means not applicable.

## Deutsche Post

Deutsche Post is an integral part of the German economy and continues to be an important part of day-to-day life in Germany. Through its acquisition of DHL in 2002, Deutsche Post DHL has become a global logistics market leader. It employs approximately 480,000 people in more than 220 countries and territories.[1] As the only provider of universal postal services in Germany, Deutsche Post must provide certain minimum levels of service to German residents.

Some of the space leased to Deutsche Post is occupied by Postbank, a public company controlled by Deutsche Bank and integral to its retail banking business. Postbank offers retail financial services in its branches within Deutsche Post's network, which generates increased traffic through the postal services offered in those branches. As at December 31, 2014, our portfolio featured approximately 165 Postbank branches, allowing for the delivery of integrated financial and postal services. Leases for 45 Postbank branches are direct leases. Postbank branches are typically located at ground level with a view to attracting a high volume of retail and business customers seeking financial or postal services.

## Freshfields Bruckhaus Deringer ("Freshfields")

Freshfields is the second largest tenant in our portfolio as measured by GRI. Freshfields is an international law firm with offices in Europe, Asia, North America and the Middle East.[2] Freshfields occupies 71% of the space in our property located at Feldmühleplatz 1 and generated approximately 3.5% of the REIT's overall GRI as at December 31, 2014.

## ERGO Direkt Lebensversicherungs AG ("ERGO")

ERGO is the third largest tenant in our portfolio as measured by GRI. With approximately 46,000 employees in over 30 countries, ERGO is one of the largest insurance companies in Germany.[3] ERGO, which belongs to the Munich RE group of companies, occupies the entire space in our property located at Karl-Martell-Strasse 60 in Nuremberg, and generated approximately 3.1% of the REIT's overall GRI as at December 31, 2014.

## Imtech Deutschland GmbH & Co. KG ("Imtech")

Imtech Germany & Eastern Europe is a leader in the energy and technical building equipment sector in Germany, Poland, Austria, Hungary, Romania, Russia and Switzerland. Imtech Germany & Eastern Europe employs approximately 5,000 people and is part of the Royal Imtech N.V. Group, which is based in the Netherlands and employs approximately 23,000 people.[4] This tenant occupies the entire space in our property located at Hammer Strasse 30–34 in Hamburg, which is Imtech's German head office, and generated approximately 2.4% of the REIT's overall GRI as at December 31, 2014.

(1) As disclosed at Deutsche Post DHL's website at www.dpdhl.com
(2) As disclosed at Freshfields' website at www.freshfields.com
(3) As disclosed at ERGO's website at www.ergo.com
(4) As disclosed at Imtech's website at www.imtech.de

### BNP Paribas Fortis SA/NV ("BNP Paribas Fortis")

BNP Paribas Fortis is a financial services provider, offering services to private and professional clients, corporate clients and public entities through a number of networks. The company is owned approximately 75% by the BNP Paribas Group and 25% by the Belgian State.[5] BNP Paribas Fortis occupies approximately 55% of the space in Cäcilienkloster in Cologne as well as 8% in Z-UP in Stuttgart and generated approximately 1.9% of the REIT's overall GRI as at December 31, 2014.

### Deutsche Postbank AG ("Postbank")

Postbank is one of Germany's largest financial service providers with approximately 14 million clients, 14,900 employees and total assets of approximately €158 billion. Postbank mainly focuses on private customers and small to medium-sized companies and has the densest branch network of any bank in Germany with 1,100 of its own branches, 4,500 Deutsche Post partner branches as well as 700 Postbank advisory centres.[6] As at December 31, 2014, Postbank generated approximately 1.8% of the REIT's overall GRI.

### CinemaxX Entertainment GmbH & Co. KG ("CinemaxX")

CinemaxX is a well-known cinema chain in Germany and Denmark with 33 cinemas and 2,000 employees in these two countries.[7] CinemaxX occupies approximately 62% of the GLA in our property located at Bertoldstrasse 48/Sedanstrasse 7 in Freiburg and generated approximately 1.6% of the REIT's overall GRI as at December 31, 2014.

### Maersk Deutschland A/S & Co. KG ("Maersk")

Maersk is one of the world's largest shipping companies and operates in approximately 130 countries. Through its various divisions, the group employs approximately 89,000 people and generated over US$47 billion in revenues in 2013.[8] Maersk occupies approximately 70% of the GLA in Humboldt House, our property located at Am Sandtorkai 37 in Hamburg. Maersk generated approximately 1.4% of the REIT's overall GRI as at December 31, 2014.

### Google Germany GmbH ("Google")

Google is an American multinational corporation specializing in internet-related services and products and employs over 40,000 people worldwide.[9] Google Hamburg is the company's commercial headquarters for Germany, Austria, Switzerland and the Nordics and occupies approximately 75% of the GLA in ABC Bogen, our property located in the heart of Hamburg at ABC Strasse 19. Google generated approximately 1.3% of the REIT's overall GRI as at December 31, 2014.

### Grohe AG ("Grohe")

Grohe AG, a subsidiary of the Grohe Group, is Europe's largest provider of sanitary fittings and has a worldwide presence in more than 130 countries. The Grohe Group employs more than 9,000 employees and had revenues of approximately €1.45 billion in 2013.[10] Grohe occupies approximately 29% of the GLA in Feldmühleplatz 15 in Düsseldorf and generated approximately 1.3% of the REIT's overall GRI as at December 31, 2014.

(5) As disclosed at BNP Paribas' website at www.bnpparibas.com
(6) As disclosed at Deutsche Postbank AG's website at www.postbank.com
(7) As disclosed at CinemaxX's website at www.cinemaxx.com
(8) As disclosed at Maersk's website at www.maersk.com
(9) As disclosed at Google's website at www.google.com and www.google.ca/about/jobs/locations/hamburg
(10) As disclosed at Grohe's website at www.grohe.com

## MARKET OVERVIEW – GERMANY

### German economy

The German economy has long been a driver as well as a beneficiary of a globalized economy. Germany has established itself as a key location for production sites and is a country with a favourable business environment. Similar to Canada, Germany is a country with a history of political, legal and financial stability and provides an attractive climate for long-term investment.

### Recent developments

Overall, the German economy continues to be the main driving force of Europe. Germany's labour market is very robust and its unemployment rate at 4.5%(1) at the end of December 2014 remains among the lowest in the European Union. The German government posted gross domestic product ("GDP") growth of 1.5% in 2014, higher than the GDP growth in the previous number of years as well as throughout the eurozone. The German economy performed well in a difficult global environment and continued to benefit from strong domestic demand in 2014.

### Economic impact on the German real estate sector

Germany remains one of the most highly sought-after real estate investment markets in Europe, benefiting from strong international investor demand. In 2014, the total investment volume for commercial real estate reached €39.8 billion(2), the best annual result since 2007.

The office sector remains the dominant asset class, with 51%(2) of all transactions in 2014 taking place in this category. In total, approximately €20.3 billion(2) was invested in German office properties during this period. International investors contributed approximately 46%(2) of the total capital invested in German office properties, a year-over-year increase of 98%, highlighting the global demand in this market. The share of investments in secondary markets continued to increase, reflecting diversification of the German economy and the attractiveness of risk-return characteristics in these markets.

The underlying fundamentals in the office sector remain strong with overall net absorption of office space continuing to be positive across the "Big 7" office markets. Office vacancies further declined year-over-year by 60 basis points ("bps") to 7.6%(3) at December 31, 2014, the lowest level since 2002, and average market rents increased on average by 2%(3) in these markets in 2014.

(1) ILO labour market statistics overview, Destatis – Germany's Federal Statistical Office
(2) CBRE MarketView, Germany Investment Quarterly Q4 2014
(3) Jones Lang LaSalle Office Market Overview Q4 2014

# SECTION II – EXECUTING THE STRATEGY

## OUR OPERATIONS

### Occupancy

Overall in-place and committed occupancy was 85.3% at the end of 2014, a year-over-year decrease of 1.1% from 86.4% at the end of 2013 and a decrease of 1.8% quarter-over-quarter from 87.1% at the end of Q3 2014. The year-over-year decrease results primarily from the 2014 Deutsche Post terminations, which were effective July 1, 2014. The quarter-over-quarter decrease was largely the result of the expiry of short-term lease extensions entered into by Deutsche Post for space originally terminated as at July 1, 2014. Occupancy in our Initial Properties decreased from 83.2% at the end of 2013 to 80.1% at the end of 2014, primarily due to the 2014 Deutsche Post terminations, offset by strong leasing performance in 2014. Occupancy in our Acquisition Properties increased from 96.3% at the end of 2013 to 97.9% at the end of 2014, primarily due to the acquisitions we completed in 2014 as well as leasing activity in 2014, which more than offset the impact from the sale of a 50% interest in seven assets to POBA.

The table below details the percentage of occupied and committed space for the total portfolio as well as the comparative portfolio. The comparative portfolio comprises properties owned by the Trust at December 31, 2013 and December 31, 2014, and excludes properties that were acquired or sold during 2014.

| | Total portfolio | | Comparative portfolio | |
|---|---|---|---|---|
| Portfolio (%) | **December 31, 2014**[1] | December 31, 2013 | **December 31, 2014**[1] | December 31, 2013 |
| Initial Properties | **80.1** | 83.2 | **80.1** | 82.5 |
| Acquisition Properties | **97.9**[2] | 96.3 | **98.2** | 96.4 |
| **Total** | **85.3** | 86.4 | **84.4** | 85.8 |

(1) Occupancy in Q4 2014 includes space covered by a head lease that was classified as vacant space prior to Q1 2014. This change in presentation results in a 27 bps increase in overall occupancy in Q4 2014.

(2) Reflects the REIT's Owned Share.

## Vacancy schedule

The tables below highlight our leasing activity for the three-month and twelve-month periods ended December 31, 2014. During Q4 2014, our overall space available for lease increased by approximately 128,200 square feet. The primary reason for the increase in vacancy was negative leasing absorption of approximately 236,700 square feet, largely due to the expiry of short-term lease extensions in connection with Deutsche Post's 2014 terminated space. The negative impact was significantly mitigated by an otherwise high retention rate across the entire portfolio of 73% and high overall leasing volumes during Q4 2014.

| | For the three months ended December 31, 2014 | | |
|---|---|---|---|
| (in square feet) | Initial Properties | Acquisition Properties[1] | Total |
| Available for lease – September 30, 2014 | 1,954,677 | 96,280 | 2,050,957 |
| Change in vacancy due to acquisitions | - | - | - |
| Change in vacancy due to dispositions[2] | (91,792) | (6,022) | (97,814) |
| Remeasurements | (10,952) | 264 | (10,688) |
| Subtotal – Available for lease | 1,851,933 | 90,522 | 1,942,455 |
| Expiries | 82,316 | 128,007 | 210,323 |
| Early termination and bankruptcies | 5,207 | 13,007 | 18,214 |
| Deutsche Post extension expiries | 231,311 | - | 231,311 |
| New leases | (24,582) | (13,007) | (37,589) |
| Renewals | (42,857) | (110,947) | (153,804) |
| Future leases for the period | (17,712) | (14,061) | (31,773) |
| **Available for lease – December 31, 2014** | 2,085,616 | 93,521 | 2,179,137 |

(1) Reflects the REIT's Owned Share.

(2) The reduction in vacancy in our Acquisition Properties resulted from the sale of a 50% interest in seven properties to POBA.

| (in square feet) | For the twelve months ended December 31, 2014 | | |
|---|---|---|---|
| | Initial Properties | Acquisition Properties[1] | Total |
| Available for lease – January 1, 2014 | 1,984,185 | 66,836 | 2,051,021 |
| Change in vacancy due to acquisitions | - | 37,870 | 37,870 |
| Change in vacancy due to dispositions[2] | (156,088) | (6,022) | (162,110) |
| Remeasurements | (6,771) | (6,910) | (13,681) |
| Subtotal – Available for lease | 1,821,326 | 91,774 | 1,913,100 |
| Expiries | 231,900 | 470,329 | 702,229 |
| Early termination and bankruptcies | 39,747 | 50,228 | 89,975 |
| Deutsche Post terminations | 1,855,803 | - | 1,855,803 |
| Deutsche Post extension expiries | 231,311 | - | 231,311 |
| New leases | (160,185) | (34,035) | (194,220) |
| Renewals | (106,891) | (375,964) | (482,855) |
| Deutsche Post/Postbank renewals and extensions | (1,592,200) | - | (1,592,200) |
| Future leases for the period | (235,195) | (108,811) | (344,006) |
| **Available for lease – December 31, 2014** | 2,085,616 | 93,521 | 2,179,137 |

(1) Reflects the REIT's Owned Share.
(2) The reduction in vacancy in our Acquisition Properties resulted from the sale of a 50% interest in seven properties to POBA.

Excluding the Deutsche Post terminations, the Trust was able to achieve a 69% tenant retention rate in 2014.

The table below highlights our occupancy, leasing activity and rental rates for the last eight quarters. Committed occupancy includes in-place occupancy as well as space for which leases have been signed but do not commence until a future quarter.

| | **Q4 2014[1][2]** | Q3 2014[1] | Q2 2014[1] | Q1 2014[1] | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 |
|---|---|---|---|---|---|---|---|---|
| **Occupancy** | | | | | | | | |
| Committed occupancy (square feet) | **12,660,524** | 13,788,078 | 13,787,918 | 13,874,523 | 13,577,298 | 13,403,456 | 13,205,395 | 12,686,411 |
| *Committed occupancy* | **85.3%** | 87.1% | 87.9% | 87.7% | 86.4% | 86.2% | 85.7% | 84.7% |
| In-place occupancy (square feet) | **12,568,632** | 13,603,696 | 13,644,620 | 13,753,248 | 13,496,358 | 13,183,857 | 13,010,931 | 12,578,484 |
| *In-place occupancy* | **84.7%** | 85.9% | 87.0% | 86.9% | 85.9% | 84.8% | 84.5% | 83.9% |
| **Leasing activity** | | | | | | | | |
| Expiries | **(210,323)** | (203,087) | (175,716) | (113,105) | (168,754) | (130,075) | (89,824) | (113,970) |
| Early termination and bankruptcies | **(18,214)** | (38,709) | (8,908) | (24,143) | (2,489) | (22,021) | (7,418) | (556) |
| New leases | **37,589** | 89,075 | 21,370 | 46,185 | 35,285 | 51,992 | 36,689 | 41,198 |
| Renewals | **153,804** | 143,271 | 133,149 | 52,633 | 115,914 | 111,609 | 75,373 | 41,985 |
| Future leases | **31,773** | 101,670 | 68,328 | 142,236 | 30,840 | 60,250 | 98,003 | 38,118 |
| **Net leasing absorption** (before DP terminations) | **(5,371)** | 92,220 | 38,223 | 103,806 | 10,796 | 71,755 | 112,823 | 6,775 |
| Deutsche Post terminations | **(99,214)** | (1,756,589) | - | - | - | (22,021) | - | - |
| Expiries of Deutsche Post extensions | **(231,311)** | - | - | - | - | - | - | - |
| Deutsche Post/ Postbank renewals and extensions | **99,214** | 1,492,986 | - | - | - | - | - | - |
| **Net leasing absorption** | **(236,682)** | (171,383) | 38,223 | 103,806 | 10,796 | 49,734 | 112,823 | 6,775 |
| **Average in-place rent** (€/sq. ft./year) | **€8.86** | €8.90 | €8.74 | €8.72 | €8.46 | €8.17 | €8.14 | €7.87 |
| % change | **(0.4)%** | 1.8% | 0.3% | 3.0% | 3.5% | 0.4% | 3.5% | 25.8% |

(1) Occupancy includes space covered by a head lease that was previously classified as vacant space.
(2) Reflects the REIT's Owned Share.

