INOVALIS

REAL ESTATE INVESTMENT TRUST

Contents

Letter to Unitholders

I am very pleased to present our first Annual Report. When we established Inovalis REIT in April 2013, our objective was to bring genuine European real estate knowledge to the Canadian public equity market. Our first fiscal year shows how performing this strategy can be.

I am proud to announce that our FY 2013 results are ahead of our forecasts, with our funds from operations ("FFO") and our adjusted funds from operations ("AFFO") for the period since our IPO in April 2013 to December 31, 2013 reaching respectively $7.1 million and $8.4 million. On a per unit basis, FFO and AFFO for the same period are respectively $0.56 and $0.67, in both cases higher than the forecasted $0.51 and $0.62. FFO and AFFO for the fourth quarter reached respectively $2.6 million and $3.1 million. On a per unit basis, FFO and AFFO for the fourth quarter are respectively $0.20 and $0.24, in both cases higher than the forecasted $0.18 and $0.22.

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 do not only have the support of an experienced and committed team of 60 asset managers and 172 property and facility managers, but we also 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, are and will continue to be sought-after investment markets.

We recently announced the acquisition of a 217,400 square feet office property located in Duisburg (Germany) on a 50-50 co-ownership arrangement basis with a strategic, global institutional investor that has a long-standing relationship with Inovalis SA. 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.

Finally, I would like to thank our Board of Trustees, colleagues, advisors, investors and lenders for helping us create Inovalis REIT, for showing such great confidence in us and for being extremely committed to our unique story. I look forward to your continued support as we grow our business together.

Stéphane Amine

Chairman of the Board

March 21, 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

(in thousands of CAD$ unless otherwise expressed and except for per Unit amounts)	3-month period ended December 31, 2013		Period from February 8, 2013 to December 31, 2013	
	Actual	Financial forecast [1]	Actual	Financial forecast pro-rated [1]
Operational information				
Number of properties	4			
Gross leasable area	529,267 sq.ft			
Occupancy rate (end of period) [2]	96.0%			
Weighted average lease term	7.5 years			
Average capitalization rate [3]	7.6%			
Operating results				
Rental income	4,630	4,101	12,523	11,595
Net rental income	4,394	4,001	12,125	11,312
Profit for the period	3,955	1,863	17,381	11,822
Funds from Operations (FFO) [4] [5]	2,555	2,099	7,054	5,991
Adjusted Funds from Operations (AFFO) [4] [5]	3,073	2,582	8,446	7,392
FFO per Unit (diluted) [4] [5] [6]	0.20	0.18	0.56	0.51
AFFO per Unit (diluted) [4] [5] [6]	0.24	0.22	0.67	0.62
Distributions				
Declared distributions on Units and Exchangeable Securities	2,602		7,523	
Declared distribution per Unit (diluted) [6]	0.21		0.60	
AFFO cash payout ratio [4]	84.7%		89.1%	
Financing				
Level of debt (debt-to-book value) [7]	44.2%			
Level of debt (debt-to-book value, net of cash) [7]	42.8%			
Weighted average interest rate [8]	1.44%			
Weighted average term to maturity of principal repayments of finance leases	4.25 years			
Interest coverage ratio [9]	4.0 x			

(1) Financial forecast – refers to the financial forecast for the three-month period ended December 31, 2013 included in our prospectus dated March 28, 2013. The financial forecast for the period from April 16, 2013 to December 31, 2013 has been pro-rated to reflect our ownership of the properties starting on April 16, 2013
(2) Does not take into account the impact of the Vendor Leases. Taking into account the Vendor Leases, occupancy rate is 100.0%
(3) Calculated on annualized rental income (based on rental income for the quarter ended December 31, 2013)
(4) 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
(5) 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)*
(6) Based on the weighted average number of Units during the period, i.e. 12,619,505 for the 3-month period ending December 31, 2013, and 12,579,625 for the period from February 8, 2013 to December 31, 2013
(7) 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 December 31, 2013
(8) Calculated as the weighted average interest rate paid on all the finance leases
(9) 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 billion of real estate properties. As of December 31, 2013, Inovalis SA had a 12.4% interest in the REIT's equity (directly and indirectly)

- $105,000,000 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 7.5 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 December 31, 2013 of $2.5 million, which is higher than the forecasted $2.1 million and Adjusted Funds from Operations (AFFO) of $3.1 million, which is also higher than the forecasted $2.6 million.

- Funds from Operations (FFO) for the period from February 8, 2013 to December 31, 2013 of $7.1 million, which is higher than the forecasted $6.0 million and Adjusted Funds from Operations (AFFO) for the period of $8.4 million, which is also higher than the forecasted $7.4 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 audited consolidated financial statements for the period from February 8 2013 to December 31, 2013, and the notes thereto, with the final IPO prospectus dated March 28, 2013 and the Business Acquisition Report dated June 25, 2013. This MD&A has been prepared taking into account material transactions and events up to and including March 20, 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. 1.4291 Canadian dollars per Euro for the period from October 1, 2013 to December 31, 2013 and 1.3832 for the period from February 8, 2013 to December 31, 2013. For balance sheet items, projections or market data, the exchange rate used is 1.4655 (exchange rate as of December 31, 2013).

TERMS USED IN THIS MD&A

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

- "**Direct Comparison Method**", meaning a valuation method which estimates the value of a particular property by comparing that property to property sale listings of comparables in the marketplace;
- "**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;
- "**Term and Reversion Capitalization Method**", meaning a valuation method which applies different capitalization rates to current and future income cash flows to reflect the relative security of these income flows. Rental income is valued in period steps, applying the term rate to the current income, which is deemed to be lower risk income, over the period of its duration. A reversion rate is then applied to more uncertain future income likely to be received or rent review or reversion, discounted to a present value;
- "**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 tenants of the four properties 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.

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 IPO and the over-allotment, 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 in France and Germany 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 ($29 million) to €60 million ($88 million) and potential future upside with respect to matters including rent and area development. According to

Greater Paris properties

German property

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.

PORTFOLIO SUMMARY

Our portfolio 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 7.5 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 both the depth and the 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. ($26 BN) This amount is 5.3% higher than the average observed in the 10-year period between 2003 and 2012 and just 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 ($28 BN) and €20 BN ($29 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 ($40 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 ($70 per sq.ft per year), €294 per sq.m ($40 per sq.ft per year) and €227 per sq.m ($31 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 ($45 BN) in 2013, representing an increase of approximately 21% (€5.3 BN or $7.8 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 the 2013 throughout Germany according to BNP Paribas Real Estate. Prime office properties in the largest cities in Germany (Berlin, Dusseldorf, Frankfurt, Hamburg, Munich) trade 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 ($21 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 for the REIT 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 $67.5 million representing a going-in capitalization rate of 7.4%. The closing of this transaction is expected to take place in or about May 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 new acquisitions and also for 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 in 2014. We intend to target an overall debt level not to exceed 55% of our gross book value. We will endeavour, as much as possible, to have 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 December 31, 2013	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)	**7.5 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 5.0 years

Occupancy

The overall weighted average occupancy rate across our portfolio was 96.0% at December 31, 2013. 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 2013 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 and contribution to total rent:

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 €43 billion ($58 billion) in 2012 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 ($543 million).

Leasing profile

Rental indexation

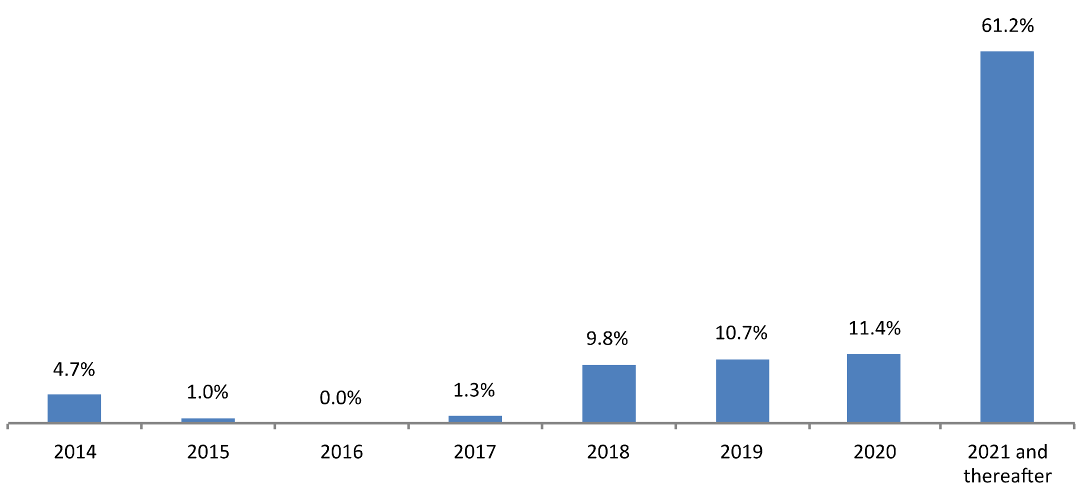
All leases have rental indexation based on either the French ICC (construction cost index) or ILAT (index averaging construction costs and CPI indexes) or the German Consumer Price Index, as applicable.

