INOVALIS

REAL ESTATE INVESTMENT TRUST

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INOVALIS REIT'S CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Letter to Unitholders

I am very pleased to present our first quarterly report for 2014 with further improved FFO and AFFO results. With a strong financial position, promising opportunities for growth in our target markets and a dedicated team with local roots, we are excited about our future prospects

I am proud to announce that the first quarter of 2014 witnessed a further increase of our funds from operations (“FFO”) and our adjusted funds from operations (“AFFO”) in comparison with the previous quarters, reaching respectively $2.9 million and $3.1 million. On a per unit basis, FFO and AFFO for the same period are respectively $0.23 and $0.24.

With the support of our asset manager Inovalis SA, which in total has now over $5.0 billion of assets under management in France and Germany, we have the support of an experienced and committed team of 60 asset managers and 172 property and facility managers, and we have access to a unique pipeline for growth.

Looking ahead, we will focus on running our business efficiently, identifying growth opportunities in France and Germany in order to create long-term value for our Unitholders. The combination of office properties trading at attractive yields and of a historically low interest rate environment in these markets today is unique. We continue to believe that the French and German real estate office markets, due to their maturity, depth and the recovery phase they have entered in, will continue to be sought-after investment markets.

The closing of our recently announced acquisition of a 217,400 square feet office property located in Duisburg (Germany) on a 50-50 co-ownership arrangement basis with Injazzat, a strategic, global institutional investor that has a long-standing relationship with Inovalis SA is expected to take place in the course of the second quarter of the year. We are convinced that owning properties on a joint-venture basis with institutional partners, as for this next acquisition, is a value-enhancement tool for our company with a better diversification of our risk profile.

On behalf of our management team and our board of trustees, I would like to thank you for your support of Inovalis REIT.

Stéphane Amine

Chairman of the Board

May 7, 2014

Management's discussion and analysis

(Dollar amounts in the MD&A are presented in Canadian dollars, except rental rates, Unit or as otherwise stated)

OVERVIEW

	3-month period ended	
(in thousands of CAD$ unless otherwise expressed and except for per Unit amounts)	March 31, 2014	December 31, 2013
Operational information		
Number of properties	4	4
Gross leasable area	529,267 sq.ft	529,267 sq.ft
Occupancy rate (end of period) (1)	96.0%	96.0%
Weighted average lease term	7.3 years	7.5 years
Average capitalization rate (2)	7.7%	7.6%
Operating results		
Rental income	4,887	4,630
Net rental income	3,112	4,394
Profit for the period	(95)	3,955
Funds from Operations (FFO) (3) (4)	2,905	2,555
Adjusted Funds from Operations (AFFO) (3) (4)	3,079	3,073
FFO per Unit (diluted) (3) (4) (5)	0.23	0.20
AFFO per Unit (diluted) (3) (4) (5)	0.24	0.24
Distributions		
Declared distributions on Units and Exchangeable Securities	2,614	2,602
Declared distribution per Unit (diluted) (5)	0.21	0.21
AFFO cash payout ratio (3)	84.9%	84.7%
Financing		
Level of debt (debt-to-book value) (6)	43.5%	44.2%
Level of debt (debt-to-book value, net of cash) (6)	42.2%	42.8%
Weighted average interest rate (7)	1.47%	1.44%
Weighted average term to maturity of principal repayments of finance leases	4.0 years	4.3 years
Interest coverage ratio (8)	4.7 x	4.0 x

(1) Does not take into account the impact of the Vendor Leases. Taking into account the Vendor Leases, occupancy rate is 100.0%
(2) Calculated on annualized rental income (based on rental income for the quarter ended March 31, 2014)
(3) FFO and AFFO are key measures of performance used by real estate companies. However, they are not defined under IFRS, do not have standard meanings and may not be comparable with other industries or issuers
(4) The reconciliation of FFO and AFFO to net income can be found under the section *Non-IFRS Financial Measures: Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO)*
(5) Based on the weighted average number of Units during the period, i.e. 12,675,707 for the 3-month period ending March 31, 2014
(6) Debt-to-book value is defined as total debt divided by total assets. Debt-to-book value, net of cash, is defined as total debt divided by total assets, each of which excludes $6.1 million of cash and equivalent at March 31, 2014
(7) Calculated as the weighted average interest rate paid on all the finance leases
(8) Calculated as net rental income plus interest, less general and administrative expenses, divided by interest expense on the financial leases

KEY FACTS

- Inovalis Real Estate Investment Trust ("**Inovalis REIT**", or the "**REIT**" or "**we**") is a Canadian REIT investing exclusively in Europe, with an initial portfolio of four properties in France and in Germany
- Inovalis REIT is listed on the Toronto Stock Exchange under the ticker **INO.UN**
- Inovalis REIT is managed by Inovalis S.A. ("**Inovalis SA**"), a local cross-border French and German real estate asset manager managing over $5 bn of real estate properties. As of March 31, 2014, Inovalis SA had a 12.7% interest in the REIT's equity (directly and indirectly)
- $105 million initial public offering ("**IPO**") on April 10, 2013 with the issuance of 10.5 million of units (the "**Units**") followed by an $8.7 million over-allotment option exercised on May 10, 2013 resulting in the issuance of another 0.87 million of Units
- Purchased four leasehold interests in four income-producing office properties totalling 529,267 square feet valued at $217.5 million by independent appraisers (Jones Lang LaSalle for the French properties and REAG GmbH Real Estate Advisory Group Germany for the German property) on the acquisition dates (April 12 and 16, 2013). As at December 31, 2013, total value amounted to $244.9 million
- 96.0% occupancy rate through the portfolio with a weighted average lease term of 7.3 years and a diversified tenant base with approximately 81% of the leases being signed with French public agencies or being guaranteed by large German or international banks
- Funds from Operations (FFO) for the quarter ended March 31, 2014 of $2.9 million (or $0.23 per unit), which is 13.7% higher than the FFO for the quarter ended December 31, 2013 of $2.6 million.
- Adjusted Funds from Operations (AFFO) for the quarter ended March 31, 2014 of $3.1 million (or $0.24 per unit), which is 0.2% higher than the AFFO for the quarter ended December 31, 2013 of $3.1 million.

BASIS OF PRESENTATION

The following management's discussion and analysis ("**MD&A**") of the financial condition and results of operations of Inovalis REIT should be read in conjunction with the REIT's condensed interim consolidated financial statements for the period from January 1 2014 to March 31, 2014, and the notes thereto. This MD&A has been prepared taking into account material transactions and events up to and including May 6, 2014. Financial data provided in the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. All amounts in this MD&A are in thousands of Canadian dollars, except per unit amounts and where otherwise stated. Historical results, including trends which might appear, should not be taken as indicative of future operations or results. Additional information about Inovalis REIT has been filed with applicable Canadian securities regulatory authorities and is available at www.sedar.com. The exchange rate used throughout this MD&A for income statement items is the average rate during the said period, i.e. 1.5117 Canadian dollars per Euro for the period from January 1, 2014 to March 31, 2014. For balance sheet items, projections or market data, the exchange rate used is 1.5227 (exchange rate as of March 31, 2014).

TERMS USED IN THIS MD&A

For simplicity, throughout this MD&A, we may make reference to the following:

- "**Discounted Cash Flow Method**", meaning a valuation method which discounts the expected future cash flows, generally over a term of ten years, and using discount rates and terminal capitalization rates specific to each property;

- "**Exchangeable Securities**", meaning the exchangeable securities issued by CanCorp Europe SA, a subsidiary of Inovalis REIT (referred to as Luxco in the final IPO prospectus dated March 28, 2013) in the form of interest bearing notes, non-interest bearing notes and common shares;

- "**GLA**", meaning gross leasable area;

- "**Gross Income**", meaning rental income plus service charge income;

- "**Lease Equalization Agreements**", meaning the agreements entered into on April 10, 2013, between Inovalis SA and subsidiaries of Inovalis REIT, which has the effect of equalizing the rent payments providing the REIT with stable and predictable monthly cash flows over the term of the France Telecom leases in the Vanves property (on 186,070 sq.ft) and the Smart & Co. lease in the Dubonnet property (on 48,981 sq.ft);

- "**Management Agreement**", meaning the management agreement entered into on April 10, 2013, between the REIT, affiliates of the REIT and Inovalis SA;

- "**Underwriters**" meaning underwriters of the April 10, 2013 IPO, collectively Desjardins Securities Inc., GMP Securities L.P., Macquarie Capital Markets Canada Ltd., Laurentian Bank Securities Inc., UBS Securities Canada Inc., Manulife Securities Incorporated, Burgeonvest Bick Securities Limited, Industrial Alliance Securities Inc. and Mackie Research Capital Corporation;

- "**Units**", meaning Units of the REIT; and

- "**VWAP**", meaning the volume weighted average price and defined as the ratio of the value traded to total volume traded over a particular time horizon.

FORWARD-LOOKING INFORMATION

Although we believe that the expectations reflected in the forward-looking information are reasonable, we can give no assurance that these expectations will prove to have been correct, and since forward-looking information inherently involves risks and uncertainties, undue reliance should not be placed on such information. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such forward-looking statements. The estimates and assumptions, which may prove to be incorrect, include, but are not limited to, the various assumptions set forth in this document as well as the following: (i) we will continue to receive financing on acceptable terms; (ii) our future level of indebtedness and our future growth potential will remain consistent with our current expectations; (iii) there will be no changes to tax laws adversely affecting our financing capability, operations, activities, structure or distributions; (iv) we will retain and continue to attract qualified and knowledgeable personnel as we expand our portfolio and business; (v) the impact of the current economic climate and the current global financial conditions on our operations, including our financing capability and asset value, will remain consistent with our current expectations; (vi) there will be no material changes to government and environmental regulations adversely affecting our operations; (vii) conditions in the international and, in particular, the French and German real estate markets, including competition for acquisitions, will be consistent with the current climate; and (viii) capital markets will provide us with readily available access to equity and/or debt financing.

The forward-looking statements are subject to inherent uncertainties and risks, including, but not limited to, the factors discussed under the *Risk and Uncertainties* section of this MD&A and the *Risk Factors* section in the REIT's

IPO prospectus dated March 28, 2013. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements.