## In-place rental rates

In-place rents have increased from approximately €8.46 per square foot/year at December 31, 2013 to approximately €8.86 per square foot/year at December 31, 2014, reflecting higher in-place rents in the Acquisition Properties as well as leasing activity across the portfolio. The majority of the leases in the Acquisition Properties include rent adjustment clauses linked to an increase in the consumer price index ("CPI"). Overall, average market rents for our portfolio remain approximately 2.9% above in-place rents at December 31, 2014. The difference between in-place rents and market rents in our Initial Properties is approximately 12.5%, allowing for rental growth in this segment of our portfolio, which has approximately 0.8 million square feet expiring over the next two years.

For certain Acquisition Properties, where in-place rents exceeded market rents, the purchase price was adjusted at the time of underwriting these acquisitions to reflect such above-market rents. The gap between market and in-place rental rates is narrowing, reflecting the underlying market conditions, a trend which is expected to continue. The weighted average remaining lease term is 5.3 years for this category of assets, which allows for sufficient time for the market rents to increase.

The table below provides a comparison between in-place rents and market rents in our portfolio as at December 31, 2014.

| (per square foot/year) | In $ (as at December 31, 2014) | | In € (as at December 31, 2014) | | % of market rents above (below) in-place rents |
|---|---|---|---|---|---|
| | In-place rent | Market rent | In-place rent | Market rent | |
| Initial Properties – Deutsche Post | $ 7.47 | $ 8.54 | € 5.32 | € 6.08 | 14.3 |
| Initial Properties – third party | 8.18 | 8.74 | 5.82 | 6.23 | 7.0 |
| Total Initial Properties | 7.63 | 8.59 | 5.44 | 6.12 | 12.5 |
| Acquisition Properties[1] | 21.83 | 21.05 | 15.55 | 14.99 | (3.0) |
| **Overall** | $ 12.44 | $ 12.80 | € 8.86 | € 9.12 | 2.9 |

(1) Reflects the REIT's Owned Share.

Market rent represents management's best estimate of the net rental rate that would be achieved in the event that a unit becomes vacant in a new arm's length lease after a reasonable marketing period with an inducement and lease term appropriate for the particular space. Market rent by property is determined on a quarterly basis by our leasing and portfolio management teams. The basis of calculating market rents depends on leasing deals that are completed for similar space in comparable properties in the area. Market rents may differ by property or by unit within the property and depend upon a number of factors. Some of the factors include the condition of the space, the location within the building, the extent of office build-out for the units, appropriate lease term and normal tenant inducements. Market rental rates are also compared against the external appraisal information that is gathered on a quarterly basis, as well as other external market data sources.

At December 31, 2014, the weighted average remaining lease term ("WALT") of all leases was approximately 4.4 years. The WALT of the Acquisition Properties was 5.3 years.

| (years)[1] | **WALT at December 31, 2014** | WALT at December 31, 2013 |
|---|---|---|
| Initial Properties – Deutsche Post | **3.5** | 4.1 |
| Initial Properties – third party | **5.4** | 5.1 |
| Total Initial Properties | **3.9** | 4.3 |
| Acquisition Properties[2] | **5.3** | 6.0 |
| **Overall** | **4.4** | 4.8 |

(1) For the purpose of calculating WALT, month-to-month leases are reflected as leases with a one-year term.
(2) Reflects the REIT's Owned Share.

The WALT for the Initial Properties declined in 2014, reflecting the Deutsche Post terminations, partially offset by strong leasing activity. The WALT for the Acquisition Properties declined in 2014, primarily due to the sale of a 50% interest in seven assets to POBA.

## Leasing and tenant profile

### Lease rollover profile

The following table outlines our lease maturity profile by asset type as at December 31, 2014. Our lease maturity profile remains staggered with only approximately 16% (excluding space leased on a month-to-month basis) of our portfolio expiring prior to 2018.

| (in square feet) | Current vacancy | Month-to-month | 2015 | 2016 | 2017 | 2018 | 2019 to 2039 | Total |
|---|---|---|---|---|---|---|---|---|
| Initial Properties | 2,085,616 | 296,060 | 614,892 | 204,559 | 177,763 | 5,026,640 | 2,055,783 | 10,461,313 |
| Acquisition Properties | 93,521 | 35,106 | 212,480 | 597,922 | 544,098 | 331,764 | 2,563,457 | 4,378,348 |
| **Total** | 2,179,137 | 331,166 | 827,372 | 802,481 | 721,861 | 5,358,404 | 4,619,240 | 14,839,661 |
| **Total (%)** | 14.7% | 2.2% | 5.6% | 5.4% | 4.9% | 36.1% | 31.1% | 100% |

## Deutsche Post leases

The leases with Deutsche Post, which generally expire on June 30, 2018 (many of which provide Deutsche Post with an option to extend the term until June 30, 2023), and contractual extensions described below comprise approximately 43% of the portfolio's GLA and account for approximately 29.5% of the portfolio's GRI. Of the total leases, less than 7% expire prior to 2018.

| | Total GLA (sq. ft.) |
|---|---|
| **Deutsche Post lease expiries** | |
| Q1 2015 | 308,765 |
| Q2 2015 | 45,069 |
| Q3 2015 | 13,307 |
| Q4 2015 | - |
| **Total near-term lease expiries** | 367,141 |
| 2016 | 37,091 |
| 2017 | 29,145 |
| 2018[1] | 4,971,982 |
| 2019 | 679,581 |
| 2020 | 325,026 |
| 2023 | 5,745 |
| **Total Deutsche Post lease expiries** | 6,415,711 |

(1) Subject to lease extensions.

***Rent adjustment***

The rents under the Deutsche Post leases are subject to automatic adjustments (up or down) in relation to the CPI for Germany. If the consumer price index for Germany changes by more than 4.3 index points as compared to the index at the commencement of the applicable lease or the previous rent adjustment, the rent payable under the Deutsche Post leases is automatically adjusted by 100% of the index change, with effect as of the time of the index change. Based on the index at the last CPI adjustment date, the index will have to exceed 107.2 index points before the next adjustment will become effective. CPI numbers from December 2014 indicate that the CPI has reached 106.7 index points.

***Termination rights and head lease***

In general, the Deutsche Post leases have a fixed term of ten years, expiring on June 30, 2018. These leases entitle Deutsche Post to terminate space in 2012, 2014 and 2016, subject to certain limitations and requirements. The rights of Deutsche Post to terminate a lease are limited by various tests that apply collectively to the Deutsche Post leases and the leases in respect of the remaining properties forming the portfolio that the vendor acquired from Deutsche Post in July 2008 (the "Caroline DP Leases"), considered as a whole. Deutsche Post exercised or waived their termination rights with respect to 2012 and 2014.

In addition, by June 30, 2017, Deutsche Post is required to provide the REIT with a list of Deutsche Post leases and/or Caroline DP Leases that have no termination options and for which the term of such lease shall be extended for two additional years. This list must amount to at least 33.33% of the total Reference Rent of all Deutsche Post leases and Caroline DP Leases, considered as a whole, that at the beginning of the lease had no termination options.

**2012 termination rights**

One of the opportunities that Deutsche Post terminations afforded the REIT is the ability to take advantage of the large blocks of contiguous vacant space that the tenant left, making the terminated space more attractive for re-leasing to some prospective tenants. When combined with higher rents that we generally achieve on the terminated space, we see this reflected in the overall performance of the terminated properties. Through our leasing efforts, as of December 31, 2014, we have been able to successfully replace approximately 79%[1] of the GRI generated by the terminated properties prior to the 2012 terminations.

(1) Compared to GRI of the terminated properties as of Q2 2012, excluding properties sold, under contract for sale. GRI as of December 31, 2014 includes in-place leases and leases committed for future occupancy.

**2014 termination rights**

On July 1, 2014, Deutsche Post terminated a total of approximately 1,757,000 square feet of space, of which approximately 1,493,000 square feet were either extended by Deutsche Post or re-leased to Postbank. Of the 1,493,000 square feet, approximately 812,000 square feet will not expire until 2019 or later.

Through our efforts in negotiating lease extensions with Deutsche Post and Postbank, as well as third-party leases for 2014 terminated buildings, we have been able to replace approximately 77%[(1)] of the GRI generated from the 2014 terminated properties as at December 31, 2014.

(1) Compared to GRI of the terminated properties as of Q2 2014, excluding properties sold, under contract for sale and a redevelopment asset in Mannheim. GRI as of December 31, 2014 includes in-place leases and leases committed for future occupancy.

**2016 termination rights**

Excluding dispositions and early renewals, Deutsche Post has the right to terminate up to approximately 484,000 square feet effective as at June 30, 2016. In 2014, the Trust reduced its exposure to 2016 terminable space from approximately 821,000 to 484,000 square feet through lease negotiation leading to Deutsche Post waiving its termination rights for six properties amounting to approximately 85,000 square feet and the sale of properties comprising 252,000 square feet of space.

## OUR RESOURCES AND FINANCIAL CONDITION

### Investment properties

As at December 31, 2014, the value of our investment property portfolio was $2.1 billion (December 31, 2013 – $2.4 billion). The primary reason for the decrease compared to December 31, 2013 was the sale of a 50% interest in seven assets to POBA, which is subject to equity accounting, offset by acquisitions during the year. For IFRS reporting purposes, as a result of the sale and the co-ownership arrangement with POBA over these assets, the REIT must derecognize the investment properties. The REIT's retained 50% interest in these assets is reflected as an investment in joint ventures.

The REIT's management is responsible for determining fair value measurements included in the consolidated financial statements, including fair values of investment properties, which are valued on a highest-and-best-use basis. Fair values for investment properties are calculated using both the direct income capitalization and discounted cash flow ("DCF") methods. The results of both methods are evaluated by considering the reasonableness of the range of values calculated under both methods. Fair value of a property is determined at the point within that range that is most representative of the fair value in the circumstances.

Changes in the value of our investment properties for the year ended December 31, 2014 and for the year ended December 31, 2013 are summarized in the table below as follows:

| | For the year ended December 31, 2014 | For the year ended December 31, 2013 |
|---|---|---|
| **Balance at beginning of year** | **$ 2,390,244** | $ 1,182,757 |
| Additions | | |
| Acquisitions | **422,166** | 1,075,558 |
| Building improvements | **12,730** | 5,821 |
| Lease incentives and initial direct leasing costs | **14,908** | 6,055 |
| Amortization of lease incentives | **(1,458)** | (616) |
| Disposals (Initial Properties) | **(144)** | (23,943) |
| Reclassified to assets held for sale | **(161,174)** | (21,147) |
| POBA joint venture assets reclassified to assets held for sale | **(573,521)** | - |
| Fair value adjustments | **76,639** | (57,032) |
| Foreign currency translation | **(100,719)** | 222,791 |
| **Balance at end of year (per consolidated financial statements)** | **$ 2,079,671** | $ 2,390,244 |

## Investment properties held for sale

| | For the year ended December 31, 2014 | For the year ended December 31, 2013 |
|---|---|---|
| **Balance at beginning of year** | **$ 21,147** | $ - |
| Building improvements | **11** | - |
| Lease incentives and initial direct leasing costs | **(131)** | - |
| Investment properties reclassified as held for sale | **161,174** | 21,147 |
| Investment properties reclassified as held for sale – POBA joint venture assets | **573,521** | - |
| Fair value adjustments | **(4,392)** | - |
| Disposals | **(130,746)** | - |
| Disposals – POBA joint venture assets | **(573,521)** | - |
| Foreign currency translation | **(4,166)** | - |
| **Balance at end of year** | **$ 42,897** | $ 21,147 |

During the year ended December 31, 2014, seven of the Acquisition Properties were reclassified as assets held for sale and then subsequently sold to POBA at a fair value of $573.5 million. In addition, we reclassified other properties from the initial portfolio valued at $161.2 million as assets held for sale. We acquired one property during Q4, bringing our year-to-date total to five property acquisitions valued at $419.9 million (including transaction costs). In addition, we recorded $2.3 million of acquisition cost adjustments related to 2013 acquisitions.

During the year ended December 31, 2014, due primarily to capitalization rate ("cap rate") compression, the fair value of the Acquisition Properties increased by $110.7 million, partially reduced by a write-off of $20.9 million of capitalized transaction costs, resulting in a net increase in fair value adjustments of $89.8 million. During the year ended December 31, 2014, the fair value of the Initial Properties decreased by $13.2 million, primarily due to an increase in vacancies relating to the Deutsche Post terminations. Due to depreciation of the euro against the Canadian dollar since December 31, 2013, the investment property value decreased by $100.7 million, representing an unrealized foreign exchange loss.

## Acquisitions

During the year ended December 31, 2014, we completed the following acquisitions:

| Office property | Acquired GLA (sq. ft.) | Occupancy at acquisition (%) | | Purchase price[1] | Date acquired |
|---|---|---|---|---|---|
| Werner-Eckert-Straße 8, 10, 12, Munich | 64,735 | 91 | $ | 22,120 | February 14, 2014 |
| My Falkenried, Hamburg | 221,243 | 100 | | 92,183 | March 31, 2014 |
| Liebknechtstr. 33/35, Heßbrühlstr. 7 (Officium), Stuttgart | 268,034 | 89 | | 68,410 | July 31, 2014 |
| Robert-Bosch-Str. 9–11 (Europahaus), Darmstadt | 210,662 | 99 | | 57,045 | September 30, 2014 |
| Im Mediapark 8 (Cologne Tower), Cologne | 296,699 | 100 | | 161,923 | November 14, 2014 |
| **Total** | 1,061,373 | 96 | $ | 401,681 | |

(1) Excludes transaction costs of $18.2 million.

## Dispositions

The REIT completed the sale of 14 properties, excluding the seven properties sold to POBA, during the last quarter ended December 31, 2014, for an aggregate sales price of approximately $69.4 million. A portion of the net proceeds of $31.2 million was used to reduce our term loan credit facility. During 2014, we disposed a total of 35 investment properties for $130.7 million, which represented 101% of book value at the last reporting period date prior to their sale. Five of the assets were reclassified as assets held for sale at December 31, 2013. As of December 31, 2014, we have also entered into agreements to dispose of an additional 12 properties with a total fair value of $42.9 million. These 12 properties have been reclassified as assets held for sale on the balance sheet and excluded from the value of investment properties, as the REIT has committed to a plan of sale for these investment properties. In total, we realized a fair value loss of $4.4 million on these properties and dispositions.

## Building improvements

Building improvements represent investments made in our investment properties to ensure our buildings are operating at an optimal level. During the three and twelve months ended December 31, 2014, we spent $4.9 million and $12.7 million, respectively, in building improvements. In general, building improvements are non-recoverable from the tenants unless specifically provided for in the lease agreement.

## Initial direct leasing costs and lease incentives

Initial direct leasing costs include external leasing fees and related costs, and broker commissions incurred in negotiating and arranging tenant leases. Lease incentives include costs incurred to make leasehold improvements to tenant spaces and cash allowances. Initial direct leasing costs and lease incentives are dependent on asset type, lease terminations and expiries, the mix of new leasing activity compared to renewals, portfolio growth and general market conditions. Short-term leases generally have lower costs than long-term leases.

