INOVALIS REIT
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Three and nine-month periods ended September 30, 2014

The attached unaudited condensed interim consolidated financial statements have been prepared by management of Inovalis Real Estate Investment Trust and have not been reviewed by the auditors of the Company.

INOVALIS REIT
Interim Consolidated Balance Sheet

(in thousands of Canadian dollars)

Assets	Note	As at September 30, 2014	As at December 31, 2013
Non-current assets			
Investment properties	4	239,529	244,900
Investment accounted for using the equity method	5	14,617	-
Derivative financial instruments	8	967	-
Restricted cash and other financial assets		640	2,058
Total non-current assets		255,753	246,958
Current assets			
Trade and other receivables		3,423	1,746
Derivative financial instruments	8	699	-
Restricted cash		275	1,236
Cash and cash equivalents		19,770	6,120
Total current assets		24,167	9,102
Total assets		**279,920**	**256,060**

Liabilities and unitholders' equity	Note	As at September 30, 2014	As at December 31, 2013
Liabilities			
Non-current liabilities			
Mortgage loans	6	47,422	-
Finance lease liabilities	6	95,942	102,573
Lease equalization loan		2,795	1,470
Tenant deposits		984	1,189
Exchangeable securities	7	13,704	11,648
Derivative financial instruments	8	1,048	1,469
Total non-current liabilities		161,895	118,349
Current liabilities			
Finance lease liabilities	6	3,809	9,055
Lease equalization loan		92	
Tenant deposits		255	-
Exchangeable securities	7	1,346	586
Derivative financial instruments	8	427	1,002
Trade and other payables		5,205	4,068
Total Current liabilities		11,134	14,711
Total liabilities		173,029	133,060
Unitholders' equity			
Trust units		98,819	98,719
Retained earnings (deficit)		(1,205)	10,610
Accumulated other comprehensive income	8	9,277	13,671
Total Unitholders' equity		106,891	123,000
Total liabilities and unitholders' equity		**279,920**	**256,060**

See accompanying notes to condensed interim consolidated financial statements

On behalf of the Board of Trustees of Inovalis Real Estate Investment Trust:

Stéphane Amine
Chairman and Trustee

Daniel Argiros
Lead Trustee

INOVALIS REIT

Interim Consolidated Statement of Profit (loss)

(in thousands of Canadian dollars, except per unit amounts)

	Note	3 months ended September 30th 2014	3 months ended September 30th 2013	Year to date: 9 months ended September 30, 2014	Year to date: Period from February 8, 2013 to September 30, 2013
Rental income		4,291	4,409	13,836	7,893
Service charge income		1,044	796	3,266	1,993
Service charge expense		(685)	(262)	(4,330)	(2,389)
Other property operating expense		(42)	(118)	(13)	(339)
Net rental income		4,608	4,825	12,759	7,158
Administration expenses	*9*	(829)	(928)	(2,695)	(1,759)
Foreign exchange loss		1	-	(34)	-
Net change in fair value of investment properties	*4*	(365)	2,383	(921)	4,002
Gain on bargain purchase		-	-	-	9,677
Acquisition costs		(112)	(84)	(525)	(3,503)
Operating profit		3,303	6,196	8,584	15,575
Loss on financial instruments at fair value through profit or loss	*8*	(96)	(305)	(806)	(1,628)
Share of the profit of an investment accounted for using the equity method		82	-	82	-
Loss recognized on exercise of early payment option on finance leases	*6*	-	-	(7,972)	-
Interest income	*10*	375	5	387	13
Finance costs	*10*	(1,329)	(803)	(2,992)	(1,475)
Gain on disposal of a 50% interest in a subsidiary	*5*	250	-	250	-
Distributions on Exchangeable securities	*7*	(305)	(263)	(888)	(480)
Net change in fair value of Exchangeable securities	*7*	(124)	873	(1,449)	1,429
Profit (loss) before tax		2,156	5,703	(4,804)	13,434
Current income tax recovery (expense)		2	(4)	(25)	(8)
Profit (loss) for the period		**2,158**	**5,699**	**(4,829)**	**13,426**
Earnings per Unit:					
Basic profit (loss) per unit		0.19	0.50	(0.43)	1.18
Diluted profit (loss) per unit		0.19	0.40	(0.43)	0.99

See accompanying notes to condensed interim consolidated financial statements

Interim Consolidated Statement of Other Comprehensive Income (loss)

(in thousands of Canadian dollars)

	Note	3 months ended September 30th 2014	3 months ended September 30th 2013	Year to date: 9 months ended September 30, 2014	Year to date: Period from February 8, 2013 to September 30, 2013
Profit (loss) for the period		**2,158**	**5,699**	**(4,829)**	**13,426**
Items that will be reclassified subsequently to profit or loss					
Derivatives designated as a hedge in the net investment in a foreign entity	*8*				
Net gains		734	-	1,723	-
Derivatives designated as cash flow hedges	*8*				
Net losses		(1,002)	-	(2,004)	-
Reclassification of net losses to profit (loss)		96	-	96	-
Change in cumulative translation adjustment account		(4,104)	2,147	(4,209)	6,997
Total comprehensive income (loss) for the period		**(2,118)**	**7,846**	**(9,223)**	**20,423**

See accompanying notes to condensed interim consolidated financial statements

INOVALIS REIT

Interim Consolidated Statement of changes in Unitholders' Equity

(in thousands of Canadian dollars, except number of Units)			Attributable to Unitholders of the Trust			
Statement of changes in equity	**Note**	**Number of Units issued and outstanding**	**Trust Units**	**Retained earnings**	**Accumulated other comprehensive income**	**Total**
As at December 31, 2013		**11,285,087**	**98,719**	**10,610**	**13,671**	**123,000**
Distribution Reinvestment Plan		10,797	100	(100)		-
Distributions paid	*12*			(6,109)		(6,109)
Distributions payable	*12*			(777)		(777)
Transactions with owners		10,797	100	(6,986)	-	(6,886)
Loss for the period				(4,829)		(4,829)
Other comprehensive income (loss)						
Net changes in unrealized gains on derivatives designated as a hedge in the net investment in a foreign entity					1,723	1,723
Net changes in unrealized losses on interest rate derivatives designated as a cash flow hedge					(1,908)	(1,908)
Change in cumulative translation adjustment account					(4,209)	(4,209)
Total comprehensive loss for the period		-	-	(4,829)	(4,394)	(9,223)
As at September 30, 2014		**11,295,884**	**98,819**	**(1,205)**	**9,277**	**106,891**
As at February 8, 2013		-	-	-	-	-
Public offering of Units		11,370,000	113,700			113,700
Repurchase of units for conversion into exchangeable securities		(87,000)	(870)			(870)
Issue costs			(13,569)			(13,569)
Distribution Reinvestment Plan		560	5			5
Distributions paid	*12*			(3,668)		(3,668)
Distributions payable	*12*			(776)		(776)
Transactions with owners		11,283,560	99,266	(4,444)	-	94,822
Profit for the period				13,426		13,426
Other comprehensive income						
Change in cumulative translation adjustment account					6,997	6,997
Total comprehensive income for the period		-	-	13,426	6,997	20,423
As at September 30, 2013		11,283,560	99,266	8,982	6,997	115,245