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 December 31, 2013 (not including the impact of the Vendor Leases) and an average remaining lease term of approximately 7.5 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 5.0 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 December 31, 2013
(% of total GLA)



CONSOLIDATED FINANCIAL INFORMATION

(in thousands of CAD$)	3-month period ended December 31, 2013 Actual	Financial forecast(1)	Variation	Period from February 8, 2013 to December 31, 2013 Actual	Financial forecast pro-rated(1)	Variation
Rental income	4,630	4,101	529	12,523	11,595	928
Service charge income	852	967	(115)	2,845	2,740	105
Service charge expense	(979)	(967)	(12)	(2,925)	(2,740)	(185)
Other property operating expense	(109)	(100)	(9)	(318)	(283)	(35)
Net rental income	**4,394**	**4,001**	**393**	**12,125**	**11,312**	**813**
Administration expenses	(993)	(808)	(185)	(2,755)	(2,289)	(466)
Net change in fair value of investment properties	2,465	-	2,465	5,894	-	5,894
Gain on bargain purchase	39	-	39	9,716	10,110	(394)
Portfolio acquisition costs	132	-	132	(3,371)	(3,087)	(284)
Operating profit	**6,037**	**3,193**	**2,844**	**21,609**	**16,046**	**5,563**
Net change in fair value of financial instruments at fair value through profit or loss	(1,054)	-	(1,054)	(2,682)	-	(2,682)
Finance costs	(841)	(1,039)	198	(2,303)	(2,976)	673
Distributions on Exchangeable Securities	(275)	(235)	(40)	(752)	(684)	(68)
Net change in fair value of Exchangeable Securities	93	-	93	1,522	(564)	2,086
Profit before taxes	**3,960**	**1,919**	**2,041**	**17,394**	**11,822**	**5,572**
Income tax expense	(5)	(56)	51	(13)	-	(13)
Profit for the period	**3,955**	**1,863**	**2,092**	**17,381**	**11,822**	**5,559**

(1) Financial forecast – refers to the financial forecast included in our prospectus dated March 28, 2013. Pro-rated reflects our ownership starting on April 16, 2013

Net rental income

Net rental income for the period from February 8, 2013 to December 31, 2013 increased by $813 thousand compared to the pro-rated financial forecasts due to the combination of higher net rental income ($85 thousand) and the appreciation of the euro, which accounted for $728 thousand.

Net of the effect of the appreciation of the euro ($399 thousand), the net rental income for the quarter ended December 31, 2013 was in line with the forecast.

Administration expense

Administration expenses for the period from February 8, 2013 to December 31, 2013 were $466 thousand higher than the pro-rated financial forecasts. Of this variance, $147 thousand arose from the appreciation of the euro and $319 thousand arose from higher than forecasted cost related to the start-up and to the implementation of appropriate corporate governance and compliance procedures.

Net change in fair value of investment properties

The financial forecasts did not anticipate any gain or loss from investment property for the period. Since April 16, 2013 (date of acquisition), the net change in fair value of investment properties reached $5,894 thousand (net of foreign currency adjustment), reflecting the indexation on some leases and an improving investment climate.

During the quarter ended December 31, 2013, the net change in fair value of investment properties was $2,465 thousand (net of foreign currency adjustment).

Gain on bargain purchase

The gain on bargain purchase price was recognized in relation to the acquisition of the initial portfolio of properties in April 2013. It arose because the net fair value of the assets acquired and the liabilities assumed exceeded the consideration given by the REIT by $9,716. This situation arose principally due to variances in the fair values of the assets acquired and the liabilities assumed between the time the purchase price was negotiated and the acquisition was finalized.

Portfolio acquisition costs

The acquisition costs for the quarter ended December 31, 2013 of $132 thousand amount to non-recurring costs linked to the acquisition of the initial Properties, resulting in total acquisition costs for such Properties of $3,371 thousand. Acquisition costs were $284 thousand higher than in our forecasts. $199 thousand is accounted for by the appreciation of the euro. The remaining $85 thousand comes mainly from the fact that the acquisition of the four leasehold interests in the four properties occurred on April 12 and 16, 2013 and not prior to March 31, 2013 as initially forecasted. This triggered additional costs in the acquisition closing process.

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 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. No assessment of the expected gains or loss related to foreign exchange contracts were made when preparing the forecasts. The exchange rate was 1.3676 as at June 28, 2013, 1.3920 as at September 30, 2013 and 1.4655 as at December 31, 2013. The increase in the exchange rate resulted in a $1,054 thousand charge for the quarter ended December 31, 2013 and in a $2,682 thousand charge for the period from February 8, 2013 to December 31, 2013.

Finance costs

The interest actually paid during the quarter ended December 31, 2013 and the period from February 8, 2013 to December 31, 2013 amounted to $436 thousand and $1,208 thousand respectively. The fair value adjustment for such interests amounted to $382 thousand and $1,093 thousand respectively, while other finance costs amounted to $30 thousand and $22 thousand respectively and finance income to $7 thousand and $21 thousand respectively, resulting in total finance costs of $841 thousand and $2,303 thousand respectively.

For the financial forecast purpose, it was anticipated that the REIT would enter into a swap agreement for the 3M-Euribor portion of the interest rate. Due to the low interest rates experienced during the period and our anticipation that they will prevail in the future, the REIT did not enter into such swap agreement. This course of action resulted in a lower interest rate charge ($295 thousand and $843 thousand respectively), which combined with interest income ($7 thousand and $21 thousand respectively) and the appreciation of the euro ($104 thousand and $191 thousand respectively) resulted in differences between the actual and forecasted costs of $198 thousand and $673 thousand respectively.

Distributions recognized on Exchangeable Securities

Distributions to the holders of Exchangeable Securities are calculated in a manner to provide 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. The variation with the forecasts comes from the distribution pertaining to the 87,000 Exchangeable Securities issued as part of the over-allotment option exercise. As of June 30, 2013, these Exchangeable Securities were in the form of Units and have been converted during the third quarter into Exchangeable Securities.

Net change in fair value of Exchangeable Securities

The actual results reflect a gain because the quoted value of the REIT's Units, which is used as the basis for the Exchangeable Securities, have varied in value since issuance. The closing price on the TSX was $8.88 on September 30, 2013, whereas it was $8.81 on December 31, 2013. 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 minimum tax charge incurred by a Luxemburg affiliate of the REIT. It amounted to $5 thousand for the quarter ended December 31, 2013 and to $13 thousand for the period from February 8, 2013 to December 31, 2013.

NON-IFRS RECONCILIATION (FFO AND AFFO)

	For the 3 months ended December 31, 2013		Period from February 8, 2013 to December 31, 2013	
(in thousands of CAD$)	Actual	Financial forecast[(1)]	Actual	Financial forecast pro-rated[(1)]
Net Profit for the Period	3,955	1,863	17,381	11,766
Add/(Deduct)				
Acquisition Costs	(132)	-	3,371	3,087
Gain on bargain purchase	(39)	-	(9,716)	(10,110)
Net change in fair value of investment properties	(2,465)	-	(5,894)	-
Net change in fair value of financial instruments at fair value through profit or loss	1,054	-	2,682	-
Distributions on Exchangeable Securities	275	235	752	684
Net change in fair value of Exchangeable Securities	(93)	-	(1,522)	564
FFO	**2,555**	**2,099**	**7,054**	**5,991**
Add/(Deduct)				
Non-cash effect of straight line rents	(462)		(1,389)	
Cash effect of the lease equalization swap	462		1,389	
Amortization of fair value adjustment on assumed debt	382	476	1,093	1,379
Non-cash part of Assets Management Fees paid in Exchangeable Securities [(2)]	236	207	599	587
Capex net of cash subsidy [(3)]	(100)	(199)	(300)	(564)
AFFO	**3,073**	**2,582**	**8,446**	**7,392**
FFO / Units (diluted) [(4)] *(in CAD$)*	**0.20**	**0.18**	**0.56**	**0.51**
AFFO / Units (diluted) [(5)] *(in CAD$)*	**0.24**	**0.22**	**0.67**	**0.62**

(1) Financial forecast – refers to the financial forecast included in our prospectus dated March 28, 2013. Pro-rated reflects our ownership starting on April 16, 2013
(2) 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
(3) 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
(4) Based on 12,619,505 Units for the 3 months ended December 31, 2013 and on 12,579,625 Units for the period from February 8, 2013 to December 31, 2013 (forecast was based on 11,700,000 Units in both cases)
(5) Based on 12,619,505 Units for the 3 months ended December 31, 2013 and on 12,579,625 Units for the period from February 8, 2013 to December 31, 2013 (forecast was based on 11,772,3232 Units and 11,741,328 Units respectively)

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.