During the three and twelve months ended December 31, 2014, we incurred $4.9 million and $14.9 million, respectively, of lease incentives and initial direct leasing costs. As at December 31, 2014, we had outstanding initial direct leasing cost commitments of $3.2 million, on average for lease terms in excess of ten years.

## OUR CAPITAL

### Liquidity and capital resources

Dream Global REIT's primary sources of capital are cash generated from operating activities, a credit facility, mortgage financing and refinancing and equity and debt issues. Our primary uses of capital include the payment of distributions, costs of attracting and retaining tenants, recurring property maintenance, major property improvements, debt amortization and interest payments, and property acquisitions. We expect to meet all of our ongoing obligations through current cash and cash equivalents, cash flows from operations, credit facility, debt refinancings and, as growth requires and when appropriate, new equity or debt issues.

As at December 31, 2014, we had $121.9 million of cash on hand. After reserving for current payables and operating requirements, and the equity required for the Millerntorplatz acquisition, approximately $25.0 million is available for general purposes. Our debt-to-book value excluding cash, at December 31, 2014, is 51%. Excluding cash and convertible debentures, our debt-to-book value (non-GAAP measure) is 45%.

### Debt

| | | **December 31, 2014** | | December 31, 2013 |
|---|---|---|---|---|
| Total debt | **$** | **1,381,132** | $ | 1,424,312 |
| Less debt related to: | | | | |
| Investment in joint venture | | **152,736** | | - |
| **Debt (per consolidated financial statements)** | **$** | **1,228,396** | $ | 1,424,312 |

| | | **December 31, 2014** | December 31, 2013 |
|---|---|---|---|
| Mortgage debt | **$** | **854,061** | 825,014 |
| Less mortgage debt related to: | | | |
| Investment in joint ventures | | **152,736** | - |
| **Mortgage debt (per consolidated financial statements)** | **$** | **701,325** | 825,014 |

#### Debt strategy

Our debt strategy is to obtain secured mortgage financing on a fixed rate basis, with a term to maturity that is appropriate in relation to the lease maturity profile of our portfolio. Our preference is to have staggered debt maturities to mitigate interest rate risk and limit refinancing exposure in any particular period. We also intend to enter into long-term loans at fixed rates when borrowing conditions are favourable. This strategy will be complemented with the use of unsecured convertible debentures and floating rate credit facilities. We operate within a targeted debt-to-book value range of 50% to 60% (net of cash). The decrease in the debt-to-book value ratio at December 31, 2014 compared to December 31, 2013 reflects the increase in cash on hand compared to December 31, 2013 as well as the increase in the underlying valuation of the investment properties during 2014.

During the fourth quarter of 2014, the Trust entered into agreements to refinance a $23.2 million mortgage on Grammophon Business Park located at Podbielskistrasse 158–168 in Hannover for a term of eight years. In addition, we extended the term to maturity on three additional mortgages comprising $150.5 million by two years for Cäcilienkloster 2–10, Moskauer Strasse 25–27 and My Falkenried. The weighted average interest rate for these four mortgages was 1.99%, representing an interest rate reduction of 44 bps before mark-to-market adjustments.

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

| | **For the year ended December 31, 2014** | For the year ended December 31, 2013 |
|---|---|---|
| **Financing activities** | | |
| Weighted average interest rate[(1)(2)] | **3.23%** | 3.37% |
| Level of debt (debt-to-book value, net of cash, net of convertible debentures)[(2)(3)] | **45%** | 48% |
| Level of debt (debt-to-book value, net of cash)[(2)(3)] | **51%** | 54% |
| Interest coverage ratio[(2)(3)] | **3.26 times** | 3.40 times |
| Debt-to-adjusted EBITDFV (years)[(2)(3)(4)] | **9.2** | 8.8 |
| Proportion of total debt due in current year[(2)] | **5.3%** | 1.4% |
| Debt – average term to maturity (years)[(2)] | **4.3** | 4.6 |
| Variable rate debt as percentage of total debt[(2)] | **1%** | 5% |

(1) Weighted average interest rate is calculated as the weighted average face rate of all interest bearing debt.
(2) Reflects the REIT's Owned Share.
(3) Level of debt, interest coverage ratio and debt-to-adjusted EBITDFV are non-GAAP measures. Calculations for each reconciled to IFRS balances can be found commencing on page 42.
(4) Calculated as total debt divided by adjusted EBITDFV.

We currently use cash flow performance and debt level indicators to assess our ability to meet our financing obligations. Our current interest coverage ratio for the year is 3.26 times and reflects our ability to cover interest expense requirements. We also monitor our debt-to-adjusted EBITDFV ratio to gauge our ability to pay off existing debt. Our current debt-to-adjusted EBITDFV ratio is 9.2 years, and reflects the approximate amount of time to pay off all debt from operating cash flows.

## Financing activities

We finance our ownership of assets using equity as well as conventional mortgage financing, term debt, floating rate credit facilities and convertible debentures.

### New debt

During the year ended December 31, 2014, we obtained the following new mortgages:

| Property | | Mortgage ($000s) | | Mortgage (€000s) | Face rate | Date of funding | Date of maturity |
|---|---|---|---|---|---|---|---|
| Werner-Eckert-Straße 8, 10, 12, Munich | $ | 13,237 | € | 8,700 | 1.98% | March 28, 2014 | March 31, 2019 |
| My Falkenried, Hamburg | | 55,765 | | 36,840 | 2.33% | April 29, 2014 | February 26, 2021 |
| Liebknechtstr. 33/35, Heßbrühlstr. 7 (Officium), Stuttgart | | 41,556 | | 28,500 | 1.99% | July 31, 2014 | January 31, 2022 |
| Robert-Bosch-Str. 9–11 (Europahaus), Darmstadt | | 35,317 | | 24,500 | 1.82% | October 20, 2014 | September 30, 2022 |
| Im Mediapark 8 (Cologne Tower), Cologne | | 97,500 | | 69,100 | 1.77% | November 14, 2014 | November 14, 2024 |
| **Total** | $ | 243,375 | € | 167,640 | | | |

On November 14, 2014, the Trust withdrew a mortgage with a principal balance of €69.1 million ($97.5 million) at a fixed rate of 1.77% per annum, maturing on November 14, 2024, in connection with the acquisition of Im Mediapark 8 (Cologne Tower).

During the last quarter of 2014, the REIT sold a 50% interest in seven Acquisition Properties as part of a joint venture agreement with POBA. In conjunction with this sale, $314.4 million of the mortgage debt relating to the seven assets was sold to the joint venture (net of deferred financing costs – $310.8 million). As the REIT still retained a 50% interest in the POBA joint venture, the REIT still owed a $157.2 million mortgage debt through its obligations in the joint venture investments.

Subsequent to year-end on February 6, 2015, the Trust drew down a mortgage with a principal balance of €59.4 million ($84.3 million) at a fixed rate of 1.71% per annum, maturing on February 6, 2025, in connection with the acquisition of Millerntorplatz in Hamburg.

## Debt composition

| | December 31, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| | **Variable** | **Fixed** | **Total** | Variable | Fixed | Total |
| Term loan credit facility[1] | **$ 7,957** | **$ 366,749[2]** | **$ 374,706** | $ 74,474 | $ 384,604[2] | $ 459,078 |
| Mortgage debt[1][3] | **-** | **854,061** | **854,061** | - | 825,014 | 825,014 |
| Debentures[1] | **-** | **152,365** | **152,365** | - | 150,326 | 150,326 |
| **Total** | **$ 7,957** | **$ 1,373,175** | **$ 1,381,132** | $ 74,474 | $ 1,359,944 | $ 1,434,418 |
| Reclass debt related to assets held for sale | **-** | **-** | **-** | (10,106) | - | (10,106) |
| | **$ 7,957** | **$ 1,373,175** | **$ 1,381,132** | $ 64,368 | $ 1,359,944 | $ 1,424,312 |
| Percentage | **1%** | **99%** | **100%** | 5% | 95% | 100% |

(1) Balance shown is net of deferred financing costs and mark-to-market adjustments.

(2) As at December 31, 2014, 98% of the term loan credit facility is subject to an interest rate swap in place until August 3, 2016. Pursuant to the term loan credit facility agreement, we are required to have a minimum of 80% subject to an interest rate swap. The portion subject to the swap has been presented as fixed rate debt.

(3) Includes the REIT's share of mortgages related to the POBA joint venture.

Amounts recorded as at December 31, 2014 for the Debentures are net of $4.7 million of premiums allocated to their conversion features on issuance. The premiums are amortized to interest expense over the term to maturity of the related debt using the effective interest rate method.

### Term loan credit facility

Concurrent with the closing of our initial public offering, we obtained a term loan credit facility (the "Facility") from a syndicate of German and French banks for gross proceeds of $448.4 million (€328.5 million). During the year ended December 31, 2014, we repaid $67.0 million (€46.6 million) in connection with the disposition of 35 properties as well as mandatory repayments. As at December 31, 2014, the remaining principal balance on the term loan credit facility was $375.0 million (€267.2 million). The initial term of the Facility is five years with a two-year renewal option. Variable rate interest is payable quarterly under the Facility at a rate equal to the three-month EURIBOR, plus a margin of 200 basis points and agency fees of 10 basis points. Pursuant to the requirements of the Facility, we entered into an interest rate swap to fix 80% of the interest payments at 1.89% plus margin and agency fees, and purchased an instrument to cap 10% of the Facility, such that the interest rate does not exceed 5% on that portion.

As at December 31, 2014, the weighted average rate of the Facility was 4.21%. Including financing costs, the effective interest rate under the Facility was 4.21%. At December 31, 2013, the weighted average rate was 4.09% and the effective rate was 4.13%.

The Facility requires that, at each interest rate payment date, the debt service coverage ratio be equal to or above 145% and that the loan-to-value ratio not exceed 59% during the first three years the loan is outstanding and 54% during the final two years. As at December 31, 2014, we were in compliance with these covenants.

Under the terms of the Facility, we were required to pay additional interest of 1% per annum beginning on August 3, 2013 on €100 million plus a 15% prepayment amount, less any amounts repaid. Mandatory repayments of between 110% and 125% (with the average being 115%) of the principal allocated to a particular Initial Property are required for any Initial Property sold or refinanced by the Trust. Since the initial public offering, the Trust has repaid $87.2 million (€61.3 million) in principal payments including prepayment amounts on various property dispositions. Opportunities to repay the balance of €53.7 million will come from maximizing the leverage on new acquisitions and from additional dispositions of non-core properties.

### Revolving credit facility

On October 9, 2013, the Trust entered into a credit agreement with a Canadian bank to provide a revolving credit facility not to exceed €25 million. The interest rate on Canadian dollar advances is prime plus 200 basis points and/or bankers' acceptance rates plus 300 basis points. The interest rate for euro advances is 300 basis points over the three-month EURIBOR rate. The revolving credit facility has a term of two years.

On August 14, 2014, the Trust entered into an amending agreement to increase this facility to €50 million with no changes in the interest rate spreads or covenant requirements. The revised facility expires on September 25, 2016. The revolving credit facility was undrawn at December 31, 2014, except for a letter of credit commitment for €1.2 million.

## Convertible debentures

As at December 31, 2014, the total principal amount of Debentures outstanding was $161.0 million, convertible into an aggregate of 12,384,619 Units. The Debentures bear interest at 5.5% per annum, are payable semi-annually on July 31 and January 31 each year, and mature on July 31, 2018. Each $1,000 principal amount of the Debentures is convertible at any time by the holder into 76.9231 Units, representing a conversion price of $13.00 per unit. On or after August 31, 2014, and prior to August 31, 2016, the Debentures may be redeemed by the Trust, in whole or in part, at a price equal to the principal amount plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' prior written notice, provided the weighted average trading price for the Units for the 20 consecutive trading days, ending on the fifth trading day immediately preceding the date on which notice of redemption is given, is not less than 125% of the conversion price. On or after August 31, 2016, and prior to July 31, 2018, the maturity date, the Debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest.

The conversion feature of the Debentures is remeasured in each reporting period to fair value, with changes in fair value recorded in comprehensive income. During the three-month period ended December 31, 2014, the fair value loss attributed to the conversion feature increased by $0.9 million. During the twelve-month period ended December 31, 2014, the fair value gain attributed to the conversion feature increased by $0.2 million.

The table below highlights our debt maturity profile:

| | Debt maturities | Scheduled principal repayments on non-matured debt | Total |
|---|---|---|---|
| 2015 | $ 48,930 | $ 24,573 | $ 73,503 |
| 2016 | 332,399 | 20,153 | 352,552 |
| 2017 | 70,143 | 14,752 | 84,895 |
| 2018 | 343,347 | 11,099 | 354,446 |
| 2019 | 30,781 | 9,829 | 40,610 |
| 2020 and thereafter | 481,148 | 13,433 | 494,581 |
| | $ 1,306,748 | $ 93,839 | $ 1,400,587 |
| Acquisition date fair value adjustments | | | (4,682) |
| Transaction costs | | | (14,773) |
| **Total**[1] | | | $ 1,381,132 |

(1) Includes the REIT's share of mortgages related to the POBA joint venture.

## Commitments and contingencies

We are contingently liable with respect to guarantees that are issued in the normal course of business and with respect to 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 condensed consolidated financial statements.

As at December 31, 2014, the REIT's future minimum commitments under operating leases are as follows:

| | Operating lease payments |
|---|---|
| Less than 1 year | $ 730 |
| 1–5 years | 1,151 |
| Longer than 5 years | - |
| **Total** | $ 1,881 |

During the three and twelve months ended December 31, 2014, the Trust paid $0.2 million and $0.9 million in minimum lease payments, respectively, which have been included in comprehensive income for the period.

## Foreign currency contracts

At December 31, 2014, we had various currency forward contracts in place to sell euros for Canadian dollars for the next 36 months. On settlement of a contract, we realize a gain or loss on the difference between the forward rate and the spot rate. We also mark the contracts to market quarterly and recorded an unrealized gain of $1.1 million and $6.4 million for the three- and twelve-month periods ended December 31, 2014, respectively. The Trust currently has foreign exchange forward contracts to sell €121.2 million in total from January 2015 to December 2017 at an average exchange rate of $1.417 per euro.

## Equity

The table below highlights our outstanding equity:

| | | | | Unitholders' equity |
|---|---|---|---|---|
| | **December 31, 2014** | | December 31, 2013 | |
| | **Number of Units** | **Amount** | Number of Units | Amount |
| Units | **111,466,697** | **$ 1,120,220** | 109,698,977 | $ 1,034,005 |

### Units

Our Declaration of Trust authorizes the issuance of an unlimited number of two classes of units: Units and Special Trust Units. The Special Trust Units may only be issued to holders of securities exchangeable for Units, are not transferable and are used to provide holders of such securities with voting rights with respect to Dream Global REIT. Each Unit and Special Trust Unit entitles the holder thereof to one vote for each Unit at all meetings of unitholders of the Trust.

The Trust has a Deferred Unit Incentive Plan ("DUIP") that provides for the grant of deferred trust units and income deferred units to trustees, officers, employees, affiliates and their service providers, including DAM, our asset manager.