See accompanying notes to condensed interim consolidated financial statements

INOVALIS REIT
Interim Consolidated Statement of Cash Flows

(in thousands of Canadian dollars)

	Note	3 months ended September 30th 2014	3 months ended September 30th 2013	Year to date: For the 9 months ended September 30, 2014	Year to date: Period from February 8, 2013 to September 30, 2013
Operating activities					
Profit (loss) before taxes for the period		2,156	5,703	(4,804)	13,434
Adjustments for non-cash items and other reconciling items:					
Rent free period		(476)	(511)	(1,430)	(927)
Management fees paid in Exchangeable securities		422	396	1,314	723
Net change in fair value of investment properties		365	(2,383)	921	(4,002)
Loss on financial instruments at fair value through profit or loss		96	305	806	1,628
Distributions on Exchangeable securities	7	305	263	888	480
Net change in fair value of Exchangeable securities	7	124	(873)	1,449	(1,429)
Interest revenue recognized		(375)	(5)	(387)	(13)
Interest expense		1,329	803	2,992	1,475
Distributions on Exchangeable securities paid in the form of interest on notes issued by a subsidiary	7	(141)	(232)	(436)	(232)
Income taxes paid		(1)	-	(19)	-
Loss recognized on exercise of early payment option on finance leases		-	-	7,972	-
Gain on bargain purchase		-	-	-	(9,677)
Share of the profit of an investment accounted for using the equity method		(82)	-	(82)	-
Net impact of disposal of a 50% interest in a subsidiary		232	-	232	-
Unrealized exchange gains (losses)		(70)	-	10	-
Cash items classified as operating activities					
Interest revenue received		246	5	258	13
Interest paid		(885)	(481)	(2,215)	(776)
Acquisition costs classified in investing activities		112	84	525	3,503
		3,357	3,074	7,994	4,200
Working capital adjustments:					
Increase (decrease) in trade and other receivables		(654)	(154)	(2,345)	(2,544)
Increase (decrease) in tenant deposits		(3)	20	95	1,125
Increase (decrease) in trade and other payables		(11,631)	(3,697)	1,887	5,287
Settlement of derivative financial instruments related to interest rate hedges		(82)	-	(82)	-
Net cash flow related to operating activities		(9,013)	(757)	7,549	8,068
Investing activities					
Business acquisition		-	-	-	(96,348)
Acquisition costs		(112)	(84)	(525)	(3,503)
Finance lease debt reimbursement and SWAP settlement		-	-	-	(5,498)
Additions to invesment properties, net of reimbursements		77	-	18	-
Proceeds from sale of a 50% interest in a subsidiary		9		9	
Investment in loans to a joint venture		(15,200)		(15,200)	
Decrease (increase) in other financial assets		(281)	23	2,384	(2,470)
Net cash flow related to investing activities		(15,507)	(61)	(13,314)	(107,819)
Financing activities					
Units issued for cash		-	(870)	-	112,830
Unit issue costs		-	-	-	(13,569)
Exchangeable securities issued for cash	7	-	870	-	12,558
Distributions on Units paid in cash	12	(2,295)	(2,334)	(6,886)	(3,663)
Settlement of derivative financial instruments related to foreign exchange		138	(78)	(2,984)	(78)
Distributions on Exchangeable securities paid in the form of repayment of interest bearing notes issued by a subsidiary	7	(93)	-	(569)	-
Proceeds from new mortgage loans, net of transaction costs	6	(70)	-	50,768	-
Proceeds from new sale-leaseback, net of initial down payment	6	-	-	85,708	-
Transaction fees related to new lease		-	-	(2,633)	-
Repayment of lease liability upon exercise of early payment option		-	-	(100,095)	-
Regular repayment of finance lease liabilities		(945)	(1,698)	(4,055)	(3,119)
Purchase of derivative financial instrument - CAP on mortgage loan interest		-	-	(529)	-
Lease equalization loan		476	426	1,430	927
Net cash flow related to financing activities		(2,789)	(3,684)	20,155	105,886
Net increase in cash and cash equivalents		(27,309)	(4,502)	14,390	6,135
Effects of foreign exchange adjustments		(695)	54	(740)	2,314
Cash and cash equialents at the beginning of the period		47,774	12,897	6,120	**-**
Cash and cash equivalents		**19,770**	**8,449**	**19,770**	**8,449**
Cash and cash equivalents at the end of the period:					
Cash		19,534	8,215	19,534	8,215
Cash equivalents..		236	234	236	234
		19,770	8,449	19,770	8,449

See accompanying notes to condensed interim consolidated financial statements

Note 1 – Organization

Inovalis Real Estate Investment Trust (the "Trust") is an open-ended real estate investment trust created pursuant to a Declaration of Trust dated February 8, 2013, under the laws of the Province of Ontario, Canada. These condensed interim consolidated financial statements include the accounts of the Trust and its subsidiaries (together the "REIT"). The REIT's investment property portfolio is comprised of office rental properties located in France and Germany.

The REIT's head and registered office is located at 151 Yonge Street, 11th floor, Toronto, Ontario, M5C 2W7. The REIT's units are listed on the Toronto Stock Exchange ("TSX") under the symbol INO.UN.

The REIT's condensed interim consolidated financial statements for the three and nine-month periods ended September 30, 2014, were authorized for issuance by the Board of Trustees on November 10, 2014.

Note 2 – Basis of preparation of condensed interim consolidated financial statements

Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. They are condensed and do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 2013 audited consolidated annual financial statements.

Basis of presentation

The unaudited condensed interim consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars for reporting to the REIT's Canadian Unitholders. All financial information has been rounded to the nearest thousand (CAD$ 000) except when otherwise indicated.

Note 3 – Significant accounting policies

The condensed interim consolidated financial statements have been prepared in accordance with the accounting policies adopted in the REIT's most recent annual financial statements for the year ended December 31, 2013, except for the application of the following new policies applied in 2014.

IFRIC 21 Levies

IFRIC 21 is applicable for all years starting on or after January 1, 2014. IFRIC 21 clarifies that the obligating event that gives rise to a liability is the activity that triggers the payment of the levy, as identified by the government's legislation. If this activity arises on specific dates within the accounting period then the entire obligation is recognized on that date. IFRIC 21 has no effect on the REIT's annual financial statements but it affects the timing of recognition of property taxes between interim periods. Prior to the implementation of IFRIC 21, property taxes expense was recognized gradually over the year, resulting in the recognition of a liability or a prepaid expense at interim reporting dates. The application of IFRIC 21 requires the REIT to recognize the entire obligation at the beginning of the period, which is the date specified in the relevant legislation. The relevant legislation for the REIT is the legislation pertaining to property and office tax in France and Germany. To avoid double-counting however, this expense must be removed from the discounted cash flows that are used to determine the fair value of the related investment properties, resulting in a compensating variance. Accordingly, there was no impact on the opening retained earnings as of February 8, 2013 nor in the comparative consolidated balance sheet as at December 31, 2013. However, the interim consolidated statement of profit (loss) for the three and nine-month periods ended September 30, 2013 were restated as follows:

(All dollar amounts are in thousands of Canadian dollars, except unit or per unit amounts)

	2014					2013	
	Q1	Q2	Q3	Q4	Total for year	3 months	9 months
Impact on Balance sheet							
Increase in fair value of Investment properties	1,659	1,123	553	-			
Increase in Trade and other payables	(1,659)	(1,123)	(553)	-			
Net change to retained earnings	-	-	-	-			
Impact on Quarterly Income Statement							
Decrease (Increase) in service charge expense	(1,659)	536	570	553	-	550	(573)
Increase (decrease) in Net change in fair value of investment properties	1,659	(536)	(570)	(553)	-	(550)	573
Net change to profit for the period	-	-	-	-	-	-	-

IFRIC 21 has been applied retrospectively in accordance with its transitional provisions.