The number of Units used in the FFO per Unit calculation takes into account the weighted average number of Units used for diluted earnings per share of (i) of 12,619,505 for the 3-month period ended December 31, 2013 while our forecast was based on 11,700,000 Units, and (ii) 12,579,625 for the period from February 8, 2013 to December 31, 2013, while our forecast was based on 11,700,000 Units.

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.

The number of Units used in the AFFO per Unit calculation takes into account the weighted average number of Units used for diluted earnings per share of (i) of 12,619,505 for the 3-month period ended December 31, 2013 while our forecast was based on 11,772,323 Units, and (ii) 12,579,625 for the period from February 8, 2013 to December 31, 2013, while our forecast was based on 11,741,328 Units.

PROPERTY CAPITAL INVESTMENTS

Fair value

The fair value of our investment property portfolio as at December 31, 2013, was $244.9 million, representing a weighted average capitalization rate of 7.6% on annualized rental income (based on rental income for the quarter ended December 31, 2013). The French properties' fair value was $215.3 million (87.9% of total value) and the German property's fair value was $29.6 million (12.1% of total value). The fair value of the portfolio, which was $217.5 million when it was acquired in April 2013, has increased by 2.7% ($5.9 million). The remainder of the variance arises principally from a currency translation adjustment.

Management uses various approaches to determine the fair value of the 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.

(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 December 31, 2013, 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 46.2%, 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 price for a portfolio of real estate assets 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 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 book value of the outstanding principal amounts under the leaseholds amounted to $111.6 million as of December 31, 2013. The overall remaining principal repayments due in respect of the finance leases as at December 31, 2013 amounted to $116.3 million. The weighted average term to maturity of principal repayment of finance leases as at December 31, 2013 was 4.25 years. The weighted average all-in interest rate on the portfolio is 1.44%.

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 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 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 December 31, 2013
Weighted average interest rate (1)	1.44%
Debt-to-book value (2)	44.2%
Debt-to-book value, net of cash (3)	42.8%
Debt to gross book value of the investment properties (4)	46.2%
Interest coverage ratio (5)	4.0 x
Debt due in current year in thousand of CAD$ (including interests)	$9,551
Weighted average term to maturity of principal repayments of finance leases (6)	4.25 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 December 31, 2013
(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 4.0 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 4.25 years. The following table highlights the scheduled repayments of our finance leases.

As of December 31, 2013 *(in thousands of CAD$)*	**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	

As at December 31, 2013, the finance leases held in France amounted to $93.0 million (83.4% of total finance leases) and the finance lease held in Germany to $18.5 million (16.6% of total finance leases).

The interest coverage ratio is 4.0 x as calculated in the following table.

(in thousands of CAD$)	**For the 3 months ended December 31, 2013**
Net rental income	4,394
plus interest income	7
less general and administrative expenses	(1,026)
Total	**3,375**
Divided by interest expense (1)	(848)
Interest coverage ratio	4.0 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 December 31, 2013	For the period from April 16, 2013 to December 31, 2013
Units		
Number at beginning of period	11,283,560	11,370,000
Increase/(Decrease) in number during the period	-	(87,000)
Units issued pursuant to the DRIP	1,527	2,087
Number at end of period	11,285,087	11,285,087
Weighted average number during the period	11,284,228	11,334,375
Exchangeable Securities		
Number at beginning of period	1,334,690	1,168,762
Increase/(Decrease) in number during the period	53,995	219,923
Number at end of period	1,388,685	1,388,685
Weighted average number during the period	1,335,277	1,245,250
Units and Exchangeable Securities		
Number at beginning of period	12,618,250	12,538,762
Increase/(Decrease) in number during the period	55,522	135,010
Number at end of period	12,673,772	12,673,772
Weighted average number during the period	12,619,505	12,579,625

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.

On April 10, 2013, the REIT completed an IPO of 10.5 million of Units at a price of $10.00 per Unit for gross proceeds of $105 million. On May 10, 2013, pursuant to the over-allotment option provided to the Underwriters, the REIT issued an additional 0.87 million of Units at a price of $10.00 per Unit. Costs related to the IPO totalled $13.6 million and were charged directly to Unitholders' equity.

A total of 132,923 Exchangeable Securities were issued during the period from April 16, 2013 to December 31, 2013 in favour of Inovalis SA as payment of the asset management fee since February 8, 2013 (of which 53,995 for the quarter ended December 31, 2013). 50% of these Exchangeable Securities (or 66,461 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 December 31, 2013, a total of 1,527 Units were issued to Unitholders who chose to take advantage of the DRIP. An additional 672 Units were issued on January 15, 2014 for the December 2013 distribution. As of December 31, 2013, approximately 0.7% of the Units were enrolled in the DRIP.

Distribution

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. On closing of the IPO, we entered into a series of foreign currency forward contracts further to which, each month until April 2016, we sell €546 at a rate of 1.3211 and receive $722 thousand. As such, 84% of our distributions are secured by these foreign currency forward contracts.

(in thousands of CAD$ except for per Unit amounts)	For the 3 months ended December 31, 2013	For the period from February 8, 2013 to December 31, 2013 (1)
Declared distributions on Units	2,327	6,771
Declared distributions on Exchangeable Securities	275	752
Total declared distributions	**2,602**	**7,523**
Distribution per Unit (diluted) (2)	$0.21	$0.60

(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.

Management of foreign exchange risk

On closing of the IPO, we entered into a series of foreign currency forward contracts further to which, each month until April 2016, we sell €546 thousand at a rate of 1.3211 and receive $722 thousand. As such, 84% of our distributions are secured by these foreign currency forward contracts. On a continuous basis, we review our foreign exchange strategy so as to mitigate our foreign exchange risk exposure.

The invested capital 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 is a review of the material risks and uncertainties that could materially affect our operations and future performance. A more detailed description of our business environment and the risks and uncertainties that could affect our operations and future performance are contained in our prospectus dated March 28, 2013, which is available at www.sedar.com.

Risks relating to the REIT and its business

Risks inherent in the real estate industry may adversely affect our financial performance

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

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

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

Concentration of tenants may result in significant vacancies on the Properties

Three of our largest tenants, by percentage of total GLA, occupy approximately 68% of the total GLA and account for approximately 67% of the net operating income of the properties. Although all three tenants are committed to multi-year leases, which are set to expire in 2021 (France Telecom), 2024 (Facility Services Hannover GmbH) and 2020 (National Conservatory of Arts and Crafts) respectively, there is no assurance that such tenants will continue to occupy such premises for the remainder of their lease terms. France Telecom would still have to pay the rent pertaining to its lease at least until December 2019 (as France Telecom has a lease break option in September 2019 which can be exercised with the payment of an additional 3-month of rent). The other two main tenants do not have any break option on their leases and therefore have to pay the rent until leases end. If, at lease end or at the break option for the France Telecom lease, these tenants vacate the properties that they are currently occupying, and such properties are not leased to another tenant soon after, large percentages of the GLA of the properties will remain vacant. The cessation of occupancy by a tenant may have an adverse effect on us and could adversely impact our financial condition and results of operations and decrease the amount of cash available for distribution. In order to minimize this risk, Inovalis REIT will continue to closely monitor all leases and ensure that they work with the current tenants to determine their future leasing plans, which would allow Inovalis REIT to source tenants in advance of the current tenants vacating the property.