MARKET AND INDUSTRY DATA

This MD&A includes market and industry data and forecasts that were obtained from third-party sources, industry publications and publicly available information as well as industry data prepared by Inovalis SA on the basis of its knowledge of the commercial real estate industry in which we operate (including Inovalis SA estimates and assumptions relating to the industry based on that knowledge). Inovalis SA's knowledge of the real estate industry has been developed through its 15 years of experience and participation in the industry. Inovalis SA believes that its industry data is accurate and that its estimates and assumptions are reasonable, but there can be no assurance as to the accuracy or completeness of this data. Third-party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. Although Inovalis SA believes it to be reliable, Inovalis SA has not verified any of the data from third-party sources referred to in this MD&A, or analysed or verified the underlying studies or surveys relied upon or referred to by such sources, or ascertained the underlying assumptions relied upon by such sources.

In addition, this MD&A includes information regarding our tenants that has been obtained from publicly available information. Inovalis SA has not verified any of such information.

NON-IFRS MEASURES

Funds from operations ("**FFO**") and adjusted funds from operations ("**AFFO**") are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. FFO and AFFO are supplemental measures of performance for real estate businesses. We believe that AFFO is an important measure of economic performance and is indicative of our ability to pay distributions, while FFO is an important measure of operating performance and the performance of real estate properties. The IFRS measurement most directly comparable to FFO and AFFO is net income. See the *Non-IFRS Reconciliation (FFO and AFFO)* section for reconciliation of FFO and AFFO to net income.

FFO is defined as net income in accordance with IFRS, excluding: (i) acquisition costs incurred in connection with the purchase of properties being accounted for as a business combination; (ii) gain on bargain purchase; (iii) valuation gains from investment properties; (iv) net change in fair value of financial instruments at fair value through profit and loss; and (v) changes in fair value of Exchangeable Securities. It has also been adjusted to exclude the distributions declared on Exchangeable Securities. These distributions are recognized in profit and loss consistent with the classification of the Exchangeable Securities as a liability. However, they are not to be considered when determining distributions for the Unitholders as indeed they are subordinated to the distributions to the Unitholders. Starting this quarter, the FFO has also been adjusted for the net liability recognized in accordance with *IFRIC 21 Levies* in respect of property taxes.

AFFO is defined as FFO subject to certain adjustments, including adjustments for: (i) the non-cash effect of straight line rents, (ii) the cash effect of the Lease Equalization Agreements, (iii) amortization of fair value adjustment on assumed debt, (iv) the non-cash portion of the asset management fees paid in Exchangeable Securities, (v) capital expenditures, and (vi) capital expenditures paid by the vendors of the leasehold interest in the properties and/or tenants.

FFO and AFFO should not be construed as alternatives to net income or cash flow from operating activities, determined in accordance with IFRS, as indicators of our performance. Our method of calculating FFO and AFFO may differ from other issuers' methods and accordingly may not be comparable to measures used by them.

BUSINESS OVERVIEW

Inovalis REIT is an unincorporated open-ended real estate investment trust governed by the laws of the Province of Ontario. Inovalis REIT was founded by Inovalis SA, which is our asset manager. Our Units are listed on the Toronto Stock Exchange under the trading symbol INO.UN. Our head and registered office is located at 151 Yonge Street, 11th floor, Toronto, Ontario, M5C 2W7.

On April 10, 2013, Inovalis REIT completed an IPO of Units for aggregate gross proceeds of $105 million. Concurrently with the IPO, Inovalis SA purchased Exchangeable Securities for a total consideration of $11.7 million. On May 10, 2013, further to the partial exercise of the over-allotment option by the Underwriters, the REIT raised an additional $8.7 million. Taking into account the initial and the over-allotment of the IPO, the REIT issued a total of $113.7 million worth of Units and $11.7 million worth of Exchangeable Securities resulting in a total of equity raised in April 2013 by the REIT and its affiliates of $125.4 million.

These proceeds (net of issue costs) were used to fund the amount of $96.3 million paid for the acquisition of four leasehold interests in four income-producing office properties that were managed by Inovalis SA. The portfolio consists of four office properties in France and Germany, comprising a total of 529,267 square feet (49,170 square meters) of GLA.

We are exempt from the SIFT Rules under the Income Tax Act (Canada) (the "**Tax Act**"), as long as we comply at all times with our Investment Guidelines (as defined in the IPO prospectus dated March 28, 2013) which, among other things, only permit us to invest in properties or assets located outside of Canada. We do not rely on the exception afforded to real estate investment trusts under the Tax Act in order to be exempt from the SIFT Rules under the Tax Act. As a result, we are not subject to the same restrictions on our activities as those that apply to other Canadian real estate investment trusts that rely on this exception under the Tax Act.

PRIMARY OBJECTIVES AND INVESTMENT STRATEGY

Our long-term objectives are to:

- generate predictable and growing cash distributions on a tax-efficient basis from investments in income-producing office properties;
- maximize the long-term value of both our properties and Units through active and efficient management;
- grow our asset base, primarily in France and Germany, but also opportunistically in other European countries where assets meet our investment criteria; and
- increase the cash available for distribution to holders of Units ("**Unitholders**"), through an accretive acquisition program that successfully leverages Inovalis SA's extensive relationships and depth of commercial property and financing.

In the context of these objectives, we plan to focus on office properties that represent attractive investments due to their stable cash flows from long-term leases with strong tenant bases. We believe office properties that are well located in their respective markets present an attractive investment opportunity given their propensity to experience rental rate increases over the long term. Such properties typically provide growth opportunities through the lease-up of vacant space and the upward trend in rental rates through contractual escalations. The REIT's Investment Criteria encompasses office properties outside of Canada with an occupancy level above 80%, secured rental cash flow, a property value between €20 million ($30 million) to €60 million ($91 million) and potential future upside with respect to matters including rent and area development. According to management, the aforementioned target investment size represents a very liquid part of the real estate market in France and Germany, and debt financing for such acquisitions is readily available from local lenders.

Greater Paris properties

German property

PORTFOLIO SUMMARY

Our portfolio presently consists of four office properties in France and Germany, comprising a total of 529,267 square feet (49,170 square meters) of gross leasable area with a portfolio occupancy rate of 96.0% (not including the impact of the Vendor Leases (as hereinafter defined)) and a weighted remaining average lease term of 7.3 years (not including tenant early termination rights), offering both a stable lease rollover profile and the potential to benefit from new leasing opportunities. Three properties are situated in and around Paris, France. The remaining property is located in the German city of Hanover.

Our properties are strategically located in major cities and town centers, generally in close proximity to public transit. The locations typically provide excellent visibility, access to a major street and city center pedestrian and shopping areas. Given their central and strategic locations, we believe that these properties will continue to be attractive to commercial tenants.

BUSINESS ENVIRONMENT

French commercial real estate investment market

The French GDP grew by 0.3% in 2013. Despite a business climate improving more slowly than expected across all sectors in France, investors continue to invest in the Paris market, which remains a safe bet in Europe, because of the depth and maturity of the market. Investment in commercial real estate in France in 2013 has been in line with amounts invested in 2011 and 2012 with €18 bn ($27 bn). This amount is 5.3% higher than the average observed in the 10-year period between 2003 and 2012 and 4.1% below the average observed during the booming 2003-2008 period. The Greater Paris region accounted for the largest share of acquisitions (72%). Offices are still investors' favourite, attracting 62% of investment. Equity-rich investors, requiring a low leverage on their acquisitions are the main protagonists on the market. BNP Paribas Real Estate anticipates the investments for 2014 to range between €19 bn ($29 bn) and €20 bn ($30 bn).

Office yields have remained stable in the majority of markets in the Greater Paris Region, where the appetite for prime products is still high. According to BNP Paribas Real Estate, the prime yield in the Central Business District remained stable at 4.50% while the prime yield in the Inner Rim remained stable at 6.10%. Investors have increasingly bought properties beyond Paris business districts, which are structurally incapable of supplying demand and which offer low yields. The relative share of Paris in investment volume fell from 52% in 2012 to 34% in 2013 and this diversification mostly benefited the inner suburbs.

As at December 31, 2013, the vacancy rate in the Greater Paris Region was 7.0% and inside Paris was 4.8%. This figure is mainly comprised of lower quality properties as, according to CBRE, new and redeveloped properties only accounted for 22% of the immediate supply. CBRE expects the take-up in 2014 in the Greater Paris Region to amount to 2 million square meters (22 million square feet), i.e. in line with the average take-up since 2000.

Rents in France are expressed in euros per square meter per year. The average weighted headline rent reached €294 per sq.m per year ($42 per sq.ft per year) for new/redeveloped/renovated office spaces in the Paris region as at December 31, 2013 according to CBRE, which amounts to a stabilization (-0.7%) year-on-year. The average rent for new, redeveloped or renovated space in Paris Centre West, in the Western Crescent and in the Inner Rim areas was respectively €538 per sq.m ($76 per sq.ft per year), €294 per sq.m ($42 per sq.ft per year) and €227 per sq.m ($32 per sq.ft per year), in line with the figures seen one year ago.

Since the start of 2013, there has been an easing of the property financing market, with new players (debt funds, insurance companies), which have positioned themselves in this sector in addition to banks. The financing of the most secure properties remains greatly assured by the market, both by traditional networks (mortgage debt) and by the new players. Due to the fierce competition on the prime segment, some participants (debt funds and certain banks) are positioning themselves on “core+” or value-added assets, on which a growing number of investors are also turning.

German commercial real estate investment market

The investment market for German commercial properties registered a transaction volume of approximately €31 bn ($47 bn) in 2013, representing an increase of approximately 21% (€5.3 bn or $8.1 bn) year-on-year. It is also the best result since the boom year of 2007. For investors, Germany continues to offer an extremely attractive and stable environment with interest rates still low, active consumers, upward-trending early indicators and a labour market that remains robust. According to BNP Paribas Real Estate, office markets should benefit from the forecast upturn in economic output and therefore expects 2014 to be another very good investment year, with a transaction volume once again well above the long-term average.

Demand for core properties remains strong and exceeds the available supply. New investors from abroad are continuing to invest in the German market including equity-rich investors from Asia. At the same time, there is a slight rise in the willingness to invest in value-add and even opportunistic products. Office properties accounted for about 44% of total turnover in 2013.

Office yields have remained stable in 2013 throughout Germany according to BNP Paribas Real Estate. Prime office properties in the largest cities (Berlin, Dusseldorf, Frankfurt, Hamburg, Munich) trade at a cap rate of between 4.45% and 4.85%.