Derivative financial instruments and hedge accounting – initial recognition and subsequent measurement

On April 22, 2014, the REIT settled its' previously held foreign exchange contracts and entered into a new series of foreign exchange contracts at more favourable rates. The new contracts were designated as hedges of the REIT's net investment in a foreign operation.

On May 5, 2014, and on June 20, 2014, concurrent with the implementation of the new financing arrangements described in Note 6 – Mortgage loans and finance lease liabilities, the REIT entered into SWAP and CAP contracts that were designated as cash flow hedges aimed at mitigating the impacts of unfavorable variations in interest rates.

At that time that each of these contracts was entered in to, the REIT started applying the applicable standards related to hedge accounting. According to these standards, all these contracts are considered to be derivative financial instruments. Derivative financial instruments are initially recognized at their fair values on the date at which a derivative contract is entered into and are subsequently measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. At the inception of a hedge relationship, the REIT formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated. The effective portion of the gain or loss on the hedging instruments is recognized in other comprehensive income (loss), while any ineffective portion is recognized immediately in profit or loss. Amounts recognized in other comprehensive income (loss) are transferred to profit or loss when the hedged item affects profit or loss, for example: when the net investment in a foreign operation is disposed of resulting in a gain or loss or, in the case of an interest rate hedge, when interest payments associated with the contract are settled.

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IFRS 11 Joint arrangements and IAS 28 Investments in associates and joint ventures

With the disposition of a 50% interest of a subsidiary - CanCorp Duisburg - on July 3, 2014 and the investment in a joint arrangement with the purchaser of that interest, the REIT has applied IFRS 11 and IAS 28 for the first time. Refer to note 5 for a detailed description of the transaction and the subsequent measurement of the investment.

IFRS 11 Joint arrangements applies to situations where decisions about the relevant activities of a joint arrangement require the unanimous consent of the parties sharing control. A joint arrangement is classified either as a joint operation or a joint venture. A joint operation is an arrangement whereby joint operators have rights to the assets, and obligations for the liabilities, relating to the arrangement whereas a joint venture is an arrangement whereby joint venturers only have rights to the net assets of the arrangement.

Management has assessed the classification of its remaining 50% interest in CanCorp Duisburg and concluded that it is a joint venture.

Investments in joint ventures are accounted for using the equity method. The carrying amount includes the investment in the joint venture determined using the equity method together with any long-term interests that, in substance, form part of the entity's net investment in the joint venture. The carrying amount of the investment in joint ventures is increased or decreased to recognize the Group’s share of the profit or loss and other comprehensive income (loss) of the joint venture, adjusted where necessary to ensure consistency with the accounting policies of the REIT. Unrealized gains and losses on transactions between the REIT and its joint venture are eliminated to the extent of the REIT’s interest in the joint venture.

Estimates

When preparing the condensed interim consolidated financial statements, management uses a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions used by management.

The judgements, estimates and assumptions used in the condensed interim consolidated financial statements including the key sources of estimation uncertainty are the same as those used in the preparation of the REIT’s last audited annual consolidated financial statements for the year ended December 31, 2013.

Note 4 – Investment properties

Investment properties		**Period from January 1, 2014 to September 30, 2014**	**Period from February 8, 2013 to December 31, 2013**
Beginning of period		**244,900**	**-**
Additions, net of reimbursements		(18)	36
Acquisitions through business combination		-	217,519
Amount derecognized upon exercise of early purchase option on lease - see note 6		(122,420)	-
Amount recognized upon entry into new sales-leaseback arrangement - see note 6		122,420	-
Transaction and transfer fees related to new sales-leaseback arrangement - see note 6		2,633	-
Rent free period		1,430	1,389
IFRIC 21 adjustment (Note 3)	555		-
Valuation gains (losses) from fair value adjustment on investment properties	(1,476)		5,894
Net change in fair value of investment properties	(921)	(921)	-
Foreign currency translation adjustment		(8,495)	20,062
End of period		**239,529**	**244,900**

(All dollar amounts are in thousands of Canadian dollars, except unit or per unit amounts)

Note 5 – Investment accounted for using the equity method

On July 3, 2014 the REIT ceded a 50% interest in its newly created wholly-owned subsidiary, CanCorp Duisburg I S.à.r.l. (CCD) in exchange for $9, thus forming a joint venture. CCD is a private limited liability company incorporated under the laws of Luxembourg having its registered office in Luxembourg. This joint venture then proceeded immediately therafter with the purchase of an office property located in Duisburg, Germany.

In conformity with IFRS 10, when the REIT lost control of CCD, it derecognised the assets and liabilities of its former subsidiary from its consolidated balance sheet and recognised the investment retained in the former subsidiary at its fair value at the time control was lost. At the time control was lost, CCD was in a deficit position and this deficit was funded solely by an intercompany loan due to the REIT. Consequently, the fair value of the equity component of the REIT's investment in CCD was estimated as 50% of the value of CCD's net deficit or $241. The difference between the negative fair value of the investment retained and the sum of the net liabilities derecognised and the cash received was recognized in the gain on disposal of $250. In addition, the REIT made an interest-bearing loan of $15,200 to CCD, which was repayable on demand.

The principal business activity of the joint venture is to invest in an investment property and lease office space located in Duisburg, Germany. This activity is an extension of the REIT's strategy of investing in and operating similar investment properties in France and Germany.

The Property that was acquired by CCD is fully leased until December 31, 2020. This acquisition was accounted for by CCD as an asset acquisition rather than a business combination, because the acquisition did not involve the transfer of any management processes.