Concentration of properties in France and Germany may adversely affect our financial performance

All of the properties are located in France and Germany and, as a result, are impacted by economic and other factors specifically affecting the real estate markets in France and Germany. These factors may differ from those affecting the real estate markets in other regions. Due to the concentrated nature of the properties, a number of them could experience any of the same conditions at the same time. If real estate conditions in France and Germany decline relative to real estate conditions in other regions, our cash flows, operating results and financial condition may be more adversely affected than those of companies that have more geographically diversified portfolios of properties.

Global financial market developments

Global financial markets have been experiencing a sharp increase in volatility since 2008. This has been, in part, the result of the revaluation of assets on the statements of financial position of international financial institutions and related securities contributing to a reduction in liquidity among financial institutions and a reduction in the availability of credit to those institutions and to the issuers who borrow from them. The “European debt crisis” as it has been called, referring to the set of events from late 2009 to present day, has seen the sovereign debt ratings of several countries, including France, downgraded by Standard & Poor’s Ratings Services and other ratings agencies, the rise in borrowing costs and the decline in investor confidence. The European debt crisis and related European financial restricting efforts may also cause the value of the European currencies, including the Euro, to further deteriorate, which may impact the European economy in general, including the real estate sector.

Lease Renewals, Rental Increases, Lease Termination Rights and Other Lease Matters

Expiries of leases for our properties will occur from time to time over the short and long-term. No assurance can be provided that we will be able to renew any or all of the leases upon their expiration or that rental rate increases will occur or be achieved upon any such renewals. The failure to renew leases or achieve rental rate increases may adversely impact our financial condition and results of operations and decrease the amount of cash available for distribution.

Although certain, but not all, leases contain a provision requiring tenants to maintain continuous occupancy of leased premises, there can be no assurance that such tenants will continue to occupy such premises which may have an adverse effect on us and could adversely impact our financial condition and results of operations and decrease the amount of cash available for distribution. In addition, certain leases contain a provision which gives tenants the right to terminate their leases upon payment of a penalty.

There are risks with regard to the Hanover Property that the lease may be terminated prematurely if certain statutory standard form requirements are not met. Moreover, under German law standard terms contained in leases are invalid and not enforceable by the party which included the prohibited term if such term does not comply with the civil code provisions regarding standard terms.

The Westcon Europe and Smart & Co. premises have limits on operating costs and/or tax recoveries. As a result, we will bear the economic cost of increases in certain of the operating costs and/or tax recoveries in such cases to the extent we are not able to fully recover increases in operating costs and tax recoveries from these tenants.

Moreover, pursuant to the lease agreement with the National Conservatory of Arts and Crafts, none of the value-added taxes on expenses legally due by the REIT are recoverable. However, property taxes and office taxes are recoverable. Similarly pursuant to the Fresh & Co. and French Environment and Energy and Management Agency lease agreements, several forms of taxes, including but not limited to, property taxes, household refuse taxes and annual office taxes will be borne by the REIT. As a result, we will bear the economic cost of increases to these taxes.

Head Lease for Properties

The property in Hanover is owned by the Hanover Owner (the “**Hanover Owner**”) and is subject to a head lease, with the Hanover Owner as lessor and an affiliate of the REIT (the “**German SPV**”) as lessee. Since the Hanover property is still owned by the Hanover Owner, if the Hanover Owner were to sell the Hanover Property or were to become insolvent, there is a risk that the head lease may be terminated by the Hanover Owner or a future owner of the Hanover Property.

According to the head leases for certain of the properties, the owners of such properties have certain participation rights with respect to such properties pursuant to which a French dedicated SPV (a “**French SPV**”) or the German SPV, as the case may be, would need to obtain written consent from the respective owner prior to taking certain actions with respect to such property, including cancelling or amending lease agreements for such property. If the owner does not give its prior consent to such actions, it may terminate the applicable head lease.

Environmental contamination on properties may expose us to liability and adversely affect our financial performance

The properties may contain ground contamination, hazardous substances, wartime relics (including potentially unexploded ordnance) and/or other residual pollution and environmental risks. Buildings and their fixtures might contain asbestos or other hazardous substances above the allowable or recommended thresholds, or the buildings could bear other environmental risks. Prior to acquiring the four leasehold interests in the properties, we undertook environmental studies on each property. No sign of pollution was evidenced on any of the properties.

The discovery of any such residual pollution on the sites and/or in the buildings could trigger claims for rent reductions or termination of leases for cause, for damages and other breach of warranty claims against us. The remediation of any pollution and the related additional measures we would have to undertake could negatively affect us and could involve considerable additional costs that we may have to bear. We are also exposed to the risk that recourse against the polluter or the previous owners of the properties might not be possible.

We will be subject to various federal, state and municipal laws relating to environmental matters. Such environmental laws impose actual and contingent liabilities on us to undertake remedial action on contaminated sites and in contaminated buildings. These obligations may relate to sites we currently own or operate, sites we formerly owned or operated or sites where waste from our operations has been deposited. Furthermore, actions for damages or remediation measures may be brought against us, including under the *German Federal Soil Protection Act* (Bundesbodenschutzgesetz) and the *French Environmental Code* (Code de l'environnement). According to the *German Federal Soil Protection Act*, not only the polluter but also its legal successor, the owner of the contaminated site and certain previous owners may be held liable for soil contamination. The costs of any removal, investigation or remediation of any residual pollution on such sites or in such buildings as well as costs related to legal proceedings, including potential damages, regarding such matters may be substantial, and it may be impossible, for a number of reasons, for us to have recourse against a former seller of a contaminated site or building or the party that may otherwise be responsible for the contamination.

We have insurance in place to protect against certain environmental liabilities in respect of certain of the properties, with limits which are customary and available for portfolios similar to ours.

We will make the necessary capital and operating expenditures to ensure compliance with environmental laws and regulations. Although there can be no assurance, we do not believe that costs relating to environmental matters will have a material adverse effect on our investments, financial condition, results of operations or distributions or cash interest payments.

We may incur significant capital expenditures and other fixed costs

Certain significant expenditures must be made throughout the period of ownership of real property, regardless of whether the property is producing sufficient income to pay such expenses. In order to retain desirable rentable space and to generate adequate revenue over the long term, we must maintain or, in some cases, improve each property's condition to meet market demand, which can entail significant costs we may not be able to pass on to our tenants.

If the actual costs of maintaining or upgrading a property exceed our estimates, or if hidden defects are discovered during maintenance or upgrading, which are not covered by insurance or contractual warranties, we will incur additional and unexpected costs.

Any failure by us to undertake appropriate maintenance and refurbishment work in response to the factors described above could entitle tenants to withhold or reduce rental payments or even to terminate existing letting contracts. Any such event could have a material adverse effect on our cash flows, financial condition and results of operations and our ability to make distributions on the Units.

A mitigating factor to this is that an escrow account totalling $4.2 million of cash was set aside by the vendors of the properties in favour of the REIT for payment of capital expenditures to be invested in the three years following the acquisition of the leasehold interests in the properties. On a yearly basis, this represents a budget of $1.4 million in maintenance capital expenditures and tenant improvements. Real costs to the REIT would be any amount in excess of $4.2 million that would not be recovered from tenants. The portfolio being mainly leased under quadruple net leases, a significant portion of maintenance capital expenditures and tenant improvements (approx. 71%) is already contractually assumed by the existing tenants in place.

Financing risks, leverage and restrictive covenants may limit our ability for growth

The real estate industry is capital intensive. We will require access to capital to maintain our properties, as well as to fund our growth strategy and significant capital expenditures from time to time. There is no assurance that capital will be available when needed or on favourable terms. Our failure to access required capital could adversely impact our investments, cash flows, operating results or financial condition, our ability to make distributions on the Units and our ability to implement our growth strategy.

Our access to third-party financing will be subject to a number of factors, including: general market conditions, the market's perception of our growth potential, our current and expected future earnings, our cash flow and cash distributions and cash interest payments, and the market price of our Units.

If a property is mortgaged to secure the payment of indebtedness or if we own a leasehold interest in a property and we are unable to meet mortgage payments or leasehold payments (including any option amount required to purchase the property), as applicable, the mortgagee could foreclose upon the property, appoint a receiver and receive an assignment of rents and leases or pursue other remedies, or we could forfeit our leasehold interest, all of which could result in lost revenues and asset value to us.

A high level of indebtedness increases the risk that we may default on our debt obligations. Our ability to make scheduled payments of the principal of, or interest on, and to otherwise satisfy our debt obligations depends on future performance, which is subject to the financial performance of our properties, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond our control. That is why we intend to target a senior debt-to-book value ratio of lower than 55%.