Banks are competing for the financing of first class office properties with long-term leases in prime locations. As competition increases, banks are increasingly financing slightly risker properties. Alternative forms of financing, in the form of credit funds and insurance companies, are also gaining in importance and offer an increasing alternative to the traditional bank loans, while at a much lower scale.

The Hanover office market has solid fundamentals with a vacancy rate at 4.4% in March 2014. Rents in Germany are expressed in euros per square meter per month. The prime rent in Hanover has been rising since 2007 and currently stands at €14 per sq.m per month ($24 per sq.ft per year). Office space take-up has been consistently above 100,000 square meters between 2007 and 2012 (data not available yet for 2013), well above its historical average. Hanover has also hosted a steady rise in the number of office workers since 2007 and DG Hyp (German mortgage bank) expressed in March 2014 that it expected this trend to continue.

OUTLOOK

We believe that the current market environment, with all the uncertainties it may bear, is a favourable one for the REIT to prosper. We are continuously assessing potential acquisitions in our target markets and will focus on the ones offering value and stability. Our long-term credit worthy tenants, low cost of debt and the fixed foreign exchange rate contracts for our distributions until April 2016, not only provide investors with steady cash flows, but also serve as a basis for future growth.

In addition to actively managing our properties, we will continue to look at new potential acquisitions in France and in Germany. In the course of the next acquisitions, we intend to rebalance the portfolio between France and Germany. We also intend to look at other European cities where assets meet our investment criteria. On February 18, 2014, the REIT announced that it had entered into an agreement to purchase a 217,400 square feet office property located in Duisburg, Germany, with a 50-50 joint-venture partner for an all-in cost of approximately $70 million representing a going-in capitalization rate of 7.4%. The closing of this transaction is expected to take place in June 2014. The addition of this property is expected to be immediately accretive to the REIT's AFFO per Unit.

With respect to our capital structure, we are focusing our attention on deepening our relationships with lenders in the markets in which we operate. This has proved to be essential for securing mortgage financing for the new acquisition and when putting in place new mortgage financings to replace existing leasehold contracts on the French properties. The latter changes are planned to help finance future acquisitions. We target an overall debt level not to exceed 55% of our gross book value. The above-mentioned refinancings will be put in place in May 2014. It has had no impact on the financial statements as of March 31, 2014. We have endeavoured, as much as possible, to get staggered debt maturities to mitigate interest rate risk and limit refinancing exposure in any particular period.

REAL ESTATE MANAGEMENT AND ADVISORY SERVICES

Pursuant to the Management Agreement, Inovalis SA is the manager of the REIT and provides the strategic, advisory, asset management, project management, construction management, property management and administrative services necessary to manage the operations of the REIT.

Upon the earlier of (i) the REIT achieving a market capitalization of $750 million (including any Exchangeable Securities held by Inovalis SA) based on the VWAP over a 20-day trading period; and (ii) April 10, 2018, the Management Agreement will terminate and the management of the REIT will be internalized at no additional cost.

OUR OPERATIONS

Performance indicators

Data as at March 31, 2014	Total
Gross Leasable Area (sq.ft)	**529,267**
Number of properties	**4**
Number of tenants	**12**
Occupancy rate (excluding Vendor Leases) (1)	**96.0%**
Occupancy rate (including Vendor Leases) (1)	**100.0%**
Weighted average lease term (2)	**7.3 years**

(1) See definition of the Vendor Leases in the Occupancy sub-section below
(2) Excluding early termination rights. Taking into account early termination rights, the weighted average lease term is 4.8 years

Occupancy

The overall weighted average occupancy rate across our portfolio was 96.0% at March 31, 2014. Taking into account the Vendor Leases (defined in next paragraph), occupancy rate across the portfolio is 100%.

During the quarter, a lease was signed on the Vanves property on 140 square meters (1,507 square feet). Vacancy on the portfolio therefore dropped to 1,943 square meters (20,914 square feet), amounting to 4.0% of total areas.

The 2,083 square meters (22,421 square feet) initially vacant on the portfolio are subject to a rental guarantee provided by the vendors of the subject two leasehold interests (the Dubonnet property, located in Courbevoie, and the Vanves property). The vendors have entered into a sub-lease (the "**Vendor Leases**") with the applicable subsidiary of the REIT pursuant to which the vendors, as tenants, are obligated to pay the REIT market rent for such premises. The Vendor Leases have a term for each property, during which they are responsible for lease payments.

			Annual Minimum Gross Rent (1) *(in thousands)*		**Term**	
Property	**GLA (sq. ft)**	**% Total GLA**	**€**	**$**	**From**	**To**
Dubonnet property	6,877	1.3%	249	365	April 16, 2013	April 15, 2014
Vanves property	15,544	2.9%	505	740	April 16, 2013	April 15, 2016
Total	**22,421**	**4.2%**	**754**	**1,105**		

(1) Includes taxes and charges billed to the tenants

The vendors may further sublease each of the premises subject to the Vendor Leases in whole or in part on terms that are acceptable to the REIT and are responsible for the cost of tenant improvements, tenant inducements and/or leasing commissions for new tenants. The Vendor Leases include customary provisions such as events of default for non-payment of rent and other obligations and notice clauses. A lease on 140 square meters (1,507 square feet) was signed during the third quarter by the vendors and is therefore a sublease of the Vendor Leases.

Tenants

The tenant base in the portfolio is well diversified from an industry segment standpoint, with many tenants having large national or multinational footprints. The top five tenants of the properties will account for 89.3% of total gross income for the next twelve months. Including France Telecom, Facility Services Hannover GmbH, the National Conservatory of Arts and Crafts, the French Environment and Energy Management Agency and Smart & Co., approximately 80% of the properties' tenants, as measured by 2014 estimated gross income contribution, are either French public agencies or have rent guarantees from a large German or international bank.

The following table shows our five largest tenants, by percentage of total GLA:

Tenant	Tenant Sector	Tenant Since	GLA (sq.ft.)	% of Total GLA
France Telecom	Telecommunications	May 15, 1999	186,070	35.2%
National Conservatory of Arts and Crafts	Education and training	January 1, 2003	50,407	9.5%
French Environment and Energy Management Agency	Public sector environmental and energy / Government	June 17, 1982	49,460	9.3%
Facility Services Hannover GmbH	Banking / Real estate	January 5, 2003	124,076	23.4%
Smart & Co.	Leisure gifts	January 10, 2010	48,981	9.3%
Top 5 Tenants			**458,994**	**86.7%**
Other tenants	Diversified		70,273	13.3%
Total			**529,267**	**100.0%**

France Telecom

France Telecom became "Orange" on July 1, 2013 and is France's largest multinational telecommunications corporation. With revenues of over €41 billion ($62 billion) in 2013 and operations that currently employ about 170,000 people in more than 30 countries worldwide, Orange is one of the largest telecommunications companies in the world. The company offers its customers numerous services, including fixed line telephone access, broadband Internet access, mobile phone service and Internet protocol television. Orange is listed on the New York Stock Exchange and Euronext Paris, with the French government holding an approximate 27% ownership interest in the company.

The National Conservatory of Arts and Crafts

The National Conservatory of Arts and Crafts is a doctoral degree-granting higher education establishment dedicated to providing education and conducting research for the promotion of science and industry. Originally founded during the French Revolution in 1794, the institution is now supervised by the French Ministry of Higher Education. The National Conservatory of Arts and Crafts provides continuing education courses for adults seeking to obtain engineering, multidisciplinary science and business degrees.

French Environment and Energy Management Agency

The French Environment and Energy Management Agency is a French public agency under the joint authority of the Ministry of Ecology, Sustainable Development and Energy and the Ministry for Higher Education and Research. With a staff of over 800 employees, three central offices and 26 regional branches, the agency is charged with protecting the environment and managing energy use in France.

Facility Services Hannover GmbH

Facility Services Hannover GmbH is a fully owned subsidiary of Sparkasse Hannover. Sparkasse Hannover is a savings and loan bank which operates a network of over 100 branches throughout Hanover. Headquartered in the city of Hanover, Sparkasse Hannover employs approximately 2,400 people and offers its customers a variety of banking and financial services, including savings deposits management, securities brokering, term deposit management, mortgages, consumer, investment and small business loans, commercial leasing, foreign currency exchange and business, and electronic banking.

Smart & Co.

Smart & Co. is a leader in the area of experience gifts with 800 employees operating in 13 countries. With 80 different gift box options and 25,000 points of sale, Smart & Co. has provided experience gifts to over 4.8 million people worldwide since its founding in 2003. In 2012, the company's total revenues were approximately €400 million ($609 million).

Leasing profile

Rental indexation

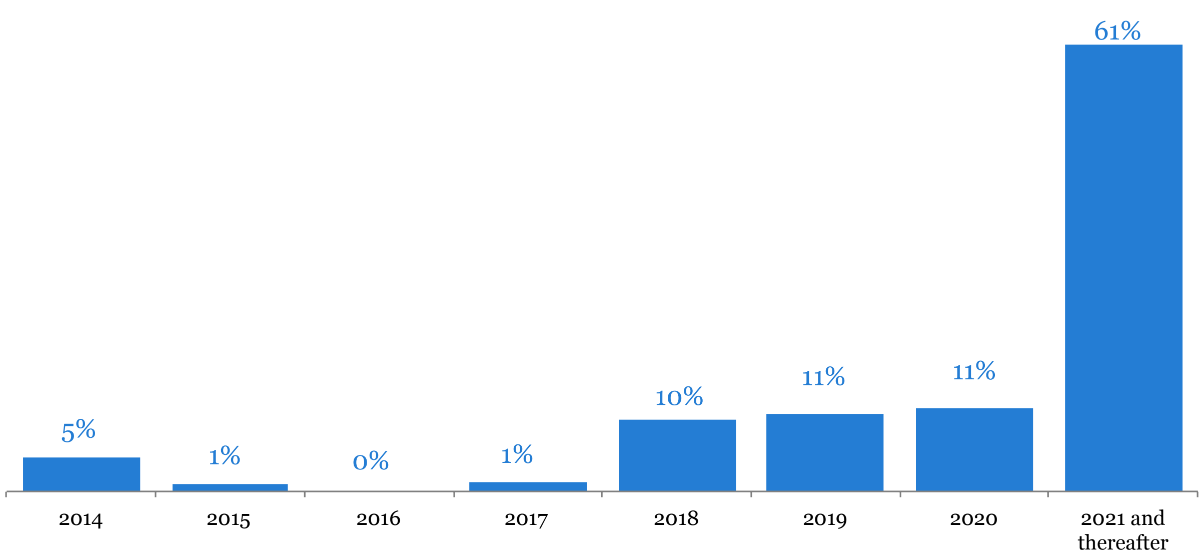
All leases have rental indexation based on either the French ICC (construction cost index) or ILAT (index averaging construction costs and CPI indexes) or the German Consumer Price Index, as applicable.