Outlined below is a breakdown of the carrying amounts of the components of the investment in the CCD joint venture:

Carrying amount of investment in a joint venture	**For the 3 months ended September 30, 2014**
Total investment in a joint venture - Balance at the beginning of the period	-
Equity component of investment	
Net Carrying amount of equity investment in joint venture - Balance at the beginning of the period	-
Recognized carrying amount of Initial investment - at fair value on July 3, 2014	(241)
Plus: pro rata share of post-acquisition earnings, net of consolidation adjustments	82
Foreign currency translation adjustment	6
Net Carrying amount of equity investment in joint venture - Balance at the end of the period	(153)
Debt component of investment (classified as loans and receivables)	
Net Carrying amount of interest-bearing loan to joint venture - Balance at the beginning of the period	-
Balance of intercompany loan recognized distinctly at time of cession of control on July 3, 2014	15,200
Increase in loan amount during the period	53
Foreign currency translation adjustment	(483)
Net Carrying amount of interest-bearing loan to joint venture - Balance at the end of the period	14,770
Total investment in a joint venture - Balance at the end of the period	14,617

(All dollar amounts are in thousands of Canadian dollars, except unit or per unit amounts)

Note 6 – Mortgage loans and finance lease liabilities

Entity	Nominal value (in 000's of €)	Nominal value (in 000's of $)	Interest rate	Maturity	As at September 30, 2014 Total	Non-current	Current
Mortgage loan - Véronèse SCI	14,500	20,522	Euribor 3M + 1,75%[1]	2019-05-05	20,245	20,245	-
Mortgage loan - Jeûneurs SCI	19,500	27,598	Euribor 3M + 1,75%[1]	2019-05-05	27,177	27,177	-
Mortgage loans	**34,000**	**48,120**			**47,422**	**47,422**	**-**
Finance lease liabilities - BBA SCI	58,033	82,134	Euribor 3M + 2%[2]	2026-06-20	82,135	79,174	2,961
Finance lease liabilities - CanCorpHanover	12,987	18,381	Euribor 3M + 0.82%	2023-06-30	17,616	16,768	848
Finance lease liabilities	**71,020**	**100,515**			**99,751**	**95,942**	**3,809**
Total lease and loan financing	**105,020**	**148,635**			**147,173**	**143,364**	**3,809**

Note 1 : Interest rate is subject to a CAP - see note 8 *Financial derivatives and hedging activities*

Note 2 : Interest rate is subject to SWAP - see note 8 *Financial derivatives and hedging activities*

Entity	Nominal value (in 000's of €)	Nominal value (in 000's of $)	Interest rate	Maturity	As at December 31, 2013 Total	Non-current	Current
Finance lease liabilities - BBA SCI	38,721	56,746	Euribor 3M + 1.15%	2016-12-02	54,645	50,011	4,634
Finance lease liabilities - Véronèse SCI	12,163	17,825	Euribor 3M + 1.20% & Euribor 3M + 2.20%	2015-10-16	17,624	15,767	1,857
Finance lease liabilities - Jeûneurs SCI	15,128	22,170	Euribor 3M + 1.05%	2019-01-13	20,882	18,951	1,931
Finance lease liabilities - CanCorpHanover	13,372	19,597	Euribor 3M + 0.82%	2023-06-30	18,477	17,844	633
Total finance lease liabilities	**79,384**	**116,338**			**111,628**	**102,573**	**9,055**

The REIT holds certain leasehold properties that it classifies as investment properties (See Note 4 - Investment properties). The leases are accounted for as finance leases.

In these leases, the REIT has the option to purchase each of the properties at the end of their respective leases. The fixed price of the option to purchase is expected to be lower than the fair value at the date the option becomes exercisable.

At the inception of the leases, the REIT as lessee paid a down payment to the lessor. The financial lease liability is presented net of this down payment.

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Explanation of principal changes during the period

In preparation for its planned acquisition of a 50% interest in a new investment property in Duisburg, Germany, the REIT refinanced its existing investment properties in France. This was done in two steps as follows:

Firstly, on May 5, 2014, the REIT exercised its option to purchase the Jeûneurs and Courbevoie investment properties that had, up to the moment of the transaction, been leased by its Jeûneurs SCI and Véronèse SCI subsidiaries respectively. Concurrently, the REIT entered into a mortgage loan agreement with ING Bank. The mortgage loan, which had a principal amount of 34 million Euros, is comprised of two tranches – one of 19.5 million Euros for the Jeûneurs property and one of 14.5 million Euros for the Courbevoie property. The mortgage loan has a term of five years maturing on May 5, 2019. The loan agreement does not specify any requirements for principal repayments, except at maturity or in exceptional circumstances. Interest payments, which will be made quarterly on March 31, June 30, September 30, and December 31, will be variable, based on the 3 Month EURIBOR rate plus a spread of 1.75%. The EURIBOR portion of the interest payments has been hedged using an interest rate cap with a strike price of 2%. For more information regarding the hedges, refer to note 8 - Financial derivatives and hedging activities.

Secondly, on June 20, 2014, the REIT exercised its option to purchase the Vanves investment property that had, up to the moment of the transaction, been leased by its BBA SCI subsidiary. Concurrently, the REIT entered into a sale-leaseback arrangement with CMCIC LEASE S.A. The lease is for a total amount of 83.7 million Euros, less a down-payment of 25.1 million Euros giving a net lease amount of 58.6 million Euros. The lease has a term of twelve years maturing on June 20, 2026. The rent, which is paid quarterly in advance, includes a component representing the repayment of capital and a component representing the repayment of interest. The interest charges will be variable, based on the 3 Month EURIBOR rate plus a spread of 2%. The EURIBOR portion of the interest charges have been hedged using an interest rate swap with a fixed rate of 0.685%. For more information regarding the hedges, refer to note 8 - Financial derivatives and hedging activities.

The impact of each the repayment and financing transactions is outlined below:

Summary of repayment transactions

Summary of early purchase option transaction	**Jeûneurs & Véronèse SCI**	**BBA**	**Total**
Payment amount			
Purchase option exercise price	42,498	57,498	99,996
Less: amount of down payment	(1,036)	(2,642)	(3,678)
Net exercise price	41,462	54,856	96,318
Plus: transaction costs	2,823	954	3,777
Total cash outflow	44,285	55,810	100,095
Accounting distribution			
Reduction of lease liability	40,547	54,856	95,403
Amounts included in loss detailed below	3,738	954	4,692
Total payment amount	44,285	55,810	100,095
Loss on exercise of early purchase of option			
Transaction costs	2,823	954	3,777
Contractual compensation to lender & Other	915	-	915
	3,738	954	4,692
Write-off of unamortized discount on lease liabilities[2]	1,398	1,882	3,280
Total loss on exercise of early purchase option	5,136	2,836	7,972

Note 1 : The transaction fees related to the BBA SCI transaction were allocated to the cost of the investment property
Note 2 : When the REIT acquired these properties in 2013, it accounted for the acquisition as a business combination and recognized the lease liabilities at their fair value which was less than their actual outstanding amount at the time due to the effect of discounting using current interest rates. This discount has been amortized using the effective interest method

(All dollar amounts are in thousands of Canadian dollars, except unit or per unit amounts)

Summary of new financing transactions

Summary of new financing transactions	Jeûneurs & Véronèse SCI	BBA	Total
Mortgage loans			
Proceeds received from new loan	51,714	-	51,714
Less: transaction costs related to loan[1]	(946)	-	(946)
Total cash inflow	50,768	-	50,768
Financial Lease			
Total amount of finance lease	-	122,420	122,420
Less: initial down payment amount	-	(36,712)	(36,712)
Net amount of financing received	-	85,708	85,708
Investment properties			
Total amount of finance lease	-	122,420	122,420
Transaction fees related to new lease	-	1,274	1,274
Transfer fees related to new lease		1,359	1,359
Total transaction and transfer fees[2]	-	2,633	2,633
Amount recognized as investment properties	-	125,053	125,053