Changes in government regulations may affect our investment in the Properties

We are subject to laws and regulations governing the ownership and leasing of real property, employment standards, environmental and energy efficiency matters, taxes and other matters. It is possible that future changes in applicable federal, state, local or common laws or regulations or changes in their enforcement or regulatory interpretation could result in changes in the legal requirements affecting us (including with retroactive effect). In addition, the political conditions in the jurisdictions in which we will operate are also subject to change. Any changes in investment policies or shifts in political attitudes may adversely affect our investments. Any changes in the laws to which we are subject in the jurisdictions in which we operate could materially affect the rights and title to the properties. All of the Properties are located in France and Germany. Although the governments in France and Germany are stable and generally friendly to foreign investments, there are still political risks. It is not possible to predict whether there will be any further changes in the regulatory regime(s) to which we are subject or the effect of any such change on our investments.

Failure to receive deductions for interest payments may adversely affect our cash flows, results of operations and financial condition

In the course of the acquisition of the properties, we entered into financing transactions with third parties and affiliates. These debt financing agreements will require us to pay principal and interest.

There are several rules in German tax laws restricting the tax deductibility of interest expenses for corporate income and municipal trade tax purposes. Such rules have been changed considerably on several occasions in recent past. As a result, major uncertainties exist as to the interpretation and application of such rules, which are not yet clarified by the tax authorities and the tax courts. The tax deductibility of interest expenses depends on, among other things, the details of the security structure for debt financings, the annual amount of tax net-debt interest, the amounts and terms of shareholder or affiliate financings and our general tax structure. There is a risk of additional taxes being triggered on the rental income and capital gains in case the tax authorities or the tax courts adopt deviating views on the above. If this were the case, this would result in a higher tax burden and, consequently, could have a material adverse effect on our cash flows, financial condition and results of operations and ability to pay distributions on the Units.

Changes in currency exchange rates could adversely affect our business

Substantially all of our investments and operations will be conducted in currencies other than Canadian dollars; however, we will pay distributions to Unitholders in Canadian dollars. We will also raise funds primarily in Canada from the sale of securities in Canadian dollars and invest such funds indirectly through our subsidiaries in currencies other than Canadian dollars. As a result, fluctuations in such foreign currencies against the Canadian dollar could have a material adverse effect on our financial results, which will be denominated and reported in Canadian dollars, and on our ability to pay cash distributions to Unitholders. We intend to implement active hedging programs in order to offset the risk of revenue losses and to provide more certainty regarding the payment of distributions to Unitholders if the Canadian dollar increases in value compared to foreign currencies. However, to the extent that we fail to adequately manage these risks, including if any such hedging arrangements do not effectively or completely hedge changes in foreign currency rates, our financial results, and our ability to pay distributions to Unitholders, may be negatively impacted.

Hedging transactions involve the risk that counterparties, which are generally financial institutions, may be unable to satisfy their obligations. If any counterparties default on their obligations under the hedging contracts or seek bankruptcy protection, it could have an adverse effect on our ability to fund planned activities and could result in a larger percentage of future revenue being subject to currency changes.

Changes in interest rates could adversely affect our cash flows and our ability to pay distributions and make interest payments

When concluding financing agreements or extending such agreements, we will depend on our ability to agree on terms for interest payments that will not impair our desired profit and on amortization schedules and that do not restrict our ability to pay distributions. In addition to the variable rate portion of the leaseholds in respect of the properties, we will enter into future financing agreements with variable interest rates if the current historical low level of interest rates continues. Given the current historical low level of interest rates there is a risk that interest rates will increase, which would result in a significant increase in the amount paid by us and our subsidiaries to service debt, resulting in a decrease in distributions to Unitholders, and could impact the market price of the Units. In addition, increasing interest rates may put competitive pressure on the levels of distributable income paid by us to Unitholders, increasing the level of competition for capital faced by us, which could have a material impact on the trading price of the Units.

We rely on Inovalis SA for management services

We rely on Inovalis SA with respect to the asset management of our properties and the property management of the properties. Consequently, our ability to achieve our investment objectives depends in large part on Inovalis SA and its ability to advise us. This means that our investments are dependent upon Inovalis SA' business contacts, its ability to successfully hire, train, supervise and manage its personnel and its ability to maintain its operating systems. If we were to lose the services provided by Inovalis SA or its key personnel, our investments and growth prospects may decline. If Inovalis SA should cease for whatever reason to be the manager (including if Inovalis SA determines to internalize management), the cost of obtaining substitute services may be greater than the fees we will pay Inovalis SA under the Management Agreement, and this may adversely impact our ability to meet our objectives and execute our strategy which could materially and adversely affect our cash flows, operating results and financial condition. Prospective investors should not purchase any Units unless they are prepared to rely on our Trustees, executive officers and Inovalis SA.

While the Trustees have similar oversight responsibility with respect to the services provided by Inovalis SA pursuant to the Management Agreement, the services provided by Inovalis SA will not be performed by employees of the REIT, but by Inovalis SA directly and through entities to which it may subcontract.

In addition to its right to internalize management at any time, Inovalis SA will have the right to terminate the Management Agreement upon 180 days' prior written notice to the REIT.

Competition in the French and German real estate market may adversely affect our financial performance

The real estate markets in France and Germany are highly competitive and fragmented and we will compete for real property acquisitions with individuals, corporations, institutions (Canadian and foreign) and other entities which are seeking or may seek real property investments similar to those we desire. An increase in the availability of investment funds or an increase in interest in real property investments may increase competition for real property investments, thereby increasing purchase prices and reducing the yield on them.

Numerous other developers, managers and owners of properties will compete with us in seeking tenants. Some of the properties owned by our competitors are better located, better quality or less leveraged than the properties owned by us. Some of our competitors are better capitalized and stronger financially and hence better able to withstand an economic downturn. The existence of competition for tenants could have an adverse effect on our ability to lease space in our properties and on the rents charged or concessions granted, and could materially and adversely affect our cash flows, operating results and financial condition and our ability to make distributions on the Units.

Investments in, and profits and cash flows from, properties may be lost in the event of uninsured or underinsured losses to properties or losses from title defects

We carry general liability, umbrella liability and excess liability insurance with limits which are typically obtained for similar real estate portfolios in France and Germany and otherwise acceptable to the Trustees. For the property risks we intend to carry "Multi-Risk" property insurance including but not limited to, natural catastrophic events and loss of rental income insurance (with at least a 12 to 18-month indemnity period). We also carry boiler and machinery insurance covering all boilers, pressure vessels, HVAC systems and equipment breakdown. There are, however, certain types of risks (generally of a catastrophic nature such as from war or nuclear accident) which are uninsurable under any insurance policy. Furthermore there are other risks that are not economically viable to insure at this time. We partially self-insure against terrorism risk for our entire portfolio. We have insurance for earthquake risks, subject to certain policy limits, deductibles and self-insurance arrangements. Should an uninsured or underinsured loss occur, we could lose our investment in, and anticipated profits and cash flows from, one or more of our properties, but we would continue to be obligated to repay any recourse mortgage indebtedness on such properties. We do not carry title insurance on the Properties. If a loss occurs resulting from a title defect with respect to a property where there is no title insurance or the loss is in excess of insured limits, we could lose all or part of our investment in, and anticipated profits and cash flows from, such property.

IFRS reporting may result in our statement of financial position and net income being subject to volatility as the fair value of our portfolio changes

The fair value of our properties is dependent upon, among other things, rental income from current leases, assumptions about rental income from future leases reflecting market conditions, expected future cash outflow in respect of such leases, the demand for properties such as the properties, the availability and cost of financing and general economic conditions. A change in one or a combination of these factors, many of which are not controlled by us, may have a material impact to the fair value of our properties. Our chosen accounting policy under IFRS requires that real estate assets be recorded at "fair value" (as opposed to "book value" as was the case under previous Canadian generally accepted accounting principles) with changes in fair value being recorded in earnings in the period of change. Accordingly, our statement of financial position and net income will be subject to volatility as the fair value of its real estate portfolio changes and these changes may be material.

Risks Relating to Tax Matters

Taxation of Trusts

The REIT intends to qualify as a "unit trust" and a "mutual fund trust" for purposes of the Tax Act. There can be no assurance that Canadian federal income tax laws and the administrative policies and assessing practices of the Canadian Revenue Agency ("**CRA**") respecting mutual fund trusts will not be changed in a manner that adversely affects Unitholders. Should the REIT cease to qualify as a mutual fund trust under the Tax Act, the income tax considerations described under the section *Certain Canadian Federal Income Tax Considerations* in the IPO final prospectus dated March 28, 2013 in the IPO would be materially and adversely different in certain respects.