The following table summarizes the changes in our outstanding equity:

| | Units |
|---|---|
| **Total Units outstanding on December 31, 2013** | 109,698,977 |
| Units issued pursuant to the DUIP | 86,415 |
| Units issued pursuant to the DRIP[1] | 1,681,305 |
| **Total Units outstanding on December 31, 2014** | 111,466,697 |
| Units issued pursuant to the DRIP on January 15, 2015 | 134,206 |
| **Total Units outstanding on January 31, 2015** | 111,600,903 |

(1) Distribution Reinvestment and Unit Purchase Plan.

For the year ended December 31, 2014, 86,415 Units were issued pursuant to the Deferred Unit Incentive Plan (December 31, 2013 – 17,632 Units) to trustees, officers and employees.

## Distribution policy

Our Declaration of Trust provides our trustees with the discretion to determine the percentage payout of income that would be in the best interest of the Trust. Amounts retained in excess of the declared distributions are used to fund leasing costs and capital expenditure requirements. Given that working capital tends to fluctuate over time and should not affect our distribution policy, we disregard it when determining our distributions. We also exclude the impact of leasing costs, which fluctuate with lease maturities, renewal terms and the type of asset being leased. We evaluate the impact of leasing activity based on averages for our portfolio over a two- to three-year time frame. We exclude the impact of transaction costs expensed on business combinations as these are considered to be non-recurring. In order to manage the exposure to currency risk of unitholders and holders of Debentures, the Trust has entered into foreign exchange forward contracts.

For the quarter ended December 31, 2014, distributions declared amounted to $22.3 million. Of this amount, $3.5 million was reinvested in additional Units pursuant to the DRIP, resulting in a cash payout ratio of 84.5%. Distributions declared for the year ended December 31, 2014 were $88.5 million. Of this amount, $14.5 million was reinvested in additional units pursuant to the DRIP, resulting in a cash payout ratio of 83.6%.

| | Three months ended December 31, 2014 | | | Year ended December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Declared amounts | 4% bonus distribution | Total | Declared amounts | 4% bonus distribution | Total |
| **2014 distributions** | | | | | | |
| Paid in cash or reinvested in Units | $ 14,832 | $ 93 | $ 14,925 | $ 81,116 | $ 535 | $ 81,651 |
| Payable at December 31, 2014 | 7,431 | - | 7,431 | 7,431 | - | 7,431 |
| **Total distributions** | $ 22,263 | $ 93 | $ 22,356 | $ 88,547 | $ 535 | $ 89,082 |
| **2014 reinvestment** | | | | | | |
| Reinvested to December 31, 2014 | $ 2,320 | $ 93 | $ 2,413 | $ 13,365 | $ 535 | $ 13,900 |
| Reinvested on January 15, 2015 | 1,131 | 45 | 1,176 | 1,131 | 45 | 1,176 |
| **Total distributions reinvested** | $ 3,451 | $ 138 | $ 3,589 | $ 14,496 | $ 580 | $ 15,076 |
| Distributions paid in cash | $ 18,812 | | | $ 74,051 | | |
| Reinvestment to distribution ratio (for the period) | 15.5% | | | 16.4% | | |
| Cash payout ratio | 84.5% | | | 83.6% | | |

We currently pay monthly distributions to unitholders of $0.06667 per unit, or $0.80 per unit on an annual basis. At December 31, 2014, approximately 15.2% of our total Units were enrolled in the DRIP.

## OUR RESULTS OF OPERATIONS

### Basis of accounting

Our discussion of results of operations includes our share of income from investments in joint ventures. Refer to "Non-GAAP measures and other disclosures" for a reconciliation to our consolidated financial statements.

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2014**[1] | 2013[1] | **2014**[1] | 2013[1] |
| Investment properties revenue | **$ 61,690** | $ 62,528 | **$ 257,725** | $ 220,220 |
| Investment properties operating expenses | **(18,621)** | (20,656) | **(78,261)** | (75,367) |
| **Net rental income** | **43,069** | 41,872 | **179,464** | 144,853 |
| **Other income** | | | | |
| Interest and other income | **396** | 352 | **432** | 1,547 |
| Share of net income from investment in other joint ventures | **7** | 10 | **26** | 28 |
| | **403** | 362 | **458** | 1,575 |
| **Other expenses** | | | | |
| Portfolio management | **(1,067)** | (409) | **(4,571)** | (3,173) |
| General and administrative | **(4,763)** | (3,332) | **(17,058)** | (12,226) |
| Depreciation and amortization | **(45)** | (16) | **(138)** | (88) |
| Interest expense | **(12,063)** | (11,288) | **(48,571)** | (38,506) |
| | **(17,938)** | (15,045) | **(70,338)** | (53,993) |
| **Fair value adjustments, loss on sale of investment properties and other activities** | | | | |
| Fair value adjustments to investment properties | **(11,173)** | 891 | **73,950** | (57,032) |
| Fair value adjustments to financial instruments | **876** | (9,460) | **3,056** | (11,450) |
| Internal direct leasing costs | **(324)** | (679) | **(1,954)** | (2,191) |
| Gain (loss) on sale of investment properties | **44,332** | (550) | **41,873** | (1,142) |
| Contract termination fees incurred on sale to POBA | **(510)** | - | **(510)** | - |
| | **33,201** | (9,798) | **116,415** | (71,815) |
| **Income before income taxes** | **58,735** | 17,391 | **225,999** | 20,620 |
| Current income taxes recovery (expense) | **107** | (142) | **(1,328)** | (689) |
| Deferred income taxes recovery (expense) | **1,455** | (2,019) | **(15,734)** | 2,834 |
| Recovery of (provision for) income taxes | **1,562** | (2,161) | **(17,062)** | 2,145 |
| **Net income** | **$ 60,297** | $ 15,230 | **$ 208,937** | $ 22,765 |
| **Total earnings for the year attributable to:** | | | | |
| Unitholders of the Trust | **$ 59,388** | $ 15,230 | **$ 208,028** | $ 22,765 |
| Shareholders of the subsidiaries | **909** | - | **909** | - |
| Net income | **60,297** | 15,230 | **208,937** | 22,765 |
| **Foreign currency translation adjustments for the period attributable to:** | | | | |
| Unitholders of the Trust | **(10,068)** | 57,950 | **(54,671)** | 109,133 |
| Shareholders of the subsidiaries | **(98)** | - | **(98)** | - |
| | **(10,166)** | 57,950 | **(54,769)** | 109,133 |
| **Comprehensive income for the year attributable to:** | | | | |
| Unitholders of the Trust | **49,320** | 73,180 | **153,357** | 131,898 |
| Shareholders of the subsidiaries | **811** | - | **811** | - |
| | **$ 50,131** | $ 73,180 | **$ 154,168** | $ 131,898 |

(1) Results from operations were converted into Canadian dollars from euros using the following average exchange rates: the three- and twelve-month periods ended December 31, 2014 were converted at \$1.419:€1 and \$1.467:€1, respectively; for 2013, the three- and twelve-month periods ended December 31, 2013 were converted at \$1.430:€1 and \$1.369:€1, respectively.

## Investment properties revenue

Investment properties revenue includes net rental income from investment properties as well as the recovery of operating costs and property taxes from tenants.

Investment properties revenue for the quarter was $61.7 million, a decrease of $0.8 million, or 1.3%, over the prior year comparative quarter. Excluding the $0.5 million negative impact of foreign currency translation, the decrease of $0.3 million was mainly the result of a $6.2 million negative impact caused by our disposition program with respect to our Initial Properties, largely offset by a $5.9 million increase in revenue due to acquisitions. For the year ended December 31, 2014, investment properties revenue was $257.7 million, an increase of $37.5 million, or 17.0%, over the prior year comparative period. The increase was mainly attributable to acquisitions completed in 2013 and 2014, offset by the disposition of some of our Initial Properties.

## Investment properties operating expenses

Investment properties operating expenses comprises occupancy costs and property taxes as well as certain expenses that are not recoverable from tenants, the majority of which are related to major repairs and maintenance. Operating expenses fluctuate with changes in occupancy levels and levels of repairs and maintenance.

Investment properties operating expenses for the quarter was $18.6 million, a decrease of $2.0 million, or 9.9%, over the prior year comparative quarter mainly due to dispositions of some Initial Properties, partially offset by an increase due to acquisitions in 2013 and 2014. For the year ended December 31, 2014, investment properties operating expenses were $78.3 million, an increase of $2.9 million, or 3.8%, over the prior year. The increase was mainly attributable to the acquisitions completed in 2013 and 2014, offset by dispositions during 2014.

## Interest and other income

Interest and other income comprises interest earned on notes receivable, the POBA loan facility and bank accounts. Except for the interest earned on the notes receivable and the POBA loan facility, the income included in interest income is not necessarily of a recurring nature and the amounts may vary quarter-over-quarter.

Interest and other income for the quarter was $0.4 million, unchanged from the prior year comparative quarter. Interest and other income for the year ended December 31, 2014 was $0.4 million, a decrease of $1.1 million from the previous year. The decrease is mainly due to lower overall excess cash on hand in 2014 compared to 2013, resulting in lower interest income in 2014, partially offset by interest earned on the notes receivable and the POBA loan facility.

## Statement of comprehensive income results

### Net rental income

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Initial Properties | **$ 16,537** | $ 20,033 | **$ 76,202** | $ 79,126 |
| Acquisition Properties | **26,532** | 21,839 | **103,262** | 65,727 |
| **Net rental income** | **$ 43,069** | $ 41,872 | **$ 179,464** | $ 144,853 |

For the three months ended December 31, 2014, net rental income was $43.1 million, representing an increase of $1.2 million compared to the same quarter in 2013. Excluding the $0.3 million negative impact of a weaker euro against the dollar, net rental income increased by $1.5 million compared to the same quarter last year, mainly as a result of contributions from new acquisitions since October 2013, neutralizing the impact from the Deutsche Post terminations as well as the end of scheduled Lonestar head lease payments in July 2014. On a comparative property basis, net rental income for the Acquisition Properties was 6.4% higher in 2014 compared to 2013.

The table below summarizes our revenue and operating expenses in euros:

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Investment properties revenue | **€ 43,487** | € 43,738 | **€ 175,670** | € 160,885 |
| Investment properties operating expenses | **(13,126)** | (14,449) | **(53,344)** | (55,061) |
| **Net rental income** | **€ 30,361** | € 29,289 | **€ 122,326** | € 105,824 |

## Portfolio management

Our portfolio management team comprises the employees of our advisory subsidiaries in Germany and Luxembourg who are responsible for providing asset management services for the investment properties, including asset strategy and leasing activities.

Portfolio management expense was $1.1 million for the three months ended December 31, 2014, higher than that of the same period in 2013 due to an increase in staff costs to support our growth. For the year ended December 31, 2014, an expense of $4.6 million was recorded, representing an increase of $1.4 million compared to the same period in 2013, reflecting the need to add resources to support our business growth and corporate strategy.

## General and administrative

General and administrative expenses totalled $4.8 million and $17.1 million for the three and twelve months ended December 31, 2014, respectively, representing increases of $1.4 million and $4.8 million over the same periods last year. The increase mainly resulted from higher asset management fees, regulatory and corporate compliance costs associated with the new acquisitions, and higher corporate general and administrative expenses, as well as the impact of a strengthening euro against the dollar.

## Interest expense

Interest expense was $12.1 million for the three-month period ended December 31, 2014, an increase of $0.8 million compared to the same quarter last year. New mortgage debt placed on properties we acquired in 2013 and 2014 accounted for a $1.0 million increase. The increasing use of our revolving credit facility to bridge the investing and financing activities contributed to a $0.3 million increase. These increases were partially reduced by repayments on our term credit facility during the year relating to property dispositions, resulting in interest savings of $0.5 million.

Interest expense was $48.6 million for the year ended December 31, 2014, an increase of $10.1 million compared to the same period last year. Excluding the unfavourable exchange rate impact of $2.5 million, interest expense increased by $6.9 million as a result of new mortgage debt placed on properties we acquired in 2013 and 2014. In addition, included in interest expense is a $0.5 million increase related to our revolving credit facility and a $0.2 million increase related to the term credit facility reflecting the additional 1% interest payable on $100 million (plus 15% prepayment amount) principal effective August 3, 2013, offset by interest savings from term debt repayment over the course of 2014 relating to our property dispositions.

We currently have interest rate swaps in place that fix the interest rate payable on €260.1 million at an underlying rate of 1.89%. The REIT does not apply hedge accounting in relation to these swaps and, as a result, their impact is not included in interest expense but accounted for through the fair value adjustments as described below. During the quarter, $1.7 million of swaps were settled, the same amount as in the same quarter last year. During the year ended December 31, 2014, $6.5 million of swaps were settled compared to $6.2 million in the same period last year. Excluding the impact of the strengthening of the euro, the swap settlement was slightly higher, reflecting the slight decrease in underlying interest rates. Including the swaps and the additional 1% interest rate on the Facility, the actual weighted average interest rate on the Facility as at December 31, 2014 is 4.21%. Any adjustments arising from the interest rate swaps are reflected in the fair value adjustments to financial instruments and not in interest expense.

## Fair value adjustment to investment properties

For the three months ended December 31, 2014, a loss of $11.2 million was recognized compared to a gain of $0.9 million in the comparative quarter last year. The loss in the current quarter was driven by a $12.6 million fair value loss on the Initial Properties due to an increase in vacancies relating to the Deutsche Post terminations and a $7.7 million fair value loss on properties sold and properties under contract for sale (properties held for sale) during the quarter. A $12.9 million gain is recognized for Acquisition Properties due to yield compressions experienced in certain markets, offset by a $4.0 million fair value loss mainly related to transaction costs of the two properties acquired in the period. The gain in the comparative quarter in 2013 comprised a $0.9 million gain in fair value due to an increase in fair value of Acquisition Properties net of transaction costs incurred on properties. For the year ended December 31, 2014, the fair value adjustment to investment properties amounted to a gain of $74.0 million compared to a loss of $57.0 million during the same period in 2013. The gain for the year ended December 31, 2014 comprises a $112.4 million gain recognized for Acquisition Properties due to yield compressions experienced in certain markets and positive leasing developments for some assets, reduced by a $13.2 million fair value loss on the Initial Properties, a $4.4 million loss related to properties sold and properties under contract for sale and a $20.9 million loss on transaction costs incurred on properties acquired during the year ended December 31, 2014. The loss for the year ended December 31, 2013 was mainly due to the write-off of transaction costs related to the acquisition of 18 assets during 2013.

## Fair value adjustment to financial instruments

For the three months ended December 31, 2014, we incurred an unrealized gain in the fair value of financial instruments of $0.9 million compared to a loss of $9.5 million in the comparative period. The fair value adjustments in the quarter mainly comprise the following components:

- a $0.1 million loss recognized on the fair value change in the interest rate swaps and cap as a result of the settlement of one contract in the quarter for $1.7 million and a decrease in the forward price of interest rates. A $1.1 million loss was recognized in the comparative quarter last year due to a similar decrease in the forward price of interest rates;
- a $0.9 million fair value loss recognized on the conversion feature of the convertible debentures mainly reflecting an increase in the credit spread and risk-free interest rate applicable to our Units, compared to a similar loss of $0.4 million in the same period in 2013;
- an unrealized gain of $1.1 million was recognized related to our foreign currency forward contracts due to a depreciation of the euro compared to the Canadian dollar, versus a $8.0 million unrealized loss during the comparative quarter due to a depreciation of the Canadian dollar compared to the euro; and
- a $0.7 million gain was recognized related to our DUIP, mainly reflecting a decrease in the market price of our Units, compared to a loss of $0.1 million in the same period in 2013.