Note 1 : The transaction costs for the loan were recognized in the carrying amount of the loan and amortized using the effective interest method
Note 2 : The transaction and transfer costs for the sale-leaseback were capitalized as part of the cost of the investment property

A reconciliation between the total of future minimum lease and mortgage payments at the end of the reporting period, and their respective present value follows:

	As at September 30, 2014		As at December 31, 2013	
Carrying value and minimum lease payments	**Carrying value**	**Minimum lease payments**	**Carrying value**	**Minimum lease payments**
Within 1 year	3,807	6,352	9,055	9,567
After 1 year, but not more than 5 years	18,687	28,112	76,380	84,756
More than 5 years	77,257	89,722	26,193	31,054
Total carrying value and minimum lease payments	**99,751**	**124,186**	**111,628**	**125,377**
Less : future interest costs		(24,435)		(13,749)
Total carrying value and present value	**99,751**	**99,751**	**111,628**	**111,628**
Of which is non-current	95,944		102,573	
Of which is current	3,807		9,055	

(All dollar amounts are in thousands of Canadian dollars, except unit or per unit amounts)

Note 7 – Exchangeable securities

Exchangeable securities issued and outstanding	Investment by Inovalis S.A. in CanCorpEurope S.A. Common shares (number)	Investment in shares & share premium	Investment in Debt instruments[1]	Total investment	Exchangeable securities Number of Exchangeable securities	Carrying amount of Exchangeable securities
Balance - February 8, 2013					-	-
Transactions in 2013						
Initial investment at the time of the IPO, including the overallotment	170	1,198	11,360	12,558	1,255,762	12,558
Asset management fees paid in Exchangeable securities	-	113	1,085	1,198	132,923	1,198
Distribution of Exchangeable securities paid in the form of reimbursement of notes			(161)	(161)	-	-
Net change in fair value of Exchangeable securities					-	(1,522)
Foreign Currency translation adjustment			1,214	1,214	-	-
Balance - December 31, 2013	**170**	**1,311**	**13,498**	**14,809**	**1,388,685**	**12,234**
Transactions in 2014						
Asset management fees paid in Exchangeable securities		131	1,236	1,367	140,747	1,367
Distribution of Exchangeable securities paid in the form of reimbursement of notes			(569)	(569)	-	-
Net change in fair value of Exchangeable securities			-	-	-	1,449
Foreign Currency translation adjustment			(470)	(470)	-	-
Balance - September 30, 2014	**170**	**1,442**	**13,695**	**15,137**	**1,529,432**	**15,050**

At the end of the period, the outstanding balances of the debt instruments payable by CanCorpEurope to Inovalis S.A. were as follows:

Debt instruments	Nominal interest rate	Maturity date	Amount as at September 30, 2014	Amount as at December 31, 2013
Interest bearing note	9.00%	10 April 2028	5,785	5,988
Interest bearing note	4.50%	10 April 2028	1,659	1,575
			7,444	7,563
Non-interest bearing note		10 April 2028	6,251	5,935
			13,695	**13,498**

[1]The debt instruments issued by CanCorpEurope in favour of Inovalis S.A. mature on April 10, 2028, unless Inovalis S.A. exercises its exchange privileges prior to that date. The difference between the carrying amount of the Exchangeable securities at the end of the current reporting period and the amount that the REIT would be contractually required to pay at maturity to the holder of the debt instruments is $658. The REIT would not be required to pay any amount for the Investment in shares & share premium.

According to the amended and restated exchange agreement, if upon maturity of the debt instruments, the unit price of the REIT's units are less than $10 per unit (the price at which the Exchangeable securities were initially issued), the REIT has the right to exchange the Exchangeable securities for units of the REIT rather than reimburse the debt.

As part of the Initial Public Offering ("IPO") that the REIT realized in April 2013, Inovalis S.A, who acts as the manager of the REIT, purchased, at the offering price of $10 per unit, an approximate 10% ownership interest in the REIT on a fully exchangeable basis. This ownership interest was exercised through the purchase of interest bearing notes, non-interest bearing notes and common shares of CanCorpEurope S.A., the REIT's holding company for its European assets. These instruments, which are collectively referred to as the Exchangeable securities, are economically equivalent to and exchangeable at the option of Inovalis S.A. for units of the Trust.

In performing its obligations under the Management Agreement, Inovalis S.A., is entitled to receive asset management fees. These asset management fees earned by Inovalis S.A., in its role as manager of the REIT, are payable quarterly in arrears, entirely in Exchangeable securities. The per-unit value of Exchangeable securities issued by

(All dollar amounts are in thousands of Canadian dollars, except unit or per unit amounts)

CanCorpEurope S.A. in lieu of payment for annual management fees is determined using the average quoted market price of the REIT's units on the Toronto stock exchange for the five days immediately preceding the transaction.

The Exchangeable securities acquired at the time of the Initial Public Offering are subject to the Initial Retained Interest Escrow whereby they will be automatically released from escrow to Inovalis S.A. on the third anniversary of the closing. During the Initial Retained Interest Escrow period, Inovalis S.A. is restricted from selling its Initial Retained Interest but will retain all ownership rights. Further, 50% of the Exchangeable securities issued for payment of management fees are subject to an escrow arrangement that only releases the Exchangeable securities after the termination of the Management agreement or after the internalisation of Management to the REIT. In the case of internalization, one third of the latter securities will be released immediately and one third will be released on the first and second anniversary of internalization. Once the Exchangeable securities are released from escrow, it will be possible for Inovalis S.A. to receive one of the REIT's units for each of its Exchangeable securities.

				As at September 30, 2014
Exchangeable securities in escrow until internalization of management	**Number in escrow - presented as non-current**	**Number not in escrow - presented as current**	**Total number of Exchangeable securities**	**Carrying amount of Exchangeable securities**
Securities issued at the time of the IPO in 2013, including overallotment	1,255,762		1,255,762	12,358
Securities issued in lieu of asset management fees	136,835	136,835	273,670	2,692
Total number of Exchangeable securities outstanding	1,392,597	136,835	1,529,432	15,050
Classification of liability for Exchangable securities (000'$)	13,704	1,346		15,050

				As at December 31, 2013
Exchangeable securities in escrow until internalization of management	**Number in escrow - presented as non-current**	**Number not in escrow - presented as current**	**Total number of Exchangeable securities**	**Carrying amount of Exchangeable securities**
Securities issued at the time of the IPO	1,168,762		1,168,762	10,297
Securities issued in connection with the overallotment	87,000		87,000	766
Securities issued in lieu of asset management fees	66,462	66,461	132,923	1,171
Total number of Exchangeable securities outstanding	1,322,224	66,461	1,388,685	12,234
Classification of liability for Exchangable securities	11,648	586		12,234

For a period of three years following the IPO, payment of initial interest related to the interest bearing Notes and repayment of the initial non-interest bearing notes are subordinated to the payment of cash distributions to the Unitholders, with the effect that distributions will only be paid on the Exchangeable securities held by Inovalis S.A. on a distribution date if the REIT has paid a distribution of at least $0.06875 per Unit to Unitholders in respect of the applicable month in which the applicable distribution date falls.