Application of the SIFT Rules

The SIFT Rules apply to a trust that is a "SIFT trust" as defined in the Tax Act. Provided that a trust does not own "non-portfolio property" (as defined in the Tax Act), it will not be subject to the SIFT Rules. Based on the investment restrictions of the REIT, the REIT will not acquire any non-portfolio property and, therefore, will not be subject to the SIFT Rules. However, there can be no assurance that the SIFT Rules or the administrative policies or assessing practices of the CRA will not be changed in a manner that adversely affects the REIT and Unitholders.

FAPI

The REIT's "participating percentage" (as defined in the Tax Act) of FAPI earned by CFAs of the REIT must be included in computing the income of the REIT for the fiscal year of the REIT in which the taxation year of such CFA ends, subject to a deduction for grossed-up "foreign accrual tax" as computed in accordance with the Tax Act. The deduction for grossed-up "foreign accrual tax" may not fully offset the FAPI realized by the REIT, thereby increasing the allocation of income to the REIT and, therefore, the allocation of income by the REIT to Unitholders. In addition, as FAPI generally must be computed in accordance with Part I of the Tax Act as though the CFA were a resident of Canada and in Canadian currency (subject to the detailed rules contained in the Tax Act), income or transactions may be taxed differently under foreign tax rules as compared to the FAPI rules and, accordingly, may result in additional income being allocated to Unitholders.

Foreign Currency

For purposes of the Tax Act, the REIT generally is required to compute its Canadian tax results using Canadian currency, including for purposes of computing FAPI earned by CFAs of the REIT. Where an amount that is relevant in computing a taxpayer's Canadian tax results is expressed in a currency other than Canadian currency, such amount must be converted to Canadian currency using the rate of exchange quoted by the Bank of Canada at noon on the day such amount first arose, or using such other rate of exchange as is acceptable to the CRA. As a result, the REIT may realize gains and losses for tax purposes by virtue of the fluctuation of the value of foreign currencies relative to Canadian dollars.

Change of Tax Law

There can be no assurance that Canadian or foreign income tax laws, the judicial interpretation thereof, the terms of any income tax treaty applicable to the REIT or its affiliates or the administrative policies and assessing practices and policies of the CRA, Finance and any foreign tax authority or tax policy agency will not be changed in a manner that adversely affects the REIT, its affiliates or Unitholders. Changes in tax legislation, administrative practice or case law could have adverse tax consequences for us, and amendments to applicable laws, orders and regulations can be issued or altered with retroactive effect. Additionally, divergent interpretations of tax laws by the tax authorities or the tax courts are possible. These interpretations may be changed at any time with adverse effects on our taxation. Furthermore, court decisions are often overruled by the tax authorities by way of issuing non-application decrees. As a result, major uncertainties exist with regard to the taxation rules applicable to us and our Subsidiaries. Deviating views adopted by the tax authorities or the tax courts might lead to a higher tax burden for us. Additionally, if adverse changes in the tax framework should occur, or if we are subject to tax audits or reassessments that result in the imposition of taxes individually or together, this could adversely impact our investments, cash flows, operating results or financial condition, our ability to make distributions on the Units and our ability to implement our growth strategy.

Non-Residents of Canada

The Tax Act may impose additional withholding or other taxes on distributions made by the REIT to Unitholders who are Non-Residents. These taxes and any reduction thereof under a tax treaty between Canada and another country may change from time to time. In addition, this prospectus does not describe the tax consequences under the Tax Act to Non-Residents, which may be more adverse than the consequences to other Unitholders. Non-Resident Unitholders should consult their own tax advisors.

Taxation of the REIT and the REIT Subsidiaries

Although the REIT and the REIT Subsidiaries have been structured with the objective of maximizing after-tax distributions, taxes (including corporate, withholding, land transfer, and other taxes) in the various jurisdictions in which the REIT invests will reduce the amount of cash available for distribution to the REIT by the REIT Subsidiaries and, therefore, reduce the amount of cash available for distribution by the REIT to Unitholders. No assurance can be given as to the future level of taxation suffered by the REIT or the REIT Subsidiaries. In addition, certain tax positions adopted by the REIT and the REIT Subsidiaries may be challenged by the CRA or a foreign taxing authority. This could materially increase the taxable income of, and taxes payable by, the REIT and the REIT Subsidiaries, and thereby increase taxable income of Unitholders and/or adversely affect the REIT's financial position and cash available for distribution to Unitholders.

The extent to which distributions will be non-taxable in the future will depend in part on the extent to which the REIT Subsidiaries are able to deduct depreciation, interest and loan expenses relating to our properties for purposes of the Tax Act. No assurances can be given that the CRA will agree with capital cost allowance claims by the REIT Subsidiaries and that expenses claimed by the REIT and the REIT Subsidiaries are reasonable and deductible.

Qualified Investors

We will endeavour to ensure that the Units continue to be qualified investments for Plans; however, there can be no assurance in this regard. In addition, Redemption Notes or other property received on an in specie redemption of Units may not be qualified investments for Plans. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments.

German Taxes

As described under the heading Certain Non-Canadian Income Tax Considerations – Certain Material German Income, Withholding and Real Estate Transfer Tax Considerations in the IPO final prospectus dated March 28, 2013, the German SPV would be subject to municipal trade tax ("**TT**") if it acts through a German permanent establishment. We have assumed that the German SPV will not be subject to TT based on our current understanding of the structure. However, no assurances can be given that the German SPV will not be subject to TT.

The German real estate transfer tax (the "**RETT**") generally applies where there is a transfer of legal title of properties from one legal person to another. If the German SPV exercises the purchase option in respect of the Hanover Property (see *Certain Non-Canadian Income Tax Considerations – Certain Material German Income, Withholding and Real Estate Transfer Tax Considerations* in the IPO final prospectus dated March 28, 2013), legal title to German real estate would be transferred and, consequently, RETT would be payable in connection therewith.

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 deferred and payable income taxes; (iii) accounting for finance lease; (iv) valuation of investment properties; and (v) valuation of derivative financial instruments.

A more detailed description of critical accounting estimates and policies that we apply under IFRS is provided in note 4 of historical consolidated financial statements for the period ended September 30, 2013.

DISCLOSURE CONTROLS 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.

The CEO and CFO have evaluated the effectiveness of the Company's DCP and ICFR as required by National Instrument 52-109 issued by the Canadian Securities Administrators. They have concluded that as of December 31, 2013, the REIT's design and operation of its DCP and ICFR were effective in providing reasonable assurance that material information regarding this report, and the annual consolidated financial statements and other disclosures was made known to them on a timely basis and reported as required and that the financial statements present fairly, in all material aspects, the financial condition, results of operations and cash flows of the REIT as of December 31, 2013.

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 the period from February 8, 2013 to December 31, 2013	15,368
Assets (Investment Properties)	244,900
Liabilities (principally Finance lease liabilities)	111,628

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 October 1, 2013 to December 31, 2013	For the period from February 8, 2013 to December 31, 2013
Highest rate during the period	1.4724	1.4724
Lowest rate during the period	1.3954	1.2999
Average rate for the period (1)	1.4291	1.3832
Rate at the end of the period	1.4655	1.4655

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

In the IPO prospectus dated March 28, 2013, the financial forecast for the quarter ended December 31, 2013 assumed that the exchange rate between the Canadian dollar and the Euro would remain at 1.2996 which was the 10-day average noon rate of exchange posted by the Bank of Canada on conversion of Euros into Canadian dollars as of January 15, 2013.

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 $36.8 million and equity investments of $30.7 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 on or about May 2014. The REIT will be responsible for the management of the facility, a task that will initially be subcontracted to Inovalis S.A, until all asset management services are internalized by the REIT. An amount of $47 included in Acquisition costs relates to this transaction.