For the year ended December 31, 2014, we incurred an unrealized gain in the fair value of financial instruments of $3.1 million compared to a loss of $11.5 million in the comparative period. The fair value adjustments in the year mainly comprise the following components:

- a $3.9 million loss recognized on the fair value change in the interest rate swaps and cap as a result of the settlement of four contracts in the period for $6.5 million and a decrease in the forward price of interest rates. A $0.2 million gain was recognized in the comparative period last year due to an increase in the forward price of interest rates;
- a $0.2 million fair value gain recognized on the conversion feature of the convertible debentures mainly reflecting a decrease in credit spread and risk-free interest rate applicable to the valuation of our Units, compared to a gain of $3.8 million in the same period in 2013 reflecting a decrease in the price of our Units;
- an unrealized gain of $6.4 million was recognized related to our foreign currency forward contracts due to a depreciation of the euro compared to the Canadian dollar, versus a $16.0 million unrealized loss during the comparative quarter due to a depreciation of the Canadian dollar compared to the euro; and
- a $0.3 million gain was recognized related to our DUIP, mainly reflecting a change in discounts applied in valuating of our Units, compared to a gain of $0.6 million in the same period in 2013.

## Internal direct leasing costs

During the first quarter of 2014, we adopted a change in accounting policy regarding the accounting treatment of incremental internal leasing costs governed by International Accounting Standard ("IAS") 17, after consideration of an IFRS Interpretations Committee agenda decision issued in April 2014. Incremental internal leasing costs are now expensed during the period incurred. Prior to adopting this interpretation, incremental leasing costs were capitalized to investment properties; however, we have restated all affected prior periods to give effect to this change in accounting policy. This interpretation does not affect the accounting treatment of leasing costs paid to third parties, which will continue to be capitalized in accordance with IAS 17.

In accordance with IAS 17, a total of $0.3 million and $2.0 million of incremental internal leasing staff costs incurred during the three and twelve months ended December 31, 2014 have been classified as internal direct leasing costs of the respective properties. In the comparative periods in 2013, leasing staff costs of $0.7 million and $2.2 million were incurred, which were originally capitalized but have been restated to remain consistent with the policy adopted in the current year.

## Gain (loss) on sale of investment properties

Gain on sale of investment properties for the quarter was $44.3 million, an increase of $44.9 million over the prior year comparative quarter. For the twelve months ended December 31, 2014, gain on sale of investment properties was $41.9 million, an increase of $43.0 million over the prior year comparative period. The increase was mainly attributable to the $46.3 million gain on sale of seven Acquisition Properties to the POBA joint venture during the quarter, reduced by loss on sale of investment properties during the quarter and sale of 35 properties during the year. This compares to $0.6 million and $1.1 million loss on the sale of investment properties during the same quarter last year and 15 properties for the entire 2013 year.

## Contract termination fee

Under the terms of the POBA joint venture agreement, the REIT terminated an asset management agreement that was in place on certain of the Acquired Portfolio assets including three joint venture assets and was required to pay a cancellation fee. The portion of the cancellation fee relating to the non-joint venture assets has been recorded as a one-time contract termination fee of $0.5 million.

## Income taxes

We recognized current income tax recovery of $0.1 million and income tax expenses of $1.3 million for the three and twelve months ended December 31, 2014, respectively, compared to current income tax expenses of $0.1 million and $0.7 million for the comparative periods in 2013.

We also recognized deferred income tax recovery of $1.5 million and income tax expense of $15.7 million for the three and twelve months ended December 31, 2014, respectively, compared to a deferred income tax expense of $2.0 million and income tax recovery of $2.8 million for the comparative periods in 2013. The difference is mainly a result of the deferred income tax impact associated with the loss carry-forwards, fair value adjustments related to investment properties net of tax depreciation, and fair value changes related to financial instruments.

## Asset management fee

On August 3, 2011, DAM elected to receive the base asset management fees payable on the Initial Properties acquired on August 3, 2011 by way of deferred trust units under the Asset Management Agreement for up to $3.5 million per year for the next five years. These deferred trust units vest 20% annually, commencing on the fifth anniversary date of being granted. On termination of the Asset Management Agreement, unvested trust units will vest immediately.

During the three and twelve months ended December 31, 2014, asset management expenses pertaining to the Initial Properties were $0.6 million and $2.5 million, respectively. A total of 86,716 and 422,171 deferred units were granted during the respective periods as compensation for the fees. An additional 30,410 deferred units were granted on January 1, 2015 pertaining to the asset management fee for the month of December 2014. As at January 1, 2015, 1,364,659 unvested deferred and income deferred units were outstanding with respect to the Asset Management Agreement. The asset management fees were recorded based on the fair value of the deferred units issued, with an appropriate discount applied to reflect the restricted period of exercise.

In addition, the Trust paid in cash an asset management fee of $1.3 million and $4.9 million, respectively, for the three and twelve months ended December 31, 2014, for properties acquired since the acquisition of our Initial Properties. It further paid a financing fee of $0.1 million and $0.4 million related to mortgage financing services provided during the three and twelve months ended December 31, 2014, respectively, and acquisition fees of $1.2 million and $2.8 million related to properties acquired during the three and twelve months ended December 31, 2014, respectively.

During the three and twelve months ended December 31, 2014, the REIT also reimbursed DAM for out-of-pocket and incidental costs of $0.1 million and $0.6 million for the three and twelve months ended December 31, 2014, respectively.

### Shared Services and Cost Sharing Agreement

The Trust entered into a shared services and cost sharing agreement with DAM on December 1, 2013. The agreement is for a one-year term and will be automatically renewed for further one-year terms unless and until the agreement is terminated in accordance with its terms or by mutual agreement of the parties. Pursuant to the agreement, DAM will be providing additional administrative and support services in order to expand and improve DAM's service capability in connection with the provision of its asset management services. DAM will receive an annual fee sufficient to reimburse it for all the expenses incurred in providing these additional administrative and support services. Additionally, the Trust will also reimburse DAM in each calendar year for its share of costs incurred in connection with certain business transformation services provided by DAM.

During the year ended December 31, 2014, the Trust recorded an amount of $0.2 million payable to DAM pursuant to the Shared Services and Cost Sharing Agreement.

The Trust's future commitment under the Shared Services and Cost Sharing Agreement over the next six years is $1.2 million.

### Impact of foreign exchange

Exchange rate fluctuations between the Canadian dollar and the euro impact the Trust's reported revenues, expenses, income, cash flows, assets and liabilities. The table below summarizes changes in the exchange rates.

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | Change | **2014** | 2013 | Change |
| Average exchange rate (Cdn. dollars to one euro) | **1.419** | 1.430 | -0.8% | **1.467** | 1.369 | 7.2% |
| Exchange rate at period-end (Cdn. dollars to one euro) | **1.404** | 1.466 | -4.2% | **1.404** | 1.466 | -4.2% |

Comprehensive income was impacted by a foreign currency translation loss of $10.1 million and $54.7 million for the three and twelve months ended December 31, 2014, respectively. The exchange rates decreased from $1.466:€1 as at December 31, 2013 to $1.404:€1 as at December 31, 2014. The quarterly results of our euro-denominated operations included in net income were translated at an average exchange rate of $1.419:€1 compared to $1.430:€1 in the same quarter last year. For the year ended December 31, 2014, results were translated at an average exchange rate of $1.467:€1 compared to $1.369:€1 in the same period last year.

## Funds from operations and adjusted funds from operations

| | Three months ended December 31, | | | | Year ended December 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2014** | | 2013 | | **2014** | | 2013 |
| **Net income for the period** | **$** | **60,297** | $ | 15,230 | **$** | **208,937** | $ | 22,765 |
| Add (deduct): | | | | | | | | |
| Net income attributable to non-controlling interest | | **(909)** | | - | | **(909)** | | - |
| Net FFO impact attributable to non-controlling interests | | **634** | | 3 | | **535** | | 3 |
| Amortization of lease incentives | | **554** | | 259 | | **1,467** | | 616 |
| Internal direct leasing costs | | **324** | | 679 | | **1,954** | | 2,191 |
| Net (gain) loss on sale of investment properties | | **(44,332)** | | 550 | | **(41,873)** | | 1,142 |
| Tax on gains on sale of investment properties | | **(159)** | | (33) | | **342** | | 62 |
| Deferred income taxes | | **(1,455)** | | 2,019 | | **15,734** | | (2,834) |
| Cash settlement on interest rate swap | | **(1,695)** | | (1,585) | | **(6,493)** | | (6,179) |
| Loss on settlement of foreign currency contracts | | **(128)** | | (1,456) | | **(5,192)** | | (1,826) |
| Fair value adjustments to investment properties | | **11,173** | | (891) | | **(73,950)** | | 57,032 |
| Fair value adjustments to financial instruments | | **(876)** | | 9,460 | | **(3,056)** | | 11,450 |
| **FFO** | **$** | **23,428** | $ | 24,235 | **$** | **97,496** | $ | 84,422 |
| Add (deduct): | | | | | | | | |
| Amortization of financing costs | **$** | **859** | $ | 794 | **$** | **3,484** | $ | 2,651 |
| Amortization of initial discount on convertible debentures | | **281** | | 260 | | **1,092** | | 1,008 |
| Amortization of fair value adjustment on acquired debt | | **(96)** | | (92) | | **(387)** | | (402) |
| Contract termination fees incurred on sale to the POBA joint venture | | **510** | | - | | **510** | | - |
| Deferred unit compensation expense | | **377** | | 313 | | **1,648** | | 1,313 |
| Deferred asset management fees | | **616** | | 539 | | **2,541** | | 2,113 |
| Straight-line rent | | **(129)** | | (440) | | **(657)** | | (1,510) |
| | | **25,846** | | 25,609 | | **105,727** | | 89,595 |
| Deduct: | | | | | | | | |
| Normalized leasing costs and tenant incentives | | **(1,938)** | | (1,884) | | **(8,076)** | | (6,518) |
| Normalized non-recoverable recurring capital expenditures | | **(1,507)** | | (1,466) | | **(6,281)** | | (5,070) |
| **AFFO** | **$** | **22,401** | $ | 22,259 | **$** | **91,370** | $ | 78,007 |

## Funds from operations

| | Three months ended December 31, | | | | Year ended December 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2014** | | 2013 | | **2014** | | 2013 |
| FFO | **$** | **23,428** | $ | 24,235 | **$** | **97,496** | $ | 84,422 |
| FFO per unit – basic | **$** | **0.21** | $ | 0.22 | **$** | **0.88** | $ | 0.85 |
| FFO per unit – diluted | **$** | **0.21** | $ | 0.22 | **$** | **0.87** | $ | 0.84 |

Excluding the impact of undeployed cash:

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| FFO per unit – basic | **$** | **0.22** | $ | 0.24 | **$** | **0.89** | $ | 0.94 |
| FFO per unit – diluted | **$** | **0.22** | $ | 0.24 | **$** | **0.88** | $ | 0.93 |

Total FFO for the quarter was $23.4 million, a decrease of $0.8 million or 3.3% over the prior year comparative quarter, reflecting the impact from Deutsche Post lease terminations and Lonestar head lease payments cessation starting in July 2014, largely offset by completed acquisition and leasing activity. Total FFO for the year ended December 31, 2014 was $97.5 million, an increase of $13.1 million, or 15.5%, over the prior year comparative period. For the quarter ended December 31, 2014, basic FFO on a per unit basis was $0.21 per unit, slightly lower than prior year comparative quarter. For the year ended December 31, 2014, basic FFO increased to $0.88 per unit from $0.85 per unit over the prior year comparative period. For the quarter ended December 31, 2014, diluted FFO on a per unit basis was also $0.21 per unit, also slightly lower than the prior year comparative quarter. For the year ended December 31, 2014, diluted FFO increased to $0.87 per unit from $0.84 per unit over the prior year comparative period, a 3.6% increase. Assuming this excess cash had been invested, basic FFO per unit would have been $0.22 per unit for the quarter and $0.89 per unit for the year.

## Adjusted funds from operations

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| AFFO | **$ 22,401** | $ 22,259 | **$ 91,370** | $ 78,007 |
| AFFO per unit – basic | **$ 0.20** | $ 0.20 | **$ 0.83** | $ 0.79 |
| AFFO per unit – diluted | **$ 0.20** | $ 0.20 | **$ 0.82** | $ 0.79 |

Excluding the impact of undeployed cash:

| | | | | |
|---|---|---|---|---|
| AFFO per unit – basic | **$ 0.21** | $ 0.22 | **$ 0.84** | $ 0.88 |
| AFFO per unit – diluted | **$ 0.20** | $ 0.22 | **$ 0.83** | $ 0.87 |

Total AFFO for the quarter ended December 31, 2014 was $0.1 million higher than the prior year comparative quarter, reflecting the impact of acquisitions completed subsequent to the second quarter of 2013, reduced by the impact of terminated Deutsche Post space as well as the cessation of the Lonestar head lease payments, both coming into effect on July 1, 2014. Total AFFO for the year ended December 31, 2014 was $91.4 million, an increase of $13.4 million, or 17.1%, over the prior year comparative period. For the quarter ended December 31, 2014, basic AFFO on a per unit basis was $0.20 per unit, same as the prior year comparative quarter. For the year ended December 31, 2014, diluted AFFO on a per unit basis increased from $0.79 per unit to $0.82 per unit over the prior year comparative period, an increase of 3.8%. Assuming this excess cash had been invested, basic AFFO per unit would have been $0.21 per unit for the quarter and $0.84 per unit for the year.

## SELECTED ANNUAL INFORMATION

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

| | **For the year ended December 31, 2014** | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
|---|---|---|---|
| Investment properties revenue[1] | **$ 257,725** | $ 220,220 | $ 138,661 |
| Net income | **208,937** | 22,765 | 10,916 |
| Total assets[1] | **2,588,425** | 2,558,674 | 1,400,269 |
| Non-current liabilities[1] | **$ 1,323,081** | $ 1,428,461 | $ 752,846 |
| Distributions declared | **$ 89,134** | $ 80,173 | $ 43,568 |
| REIT Units | **111,466,697** | 109,698,977 | 72,232,494 |

(1) Reflects the REIT's Owned Share.