Lease rollover profile

Our stable tenant base is complemented by a well-balanced lease maturity profile, with an average of 5.5% of GLA maturing each year between 2014 and 2020, as illustrated by the chart below. The Properties had a high occupancy rate of 96.0% as at March 31, 2014 (not including the impact of the Vendor Leases) and an average remaining lease term of approximately 7.3 years (not including tenant early termination rights). Assuming all tenants leave at next possible early termination rights, which is a highly improbable scenario (especially because on the average, the in-place rent is below the market rent), average remaining lease term on our portfolio is 4.8 years.

The following graph sets out the amount of GLA and percentage of total GLA of the Properties subject to leases expiring during the periods shown (excluding early lease terminations).

Lease Maturity Profile as at March 31, 2014
(% of total GLA)



CONSOLIDATED FINANCIAL INFORMATION

	3-month period ended		
(in thousands of CAD$)	March 31, 2014	December 31, 2013	Variation
Rental income	4,887	4,630	257
Service charge income	1,107	852	255
Service charge expense	(2,859)	(979)	(1,880)
Other property operating expense	(23)	(109)	86
Net rental income	**3,112**	**4,394**	**(1,282)**
Administration expenses	(991)	(993)	2
Net change in fair value of investment properties	1,136	2,465	(1,329)
Gain on bargain purchase	-	39	(39)
Portfolio acquisition costs	(52)	132	(184)
Operating profit	**3,205**	**6,037**	**(2,832)**
Loss on financial instruments at fair value through profit or loss	(741)	(1,054)	313
Finance costs	(861)	(841)	(20)
Distributions on Exchangeable Securities	(286)	(275)	(11)
Net change in fair value of Exchangeable Securities	(1,398)	93	(1,491)
Profit before taxes	**(81)**	**3,960**	**(4,041)**
Income tax expense	(14)	(5)	(9)
Profit for the period	**(95)**	**3,955**	**(4,050)**

Net rental income

The significant drop in net rental income is explained by the application of the new accounting standard *IFRIC 21 Levies*. According to this new standard, payments to governments must be recognized upon occurrence of the activity that triggers the payment of the levy. The trigger regarding the payment of property and related taxes in France is ownership at the beginning of the year. Consequently, the property taxes for the year have been fully recognized in the first quarter of the year. While this change impacted service charge expense, it is offset by an increase in the fair value of the related investment properties (refer to Note 3 of the Condensed Interim Consolidated Financial Statements for a more detailed explanation). Excluding this item, net rental income for the quarter ended March 31, 2014 increased by $377 thousand compared to the quarter ended December 31, 2013 due to the combination of lower miscellaneous property expenses, which accounted for $123 thousand and the appreciation of the euro, which accounted for $254 thousand.

Administration expense

Administration expenses for the quarter ended March 31, 2014 were in line with the previous quarter. The decrease in expenses ($31 thousand) was offset by the appreciation of the euro during the period ($29 thousand).

Net change in fair value of investment properties

During the quarter ended March 31, 2014, the net change in fair value of investment properties recognized in profit or loss was $1,136 thousand. This variation is principally explained by the application of IFRIC 21. To avoid double counting of property taxes expenses, the amounts recognized need to be removed from the discounted cash flow models used to determine the fair value of the investment properties. More significantly, during this period, no changes were recognized as a result of appraisals.

Loss on financial instruments at fair value through profit and loss

This pertains to the foreign exchange contracts entered into by the REIT on the IPO date to economically hedge the monthly distributions for a three-year period. Every month, the REIT converts €546 thousand into $722 thousand at a rate of 1.3211 Canadian dollar per Euro. The exchange rate was 1.4655 as at December 31, 2013 and 1.5227 as at March 31, 2014. The increase in the exchange rate resulted in a $741 thousand charge for the quarter ended March 31, 2014.

Finance costs

The interest actually paid during the quarter ended March 31, 2014 amounted to $447 thousand. The fair value adjustment for such interests amounted to $396 thousand, while other finance costs amounted to $25 thousand and finance income to $7 thousand resulting in total finance costs of $861 thousand for the period versus $841 thousand for the quarter ended December 31, 2013.

Distributions recognized on Exchangeable Securities

Distributions to the holders of Exchangeable Securities are calculated in a manner to provide a return that is economically equivalent to the distributions received by the Unitholders. They are, however, subordinated to the distributions to the other Unitholders for a period of three years from the IPO date on April 10, 2013.

Net change in fair value of Exchangeable Securities

The actual results reflect a loss because the quoted value of the REIT's Units, which is used as the basis for the measurement of the Exchangeable Securities, has increased since December 31, 2013. The closing price on the TSX was $8.81 on December 31, 2013, whereas it was $9.81 on March 31, 2014. The net change in value of the Exchangeable Securities, as well as the cost of distributions recognized on Exchangeable Securities, are recognized in profit and loss because, for financial reporting purposes, the Exchangeable Securities have been classified as a liability at fair value through profit or loss.

Income tax expense

The income tax expense was a tax charge incurred by a Luxemburg affiliate of the REIT. It amounted to $14 thousand for the quarter ended March 31, 2014.

NON-IFRS RECONCILIATION (FFO AND AFFO)

	3-month period ended	
(in thousands of CAD$)	March 31, 2014	December 31, 2013
Net Profit for the Period	**(95)**	**3,955**
Add/(Deduct)		
Acquisition Costs	52	(132)
Gain on bargain purchase	-	(39)
Net change in fair value of investment properties	(1,136)	(2,465)
Loss on financial instruments at fair value through profit or loss	741	1,054
Adjustment for property taxes accounted for under IFRIC 21	1,659	-
Distributions on Exchangeable Securities	286	275
Net change in fair value of Exchangeable Securities	1,398	(93)
FFO	**2,905**	**2,555**
Add/(Deduct)		
Non-cash effect of straight line rents	(485)	(462)
Cash effect of the lease equalization swap	485	462
Amortization of fair value adjustment on assumed debt	396	382
Non-cash part of Assets Management Fees paid in Exchangeable Securities (1)	228	236
Capex net of cash subsidy (2)	(450)	(100)
AFFO	**3,079**	**3,073**
FFO / Units (diluted) (3) *(in CAD$)*	**0.23**	**0.20**
AFFO / Units (diluted) (3) *(in CAD$)*	**0.24**	**0.24**

(1) For purposes of this presentation, 50% of non-cash part of the asset management fee is included in the AFFO reconciliation. Notwithstanding, 100% of the asset management fee is paid in Exchangeable Securities

(2) The vendors of the four leasehold interests in the four properties have set aside in an escrow account $4.2 million of cash for payment of capex to be invested in the next three years. 71.4% of the total GLA of the properties are subject to a quadruple-net lease

(3) Based on 12,675,707 Units used for fully diluted earnings for the 3 months ended March 31, 2014. This includes the sum of all Units and Exchangeable Securities

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 cash flow from operating activities as defined by IFRS and is not necessarily indicative of cash available to fund Inovalis REIT's needs.

Adjusted Funds from Operations (AFFO)

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 Inovalis REIT's needs.

We have conservatively taken a capex provision of $450 thousand for the quarter ended March 31, 2014 so as to face potential tenant improvements costs related to the expected departure of Westcon Group European Operations Limited in the Courbevoie property. For further details, please refer to the Subsequent Event section.

PROPERTY CAPITAL INVESTMENTS

Fair value

The fair value of our investment property portfolio as at March 31, 2014 was $254.4 million, representing a weighted average capitalization rate of 7.7% on annualized rental income (based on rental income for the quarter ended March 31, 2014). The French properties' fair value was $223.6 million (87.9% of total value) and the German property's fair value was $30.8 million (12.1% of total value).

Management principally uses discounted cash flows to determine the fair value of the investment properties. These values are supported by third party appraisals. Our assessment of the fair values of the French properties was in line with the values determined by Catella in conformity with the requirements of the *Royal Institution of Chartered Surveyors Standards*, the *Charte de l'expertise immobilière* and the *European Valuation Standards of TEGoVA* (the European Group of Valuers' Association). Our assessment of the fair value of the German property was in line with the value determined by REAG GmbH Real Estate Advisory Group Germany in conformity with the requirements of the *Royal Institution of Chartered Surveyors Standards*.

Building improvements

The REIT is committed to improving its operating performance by incurring appropriate capital expenditures in order to replace and maintain the productive capacity of its property portfolio so as to sustain its rental income generating potential over the portfolio's useful life. In accordance with IFRS, the REIT will capitalize all capital improvement expenditures on its properties that enhance the service potential of a property and extend the useful life of an asset with the term of the capital lease.

A property condition assessment report (the "**PCA Reports**") was carried out on each property by independent consultants during the due diligence period before acquiring the properties. The purpose of the PCA Reports was to advise on any aspects of the applicable property's design, construction and condition that the independent consultant believed would have a material bearing on the proposed acquisitions. The PCA Reports identified approximately $204 thousand in estimated possible maintenance and capital expenditure costs in the first year and $2,344 thousand in estimated possible maintenance and capital expenditure costs in the years two to five. These potential costs will be entirely covered by an escrow account totalling $4.2 million of cash set aside by the vendors of the properties for payment of capital expenditures to be invested in the three years following the acquisition of the leasehold interests in the properties in the event a need for capex arises. The portfolio being mainly leased under quadruple net leases, a significant portion of maintenance capital expenditures and tenant improvements (approximately 71%) is already contractually assumed by the existing tenants in place.

Initial direct leasing costs and lease incentives

Initial direct leasing costs include leasing fees and related costs, and broker commissions incurred in negotiating and arranging tenant leases. Lease incentives include costs incurred to make leasehold improvements to tenant spaces 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.

The vacant areas of the portfolio (1,943 square meters or 20,914 square feet) are subject to the Vendor Leases described in the sub-section *Occupancy* in the section *Our Operations*.