INOVALIS REIT
CONSOLIDATED FINANCIAL STATEMENTS
For the period from February 8, 2013 (date of creation) to December 31, 2013

INDEPENDENT AUDITORS' REPORT

TO THE UNITHOLDERS OF INOVALIS REIT

We have audited the accompanying consolidated financial statements of INOVALIS REIT, which comprise the consolidated balance sheet as at December 31, 2013, and the consolidated statements of income, comprehensive income, changes in unitholders' equity and cash flows for the period from February 8, 2013 to December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of INOVALIS REIT as at December 31, 2013, and its financial performance and its cash flows for the period from February 8, 2013 to December 31, 2013 in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montréal, Canada
March 20, 2014

[1] CPA auditor, CA, public accountancy permit no. A129122

Consolidated Balance Sheet as at December 31, 2013

(in thousands of Canadian dollars)

Assets	***Note***	**As at December 31, 2013**
Non-current assets		
Investment properties	*7*	244,900
Restricted cash and other financial assets	*9*	2,058
Total non-current assets		246,958
Current assets		
Trade and other receivables	*8*	1,746
Restricted cash	*9*	1,236
Cash and cash equivalents		6,120
Total current assets		9,102
Total assets		**256,060**

Liabilities and unitholders' equity	***Note***	**As at December 31, 2013**
Liabilities		
Non-current liabilities		
Finance lease liabilities	*10*	102,573
Lease equalization loan	*11*	1,470
Tenant deposits	*11*	1,189
Exchangeable securities	*12*	11,648
Derivative financial instruments	*13*	1,469
Total non-current liabilities		118,349
Current liabilities		
Finance lease liabilities	*10*	9,055
Exchangeable securities	*12*	586
Derivative financial instruments	*13*	1,002
Trade and other payables	*14*	4,068
Total Current liabilities		14,711
Total liabilities		133,060
Unitholders' equity		
Unitholders' equity		98,719
Retained earnings		10,610
Accumulated other comprehensive income		13,671
Total Unitholders' equity		123,000
Total liabilities and unitholders' equity		**256,060**

See accompanying notes to 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

Consolidated Statement of Income

(in thousands of Canadian dollars)

	Note	For the period from February 8, 2013, to December 31, 2013
Rental income	16	12,523
Service charge income	16	2,845
Service charge expense	16	(2,925)
Other property operating expense	16	(318)
Net rental income		12,125
Administration expenses	17	(2,755)
Net change in fair value of investment properties		5,894
Gain on bargain purchase	6	9,716
Acquisition costs	6	(3,371)
Operating profit		21,609
Loss on financial instruments at fair value through profit or loss		(2,682)
Finance costs	18	(2,303)
Distributions recognized on exchangeable securities	12	(752)
Net change in fair value of exchangeable securities	12	1,522
Profit before tax		17,394
Current income tax expense	19	(13)
Profit for the period		**17,381**
Earnings per Unit:		-
Basic earnings per unit from profit for the period	20	1.53
Diluted earnings per unit from profit for the period	20	1.32

See accompanying notes to consolidated financial statements

Consolidated Statement of Comprehensive Income

(in thousands of Canadian dollars)

	For the period from February 8, 2013, to December 31, 2013
Profit for the period	**17,381**
Item that will be reclassified subsequently to profit or loss	
Change in cumulative translation adjustment account	13,671
Total comprehensive income for the period	**31,052**

See accompanying notes to consolidated financial statements

Consolidated Statement of changes in Unitholders' Equity

(in thousands of Canadian dollars, except number of Units)

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
			Attributable to Unitholders of the Trust			
As at February 8, 2013		**-**	**-**	**-**	**-**	**-**
Public offering of Units	15	11,370,000	113,700			113,700
Repurchase of units for conversion into exchangeable securities		(87,000)	(870)			(870)
Issue costs			(14,129)			(14,129)
Distribution Reinvestment Plan		2,087	18	(18)		-
Distributions paid	21			(5,977)		(5,977)
Distributions payable	21			(776)		(776)
Transactions with owners		11,285,087	98,719	(6,771)	-	91,948
Profit for the period				17,381		17,381
Other comprehensive income						
Change in cumulative translation adjustment account					13,671	13,671
Total comprehensive income for the period		-	-	17,381	13,671	31,052
As at December 31, 2013		**11,285,087**	**98,719**	**10,610**	**13,671**	**123,000**

See accompanying notes to consolidated financial statements

Consolidated Statement of Cash Flows

(in thousands of Canadian dollars)

	Note	For the period from February 8, 2013, to December 31, 2013
Operating activities		
Profit before taxes		17,394
Adjustments for non-cash items:		
Rent free period		(1,389)
Management fees paid in exchangeable securities		1,198
Net change in fair value of investment properties		(5,894)
Loss on financial instruments at fair value through profit or loss	*13*	2,682
Distributions recognized on exchangeable securities	*12*	752
Net change in fair value of exchangeable securities	*12*	(1,522)
Interest expense related to finance leases		1,209
Amortization of fair value adjustment on assumed debt		1,093
Income taxes paid		(13)
Gain on bargain purchase	*6*	(9,716)
		5,794
Working capital adjustments:		
Increase in trade and other receivables		(1,648)
Increase in tenant deposits		1,058
Increase in trade and other payables		2,447
Settlement of derivative financial instruments		(211)
Net cash flow related to operating activities		7,440
Investing activities		
Business acquisition	*6*	(96,348)
Additions to invesment properties		(36)
Finance lease debt reimbursement and SWAP settlement	*6*	(5,498)
Increase in other financial assets	*9*	(3,049)
Net cash flow related to investing activities		(104,931)
Financing activities		
Units issued for cash	*15*	112,830
Issue costs	*15*	(13,622)
Exchangeable securities issued for cash	*12*	12,558
Distributions paid in cash on Units	*21*	(5,977)
Distributions paid on exchangeable securities		(479)
Repayment of finance lease liabilities		(4,952)
Interest paid		(1,208)
Lease equalization loan		1,389
Net cash flow related to financing activities		100,539
Net increase in cash and cash equivalents		3,048
Effects of foreign exchange adjustments		3,072
Cash and cash equivalents at the beginning of the period		-
Cash and cash equivalents at the end of the period		**6,120**
Cash and cash equivalents at the end of the period:		
Cash		6,120
		6,120

See accompanying notes to consolidated financial statements

Notes to the Consolidated Financial Statements

(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 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 consolidated financial statements for the period ended December 31, 2013, were authorized for issuance by the Board of Trustees on March 20, 2014.

The REIT has hired Inovalis S.A., a real estate asset manager having operations in France and Germany to manage certain functions. Refer to Note 3 – Significant accounting policies and Note 12 – Exchangeable Securities for more information about Inovalis S.A.'s investment in the REIT and to Note 23 – Transactions with related parties for information regarding the services provided by Inovalis S.A. to the REIT.

Note 2 – Basis of preparation of consolidated financial statements

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB").

Basis of presentation

The 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. The accounting policies set out below have been applied consistently in all material respects. Certain new accounting standards and guidelines relevant to the REIT that were issued at the date of approval of these consolidated financial statements but not yet effective for the current accounting period are described in Note 5.

The consolidated financial statements have been prepared on the historical cost basis except for Investment properties, Exchangeable Securities and Derivative financial instruments, which are measured at their fair values.

Note 3 – Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below:

Basis of consolidation

The consolidated financial statements include the financial statements of the REIT and all of its subsidiaries. The REIT controls a subsidiary if it has power over it, is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have the same reporting date of the REIT. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the REIT obtains control, and continue to be consolidated until the date when such control ceases.

All intra-group balances, transactions and unrealized gains and losses resulting from intra-group transactions are eliminated on consolidation.

Details of the REIT's operating subsidiaries as of December 31, 2013 are as follows:

Name of subsidiary	Principal Activity	Country of Incorporation and Residence	Proportion of Ownership Interest and Voting Power Held
CanCorpEurope S.A.	Holding Company for European assets	Luxembourg	90%
CanCorpHanover S.A.	Investment property holding	Luxembourg	100% held by CanCorpEurope
INOPCI1	Holding Company for assets in France	France	100% held by CanCorpEurope
BBA SCI	Investment property holding	France	100% held by INOPCI1
Véronèse SCI	Investment property holding	France	100% held by INOPCI1
Jeûneurs SCI	Investment property holding	France	100% held by INOPCI1

As explained in Note 4, the 10% interest held by Inovalis S.A. in CanCorpEurope S.A. and its subsidiaries is presented as a liability rather than a non-controlling interest (Refer to note 12 for details regarding this interest).

Business Combinations

The purchase method of accounting is used for acquisitions meeting the definition of a business. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange.

The REIT recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their acquisition date fair values irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Trust's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Trust's share of the net assets acquired, the difference is recognized directly in profit or loss for the period as a Gain on bargain purchase. Any transaction costs incurred with respect to the business combination are expensed in the period incurred.