In the event that, on or after April 10, 2028, the units of the REIT have a current market price of less than $10, the REIT shall have the right to require Inovalis S.A. to exchange all of its Exchangeable securities for units of the REIT at a price determined using the average quoted market price of the REIT's units on the Toronto stock exchange for the five days immediately preceding the transaction.

The Exchangeable securities represent a financial liability and were designated at fair value through profit or loss.

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Distributions in respect of Exchangeable securities:

The Exchangeable securities entitle the holders to cash distributions from CanCorpEurope S.A. equal, on a per Unit basis, to the distributions paid to holders of Units by the REIT.

The following table breaks down distribution payments:

	3 months ended September 30,		Year to date	
Distributions in respect of Exchangeable securities	**2014**	**2013**	**For the 9 months ended September 30, 2014**	**For the period from February 8, 2013 to September 30, 2013**
Amount payable at the beginning of the period	25	217	213	-
Declared and recognized during the period	305	263	888	480
Accrued or paid in cash in the form of interest on interest bearing notes issued by CanCorpEurope S.A.	(141)	(232)	(436)	(232)
Paid in cash in the form of repayment of interest bearing notes issued by CanCorpEurope S.A.	(93)	-	(569)	-
Amount payable at the end of the period	96	248	96	248
Total distributions on Exchangeable securities recognized in profit or loss	**305**	**263**	**888**	**480**
Weighted average number of Exchangeable securities outstanding..	1,481,199	1,169,194	1,435,977	1,169,194
Distributions paid per unit (based on weighted average Exchangeable securities outstanding)............	0.1580	0.1984	0.6999	0.1984

Note 8 – Financial derivatives and hedging activities

On April 22, 2014, the REIT proceeded with the settlement of the 24 hedge contracts still outstanding from its original hedging strategy entered into shortly after the initial public offering in April 2013. These contracts provided for the monthly purchase of $721,875 Canadian at an exchange rate of 1.3211 Canadian dollars per euro. The settled contracts covered monthly periods up to and including April 16, 2016. A loss of approximately $2,800 was realized at the time of settlement. This loss had been previously recognized in profit or loss, since the hedges were presented as derivative financial instruments classified as at fair value through profit or loss.

Subsequent to this settlement, the REIT entered into a series of 36 monthly foreign currency hedge contracts whereby the REIT can purchase $750,000 each month at an exchange rate of 1.54374 Canadian dollars per euro. The new contracts cover monthly periods up to and including April 13, 2017. These contracts have been designated as hedges of the REIT's net investment in a foreign operation.

Included in the new financing arrangements described in Note 6, are an interest Rate SWAP and an interest rate CAP. These features of the new financing arrangements have been separated from the main contracts and accounted for and measured separately. These arrangements are settled on a net basis at every interest payment date. These contracts have been designated as cash flow hedges.

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A summary of the derivative financial instruments held by the REIT is outlined below:

		Period covered		Coversion from/to			As at September 30, 2014		As at December 31, 2013	
Classification and type	Number of contracts	From	To	Euros or rate	$ or rate	Rate	Total notional amount in $	Fair value in $	Total notional amount in $	Fair value in $
Foreign exchange - new	31	2014-10-14	2017-04-13	486	750	1.54374	23,250	1,527		
SWAP	1	2014-10-01	2019-10-01	Variable	Fixed	0.685%	82,854	(1,475)		
CAP	2	2014-05-05	2019-05-05	Variable	Capped	2.000%	48,120	139		
Foreign exchange - old	28	2014-01-14	2016-04-14	546	721	1.3211			20,188	(2,471)
								191		**(2,471)**

Period-to-period reconciliation	Interest rate hedges	Previous Foreign exchange contracts	New Foreign exchange contracts	Total Assets and Liabilities	Reclassified to from OCI	Amount recognized in profit or loss
Balance - Begining of period	-	(2,471)	-	(2,471)		
Gains (losses) recognized in profit or loss	-	(710)	-	(710)	(96)	(806)
Purchase of CAP	529	-	-	529		
Settlement of contracts	82	3,181	(196)	3,067		
Gains (losses) recognized in Other comprehensive income	(2,004)	-	1,723	(281)		
Exchange variation	57			57		
Balance - End of period	(1,336)	-	1,527	191		
Presented as:						
Non-current assets	139	-	828	967		
Current assets	-	-	699	699		
Non-current liabiltiies	(1,048)	-	-	(1,048)		
Current liabilities	(427)	-	-	(427)		
	(1,336)	-	1,527	191		

Period-to-period reconciliation	Interest rate hedges	Previous Foreign exchange contracts	New Foreign exchange contracts	Sub-Total for hedging activities	Currency translation adjustment account	Total Other comprehensive income
Reconciliation of Other comprehensive income						
Balance - beginning of the year	-	-	-	-	13,671	13,671
Gains (losses) recognized in Other comprehensive income	(2,004)	-	1,723	(281)		(281)
Reclassification of net losses to net income	96	-	-	96		96
Change in cumulative translation adjustment account	-	-	-	-	(4,209)	(4,209)
Balance - End of the year	(1,908)	-	1,723	(185)	9,462	9,277

(All dollar amounts are in thousands of Canadian dollars, except unit or per unit amounts)

Note 9 – Administration expenses

	Three months ended September 30,		Year to date	
Administration expenses	**2014**	**2013**	**For the 9 months ended September 30, 2014**	**For the period from February 8, 2013 to September 30, 2013**
Asset management fees - related parties	(475)	(392)	(1,367)	(712)
Less: amount reinvoiced to joint venture	53	-	53	-
	(422)	(392)	(1,314)	(712)
Other general and administrative expenses	(368)	(524)	(1,342)	(1,024)
Other general and administrative expenses - related parties	(39)	(12)	(39)	(23)
Total administration expenses	**(829)**	**(928)**	**(2,695)**	**(1,759)**

Other general and administrative expenses include accounting and bookkeeping fees, legal and consulting fees, statutory auditors' fees, costs related to shareholder relations and, where applicable, non-refundable VAT.