Guarantees, Commitments and contingencies

The REIT and its subsidiaries have provided the following guarantees in connection with the finance lease liabilities. There have been no significant changes since December 31, 2013.

(in thousands of CAD$)	As at December 31, 2013
Pledges and assignment of assets by INOPCI1 and its subsidiaries	
Pledge of the 70,965,220 shares by INOPCI1 in the Jeûneurs SCI in favor of the lessor	13,883
Assignment of receivables and future receivables as a guarantee to the lessor	108,837
Pledge of credit balance of advance lease payment (the "lessee loan")	4,237
Pledge in favor of the lessor to financial instruments accounts	246
Total	**127,203**

Revolving credit facility

CanCorpEurope, a subsidiary of Inovalis REIT, has obtained a revolving credit facility from Inovalis SA with a maximum aggregate amount of capital available of $10,000,000 at an effective rate of 8.25%. This revolving credit facility expires on April 10, 2015. CanCorpEurope pays Inovalis SA a yearly commitment fee at the rate of 0.5 % payable quarterly for the facility. The proceeds of this facility shall be used for working capital, capital expenditures, reimbursement of existing loans and general corporate purposes of CanCorpEurope and/or to finance any affiliated company. As at December 31, 2013, the REIT has not drawn on this facility.

PRESENTATION OF OUR CAPITAL

Liquidity and capital resources

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

As at March 31, 2014, we have $6.1 million of cash and cash equivalents available, which after current payables and operating requirements is available for acquisitions. Our debt to gross book value is 45.8%, which is at the low end of our target range.

Financing activities

On April 10, 2013, we completed an IPO of 10.5 million of Units for aggregate gross proceeds of $105 million. Concurrent with the offering, Inovalis SA purchased 1.17 million of Exchangeable Securities issued by a subsidiary of the REIT at an aggregate price of $11.7 million. The Exchangeable Securities are accompanied by special voting units (the "**Special Voting Units**") of the REIT, which have no economic interest but provide the Exchangeable Securities holder with the same voting rights as the Units.

These proceeds (net of issue costs and working capital requirements) were used to fund the purchase of a portfolio of real estate investment properties located in France and in Germany. On May 10, 2013, pursuant to the partial exercise of the over-allotment option provided to the Underwriters in connection with the offering, we issued an additional 0.87 million of Units for aggregate gross proceeds of $6.1 million.

On April 12, 2013 and April 16, 2013, Inovalis REIT purchased four leasehold interests in four investment properties. Payments under the leaseholds have similar features to mortgage payments that would be required if the properties were owned by the REIT and financed with mortgage debt. The carrying amount of the outstanding principal amounts under the leaseholds amounted to $114.4 million as of March 31, 2014. The overall remaining principal repayments due in respect of the finance leases as at March 31, 2014 amounted to $118.9 million. The weighted average term to maturity of principal repayment of finance leases as at March 31, 2014 was 4.0 years. The weighted average all-in interest rate on the portfolio is 1.47%.

Our strategy regarding financing activities has been to keep these low interest rates financings in place until the moment when it became more optimal for the REIT to put in place interest-only financings. As such, the REIT is currently finalizing the terms of new financings for the French properties. These new arrangements are expected to be finalized and implemented in the course of the second quarter of 2014.

Debt

Our debt strategy is initially to put in place secured mortgage financing with a term to maturity that is appropriate in relation to the lease maturity profile of our portfolio and then to put in place, when appropriate, interest-only financings. We intend to search for fixed rate financings or floating rate financings with a cap. Our preference is to have staggered debt maturities to mitigate interest rate risk and limit refinancing exposure in any particular period. We intend to target a ratio of senior debt to gross book value of the investment properties lower than 55%.

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

	As at March 31, 2014
Weighted average interest rate (1)	1.47%
Debt-to-book value (2)	43.5%
Debt-to-book value, net of cash (3)	42.2%
Debt to gross book value of the investment properties (4)	45.8%
Interest coverage ratio (5)	4.7 x
Debt due in current year in thousand of CAD$ (including interests)	$9,541
Weighted average term to maturity of principal repayments of finance leases (6)	4.0 years

(1) Calculated as the weighted average interest rate paid on all the finance leases
(2) Defined as total debt divided by total assets
(3) Defined as total debt divided by total assets, each of which excludes $6.1 million of cash at March 31, 2014
(4) Defined as total debt divided by the gross book value of the assets
(5) Calculated as net rental income plus interest, less general and administrative expenses, divided by interest expense on finance leases
(6) Calculated as the weighted average term on all the leaseholds

We are taking steps to maintain a strong financial position. We currently use cash flow performance and debt level indicators to assess our ability to meet our financing obligations. Our current interest coverage ratio is 4.7 x (excluding distributions on Exchangeable Securities paid in the form of interest) and reflects our ability to cover interest expense requirements. We also monitor our debt-to-book value to gauge our level of leverage risk.

Payments under the leaseholds include an interest and a principal component as for a traditional mortgage. Payments are due on a quarterly basis.

Our weighted average term to maturity is 4.0 years. The following table highlights the scheduled repayments of our finance leases.

As of March 31, 2014 ***(in thousands of CAD$)***	**Carrying value**	**Minimum lease payments**
Within 1 year	9,541	9,930
After 1 year, but not more than 5 years	89,233	98,564
More than 5 years	15,626	17,688
Total carrying value and minimum lease payments	**114,400**	**126,182**
Less : future interest costs		(11,782)
Total carrying value	**114,400**	**114,400**
Of which is non current	104,859	
Of which is current	9,541	

As at March 31, 2014, the finance leases held in France amounted to $95.4 million (83.4% of total finance leases) and the finance lease held in Germany to $19.0 million (16.6% of total finance leases).

The interest coverage ratio is 4.7 x as calculated in the following table.

(in thousands of CAD$)	**For the 3 months ended March 31, 2014**
Net rental income	4,771
plus interest income	7
less general and administrative expenses	(672)
Total	**4,106**
Divided by interest expense [1]	(868)
Interest coverage ratio	4.7 x

(1) Interest costs include interest expense on financial leases as well as the amortization of the fair value adjustment on debt assumed at a discount at the time of a business acquisition. It does not include distributions on Exchangeable Securities recognized as interests

Equity

Our discussion of equity is inclusive of Exchangeable Securities, which are economically equivalent to the REIT's Units. In our consolidated financial statements, the Exchangeable Securities are classified as a combination of current and non-current liabilities under IFRS because of the conversion feature that can be exercised by the holder of those securities.

Units

	For the 3 months ended March 31, 2014
Units	
Number at beginning of period	11,285,087
Increase/(Decrease) in number during the period	-
Units issued pursuant to the DRIP	3,455
Number at end of period	11,288,542
Weighted average number during the period	11,286,496
Exchangeable Securities	
Number at beginning of period	1,388,685
Increase/(Decrease) in number during the period	47,337
Number at end of period	1,436,022
Weighted average number during the period	1,389,211
Units and Exchangeable Securities	
Number at beginning of period	12,673,772
Increase/(Decrease) in number during the period	50,792
Number at end of period	12,724,564
Weighted average number during the period	12,675,707

Our Declaration of Trust authorizes the issuance of an unlimited number of Units and an unlimited number of Special Voting Units. Issued and outstanding Units and Special Voting Units may be subdivided or consolidated from time to time by the Trustees without notice to or approval of the Unitholders of the REIT.

A total of 47,337 Exchangeable Securities were issued during the period from January 1, 2014 to March 31, 2014 in favour of Inovalis SA as payment of the asset management fee for the first quarter of 2014. 50% of these Exchangeable Securities (or 23,668 Exchangeable Securities) are subject to an escrow agreement pursuant to which such Exchangeable Securities will be released from escrow upon termination of the Management Agreement, except in the case of internalization of the management of the REIT, in which case (i) one third of the Exchangeable Securities will be automatically released upon internalization of the management of the REIT, and (ii) one third of the Exchangeable Securities will be released on the first and second anniversaries of the internalization of the REIT.

A Distribution Reinvestment Plan ("**DRIP**") has been put in place starting from the July 2013 distribution (paid on August 15, 2013). During the quarter ended March 31, 2014, a total of 3,455 Units were issued to Unitholders who chose to take advantage of the DRIP. An additional 1,248 Units were issued on April 15, 2014 for the March 2014 distribution. As of March 31, 2014, approximately 1.5% of the Units were enrolled in the DRIP.

Distribution and management of foreign exchange risk

Our Declaration of Trust provides our trustees with the discretion to determine the percentage payout of income that would be in the best interests of the REIT. Given that the level of working capital tends to fluctuate over time and should not affect our distribution policy, we do not consider it when determining our distributions.

In order to ensure the predictability of distributions to our Unitholders, we have established an active foreign exchange hedging program. During the quarter ended March 31, 2014, we sold monthly €546 at a rate of 1.3211 and received $722 thousand, as per the foreign currency forward contracts we entered into on closing of the IPO. In April 2014, we have unwounded the remaining forward contracts and entered into a new series of monthly foreign currency forward contracts (from May 2014 included until April 2017) according to which we will be selling every month €486 at a rate of 1.5437 and receive $750 thousand. As such, 98% of our cash distributions are secured by these foreign currency forward contracts.

(in thousands of CAD$ except for per Unit amounts)	For the 3 months ended March 31, 2014
Declared distributions on Units	2,328
Declared distributions on Exchangeable Securities	286
Total declared distributions	**2,614**
Distribution per Unit (diluted) (2)	$0.21

(1) Calculation based on the declared distributions and weighted average number of Units during the period (including Exchangeable Securities)

We currently pay monthly distributions to Unitholders of $0.06875 per Unit, or $0.825 per Unit on an annual basis.

The REIT's net investment in foreign operations has intentionally not been hedged.

RISK AND UNCERTAINTIES

We are exposed to various risks and uncertainties, many of which are beyond our control. The following material risks and uncertainties that could materially affect our operations and future performance are noted, and are described in greater detail in our prospectus dated March 28, 2013 and in our 2013 annual report, which is available at www.sedar.com.