## QUARTERLY INFORMATION (per consolidated financial statements)

The following table shows quarterly information since January 1, 2013:

| | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 |
|---|---|---|---|---|---|---|---|---|
| Investment properties revenue | **$ 60,042** | $ 61,388 | $ 67,514 | $ 67,133 | $ 62,528 | $ 56,915 | $ 54,413 | $ 46,364 |
| Investment properties operating expenses | **(18,325)** | (17,872) | (20,435) | (21,333) | (20,656) | (17,436) | (18,222) | (19,053) |
| **Net rental income** | **41,717** | 43,516 | 47,079 | 45,800 | 41,872 | 39,479 | 36,191 | 27,311 |
| **Other income** | | | | | | | | |
| Interest and other income | **382** | 8 | (28) | 56 | 352 | 351 | 446 | 398 |
| Share of net losses from investment in joint ventures | **2,494** | 7 | 9 | 3 | 10 | (2) | 13 | 7 |
| | **2,876** | 15 | (19) | 59 | 362 | 349 | 459 | 405 |
| **Other expenses** | | | | | | | | |
| Portfolio management | **(1,067)** | (1,019) | (1,207) | (1,278) | (409) | (1,006) | (882) | (876) |
| General and administrative | **(4,557)** | (4,295) | (4,350) | (3,650) | (3,332) | (3,399) | (3,045) | (2,450) |
| Amortization and depreciation | **(45)** | (30) | (38) | (25) | (16) | (33) | (24) | (15) |
| Interest expense | **(11,690)** | (12,221) | (12,273) | (12,014) | (11,288) | (10,441) | (9,700) | (7,077) |
| | **(17,359)** | (17,565) | (17,868) | (16,967) | (15,045) | (14,879) | (13,651) | (10,418) |
| **Fair value adjustments, loss on sale of investment properties and other activities** | | | | | | | | |
| Fair value adjustments to investment properties | **(12,876)** | 49,335 | 42,011 | (6,223) | 891 | (3,901) | (8,352) | (45,670) |
| Fair value adjustments to financial instruments | **876** | 6,914 | 3,434 | (8,168) | (9,460) | (1,808) | (4,570) | 4,388 |
| Internal direct leasing costs | **(324)** | (577) | (541) | (512) | (679) | (586) | (374) | (552) |
| Gain (loss) on sale of investment properties | **44,332** | (1,172) | (811) | (476) | (550) | (79) | (252) | (261) |
| Contract termination fees | **(510)** | - | - | - | - | - | - | - |
| | **31,498** | 54,500 | 44,093 | (15,379) | (9,798) | (6,374) | (13,548) | (42,095) |
| **Income (loss) before taxes** | **58,732** | 80,466 | 73,285 | 13,513 | 17,391 | 18,575 | 9,451 | (24,797) |
| Current income taxes recovery (expense) | **110** | (857) | (383) | (195) | 142 | 100 | (316) | (331) |
| Deferred income taxes recovery (expense) | **1,455** | (8,223) | (8,140) | (826) | (2,019) | (983) | (128) | 5,964 |
| Recovery of (provision for) income taxes | **1,565** | (9,080) | (8,523) | (1,021) | (2,161) | (883) | (444) | 5,633 |
| **Net income (loss)** | **$ 60,297** | $ 71,386 | $ 64,762 | $ 12,492 | $ 15,230 | $ 17,692 | $ 9,007 | $ (19,164) |
| **Total income for the period attributable to:** | | | | | | | | |
| Unitholders of the Trust | **$ 59,388** | $ 71,386 | $ 64,762 | $ 12,492 | $ 15,230 | $ 17,692 | $ 9,007 | $ (19,164) |
| Shareholders of the subsidiaries | **909** | - | - | - | - | - | - | - |
| **Net income (loss)** | **$ 60,297** | $ 71,386 | $ 64,762 | $ 12,492 | $ 15,230 | $ 17,692 | $ 9,007 | $ (19,164) |
| Add (deduct): | | | | | | | | |
| Income allocated to non-controlling interest | **(909)** | - | - | - | - | - | - | - |
| Net FFO impact attributable to non-controlling interests | **634** | (29) | (34) | (36) | 3 | - | - | - |
| Amortization of lease incentives | **554** | 110 | 424 | 379 | 259 | 108 | 112 | 137 |
| Internal direct leasing costs | **324** | 577 | 541 | 512 | 679 | 586 | 374 | 552 |
| (Gain) loss on sale of investment properties | **(44,332)** | 1,172 | 811 | 476 | 550 | 79 | 252 | 261 |
| Tax on gains on sale of investment properties | **(159)** | 337 | 98 | 66 | (33) | (126) | 79 | 142 |
| Deferred income taxes | **(1,455)** | 8,223 | 8,140 | 826 | 2,019 | 983 | 128 | (5,964) |
| Term debt swap settlement | **(1,695)** | (1,628) | (1,567) | (1,603) | (1,585) | (1,574) | (1,533) | (1,487) |
| Gain (loss) on settlement of Forex contracts | **(128)** | (666) | (1,651) | (2,747) | (1,456) | (456) | 52 | 34 |
| Fair value adjustments to investment properties | **11,173** | (49,335) | (42,011) | 6,223 | (891) | 3,901 | 8,352 | 45,670 |
| Fair value adjustments to financial instruments | **(876)** | (6,914) | (3,434) | 8,168 | 9,460 | 1,808 | 4,570 | (4,388) |
| **FFO** | **$ 23,428** | $ 23,233 | $ 26,079 | $ 24,756 | $ 24,235 | $ 23,001 | $ 21,393 | $ 15,793 |
| **FFO per unit – basic** | **$ 0.21** | $ 0.21 | $ 0.24 | $ 0.23 | $ 0.22 | $ 0.21 | $ 0.22 | $ 0.20 |
| **FFO per unit – diluted** | **0.21** | 0.21 | 0.23 | 0.22 | 0.22 | 0.21 | 0.21 | 0.20 |
| **Funds from operations** | **$ 23,428** | $ 23,233 | $ 26,079 | $ 24,756 | $ 24,235 | $ 23,001 | $ 21,393 | $ 15,793 |
| Add (deduct): | | | | | | | | |
| Amortization of financing costs | **859** | 904 | 909 | 812 | 794 | 744 | 666 | 447 |
| Accretion of debenture conversion feature | **281** | 276 | 270 | 265 | 260 | 254 | 250 | 244 |
| Amortization of fair value adjustment of debt | **(96)** | (96) | (97) | (98) | (92) | (88) | (84) | (138) |
| Contract termination fees incurred on sale to the POBA joint venture | **510** | - | - | - | - | - | - | - |
| Deferred compensation expense | **377** | 394 | 538 | 339 | 313 | 356 | 378 | 266 |
| Deferred asset management expense | **616** | 638 | 645 | 642 | 539 | 529 | 523 | 522 |
| Straight-line rent | **(129)** | (182) | (378) | 32 | (440) | (268) | (623) | (179) |
| | **25,846** | 25,167 | 27,966 | 26,748 | 25,609 | 24,528 | 22,503 | 16,955 |
| Deduct: | | | | | | | | |
| Normalized leasing costs and tenant incentives | **(1,938)** | (1,958) | (2,119) | (2,061) | (1,884) | (1,776) | (1,629) | (1,229) |
| Normalized non-recoverable recurring capital expenditures | **(1,507)** | (1,523) | (1,648) | (1,603) | (1,466) | (1,381) | (1,267) | (956) |
| **AFFO** | **$ 22,401** | $ 21,686 | $ 24,199 | $ 23,084 | $ 22,259 | $ 21,371 | $ 19,607 | $ 14,770 |
| **AFFO per unit – basic** | **$ 0.20** | $ 0.20 | $ 0.22 | $ 0.21 | $ 0.20 | $ 0.20 | $ 0.20 | $ 0.19 |
| **AFFO per unit – diluted** | **0.20** | 0.20 | 0.22 | 0.21 | 0.20 | 0.20 | 0.20 | 0.19 |
| **Weighted average number of Units:** | | | | | | | | |
| Basic | **111,301,061** | 110,878,351 | 110,469,257 | 109,987,243 | 109,482,435 | 109,116,985 | 99,037,061 | 79,267,113 |
| Diluted | **125,355,097** | 124,824,789 | 124,295,625 | 123,638,848 | 123,028,441 | 122,552,770 | 112,358,396 | 92,382,159 |
| Quarterly average exchange rate ($:€1) | **1.419** | 1.442 | 1.496 | 1.512 | 1.430 | 1.376 | 1.337 | 1.332 |

## NON-GAAP MEASURES AND OTHER DISCLOSURES

The following additional non-GAAP measures are important measures used by management in evaluating the Trust's underlying operating performance and debt management. These non-GAAP measures are not defined by IFRS, do not have a standardized meaning and may not be comparable with similar measures presented by other income trusts.

### Funds from operations ("FFO")

Management believes FFO is an important measure of our operating performance. This non-IFRS measurement is a commonly used measure of performance of real estate operations; however, it does not represent net income or cash flow from operating activities as defined by IFRS and is not necessarily indicative of cash available to fund Dream Global REIT's needs.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", FFO has been reconciled to net income in the section "Our results of operations" under the heading "Funds from operations and adjusted funds from operations".

### Adjusted funds from operations ("AFFO")

Management believes AFFO is an important measure of our economic performance and is indicative of our ability to pay distributions. This non-IFRS measurement is commonly used for assessing real estate performance; however, it does not represent cash flow from operating activities as defined by IFRS and is not necessarily indicative of cash available to fund Dream Global REIT's needs.

Our calculation of AFFO includes an estimated amount (8% of net rental income) of normalized non-recoverable capital expenditures, as well as initial direct leasing costs and tenant incentives that we expect to incur based on our current portfolio and expected average leasing activity over time. Our estimates of initial direct leasing costs and lease incentives are based on the average of our expected leasing activity over the next two to three years multiplied by the average cost per square foot that we expect to incur. Our estimates of normalized non-recoverable capital expenditures are based on our expected average expenditures for our current property portfolio. This estimate will differ from actual experience due to the timing of expenditures and any growth in our business resulting from property acquisitions.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", AFFO has been reconciled to cash generated from operating activities in this section under the heading "Cash generated from operating activities to AFFO reconciliation".

### Net operating income ("NOI")

NOI is defined by the Trust as the total investment property revenue less investment property operating expenses, including the share of net rental income from investment in joint ventures. This non-GAAP measurement is an important measure used by the Trust in evaluating property operating performance; however, it is not defined by IFRS, does not have a standard meaning and may not be comparable with similar measures presented by other income trusts. In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", NOI has been reconciled to net rental income in the table below:

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Net rental income (per consolidated financial statements) | **$ 41,717** | $ 41,872 | **$ 178,112** | $ 144,853 |
| Add: Share of net rental income from investments in joint ventures | **1,352** | - | **1,352** | - |
| **NOI** | **$ 43,069** | $ 41,872 | **$ 179,464** | $ 144,853 |

## Weighted average number of units

The basic weighted average number of Units outstanding used in the FFO and AFFO calculations includes all Units. The diluted weighted average number of Units assumes the conversion of the Debentures and incremental unvested deferred trust units related to the Deferred Unit Incentive Plan represented by the potential Units that would have to be purchased in the open market to fund the unvested obligation. The weighted average number of Units outstanding for basic and diluted FFO and AFFO calculations for the three and twelve months ended December 31, 2014 is noted in the table below. Diluted FFO and AFFO include interest and amortization adjustments related to the Debentures of $2.2 million and $10.3 million for the three and twelve months ended December 31, 2014.

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Weighted average Units outstanding for basic per unit amounts | **111,301,061** | 109,482,435 | **110,663,178** | 99,335,779 |
| Weighted average Units outstanding for diluted per unit amounts | **125,355,097** | 123,028,441 | **124,534,099** | 112,691,725 |

Over the course of the quarter, the REIT had approximately $39.6 million on average of excess undeployed cash available for acquisitions. We estimate that these funds, if invested, would generate a return on equity of approximately 9.5%, which is consistent with historic returns for acquired investment properties, and would have contributed $0.9 million to FFO and AFFO for the quarter ended December 31, 2014.

## Investment in joint ventures

The Trust's proportionate share of the financial position and results of operation of its investment in joint ventures, which are accounted for using the equity method in the consolidated financial statements and as presented and discussed throughout the MD&A using the proportionate consolidation method, is a non-GAAP measure. A reconciliation of the financial position and results of operations to the consolidated balance sheets and consolidated statements of comprehensive income is included in the following tables.

### Balance sheet reconciliation to consolidated financial statements

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Amounts per consolidated financial statements | Share from investment in POBA joint ventures | **Total** | December 31, 2013 |
| **Assets** | | | | |
| NON-CURRENT ASSETS | | | | |
| Investment properties | $ 2,079,671 | $ 284,417 | **$ 2,364,088** | $ 2,390,244 |
| Investment in joint ventures | 159,967 | (134,237) | **25,730** | - |
| Amount in escrow | 4,930 | - | **4,930** | - |
| Deferred income tax assets | - | - | **-** | 12,313 |
| Other non-current assets | 1,698 | 484 | **2,182** | 2,288 |
| | 2,246,266 | 150,664 | **2,396,930** | 2,404,845 |
| CURRENT ASSETS | | | | |
| Amounts receivable | 17,455 | 2,228 | **19,683** | 18,149 |
| Prepaid expenses | 2,360 | 28 | **2,388** | 1,962 |
| Amount in escrow | - | - | **-** | 6,220 |
| Cash | 121,939 | 3,122 | **125,061** | 106,292 |
| | 141,754 | 5,378 | **147,132** | 132,623 |
| Assets held for sale | 44,363 | - | **44,363** | 21,206 |
| **Total assets** | $ 2,432,383 | $ 156,042 | **$ 2,588,425** | $ 2,558,674 |
| | | | | |
| **Liabilities** | | | | |
| NON-CURRENT LIABILITIES | | | | |
| Debt | $ 1,157,882 | $ 149,747 | **$ 1,307,629** | $ 1,403,956 |
| Deposits | 1,802 | 146 | **1,948** | 1,900 |
| Derivative financial instruments | 3,420 | - | **3,420** | 16,299 |
| Deferred Unit Incentive Plan | 9,365 | - | **9,365** | 6,306 |
| Deferred income tax liabilities | 719 | - | **719** | - |
| | 1,173,188 | 149,893 | **1,323,081** | 1,428,461 |
| CURRENT LIABILITIES | | | | |
| Debt | 70,514 | 2,989 | **73,503** | 20,356 |
| Amounts payable and accrued liabilities | 49,485 | 3,111 | **52,596** | 32,940 |
| Income tax payable | 1,268 | 49 | **1,317** | 523 |
| Deferred rent | - | - | **-** | 6,220 |
| Derivative financial instruments | 8,853 | - | **8,853** | 13,772 |
| Distributions payable | 7,431 | - | **7,431** | 7,314 |
| | 137,551 | 6,149 | **143,700** | 81,125 |
| Liabilities related to assets held for sale | 1,424 | - | **1,424** | 15,083 |
| **Total liabilities** | $ 1,312,163 | $ 156,042 | **$ 1,468,205** | $ 1,524,669 |

During Q3 2014, the REIT entered into a joint venture agreement with POBA to sell a 50% interest in seven of the Acquisition Properties, which were each held in separate subsidiaries. The closings were completed in three tranches over the course of Q4 2014. Pursuant to this arrangement, the REIT co-owns these seven assets and, as such, has classified its 50% interest in each of these entities as investments in joint ventures and accounted for the investment using the equity method. As a result, seven Acquisition Properties valued at $573.5 million, and the related mortgages valued at $314.5 million were derecognized at December 31, 2014.

The total consideration to the REIT for the 50% interest in the investment properties was $311.3 million. The consideration consisted of the assumption of working capital of $2.2 million, POBA assuming 50% of the outstanding mortgages, which totalled $157.2 million, with the balance of $156.3 million paid to the REIT in cash. The REIT incurred transaction costs of $4.5 million relating to the sale, resulting in net proceeds to the REIT of $151.9 million.

In selling a 50% interest in the seven properties, the REIT and POBA entered into a co-ownership arrangement regarding these assets. Under these circumstances, IFRS requires the REIT to derecognize the assets and record the gain that accrued prior to selling control on 100% of the assets sold. The purchase price consideration paid by POBA and the fair value of the REIT's retained interest in the joint venture exceeded the carrying value of the net assets held within each subsidiary entity. As such, the REIT recorded a gain on the sale of $46.3 million, net of transaction costs of $4.5 million, of which $25.6 million relates to remeasuring the retained interest in the joint venture at fair value. The gain on sale also includes $3.1 million relating to the derecognition of deferred tax liability on the sale. As at December 31, 2014, the carrying value of the investment in the POBA joint venture is $159.8 million, which includes the fair value remeasurement of $25.6 million.