Note 10 – Finance costs

	Three months ended September 30,		Year to date	
Net finance costs	**2014**	**2013**	**For the 9 months ended September 30, 2014**	**For the period from February 8, 2013 to September 30, 2013**
Interest costs related to finance leases	(581)	(420)	(1,430)	(776)
Interest costs related to mortgage loans	(252)	-	(412)	-
Interest costs related to lease equalisation loan	(33)		(86)	-
	(866)	(420)	(1,928)	(776)
Other finance costs	(295)		(276)	
Standby charge on finance lease during approval period	-		(143)	
Other interest paid to a related party	-	-	(4)	
Finance costs of derivatives, net	(21)		-	
	(1,182)	(420)	(2,351)	(776)
Amortization of fair value adjustment on finance leases assumed at a discount at the time of a business acquisition	(24)	(383)	(448)	(699)
Amortization of transaction costs on mortgage loans	(123)	-	(193)	-
Total Finance costs	(1,329)	(803)	(2,992)	(1,475)
Finance income	1	5	13	13
Finance income from associates	374	-	374	-
Total Finance income	**375**	**5**	**387**	**13**
Net Finance costs	**(954)**	**(798)**	**(2,605)**	**(1,462)**

(All dollar amounts are in thousands of Canadian dollars, except unit or per unit amounts)

Note 11 – Earnings per Unit

The REIT has classified the Units that it issued as equity pursuant to the provisions of IAS 32, Financial Instruments: Presentation, on the basis that the Units meet all of the criteria in IAS 32 for such classification, also referred to as the "puttable exemption".

(a) Basic earnings per Unit

Basic earnings per unit is calculated by dividing the profit attributable to the Unitholders of the REIT by the weighted average number of Units outstanding during the period.

	Three months ended September 30,		Year to date	
Basic earnings per Unit	**2014**	**2013**	**For the 9 months ended September 30, 2014**	**For the period from February 8, 2013 to September 30, 2013**
Net profit (loss) attributable to unitholders	2,158	5,699	(4,829)	13,426
Weighted average number of units outstanding	11,294,066	11,353,157	11,290,344	11,361,042
Basic earnings per unit	**0.19**	**0.50**	**(0.43)**	**1.18**

(b) Diluted earnings per Unit

Diluted earnings per unit is calculated by adjusting the weighted average number of Units outstanding to assume conversion of all dilutive potential Units. The REIT has one category of dilutive potential Units: the Exchangeable securities. Refer to Note 6 - Exchangeable securities for the number of Exchangeable securities outstanding. When dilution does not result in a reduction in earnings per unit or an increase in loss per share unit, the diluted earnings per share is identical to basic earnings per unit.

	Three months ended September 30,		Year to date	
Diluted earnings per Unit	**2014**	**2013**	**For the 9 months ended September 30, 2014**	**For the period from February 8, 2013 to September 30, 2013**
Net profit attributable to unitholders	2,158	5,699	(4,829)	13,426
Distributions recognized on Exchangeable securities	305	263	888	480
Net change in fair value of Exchangeable securities	124	(873)	1,449	(1,429)
Net profitable attributable to diluted unitholders	**2,587**	**5,089**	**(2,492)**	**12,477**
Weighted average number of units outstanding	11,294,066	11,353,157	11,290,344	11,361,042
Weighted average number of Exchangeable securities outstanding	1,481,199	1,222,183	1,435,977	1,197,373
Weighted average number of units used for diluted earnings per unit	12,775,265	12,575,340	12,726,321	12,558,415
Diluted earnings per unit[1]	**0.19**	**0.40**	**(0.43)**	**0.99**

[1] Diluted earnings per unit is identical to basic earnings per unit wihen the dilution does not result in a reduction of earnings per unit or an increase in loss per unit

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Note 12 – Distributions

	3 months ended September 30,		Year to date	
Distributions	**2014**	**2013**	**For the 9 months ended September 30, 2014**	**For the period from February 8, 2013 to September 30, 2013**
Amount payable at the beginning of the period	776	782	776	-
Declared and recognised during the period	2,330	2,333	6,986	4,444
Distributions paid in units (Distribution Reinvestment Plan)	(35)	(5)	(100)	(5)
Paid in cash	(2,295)	(2,334)	(6,886)	(3,663)
Amount payable at the end of the period	776	776	776	776
Total distributions	**2,330**	**2,333**	**6,986**	**4,444**
Distributions paid per unit (based on weighted average number of units outstanding)	0.21	0.21	0.62	0.32

A Distribution Reinvestment Plan ("DRIP") has been put in place starting from the July, 2013 distribution, providing Unitholders with the opportunity to accumulate additional Units plus additional bonus Units in an amount equal to three percent of the distributions reinvested by the Unitholders. The DRIP provides an efficient and cost-effective way for the REIT to issue additional equity to existing Unitholders.

On June 23, 2014, the distribution for the month of June was declared, amounting to a total distribution of $776. This amount was paid on July 15, 2014.

The REIT's Declaration of Trust endeavours to maintain monthly distribution payments to Unitholders payable on or about the 15th day of the following month. In addition, on December 31 of each year, having regard to the present intention of the Trustees, the REIT intends to make payable to such Unitholders, a distribution of sufficient net realized capital gains and net income for the taxation year ended on that date, net of any capital losses or non-capital losses recognized on or before the end of such year such that the REIT will not be liable for ordinary income taxes for such year, net of tax refunds. The payment of such amounts shall be made on or before the following January 15. Notwithstanding the REIT's distribution policy, the Trustees retain full discretion with respect to timing and quantum of distributions, if declared.

Distributions in respect of Exchangeable securities are detailed in Note 6 – Exchangeable securities.

Note 13 – Transactions with related parties

Inovalis S.A.

Pursuant to the Management Agreement, Inovalis S.A. provides the strategic, advisory, asset management, project management, construction management, property management and administrative services necessary to manage the operations of the REIT and its subsidiaries.

Unless otherwise stated, none of these transactions incorporated special terms and conditions. Outstanding balances are usually settled in cash, with exception of management fees that are settled quarterly through the issue of Exchangeable securities. No guarantees were given.

(All dollar amounts are in thousands of Canadian dollars, except unit or per unit amounts)

Related parties (Inovalis S.A. and subsidiaries)	Income statement line item	Note	3 months ended September 30, 2014: 2014	3 months ended September 30, 2014: 2013	Year to date: For the 9 months ended September 30, 2014	Year to date: For the period from February 8, 2013 to September 30, 2013
Fees						
Asset management fees	Administration expenses	A	475	392	1,367	712
Property management expenses	Service charge expense	B	403	94	1,247	300
Facilities management fees	Service charge expense	C	240	34	562	62
Interest on lease equalization loan	Finance costs		33	-	86	-
Reimbursement of acquisition costs	Acquisiton costs		31		31	-
Unusuable fees (stand by credit facility)	Finance costs	D	-	12	29	23
Reimbursment of travel expenses	Administration expenses		239		388	-
Other management fees	Administration expenses		39		39	
			1,460	532	3,749	1,097
Distributions paid on Exchangeable securities						
Paid and payable in the form of interest on notes	Distributions recognized on Exchangeable securities	7	141	232	806	232
Paid in the form of reimbursement of debt		7	93	31	436	248
Total distributions on Exchangeable securities recognized in profit or loss			234	263	1,242	480

	Due to (from) Inovalis S.A.: As at September 30, 2014	Due to (from) Inovalis S.A.: As at December 31, 2013
Trade receivables	(133)	(346)
Trade and other payables	517	1,049
Distributions payable	96	213
Lease equalization loan	1,239	1,189
	1,719	2,105

In performing its obligations under the Management Agreement, Inovalis S.A. is entitled to receive the following fees from the relevant subsidiary of the REIT:

A. An annual asset management fee (the "Annual Asset Management Fee") in the amount of 0.75% of the Historical Gross Purchase Price of the REIT's properties;

B. An annual property management fee (the "Property Management Fee") in an amount equal to 3.5% of the Gross Paid Revenue from the REIT's properties, payable quarterly in arrears;

C. A facility management fee related to the management of service charges;

D. Commitment fee for the revolving credit facility - CanCorpEurope S.A., a subsidiary of the REIT, has a standby credit facility in place with Inovalis S.A. whereby a maximum loan amount of $10,000,000 is available to CanCorpEurope S.A. at an effective rate of 8.25%. This standby credit facility expires on April 10, 2015. Prior to July 1, 2014, CanCorpEurope S.A. paid Inovalis S.A. a yearly commitment fee for the facility at the rate of 0.5 % payable quarterly. Subsequent to July 1, 2014, there is no commitment fee. As at September 30, 2014, the REIT has no amounts payable in respect of this facility.