- Risks inherent in the real estate industry
- Concentration of tenants
- Concentration of properties in France and Germany
- Global financial market developments
- Lease renewals, rental increases, lease termination rights and other lease matters
- Head Lease for properties
- Environmental contamination on properties
- Significant capital expenditures and other fixed costs
- Financing risks, leverage and restrictive covenants

- Changes in government regulation
- Failure to receive deductions for interest payments
- Changes in currency exchange rates
- Reliance on Inovalis SA for management services
- Competition in the French and German real estate markets
- Uninsured or underinsured losses to properties or losses from title defects
- IFRS reporting and the impact of fair value portfolio changes
- Risks relating to tax matters

CRITICAL ACCOUNTING POLICIES

The preparation of consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the relevant period. These estimates and assumptions are based on the information available at the time of preparation of the financial statements and affect the published amounts. Actual results may differ from these estimates.

We consider the following policies and estimates to be the most critical in understanding the assumptions and judgments that are involved in preparing our financial statements and the uncertainties that could affect our financial results, financial condition and cash flows: (i) recognition of rental income and accounting for rent free incentives; (ii) accounting for income taxes; (iii) accounting for finance lease; (iv) valuation of investment properties; and (v) valuation of derivative financial instruments.

A more detailed description of significant accounting policies and critical accounting judgement and estimates that we apply under IFRS is provided in notes 3 and 4 of the audited annual consolidated financial statements for the period ended December 31, 2013 and in note 3 of the unaudited quarterly consolidated financial statements for the period ended March 31, 2014.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The REIT's Chief Executive Officer (the "**CEO**"), and the Chief Financial Officer (the "**CFO**") of the REIT are responsible for establishing and maintaining the REIT's disclosure controls and procedures ("**DCP**") including adherence to the Disclosure Policy adopted by the Board of Trustees. The Disclosure Policy requires all staff and certain other personnel providing services to the REIT to keep senior management fully apprised of all material information affecting the REIT so that they may evaluate and discuss this information and determine the appropriateness and timing for public release.

The REIT's CEO and the CFO are also responsible for the design of internal controls over financial reporting ("**ICFR**"). Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the REIT, (2) provide reasonable assurance that all transactions are recorded as necessary to permit the preparation of financial statements in accordance with International Financial Reporting Standards, and that receipts and expenditures of the REIT are being made only in accordance with authorizations of the management and Trustees of the REIT, and 3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the REIT's assets that could have a material effect on the REIT's financial statements.

Since Inovalis REIT is a newly formed entity, its management has not yet had the opportunity to design or evaluate the controls, policies and procedures carried out by the real estate management businesses in France and Germany that it acquired in April 2013 using the net proceeds of its initial public offering. Consequently, management has limited the scope of its design of disclosure controls and procedures and internal controls over financial reporting to exclude all of its acquired businesses.

Summary of the acquired businesses	000'$
Revenues for 3 month-period ended March 31, 2014	5,994
Assets (Investment Properties)	256,083
Liabilities (principally Finance lease liabilities)	114,400

Management has considered the fact that the acquired businesses include risks that could reasonably result in a material misstatement in the trust's interim consolidated financial statements.

A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that Management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors. Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by Management override. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals.

THE EFFECTS OF EXCHANGE RATES

Our financial statements and financial forecast are presented in Canadian dollars whereas the functional currency of our subsidiaries that manage the investment properties is the Euro. In this MD&A, references to "CAD$", "$", "dollars" or "Canadian dollars" are to Canadian dollars and references to "€" or "Euros" are to Euros. Amounts are stated in Canadian dollars unless otherwise indicated.

We disclose certain financial information contained in this MD&A in Euros. The following table sets forth, for the periods indicated, the high, low, average and period-end noon spot rates of exchange for €1.00, expressed in Canadian dollars, published by the Bank of Canada.

	For the period from January 1, 2014 to March 31, 2014
Average rate for the period [(1)]	1.5117
Rate at the end of the period	1.5227

(1) Determined by averaging the noon rate on each business day during the respective period.

SUBSEQUENT EVENTS

On February 18, 2014 the REIT announced that it had entered into a conditional agreement to take a 50% interest in a newly formed joint venture and, through this joint venture, to purchase an office property located in Germany for consideration of approximately $67.5 million. The Property, located in Duisburg, Germany, is an eight-storey office building developed in 2008 that is fully leased until December 31, 2020. The purchase will be financed with a first mortgage of $37 million and equity investments of $31 million. The REIT's share of the equity investment will come from existing cash on hand and increased financing on the REIT's existing French properties. The closing of the transaction is expected to take place in June 2014.

We are putting in place new mortgage financings to replace existing leasehold contracts on the French properties. The latter changes are planned to help finance future acquisitions. We target an overall debt level not to exceed 55% of our gross book value. The above-mentioned refinancings will be put in place in May 2014. We have endeavoured, as much as possible, to get staggered debt maturities to mitigate interest rate risk and limit refinancing exposure in any particular period.

Westcon Group European Operations Limited, occupying 23.659 sq.ft in the Courbevoie property, has recently indicated its intention to leave the premises at its next break option in June 2014. This does not necessarily mean that this tenant will leave the property as sending such notice in France is a means for a tenant to initiate a discussion with the landlord for a renegotiation of the lease. Such discussion is ongoing. But in the meantime, expecting its departure, we have already mandated an external broker to lease up the potentially vacant premises.

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 $722 thousand Canadian at an exchange of 1.3211 Canadian dollars per euro. The settled contracts covered monthly periods up to and including April 16, 2016. A loss of approximately $2.8 million was realized at the time of the settlement. This loss had been previously recognized in profit and loss since the hedges were presented as derivative financial instruments classified as at fair value through profit and loss. Subsequent to this settlement, the REIT entered into a series of 36 monthly foreign currency hedge contracts whereby the REIT can purchase $750 thousand 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.

INOVALIS REIT
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Three months ended March 31, 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.

Condensed Interim Consolidated Balance Sheet as at March 31, 2014

(in thousands of Canadian dollars)

Assets	Note	As at March 31, 2014	As at December 31, 2013
Non-current assets			
Investment properties	4	256,083	244,900
Restricted cash and other financial assets		2,027	2,058
Total non-current assets		258,110	246,958
Current assets			
Trade and other receivables		3,589	1,746
Restricted cash		1,547	1,236
Cash and cash equivalents		6,059	6,120
Total current assets		11,195	9,102
Total assets		**269,305**	**256,060**

Liabilities and unitholders' equity	Note	As at March 31, 2014	As at December 31, 2013
Liabilities			
Non-current liabilities			
Finance lease liabilities	5	104,859	102,573
Lease equalization loan		2,018	1,470
Tenant deposits		1,057	1,189
Exchangeable securities	6	13,203	11,648
Derivative financial instruments		1,556	1,469
Total non-current liabilities		122,693	118,349
Current liabilities			
Finance lease liabilities	5	9,541	9,055
Tenant deposits		274	-
Exchangeable securities	6	884	586
Derivative financial instruments		1,357	1,002
Trade and other payables		8,687	4,068
Total Current liabilities		20,743	14,711
Total liabilities		143,436	133,060
Unitholders' equity			
Unitholders' equity	7	98,749	98,719
Retained earnings		8,187	10,610
Accumulated other comprehensive income		18,933	13,671
Total Unitholders' equity		125,869	123,000
Total liabilities and unitholders' equity		**269,305**	**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

Condensed Interim Consolidated Statement of Income

(in thousands of Canadian dollars)

	Note	3 months ended March 31, 2014
Rental income		4,887
Service charge income		1,107
Service charge expense		(2,859)
Other property operating expense		(23)
Net rental income		3,112
Administration expenses	*8*	(991)
Net change in fair value of investment properties	*4*	1,136
Acquisition costs		(52)
Operating profit		3,205
Loss on financial instruments at fair value through profit or loss		(741)
Finance costs	*9*	(861)
Distributions recognized on exchangeable securities	*6*	(286)
Net change in fair value of exchangeable securities		(1,398)
Profit before tax		(81)
Current income tax expense		(14)
Profit for the period		**(95)**
Earnings per Unit:		-
Basic and diluted earnings per unit from profit for the period		(0.01)

See accompanying notes to condensed interim consolidated financial statements

Condensed Interim Consolidated Statement of Comprehensive Income

(in thousands of Canadian dollars)

	Note	3 months ended March 31, 2014
Profit for the period		**(95)**
Item that will be reclassified subsequently to profit or loss		
Change in cumulative translation adjustment account		5,262
Total comprehensive income for the period		**5,167**

See accompanying notes to condensed interim consolidated financial statements

Condensed 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**	**Unitholders' equity**	**Retained earnings**	**Accumulated other comprehensive income (Cumulative translation adjustment account)**	**Total**
As at December 31, 2013		**11,285,087**	**98,719**	**10,610**	**13,671**	**123,000**
Distribution Reinvestment Plan		3,455	30	(30)		-
Distributions paid	11			(1,522)		(1,522)
Distributions payable	11			(776)		(776)
Transactions with owners		3,455	30	(2,328)	-	(2,298)
Profit for the period				(95)		(95)
Other comprehensive income						
Change in cumulative translation adjustment account					5,262	5,262
Total comprehensive income for the period		-	-	(95)	5,262	5,167
As at March 31, 2014		**11,288,542**	**98,749**	**8,187**	**18,933**	**125,869**

See accompanying notes to condensed interim consolidated financial statements

Condensed Interim Consolidated Statement of Cash Flows

(in thousands of Canadian dollars)

	Note	For the three months ended March 31, 2014
Operating activities		
Profit before taxes		(81)
Adjustments for non-cash items:		
Rent free period		(485)
Management fees paid in exchangeable securities		455
Net change in fair value of investment properties		(1,136)
Loss on financial instruments at fair value through profit or loss		741
Distributions recognized on exchangeable securities	*6*	286
Net change in fair value of exchangeable securities	*6*	1,398
Interest expense related to finance leases		447
Amortization of fair value adjustment on assumed debt		396
Income taxes paid		(5)
Unrealized exchange gains		12
		2,028
Working capital adjustments:		
Increase in trade and other receivables		(1,868)
Increase in tenant deposits		95
Increase in trade and other payables		4,742
Settlement of derivative financial instruments		(299)
Net cash flow related to operating activities		4,698
Investing activities		
Increase in other financial assets		(270)
Net cash flow related to investing activities		(270)
Financing activities		
Distributions paid in cash on Units	*8*	(2,298)
Distributions on Exchangeable securities paid in the form of interest on notes issued by a subsidiary	*6*	(151)
Distributions on Exchangeable securities paid in the form of repayment of interest bearing notes issued by a subsidiary	*6*	(365)
Repayment of finance lease liabilities		(1,971)
Interest paid		(447)
Lease equalization loan		485
Net cash flow related to financing activities		(4,747)
Net decrease in cash and cash equivalents		(319)
Effects of foreign exchange adjustments		258
Cash and cash equivalents at the beginning of the period		**6,120**
Cash and cash equivalents at the end of the period		**6,059**
Cash and cash equivalents at the end of the period:		
Cash		6,059
		6,059

See accompanying notes to condensed interim consolidated financial statements

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited)

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

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 REIT and its subsidiaries (together the "REIT"). The REIT's investment property portfolio is comprised of 4 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 month period ended March 31, 2014, were authorized for issuance by the Board of Trustees on May 7, 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

New policies applied in 2014

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 IFRIC 21 Levies (IFRIC 21). 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 material effect on the REIT's annual financial statements but it affects the allocation of costs of certain property taxes between interim periods. The REIT's past practice was to spread the cost of property taxes payable annually 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. The table below outlines the impact on a quarter-by-quarter basis and shows that the net impact at the end of the year is nil.