As part of the arrangement with POBA, the REIT has extended a loan facility to POBA to fund POBA's share of the loan amortization payments over the term of the outstanding mortgages assumed on the seven properties. The REIT has received prepaid interest of $2.8 million, which will be amortized over the term of the respective mortgages. In addition, POBA will pay the REIT the interest savings on its 50% share of the interest saved from the loan amortization payments. The balance of the loan facility outstanding at the time of maturity of the respective mortgages is due and payable to the REIT.

## Statement of comprehensive income reconciliation to consolidated financial statements

| | Three months ended December 31, | | | |
|---|---|---|---|---|
| | 2014 | | | 2013 |
| | Amounts included in consolidated financial statements | Share of income from investments in POBA joint ventures | **Total** | |
| Investment properties revenue | $ 60,042 | $ 1,648 | **$ 61,690** | $ 62,528 |
| Investment properties operating expenses | (18,325) | (296) | **(18,621)** | (20,656) |
| **Net rental income** | 41,717 | 1,352 | **43,069** | 41,872 |
| **Other income** | | | | |
| Interest and other income | 382 | 14 | **396** | 352 |
| Share of net income from investment in joint ventures | 2,487 | (2,487) | **-** | - |
| Share of net income from investment in other joint ventures | 7 | - | **7** | 10 |
| | 2,876 | (2,473) | **403** | 362 |
| **Other expenses** | | | | |
| Portfolio management | (1,067) | - | **(1,067)** | (409) |
| General and administrative | (4,557) | (206) | **(4,763)** | (3,332) |
| Depreciation and amortization | (45) | - | **(45)** | (16) |
| Interest expense | (11,690) | (373) | **(12,063)** | (11,288) |
| | (17,359) | (579) | **(17,938)** | (15,045) |
| **Fair value adjustments, loss on sale of investment properties and other activities** | | | | |
| Fair value adjustments to investment properties | (12,876) | 1,703 | **(11,173)** | 891 |
| Fair value adjustments to financial instruments | 876 | - | **876** | (9,460) |
| Internal direct leasing costs | (324) | - | **(324)** | (679) |
| Gain (loss) on sale of investment properties | 44,332 | - | **44,332** | (550) |
| Contract termination fees incurred on sale to the POBA joint venture | (510) | - | **(510)** | - |
| | 31,498 | 1,703 | **33,201** | (9,798) |
| **Income before income taxes** | 58,732 | 3 | **58,735** | 17,391 |
| Current income taxes recovery (expense) | 110 | (3) | **107** | (142) |
| Deferred income taxes recovery (expense) | 1,455 | - | **1,455** | (2,019) |
| Recovery of (provision for) income taxes | 1,565 | (3) | **1,562** | (2,161) |
| **Net income** | $ 60,297 | $ - | **$ 60,297** | $ 15,230 |
| | | | | |
| **Total earnings for the year attributable to:** | | | | |
| Unitholders of the Trust | $ 59,388 | $ - | **$ 59,388** | $ 15,230 |
| Shareholders of the subsidiaries | 909 | - | **909** | - |
| Net income | 60,297 | - | **60,297** | 15,230 |
| | | | | |
| **Foreign currency translation adjustments for the year attributable to:** | | | | |
| Unitholders of the Trust | (10,068) | - | **(10,068)** | 57,950 |
| Shareholders of the subsidiaries | (98) | - | **(98)** | - |
| | (10,166) | - | **(10,166)** | 57,950 |
| | | | | |
| **Comprehensive income for the year attributable to:** | | | | |
| Unitholders of the Trust | 49,320 | - | **49,320** | 73,180 |
| Shareholders of the subsidiaries | 811 | - | **811** | - |
| | $ 50,131 | $ - | **$ 50,131** | $ 73,180 |

| | Year ended December 31, 2014 | | | 2013 |
|---|---|---|---|---|
| | Amounts per consolidated financial statements | Share of income from investments in POBA joint ventures | **Total** | |
| Investment properties revenue | $ 256,077 | $ 1,648 | **$ 257,725** | $ 220,220 |
| Investment properties operating expenses | (77,965) | (296) | **(78,261)** | (75,367) |
| **Net rental income** | 178,112 | 1,352 | **179,464** | 144,853 |
| **Other income** | | | | |
| Interest and other income | 418 | 14 | **432** | 1,547 |
| Share of net income from investment in joint ventures | 2,487 | (2,487) | **-** | - |
| Share of net income from investment in other joint ventures | 26 | - | **26** | 28 |
| | 2,931 | (2,473) | **458** | 1,575 |
| **Other expenses** | | | | |
| Portfolio management | (4,571) | - | **(4,571)** | (3,173) |
| General and administrative | (16,852) | (206) | **(17,058)** | (12,226) |
| Depreciation and amortization | (138) | - | **(138)** | (88) |
| Interest expense | (48,198) | (373) | **(48,571)** | (38,506) |
| | (69,759) | (579) | **(70,338)** | (53,993) |
| **Fair value adjustments, loss on sale of investment properties and other activities** | | | | |
| Fair value adjustments to investment properties | 72,247 | 1,703 | **73,950** | (57,032) |
| Fair value adjustments to financial instruments | 3,056 | - | **3,056** | (11,450) |
| Internal direct leasing costs | (1,954) | - | **(1,954)** | (2,191) |
| Gain (loss) on sale of investment properties | 41,873 | - | **41,873** | (1,142) |
| Contract termination fees incurred on sale to the POBA joint venture | (510) | - | **(510)** | - |
| | 114,712 | 1,703 | **116,415** | (71,815) |
| **Income before income taxes** | 225,996 | 3 | **225,999** | 20,620 |
| Current income taxes expense | (1,325) | (3) | **(1,328)** | (689) |
| Deferred income taxes recovery (expense) | (15,734) | - | **(15,734)** | 2,834 |
| Recovery of (provision for) income taxes | (17,059) | (3) | **(17,062)** | 2,145 |
| **Net income** | $ 208,937 | $ - | **$ 208,937** | $ 22,765 |
| | | | | |
| **Total earnings for the year attributable to:** | | | | |
| Unitholders of the Trust | $ 208,028 | $ - | **$ 208,028** | $ 22,765 |
| Shareholders of the subsidiaries | 909 | - | **909** | - |
| Net income | 208,937 | - | **208,937** | 22,765 |
| | | | | |
| **Foreign currency translation adjustments for the year attributable to:** | | | | |
| Unitholders of the Trust | (54,671) | - | **(54,671)** | 109,133 |
| Shareholders of the subsidiaries | (98) | - | **(98)** | - |
| | (54,769) | - | **(54,769)** | 109,133 |
| | | | | |
| **Comprehensive income for the year attributable to:** | | | | |
| Unitholders of the Trust | 153,357 | - | **153,357** | 131,898 |
| Shareholders of the subsidiaries | 811 | - | **811** | - |
| | $ 154,168 | $ - | **$ 154,168** | $ 131,898 |

## Cash generated from operating activities to AFFO reconciliation

AFFO is not defined by IFRS and, therefore, may not be comparable to similar measures presented by other real estate investment trusts. In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", the table below reconciles AFFO to cash generated from operating activities.

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| **Cash generated from operating activities** | **$ 29,366** | $ 29,798 | **$ 96,065** | $ 85,228 |
| Add (deduct): | | | | |
| Change in non-cash working capital | **(10,507)** | (6,704) | **(11,092)** | (2,568) |
| Share of net income from investment in POBA joint venture | **2,487** | - | **2,487** | - |
| Internal direct leasing costs | **324** | 679 | **1,954** | 2,191 |
| Non-cash impact of income attributable to non-controlling interest | **(271)** | 13 | **(351)** | 31 |
| Depreciation and amortization | **(45)** | (16) | **(138)** | (88) |
| Unrealized loss (gain) on settlement of foreign exchange contracts | **975** | (519) | **2,866** | (1,316) |
| Tax on gains on sale of investment properties | **(159)** | (33) | **342** | 62 |
| Investment in lease incentives and initial direct leasing costs | **4,859** | 2,391 | **14,777** | 6,055 |
| Contract termination fees | **510** | - | **510** | - |
| Adjustments for investment in joint ventures: | | | | |
| Fair value adjustments to investment properties | **(1,703)** | - | **(1,703)** | - |
| Amortization of lease incentives | **10** | - | **10** | - |
| Normalized leasing costs and tenant incentives | **(1,938)** | (1,884) | **(8,076)** | (6,518) |
| Normalized non-recoverable recurring capital expenditures | **(1,507)** | (1,466) | **(6,281)** | (5,070) |
| **AFFO** | **$ 22,401** | $ 22,259 | **$ 91,370** | $ 78,007 |

## Net income, cash flows from operating activities and distributions declared

In any given period, actual distributions declared may differ from cash generated from (utilized in) operating activities, primarily due to seasonal fluctuations in non-cash working capital and the impact of leasing costs, which fluctuate with lease maturities, renewal terms and the type of asset being leased. These seasonal or short-term fluctuations are funded, if necessary, with our existing credit facilities. The Trust determines the distribution rate by, among other considerations, its assessment of cash flow as determined using adjusted cash flows from operating activities (a non-GAAP measure), which includes cash flows from operating activities of our investments in joint ventures that are equity accounted and excludes the fluctuations in non-cash working capital, transaction costs on business combinations and investment in lease incentives and initial direct leasing costs.

In any given period, the Trust anticipates that actual distributions declared will, in the foreseeable future, continue to vary from net income as net income includes non-cash items such as fair value adjustments to investment properties and fair value adjustments to financial instruments. Accordingly, the Trust does not use net income as a proxy for distributions.

As required by National Policy 41-201, "Income Trusts and Other Indirect Offerings", the following table outlines the differences between cash generated from (utilized in) operating activities (per condensed consolidated financial statements) and distributions declared, as well as the differences between net income and distributions declared, in accordance with the guidelines.

When the Trust determines its cash available for distribution, it uses adjusted cash flows from operating activities, which excludes fluctuations in working capital, transaction costs on business combinations and investment in lease incentives and initial direct leasing costs. The Trust funds its working capital needs and investments in lease incentives and initial direct leasing costs with cash and cash equivalent on hand and its credit facilities. Accordingly, management believes adjusted cash flows from operating activities is an important measure that reflects our ability to pay cash distributions. This non-GAAP measurement does not represent cash flow from operating activities, as defined by GAAP.

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Net income for the period | **$ 60,297** | $ 15,230 | **$ 208,937** | $ 22,765 |
| **Cash generated from operating activities (per consolidated financial statements)** | **29,366** | 29,798 | **96,065** | 85,228 |
| Add: | | | | |
| Investment in joint ventures' cash flows from operating activities | **518** | - | **518** | - |
| **Cash flow from operating activities (including investment in joint ventures)** | **29,884** | 29,798 | **96,583** | 85,228 |
| Add (deduct): | | | | |
| Lease incentives and initial direct leasing costs | **5,088** | 2,391 | **15,006** | 6,055 |
| Change in non-cash working capital | **(10,430)** | (6,704) | **(11,015)** | (2,568) |
| **Adjusted cash flows from operating activities** | **24,542** | 25,485 | **100,574** | 88,715 |
| Distributions declared | **22,263** | 21,910 | **88,547** | 79,784 |
| **Adjusted surplus of cash flow from operating activities over distributions declared** | **2,279** | 3,575 | **12,027** | 8,931 |
| **Surplus (shortfall) of net income (loss) over distributions declared** | **38,034** | (6,680) | **120,390** | (57,019) |
| **Surplus of cash flow from operating activities over distributions declared** | **7,621** | 7,888 | **8,036** | 5,444 |
| **Surplus of cash flow from operating activities (per consolidated financial statements) over distributions declared** | **$ 7,103** | $ 7,888 | **$ 7,518** | $ 5,444 |

Adjusted cash flow from operating activities exceeded distributions paid and payable for the three months ended December 31, 2014 by $2.3 million and net income exceeded distributions paid and payable by $38.0 million for the same period. This compares to a surplus of $3.6 million of adjusted cash flow from operations over distributions paid and payable for the three months ended December 31, 2013 and a shortfall of $6.7 million of net income over distributions paid and payable for the same period in 2013.

Adjusted cash flow from operating activities exceeded distributions paid and payable for the year ended December 31, 2014 by $12.0 million and net income exceeded distributions paid and payable by $120.4 million for the same period. This compares to a surplus of $8.9 million of adjusted cash flow from operations over distributions paid and payable for the year ended December 31, 2013 and a shortfall of $57.0 million of net income over distributions paid and payable for the same period in 2013.

As a general rule, we do not take fluctuations in working capital into consideration and we use a normalized amount as a proxy for leasing and building improvement costs in establishing our distribution policy. The surplus or shortfall in net income for each period reflects mainly fair value adjustments to financial instruments and investment properties. These non-cash items do not impact cash flows and are not considered when we establish our distribution policy.

## Level of debt (debt-to-gross book value)

Management believes this non-GAAP measurement is an important measure in the management of our debt levels. Level of debt as shown below is determined as total debt, divided by total assets.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”, the table below calculates the level of debt.

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Amounts per consolidated financial statements | Share of amounts from investment in joint ventures | Total | December 31, 2013 |
| Non-current debt[1] | $ 1,157,882 | $ 149,747 | **$ 1,307,629** | $ 1,403,956 |
| Current debt | 70,514 | 2,989 | **73,503** | 20,356 |
| Total debt | 1,228,396 | 152,736 | **1,381,132** | 1,424,312 |
| Debt related to assets held for sale | - | - | **-** | 10,106 |
| Total adjusted debt | 1,228,396 | 152,736 | **1,381,132** | 1,434,418 |
| Less cash | 121,939 | 3,122 | **125,061** | 106,292 |
| **Total adjusted debt, net of cash** | 1,106,457 | 149,614 | **1,256,071** | 1,328,126 |
| Total assets | 2,432,383 | 156,042 | **2,588,425** | 2,558,674 |
| Adjustments: Investment in joint ventures | (159,967) | 159,967 | **-** | - |
| | 2,272,416 | 316,009 | **2,588,425** | 2,558,674 |
| Less cash | 121,939 | 3,122 | **125,061** | 106,292 |
| **Total assets, net of cash** | $ 2,150,477 | $ 312,887 | **$ 2,463,364** | $ 2,452,382 |
| **Debt-to-gross book value** | | | **53%** | 56% |
| **Debt-to-gross book value, net of cash** | | | **51%** | 54% |
| **Debt-to-gross book value, net of cash, net of convertible debentures** | | | **45%** | 48% |

(1) Non-current debt includes convertible debentures valued at $152,365 and $150,326 at December 31, 2014 and December 31, 2013, respectively.