(All dollar amounts are in thousands of Canadian dollars, except unit or per unit amounts)

CanCorp Duisburg I S à r.l.

The transactions and balances with entities accounted for using the equity method are summarized below:

			3 months ended September 30, 2014		Year to date	
Related parties (CanCorp Duisburg (CCD))	**Income statement line item**	**Note**	**2014**	**2013**	**For the 9 months ended September 30, 2014**	**For the period from February 8, 2013 to September 30, 2013**
Fees and interest						
Asset management fees rebilled to CCD	Administration expenses		53	-	53	-
Interest revenues	Interest income		374	-	374	-
			427	-	427	-

		Due to (from) CCD	
		As at September 30, 2014	**As at December 31, 2013**
Investment in associate	Investment accounted for using the equity method	(153)	-
Loan receivable	Investment accounted for using the equity method	14,770	-
Accounts receivable		-	-
		14,617	-

Note 14 – Geographical information

Total revenue by geographic region	**Rental Income**	**Service Charge Income**	**For the three months ended September 30, 2014**	**For the three months ended September 30, 2013**
France	3,763	1,024	4,787	4,722
Germany	528	20	548	483
Total revenue	**4,291**	**1,044**	**5,335**	**5,205**

Total revenue by geographic region	**Rental Income**	**Service Charge Income**	**For the nine months ended September 30, 2014**	**For the period from February 8, 2013 to September 30, 2013**
France	12,254	3,210	15,464	8,991
Germany	1,582	56	1,638	895
Total revenue	**13,836**	**3,266**	**17,102**	**9,886**

Investment properties and investments in joint venture by geographic region	**As at September 30, 2014**	**As at December 31, 2013**
France	210,923	215,279
Germany	43,223	29,621
Total investment properties	**254,146**	**244,900**

(All dollar amounts are in thousands of Canadian dollars, except unit or per unit amounts)

Note 15 – Fair value measurements

The following table shows an analysis of the fair values of assets and liabilities measured at fair value on a recurring basis in the consolidated balance sheet by level of the fair value hierarchy:

	As at September 30, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment properties			239,529	239,529
Derivative financial instruments - assets		1,666		1,666
Derivative financial instruments - liabilities		(1,475)		(1,475)
Exchangeable securities	15,050			15,050
Total fair value	**15,050**	**191**	**239,529**	**254,770**

	As at December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment properties			244,900	244,900
Derivative financial instruments		2,471		2,471
Exchangeable securities	12,234			12,234
Total fair value	**12,234**	**2,471**	**244,900**	**259,605**

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 - use of a model with inputs (other than quoted prices included in level 1) that are directly or indirectly observable market data.
- Level 3 - use of a model with inputs that are not based on observable market data.

There were no transfers between Level 1 and Level 2 during the period.

The reconciliation of the carrying amounts classified within Level 3 is presented in Note 4 – Investment properties. The gains or losses relating to the Investment properties are recognized in profit or loss on the income statement line entitled "Net change in fair value of investment properties". The entire amount of the gain or loss reported on this line in the reporting period is unrealized.

The following methods, valuation techniques, and inputs were used to estimate the above-mentioned fair values:

- The fair value of the REIT's investment property is based on appraisals performed by independent, professionally-qualified property appraisers annually in Germany and semi-annually in France. These appraisals are updated by internal resources at interim reporting dates. The significant inputs and assumptions are developed taking into account local market conditions, in consultation with management. The valuation process and fair value changes are reviewed by the Board of Trustees at each reporting date.
- The fair value of derivative financial instruments is determined based on discounted cash flows using interest rate yield curves and forward exchange rates that are observable on an active market, as at the balance sheet date.

- The fair value of the Exchangeable securities is based on the quoted price of the REIT's own units, on the basis that they carry substantially the same rights and obligations as a regular unit and that they are exchangeable on a one for one basis throughout their life at the request of the unit holders, and upon maturity of the underlying notes, at the request of the REIT.

Note 16 - Classification of information reported in prior periods

In some cases the comparative information in the present financial statement is not the same as the information previously presented in the related periods. The first instance relates to *IFRIC 21 Levies* for which the impact is described in Note 3 Significant accounting policies. The second instance relates to the cash flow where interest paid and interest received have been reclassified as operating activities and acquisition costs have been reclassified as investing activities.

Note 17 – Subsequent events

Share issue and new investments

In October, 2014, the REIT entered into an agreement with a group of underwriters to raise approximately $37 million through the public issue of 3,978,500 at a price of $9.30 per unit. The REIT has also granted an over-allotment option to the underwriters allowing them to purchase an additional 596,775 units on the same terms and conditions within thirty days of the closing of the offer. In addition, in order to maintain a minimum 10% ownership in the REIT, Inovalis S.A. will subscribe for approximately 4,1 million dollars worth of additional Exchangeable securities.

These funds will be used to fund, in part, the acquisition by the REIT of a interest in two investment properties, to fund an acquisition loan and for general trust purposes.

The acquisition involves leasehold interests in two office properties located in the Greater Paris Region for an aggregate net purchase price of approximately $61 million. This acquisition will be treated as a business combination.

The REIT has also agreed to make a loan of 12,5M euros (18,269 million CAD$) to Inovalis S.A. who will in turn use the funds to acquire a third investment property. This loan will have a duration of three years, and an option for a one year extension. It will will bear interest at an annual rate of 8.75% and entitle the REIT to receive 50% of any net profits generated by the eventual sale of the property. The REIT will also have a right of first offer on the property. This loan will be treated as a financial instrument designated at fair value through profit or loss.

Corporate information

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Investor relations

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Stock exchange listing

The Toronto Stock Exchange
Listing symbol: INO.UN

Distribution Reinvestment Plan

Inovalis has implemented a Distribution Reinvestment Plan ("**DRIP**"). By participating in the Plan, Unitholders have cash distributions from Inovalis REIT reinvested in additional Units as and when cash distributions are made with a "bonus" distribution of Units equal to 3% of the amount of the cash distribution reinvested pursuant to the Plan.

INOVALIS

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