	Q1	Q2	Q3	Q4	Total for year
Impact on Balance sheet					
Increase (decrease) in fair value of Investment properties	1,659	1,106	553	0	
Decrease (Increase) in Trade and other payables	(1,659)	(1,106)	(553)	0	
Net change to retained earnings	0	0	0	0	
Impact on Income Statement					
Decrease (Increase) in service charge expense	(1,659)	553	553	553	0
Increase (decrease) in Net change in fair value of investment properties	1,659	(553)	(553)	(553)	0
Net change to profit for the period	0	0	0	0	0

IFRIC 21 has been applied retrospectively in accordance with its transitional provisions. However, since the REIT started operations on April 10, 2013, no comparative information is provided for the current reporting period.

Accounting policies issued but not yet applied

The following paragraphs present new or amended accounting standards that have relevance to the REIT but that have not yet been adopted at the date of authorisation of these consolidated financial statements.

Management anticipate that all of the relevant pronouncements will be adopted in the REIT's accounting policies for the first period beginning after the effective date of the pronouncement. Certain other standards and interpretations have been issued but are not expected to have an impact on the REIT's consolidated financial statements.

IFRS 9, Financial instruments

The IASB aims to replace IAS 39, *Financial Instruments: Recognition and Measurement* in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities and the chapters dealing with hedge accounting have been issued. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. Further chapters dealing with impairment methodology are still being developed. The effective date for IFRS 9 has yet to be determined, and implementation is not expected to be required before all chapters are completed and not for annual periods beginning prior to January 1, 2018. The REIT has yet to assess the impact that this standard will have on its consolidated financial statements. However, it does not expect to implement it until all chapters have been published and the implementation is required.

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 and will seldom equal the estimated results.

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 financial statements for the year ended December 31, 2013.

Note 4 – Investment properties

Investment properties	For the three months ended March 31, 2014
Beginning of period	**244,900**
Rent free period	485
Valuation gains (losses) from fair value adjustment on investment properties	1,136
Foreign currency translation adjustment	9,562
End of period	**256,083**

Note 5 – Finance lease liabilities

(in thousands of CAD$)

				As at March 31, 2014		
Entity	**Nominal value**	**Interest rate**	**Maturity**	**Total**	**Non-current**	**Current**
Finance lease liabilities - BBA SCI	57,981	Euribor 3M + 1.15%	2016-12-02	56,022	51,130	4,892
Finance lease liabilities - Véronèse SCI	18,135	Euribor 3M + 1.20% & Euribor 3M + 2.20%	2015-10-16	17,968	16,010	1,958
Finance lease liabilities - Jeûneurs SCI	22,611	Euribor 3M + 1.05%	2019-01-13	21,376	19,348	2,028
Finance lease liabilities - CanCorpGermany	20,167	Euribor 3M + 0.82%	2023-06-30	19,034	18,371	663
Total finance lease liabilities	**118,894**			**114,400**	**104,859**	**9,541**

				As at December 31, 2013		
Entity	**Nominal value**	**Interest rate**	**Maturity**	**Total**	**Non-current**	**Current**
Finance lease liabilities - BBA SCI	-	Euribor 3M + 1.15%	2016-12-02	54,645	50,011	4,634
Finance lease liabilities - Véronèse SCI	-	Euribor 3M + 1.20% & Euribor 3M + 2.20%	2015-10-16	17,624	15,767	1,857
Finance lease liabilities - Jeûneurs SCI	-	Euribor 3M + 1.05%	2019-01-13	20,882	18,951	1,931
Finance lease liabilities - CanCorpGermany	-	Euribor 3M + 0.82%	2023-06-30	18,477	17,844	633
Total finance lease liabilities	**-**			**111,628**	**102,573**	**9,055**

Reconciliation of lease liabilities	
Balance - beginning of the period	111,628
Regular repayment of principal	(1,970)
Amortization of fair value adjustment on assumed debt	396
Foreign currency translation adjustment	4,346
Balance - end of period	114,400

The REIT acquired 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 an advance to the lessor. The financial lease liability is presented net of this advance.

Minimum lease payments and the present value of finance lease liabilities are as follows:

(in thousands of CAD$)	**As at March 31, 2014**	
Carrying value and minimum lease payments	**Carrying value**	**Minimum lease payments**
Within 1 year	9,541	9,930
After 1 year, but not more than 5 years	89,233	98,564
More than 5 years	15,626	17,688
Total carrying value and minimum lease payments	**114,400**	**126,182**
Less : future interest costs		(11,782)
Total carrying value	**114,400**	**114,400**
Of which is non-current	104,859	
Of which is current	9,541	

(in thousands of CAD$)	**As at December 31, 2013**	
Carrying value and minimum lease payments	**Carrying value**	**Minimum lease payments**
Within 1 year	9,055	9,567
After 1 year, but not more than 5 years	76,380	84,756
More than 5 years	26,193	31,054
Total carrying value and minimum lease payments	**111,628**	**125,377**
Less : future interest costs		(13,749)
Total carrying value	**111,628**	**111,628**
Of which is non-current	102,573	
Of which is current	9,055	

Note 6 – Exchangeable Securities

(in thousands of CAD$)	Investment by Inovalis S.A. in CanCorpEurope S.A.				Exchangeable securities	
Exchangeable securities issued and outstanding	**Common shares (number)**	**Investment in shares & share premium**	**Investment in Debt instruments[1]**	**Total investment**	**Number of Exchangeable securities**	**Carrying amount of Exchangeable securities**
Balance - February 8, 2013					-	-
Transactions in 2013						
Initial investment at the time of the IPO	170	1,115	10,573	11,688	1,168,762	11,688
Additional investment related to overallotment	-	83	787	870	87,000	870
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		44	411	455	47,337	455
Distribution of Exchangeable securities paid in the form of reimbursement of notes			(365)	(365)	-	-
Net change in fair value of Exchangeable securities			-	-	-	1,398
Foreign Currency translation adjustment			527	527	-	-
Balance - March 31, 2014	**170**	**1,355**	**14,071**	**15,426**	**1,436,022**	**14,087**

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

	Nominal interest rate	**Maturity date**	**Amount as at March 31, 2014**	**Amount as at December 31, 2013**
Interest bearing note	9.00%	10 April 2028	6,042	5,988
Interest bearing note	4.50%	10 April 2028	1,683	1,575
			7,725	7,563
Non-interest bearing note		10 April 2028	6,346	5,935
			14,071	**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 $16. 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.

When the overallotment option was exercised by the Underwriters shortly after the Initial Public Offering in April 2013, Inovalis S.A. purchased 10% of the units in order to maintain its overall 10% ownership in the REIT. Subsequently, to convert these units into Exchangeable Securities, 10% of the units issued in the overallotment, or in other words the 87,000 units purchased during the overallotment by Inovalis S.A., were cancelled by the REIT.

Concurrently, the proceeds of $870,000 related to those units were transferred by the REIT to CanCorpEurope S.A., where they were invested in Exchangeable securities in favour of Inovalis S.A..

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.

Notwithstanding the form of the Exchangeable securities, the number of Exchangeable securities issued in favour of Inovalis S.A. for eventual conversion is determined based on the amount of funds invested in the above-mentioned instruments and a per-unit value determined for the transaction in question. The per-unit value of the Exchangeable securities issued at the time of the Initial Public Offering, including the overallotment, was based on the offering price. The per-unit value of Exchangeable securities issued by 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 March 31, 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	1,168,762		1,168,762	11,466
Securities issued in connection with the overallotment	87,000		87,000	853
Securities issued in lieu of asset management fees	90,130	90,130	180,260	1,768
Total number of Exchangeable securities outstanding	1,345,892	90,130	1,436,022	14,087
Classification of liability for Exchangable securities	13,203	884		14,087

	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

The Exchangeable securities issued by CanCorpEurope S.A. are exchangeable into Units of the Trust by virtue of the Exchange Agreement. The Exchangeable securities are accompanied by Special Voting Units issued by the Trust, which have no economic interest but provide the Exchangeable securities holder with the same voting rights in the Trust as a Unit. Special Voting Units may only be issued in connection with or in relation to Exchangeable securities for the purpose of providing voting rights with respect to the Trust to the holders of such securities.

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.

During the reporting period, the REIT made a repayment of the interest bearing notes in the amount of $365. By mutual agreement between Inovalis S.A. and the REIT, this amount was considered to be a distribution related to the Exchangeable securities rather than a transaction that would affect the number of Exchangeable securities outstanding.

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.

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 for the three-month period ended March 31, 2014:

(in thousands of CAD$)

Distributions in respect of exchangeable securities	**For the three months ended March 31, 2014**
Amount payable at the beginning of the period	213
Declared and recognized during the period	286
Accrued or paid in cash in the form of interest on interest bearing notes issued by CanCorpEurope S.A.	(151)
Paid in cash in the form of repayment of interest bearing notes issued by CanCorpEurope S.A.	(365)
Amount payable at the end of the period	(17)
Total distributions on Exchangeable securities recognized in profit or loss	**286**
Weighted average number of Exchangeable securities outstanding...	1,389,211
Distributions paid per unit (based on weighted average Exchangeable securities outstanding)...............	(0.3714)

Note 7 – Unitholders' Equity

The REIT is authorized to issue an unlimited number of Units and an unlimited number of Special Voting Units. The beneficial interests of the REIT are comprised of a single class of units which represent a Unitholders' proportionate undivided beneficial interest in the REIT. No unit has any preference over any other unit. Each unit confers the right to one vote at any meeting of Unitholders and to participate on a prorata basis in any distributions by the REIT and, in the event of termination of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities of the Trust. The units of the Trust are redeemable at the demand of the Unitholders at the fair market value of the units at that time.