## Interest coverage ratio

Management believes this non-GAAP measurement is an important measure in determining our ability to cover interest expense based on our operating performance. Interest coverage ratio as shown below is calculated as net rental income plus interest and fee income, less general and administrative expenses and portfolio management expenses, all divided by interest expense on total debt.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”, the table below calculates the interest coverage ratio.

| | For the year ended December 31, 2014 | | | For the year ended December 31, 2013 |
|---|---|---|---|---|
| | Amounts per consolidated financial statements | Share of amounts from investment in joint ventures | Total | |
| Net rental income | $ 178,112 | $ 1,352 | **$ 179,464** | $ 144,853 |
| Add: Interest and other income | 418 | 14 | **432** | 1,547 |
| Less: General and administrative expenses | 16,852 | 206 | **17,058** | 12,226 |
| Less: Portfolio management expenses | 4,571 | - | **4,571** | 3,173 |
| | 157,107 | 1,160 | **158,267** | 131,001 |
| Interest expense | $ 48,198 | $ 373 | **$ 48,571** | $ 38,506 |
| **Interest coverage ratio** | | | **3.26** | 3.40 |

## Debt-to-adjusted EBITDFV

Management believes this non-GAAP measurement is an important measure in determining the time it takes the Trust, based on its operating performance, to repay its debt. Debt-to-adjusted EBITDFV as shown below is calculated as total debt divided by the sum of net income for the quarter adjusted for fair value adjustments to investment properties and financial instruments, gain/loss on sale of investment properties, interest expense, depreciation and income taxes. A further adjustment is made for properties acquired during the quarter to reflect net rental income as if the properties were held for the full quarter.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", the table below calculates the debt-to-adjusted EBITDFV.

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Amounts per consolidated financial statements | Share of amounts from investment in joint ventures | **Total** | December 31, 2013 |
| Non-current debt | $ 1,157,882 | $ 149,747 | **$ 1,307,629** | $ 1,403,956 |
| Current debt | 70,514 | 2,989 | **73,503** | 20,356 |
| Total debt | 1,228,396 | 152,736 | **1,381,132** | 1,424,312 |
| Debt related to assets held for sale | - | - | **-** | 10,106 |
| **Total adjusted debt** | 1,228,396 | 152,736 | **1,381,132** | 1,434,418 |
| Net income for the quarter | 57,810 | 2,487 | **60,297** | 15,230 |
| Fair value adjustments to investment properties | 12,876 | (1,703) | **11,173** | 679 |
| Fair value adjustments to financial instruments | (876) | - | **(876)** | 9,460 |
| Internal direct leasing costs | 324 | - | **324** | (891) |
| (Gain) loss on sale of investment properties | (44,332) | - | **(44,332)** | 550 |
| Depreciation and amortization | 45 | - | **45** | 16 |
| Interest expense | 11,690 | 373 | **12,063** | 11,288 |
| Provision for income taxes | (1,565) | 3 | **(1,562)** | 2,161 |
| Adjusted net rental income of properties acquired in the quarter | 892 | - | **892** | 1,296 |
| **EBITDFV** | $ 36,864 | $ 1,160 | **$ 38,024** | $ 39,789 |
| **EBITDFV – adjusted for foreign exchange[1]** | | | **$ 37,627** | $ 40,788 |
| **Debt-to-adjusted EBITDFV (three months ended)** | | | **36.7** | 35.2 |
| **Debt-to-adjusted EBITDFV (years) annualized** | | | **9.2** | 8.8 |

(1) EBITDFV is adjusted to the period-end exchange rate from the quarterly average exchange rate.

## SECTION III – DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

For the December 31, 2014 financial year-end, the Chief Executive Officer and the Chief Financial Officer (the "Certifying Officers"), together with other members of management, have evaluated the design and operational effectiveness of Dream Global REIT's disclosure controls and procedures, as defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" ("NI 52-109"). The Certifying Officers have concluded that the disclosure controls and procedures are adequate and effective in order to provide reasonable assurance that material information has been accumulated and communicated to management, to allow timely decisions of required disclosures by Dream Global REIT and its consolidated subsidiary entities, within the required time periods.

Dream Global REIT's internal control over financial reporting (as defined in NI 52-109) is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles ("GAAP"). Using the framework established in "Risk Management and Governance: Guidance on Control (COCO Framework)", published by The Canadian Institute of Chartered Accountants, the Certifying Officers, together with other members of management, have evaluated the design and operation of Dream Global REIT's internal control over financial reporting. Based on that evaluation, the Certifying Officers have concluded that Dream Global REIT's internal control over financial reporting was effective as at December 31, 2014.

There were no changes in Dream Global REIT's internal control over financial reporting during the financial year ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, Dream Global REIT's internal control over financial reporting.

## SECTION IV – RISKS AND OUR STRATEGY TO MANAGE

We are exposed to various risks and uncertainties, many of which are beyond our control. The following is a review of the material risks and uncertainties that could materially affect our operations and future performance. A more detailed description of our business environment and risks is contained in our Annual Information Form, which is posted on our website at www.dreamglobalreit.ca or at www.sedar.com.

### REAL ESTATE OWNERSHIP

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

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

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

## ROLLOVER OF LEASES

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

The majority of the Deutsche Post leases expire in 2018. Deutsche Post has early termination rights entitling it to terminate certain leases prior to their expiry upon twelve months' prior notice. As of the date hereof, these termination rights pertain to approximately 3% of the Trust's GLA at December 31, 2014.

## CONCENTRATION OF PROPERTIES AND TENANTS

Currently, all of our properties are located in Germany and, as a result, are impacted by economic and other factors specifically affecting the real estate markets in Germany. These factors may differ from those affecting the real estate markets in other regions. Due to the concentrated nature of our properties, a number of our properties could experience any of the same conditions at the same time. If real estate conditions in Germany 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.

We derive a significant portion of our rental income from Deutsche Post. Consequently, these revenues are dependent on the ability of Deutsche Post to meet its rent obligations and our ability to collect rent from Deutsche Post.

## CHANGE IN INDEXATION FOR INFLATION

The rents payable under the Deutsche Post leases are automatically adjusted if the consumer price index for Germany changes by more than 4.3 index points. This means that our rental income will increase if the consumer price index for Germany increases by more than 4.3 index points. However, it also means that our rental income will decrease if the consumer price index for Germany decreases by more than 4.3 index points. As a result, a significant decrease in the consumer price index for Germany could have a material and adverse effect on our cash flows, operating results and financial condition. The fixed rents payable under other lease agreements in respect of the Initial Properties and other properties we may acquire will not normally provide for adjustments following a general change in prices. As a result, our revenues adjusted for inflation could be materially and adversely affected from an unexpected rise in inflation, which could have a materially adverse effect on our cash flows, operating results or financial condition.

## FINANCING

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

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

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

## TAX MATTERS

Although we have been structured with the objective of maximizing after-tax distributions, tax charges and withholding taxes in various jurisdictions in which we invest will affect the level of distributions made to us by our subsidiaries. No assurance can be given as to the level of taxation suffered by us or our subsidiaries. Currently, our revenues are derived from our investments located in Germany. As a result of legislation passed on November 29, 2013, certain of our subsidiaries are subject to German corporate income tax on their net rental income and capital gains from the sale of properties. Although we have previously structured our tax affairs on the assumption that those subsidiaries will be subject to German corporate income tax (with a view to minimizing, to the extent possible, the amount of taxable income from operations in Germany), there is no certainty that we will not pay German corporate income tax. In addition, German real estate transfer tax ("RETT") is triggered when, among other things, there is a transfer of legal title of properties from one legal person to another. In the case of the initial reallocation of our properties, legal title was not transferred and, consequently, no RETT should be payable in connection therewith. However, if, unexpectedly, RETT does become payable as a result of the reallocation of our properties, we will be required to pay 50% of such RETT.

Our debt financing agreements with third parties and affiliates require us to pay principal and interest. Several rules in German tax laws restrict the tax deductibility of interest expenses for corporate income and municipal trade tax purposes. Such rules have been changed considerably on several occasions in the recent past. As a result, major uncertainties exist as to the interpretation and application of such rules, which are not yet clarified by the tax authorities and the tax courts. Accordingly, there is a risk of additional taxes being triggered on the rental income and capital gains in the event the tax authorities or the tax courts adopt deviating views on such rules.

We have structured our affairs to ensure that none of the Luxembourg entities through which we hold our real property investment in Germany (our *fonds communs de placement* – "FCPs") has a permanent establishment in Germany, which is relevant for determining whether they would also be liable to municipal trade tax. If it is determined that any of our subsidiaries does have a permanent establishment in one or more German municipalities, the overall rate of German income tax applicable to taxable income could materially increase.

## CHANGES IN LAW

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

## FOREIGN EXCHANGE RATE FLUCTUATIONS

Substantially all of our investments and operations will be conducted in currencies other than Canadian dollars; however, we pay distributions to unitholders and interest payments on our Debentures in Canadian dollars. We also raise funds primarily in Canada from the sale of securities in Canadian dollars and invest such funds indirectly through our subsidiaries in currencies other than Canadian dollars. As a result, fluctuations in such foreign currencies against the Canadian dollar could have a material adverse effect on our financial results, which will be denominated and reported in Canadian dollars, and on our ability to pay cash distributions to unitholders and cash interest payments on our Debentures. We have implemented active hedging programs in order to offset the risk of revenue losses and to provide more certainty regarding the payment of distributions to unitholders and interest payments on our Debentures if the Canadian dollar increases in value compared to foreign currencies. However, to the extent that we fail to adequately manage these risks, including if any such hedging arrangements do not effectively or completely hedge changes in foreign currency rates, our financial results, and our ability to pay distributions to unitholders and cash interest payments on our Debentures, may be negatively impacted. Hedging transactions involve the risk that counterparties, which are generally financial institutions, may be unable to satisfy their obligations. If any counterparties default on their obligations under the hedging contracts or seek bankruptcy protection, it could have an adverse effect on our ability to fund planned activities and could result in a larger percentage of future revenue being subject to currency changes.

## INTEREST RATES

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

## ENVIRONMENTAL RISK

We are subject to various laws relating to environmental matters. Our properties may contain ground contamination, hazardous substances, wartime relics or other residual pollution and environmental risks. Buildings and their fixtures might contain asbestos or other hazardous substances above the allowable or recommended thresholds, or the buildings could bear other environmental risks. Actual and contingent liabilities may be imposed on us under applicable environmental laws to assess and, if required, undertake remedial action on contaminated sites and in contaminated buildings. These obligations may relate to sites we currently own or operate, sites we formerly owned or operated, or sites where waste from our operations has been deposited. Furthermore, actions for damages or remediation measures may be brought against us, including under the German Federal Soil Protection Act (*Bundesbodenschutzgesetz*). According to this Act, not only the polluter but also its legal successor, the owner of the contaminated site and certain previous owners may be held liable for soil contamination. The costs of any removal, investigation or remediation of any residual pollution on such sites or in such buildings, as well as costs related to legal proceedings, including potential damages, regarding such matters, may be substantial, and it may be impossible, for a number of reasons, for us to have recourse against a polluter and/or former seller of a contaminated site or building or the party that may otherwise be responsible for the contamination. Furthermore, the discovery of any residual pollution on the sites and/or in the buildings, particularly in connection with the lease or sale of properties or borrowing using the real estate as security, could trigger claims for rent reductions or termination of leases for cause or for damages or other breach of warranty claims against us. Environmental laws may also impose liability on us for the release of certain materials into the air or water from a property, including asbestos, and such release could form the basis for liability to third persons for personal injury or other damages.

## JOINT ARRANGEMENTS

We are a participant in jointly controlled entities and co-ownerships, combined ("joint arrangements") with third parties. A joint arrangement involves certain additional risks, including:

(i) the possibility that such third parties may at any time have economic or business interests or goals that will be inconsistent with ours, or take actions contrary to our instructions or requests or to our policies or objectives with respect to our real estate investments;

(ii) the risk that such third parties could experience financial difficulties or seek the protection of bankruptcy, insolvency or other laws, which could result in additional financial demands on us to maintain and operate such properties or repay the third parties' share of property debt guaranteed by us or for which we will be liable, and/or result in our suffering or incurring delays, expenses and other problems associated with obtaining court approval of the joint arrangement;

(iii) the risk that such third parties may, through their activities on behalf of or in the name of the joint arrangements, expose or subject us to liability; and

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

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

## ORGANIZATIONAL STRUCTURE

We hold a 50% equity interest in Lorac, which is the manager of our FCPs and the registered owner on title to our Initial Properties. Lorac is also the manager of another fund and the registered owner on title to a portfolio of properties on behalf of that other fund. We and the owner of the remaining Lorac shares have entered into a shareholders' agreement, which provides us with the right to appoint three of the six directors of Lorac. In addition, the directors of Lorac have adopted governance rules pursuant to which, subject to applicable law, our appointed directors generally have responsibility for matters relating to our properties, and the other three directors, who are nominated by the other owner of the Lorac shares, generally have responsibility for matters affecting other properties of which Lorac is the registered owner on title. Pursuant to such shareholders' agreement and the governance rules, certain matters such as filing tax returns and shared employee matters will require the approval of a majority of the directors. Each of the directors has a fiduciary duty to act in the best interests of Lorac and Lorac has a duty to manage our FCPs and the other fund in the best interests of the respective unitholders. However, it is possible that we will need the approval of a majority of the directors of Lorac with respect to certain matters involving our properties and there can be no assurance that such matters will be approved at all or on the terms requested. Any matter with respect to which our appointed directors and those appointed by the other owner of the Lorac shares cannot agree will be submitted to the Lorac shareholders. However, since we have only 50% of the voting shares of Lorac, there can be no assurance that any such matter will be approved in the manner in which we would hope. Such dispute could have a material and adverse effect on our cash flows, financial condition and results of operations, and on our ability to make distributions on the Units or cash interest payments on the Debentures.

As manager of the other fund since 2008, Lorac has incurred and will continue to incur liabilities as a result of managing that other fund and its assets. To the extent that the other fund is unable to satisfy such liabilities, a third party could seek recourse against Lorac. If Lorac is unable to satisfy such liabilities, Lorac could be required to seek protection from creditors under applicable bankruptcy or insolvency legislation. Taking such steps could result in Lorac being replaced as the manager of our FCPs, with the result that legal title to our properties would be required to be transferred to a new manager. This would result in the payment of RETT in Germany. The amount of such taxes could have a material and adverse effect on our cash flows, financial condition and results of operations. We have negotiated certain limited indemnities from the other fund in connection with any prior existing liabilities of the other fund and with those that may arise as a result of actions or omissions of the other fund. In addition to the foregoing, we have been advised by our Luxembourg counsel that creditors of the other fund could only seek recourse against the assets of the other fund and could not seek recourse against the assets of our FCPs regardless of the fact that Lorac may have entered into the contract on behalf of the other fund or our FCPs creating such right to a claim.

New properties acquired by the Trust are held through Luxembourg limited liability entities outside of the Lorac arrangement.

## COMPETITION

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

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

## INSURANCE

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

# SECTION V – CRITICAL ACCOUNTING POLICIES

## CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS IN APPLYING ACCOUNTING POLICIES

Preparing the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosures of contingent liabilities. Management bases its judgments and estimates on historical experience and other factors it believes to be reasonable under the circumstances, but that are inherently uncertain and unpredictable, the result of which forms the basis of the carrying amounts of assets and liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment in the future to the carrying amounts of the asset or liability affected. Dream Global REIT’s critical accounting judgments, estimates and assumptions in applying accounting policies are described in Note 4 to the consolidated financial statements.

## CHANGES IN ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES

### Accounting policy changes

Dream Global REIT’s future accounting policy changes are described in Note 5 to the audited consolidated financial statements.

Additional information relating to Dream Global REIT, including our Annual Information Form dated March 31, 2014, is available on SEDAR at www.sedar.com.