Issued and outstanding Units and Special Voting Units may be subdivided or consolidated from time to time by the Trustees without notice to or approval of the Unitholders of the REIT.

Special Voting Units have no economic entitlement in the REIT but entitle the holder to one vote per Special Trust Unit at any meeting of the Unitholders of the REIT. Special Voting Units may only be issued in connection with or in relation to Exchangeable securities (see Note 6 – Exchangeable securities) for the purpose of providing voting rights with respect to the REIT to the holders of such securities. As at March 31, 2014, 1,436,022 Special Voting Units were issued and outstanding.

The REIT may from time to time purchase Units in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange and regulatory policies. Any such purchase will constitute an “issuer bid” under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof.

Public offering of Units

On April 10, 2013, the REIT completed the issue of Units to the public pursuant to the Offering for gross proceeds of $105,000 through the issuance of 10,500,000 Units at $10 per Unit and pursuant to the exercise of an over-allotment option by the underwriters of the offering, additional gross proceeds of $8,700 through the issuance of 870,000 Units at $10 per Unit. Costs relating to the issuance of Units, including underwriters’ fees, are estimated to be $14,129 (of which $522 relating to over-allotment) and are charged directly to Equity.

Note 8 – Administration expenses

(in thousands of CAD$)

Administration expenses	**For the three months ended March 31, 2014**
Asset management fees - related parties	(455)
Other general and administrative expenses	(562)
Other general and administrative expenses - related parties	(12)
Net foreign exchange gain	38
Total administration expenses	**(991)**

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 9 – Finance costs

(in thousands of CAD$)

Finance costs	**For the three months ended March 31, 2014**
Interest costs related to finance leases	(447)
Amortization of fair value adjustment on debt assumed at a discount at the time of a business acquisition	(396)
Other finance costs	(25)
	(868)
Finance income	7
Total Finance costs	**(861)**

Note 10 – 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.

(in thousands of CAD$)

Basic earnings per Unit	**For the three months ended March 31, 2014**
Net profit attributable to unitholders	(95)
Weighted average number of units outstanding	11,286,496
Basic and diluted earnings per unit	**(0.008)**

Note 11 – Distributions

(in thousands of CAD$)

Distributions	**For the three months ended March 31, 2014**
Amount payable at the beginning of the period	776
Declared and recognised during the period	2,328
Distributions paid in units (Distribution Reinvestment Plan)	(30)
Paid in cash	(2,298)
Amount payable at the end of the period	776
Total distributions	**2,328**
Distributions paid per unit (based on weighted average number of units outstanding)	0.2063

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 Holders.

On March 17, 2014, the distribution for the month of March was declared, amounting to a total distribution of $776. This amount was paid on April 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 12 – Transactions with related parties

Pursuant to the Management Agreement, Inovalis S.A. is the manager of the REIT and 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. No guarantees were given.

(in thousands of CAD$)

			Expenses	Due to (from) Inovalis S.A.	
Related parties (Inovalis S.A. and subsidiaries)	**Financial statement line item**	**Note**	**For the three months ended March 31, 2014**	**As at March 31, 2014**	**As at December 31, 2013**
Fees					
Asset management fees	Administration expenses	A	455		
Property management expenses	Service charge expense	B	411		
Facilities management fees	Service charge expense	C	169		
Interest on lease equalization loan	Finance costs		23		
Commitment fees for revolving credit facility	Administration expense	H	12		
			1,070		
Distributions recognized on exchangeable securities					
Paid and payable in the form of interest on notes	Distributions recognized on exchangeable securities	6	151		
Paid in the form of reimbursement of debt		6	365		
Total distributions on exchangeable securities recognized in profit or loss			516		
Trade receivables	Trade and other receivables			18	(346)
Trade and other payables	Trade and other payables			932	1,049
Distributions payable	Trade and other payables			(17)	213
Lease equalization loan	Lease equalization loan			2,018	1,470
				2,951	2,386

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. A leasing fee (the “Leasing Fee”) in an amount equal to (i) 10% of the first year annual rent for lease renewals signed by existing tenants, or (ii) 20% of the first year annual rent for leases signed by new tenants, payable on the signing of a binding lease, extension, renewal or amending document; provided, that Inovalis is responsible for the fees of any external real estate agent retained to assist with a lease renewal or to find a new tenant;

E. A construction management fee (the “Construction Management Fee”) payable on capital projects in an amount equal to 5% of all hard construction costs incurred on a project excluding work done on behalf of tenants or any maintenance capital expenditures;

F. An acquisition fee ("Acquisition Fee") in the amount of 0.50% of the purchase price of any property acquired by the REIT or its subsidiaries payable on completion of each acquisition plus HST/VAT, provided that no such acquisition fee will be payable in respect of the acquisition of properties managed by Inovalis S.A.;

G. Certain service charge expense and other costs are paid to third parties by Inovalis S.A. and its subsidiaries on behalf of the REIT and are reimbursed from time to time. To facilitate the initial start-up of the REIT, certain acquisition costs and offering costs have been paid by Inovalis S.A. and have been recharged to the REIT's subsidiaries;

H. Commitment fee for the revolving credit facility – see following paragraph.

Revolving credit facility

CanCorpEurope S.A., a subsidiary of the REIT, obtained a revolving credit facility from Inovalis S.A. with a maximum aggregate amount of capital available of $10,000,000 at an effective rate of 8.25%. This revolving credit facility expires on April 10, 2015. CanCorpEurope S.A. pays Inovalis S.A. a yearly commitment fee at the rate of 0.5 % payable quarterly for the facility. The proceeds of this facility shall be used for working capital, capital expenditures, reimbursement of existing loans and general corporate purposes of CanCorpEurope S.A. and/or to finance any affiliated company. As at March 31, 2014, the REIT has not drawn on this facility.

Note 13 – Capital management

The REIT's objectives when managing capital are to safeguard the REIT's ability to continue as a going concern in order to provide returns for Unitholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The REIT considers its capital to include its Unitholders' equity, its Finance lease liabilities, and the Exchangeable securities.

The REIT's Unitholders' equity consists of units in which the carrying value is impacted by earnings and Unitholders' distributions.

The terms of the REIT's Declaration Of Trust stipulates that the REIT shall not incur or assume any Indebtedness if, after giving effect to the incurrence or assumption of the Indebtedness, the total Indebtedness of the REIT would be more than 55% of the REIT's Gross Book Value (GBV) or 60% of Gross Book Value including any convertible debentures excluding Exchangeable Securities. These stipulated limits are taken into consideration principally when planning the financing of acquisitions and when preparing corporate plans and budgets.

As outlined below, the REIT is meeting this objective in that its total indebtedness was 45.0 % of its GBV as at March 31, 2014.

(in thousands of CAD$)

Total indebtedness as a % of Gross Book Value	As at March 31, 2014	As at December 31, 2013
Investment properties	256,083	244,900
Gross book value	**256,083**	**244,900**
Finance lease liabilities - non-current	104,859	102,573
Lease equalization loan	2,018	1,470
Finance lease liabilities - current	9,541	9,055
Outstanding convertible securities (other than exchangeable securities)	-	-
Total indebtedness	**116,418**	**113,098**
Total indebtedness as a % of Gross Book Value	**45.5%**	**46.2%**

Note 14 – Geographical information

(in thousands of CAD$)

Total revenue by geographic region	Rental Income	Service Charge Income	For the three months ended March 31, 2014
France	4,349	1,089	5,438
Germany	538	18	556
Total revenue	**4,887**	**1,107**	**5,994**

Investment properties by geographic region	As at March 31, 2014	As at December 31, 2013
France	225,309	215,279
Germany	30,774	29,621
Total investment properties	**256,083**	**244,900**

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:

(in thousands of CAD$)	As at March 31, 2014			
	Level 1	Level 2	Level 3	Total
Investment properties			256,083	256,083
Derivative financial instruments		2,913		2,913
Exchangeable securities	14,087			14,087
Total fair value	**14,087**	**2,913**	**256,083**	**273,083**

	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 property. 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. The significant inputs and assumptions are developed in close 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 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.

The following table provides a comparison of the carrying amounts and fair value of the REIT's finance leases and financial assets and liabilities that are not carried at fair value in the consolidated financial statements and for which the carrying values are not reasonable approximations of their fair value.

(in thousands of CAD$)	As at March 31, 2014		
As at March 31, 2014	**Fair value hierarchy level**	**Carrying amount**	**Fair value**
Financial liabilities			
Finance lease	3	114,400	114,308
Lease equalization loan	3	2,018	2,018
Tenant deposits	3	1,331	1,131

			As at December 31, 2013
As at March 31, 2014	**Fair value hierarchy level**	**Carrying amount**	**Fair value**
Financial liabilities			
Finance lease	3	111,628	111,001
Lease equalization loan	3	1,470	1,470
Tenant deposits	3	1,189	961

The following methods and assumptions were used to estimate the above-mentioned fair values:

- The fair value of floating rate finance lease liabilities is estimated by discounting future cash flows using rates currently available for debt with similar terms and remaining maturities. The fair value approximates their carrying values gross of unamortized transaction costs only if credit spread has not changed significantly.

- The fair values of the finance leases, the lease equalization loan and the tenant deposits are estimated using the nominal amounts expected to be repaid at maturity and a discount rate based on prevailing market interest rates adjusted by an internally determined credit spread.

Note 16 – Subsequent events

New acquisition

On February 18, 2014 the REIT announced that it had entered into a conditional agreement to take a 50% interest in a newly-formed joint venture and, through this joint venture, to purchase an office property located in Germany for consideration of approximately $67.5 million. The Property, located in Duisburg, Germany, is an eight-storey office building developed in 2008 that is fully leased until December 31, 2020. The purchase will be financed with a first mortgage of $36.7 million and equity investments of $30.8 million. The REIT's share of the equity investment will come from existing cash on hand and increased financing on the REIT's existing French properties. The closing of the transaction is expected to take place in June 2014.

Currency hedges

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 $2.8 million 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.

Corporate information

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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.

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