When the acquisition of a subsidiary does not represent the acquisition of a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of such an acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognized.

Foreign currency translation

Functional currencies

Items included in the financial statements of each of the REIT's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the REIT's operating subsidiaries is the euro, whereas the functional currency of the parent company is the Canadian dollar. The functional currency of the entities of the Group has remained unchanged during the reporting period.

Transactions and balances

Foreign currency transactions are translated into the relevant functional currency of the respective Group entity using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the consolidated income statement under finance costs.

Subsidiaries

The results and financial position of all the subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency upon consolidation as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) items presented in the consolidated income statement, comprehensive income and cash flows are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income, expenses and cash flows are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognized in other comprehensive income and recognised in the cumulative translation adjustment account in equity.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the consolidated income statement as part of the gain or loss on sale.

Fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Investment properties

Investment property is defined as property held to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business. Property held under a finance lease is classified as investment property when the definition of an investment property is met. The lease obligation is recognized at an amount equal to the fair value of the lease property or, if lower, the present value of the minimum payments, each determined at the inception of the lease.

Investment property other than property acquired in a business combination is measured initially at cost including transaction costs. Transaction costs include transfer costs, taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment property is carried at fair value. Under the fair value model, investment properties are recorded at fair value, determined based on available market evidence at each reporting date. Gains or losses arising from changes in the fair values are recognized in the consolidated income statement in the period in which they arise. For the purpose of these consolidated financial statements, in order to avoid “double counting”, the assessed fair value may be reduced by the carrying amount of any accrued income resulting from the straight-lining of lease incentive and letting fees.

The fair value of investment properties is determined by independent appraisers who have appropriate qualifications and relevant experience in the valuation of properties. Evaluations are performed in using recognized appraisal techniques and the principles of IFRS 13, *Fair value measurement*. Refer to Note 4 – Critical accounting judgments and estimates for a more detailed description of the valuation techniques used.

Unitholders’ equity

The REIT classifies issued Units as equity in the consolidated balance sheet. The Units are puttable financial instruments because of the Unitholders’ option to redeem Units, at any time, at a redemption price per unit equal to the fair market value of the units at that time. The REIT has classified the Units 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”, as follows:

- The Units entitle the Unitholder to a pro rata share of the REIT’s net assets in the event of the REIT’s termination. The REIT’s net assets are those assets that remain after satisfaction of all its liabilities;

- The Units are in the class of instruments that are subordinate to all other classes of instruments because they have no priority over other claims to the assets of the REIT on liquidation, and do not need to be converted into another instrument before they are in the class of instruments that is subordinate to all other classes of instruments;

- All instruments (including these Units) in the class of instruments that is subordinate to all other classes of instruments have identical features;

- Apart from the contractual obligation for the REIT to redeem the Units for cash or another financial asset, the Units do not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the REIT, and it is not a contract that will or may be settled in the REIT’s own instruments; and

- The total expected cash flows attributable to the Units over their life is based substantially on the profit or loss and the change in the recognized net assets of the REIT over the life of the Units.

In addition to the Units meeting all of the above criteria, the REIT has determined it has no other financial instrument or contract that has total cash flows based substantially on the profit or loss, the change in the recognized assets, or the change in the fair value of the recognized and unrecognized net assets of the REIT. The REIT also has no other financial instruments or contracts that have the effect of substantially restricting or fixing the residual return to the Unitholders.

Unitholders’ equity is initially recognized at the fair value of the consideration received in return for units issued by the REIT. Any transaction costs arising on the issue of Units are recognized directly in Unitholders’ equity as a reduction of the proceeds received.

Retained earnings include all current and prior period retained profits net of amounts distributed to Unitholders.

Accumulated other comprehensive income includes the cumulative foreign currency translation differences arising on the translation of consolidated entities that use a function currency that is different from the REIT’s presentation currency.

Financial instruments

Recognition, initial measurement and derecognition

Financial instruments are recognized and derecognized using settlement date accounting. Financial assets and liabilities are recognized when the REIT becomes a party to the contractual provisions of the instrument and are measured at fair value adjusted for transaction costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Financial assets are derecognized when the contractual rights to receive cash flows from the financial assets have expired or have been transferred and the REIT has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is extinguished, discharged, cancelled or expires. Financial assets and liabilities are offset and the net amount presented in the consolidated balance sheet when, and only when, the REIT has a current legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Classification and subsequent measurement

For the purpose of subsequent measurement, financial assets and liabilities are classified into the following categories upon initial recognition:

Financial assets and liabilities at fair value through profit or loss

Financial instruments carried at fair value through profit or loss include financial instruments that are either (i) classified as held for trading, or (ii) designated at fair value through profit or loss upon initial recognition if they meet certain conditions. Derivative financial instruments also fall into this category, except those designated and effective as hedging instruments.

Financial instruments classified as held for trading

A financial instrument is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or if on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or if it is a derivative. The financial instruments held by the REIT that are classified in this category are the marketable securities and the forward foreign exchange contracts not designated as hedging instruments. The forward foreign exchange contracts used by the REIT to manage risks related to foreign currency are classified as held for trading. Since the REIT does not use hedge accounting, all gains or losses related to variations in the fair value of these contracts are recognized in profit or loss immediately in the period during which those variations occurred.

Financial instruments designated as at fair value through profit or loss

A financial instrument can be designated at fair value through profit or loss, notably when it contains an embedded derivative that is separable and significantly modifies the cash flows that would otherwise be required under the contract, and where such separation is not clearly prohibited. The Exchangeable Securities issued by the REIT's subsidiary, CanCorpEurope S.A., are designated as at fair value through profit or loss.

Financial instruments in this category are recognized initially and subsequently at fair value. Gains and losses on re-measurement to fair value are included in the consolidated income statement in "net change in fair value of exchangeable securities". Transaction costs are expensed in the consolidated income statement. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which are classified as non-current.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The REIT's loans and receivables comprise trade receivables and restricted cash. Loans and receivables are initially recognized at fair value which corresponds to the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less a provision for impairment if applicable. Loans and receivables are reviewed for impairment at least at each reporting date to determine if there is any objective evidence that a financial asset is impaired. A provision for impairment of loans and receivables is recognized when there is objective evidence that the REIT will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote. Changes in the provision for impairment of loans and receivables are presented in the consolidated income statement within "Other property operating expenses". Restricted cash represent the cash pledged as security for the foreign currency forward contracts.

Financial liabilities at amortized cost

Financial liabilities at amortized cost include trade and other payables, the lease equalization loans and tenant deposits. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Interest bearing loans and borrowings and tenant deposits are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. These are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand and short-term investments, if any, with maturities upon acquisition of generally three months or less or that are redeemable at any time at full value and for which the risk of change in value is not significant.

Cash equivalents are principally investments in money market funds (SICAV) in France that are readily convertible through redemption with the fund to an amount of cash that is subject to an insignificant risk of change.

Exchangeable Securities

Exchangeable Securities represent the financial interest not held by the REIT in controlled and consolidated subsidiaries when these interests are exchangeable into units of the REIT at the discretion of the holder. This liability is measured at fair value with changes in fair value recorded in profit or loss. (Refer to note 12 for details of these financial interests and their maturity dates).

Tenant deposits

Tenant deposits are initially measured at their fair value plus or minus any unrecognized differences between the fair value at initial recognition and the transaction price. Since, due to the nature of the instrument, the fair value is based on a valuation technique that uses some data not available from observable markets, the difference between the fair value and the transaction price is deferred and recognised over time in a manner that offsets the accretion of the discounted amount. Consequently, the carrying amount of the tenant deposit is generally equal to their nominal value.

Operating lease contracts - REIT as lessor

The REIT has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the leases as operating leases.

Finance lease – REIT as lessee

Finance leases, which transfer to the REIT substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the consolidated income statement using the effective interest method.

Assets held under finance lease assets and finance lease liabilities are set out respectively in Note 7 – Investment properties and Note 10 – Finance lease liabilities.

Revenue recognition

Rental income from investment properties

Rental income receivable from operating leases, less the REIT's initial direct costs of entering into the leases, is recognized on a straight-line basis over the term of the lease.

Incentives for lessees to enter into lease agreements are recognized evenly over the lease term, even if the payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the REIT is reasonably certain that the tenant will exercise that option.

Service charge income

Service charge and other property operating expenses are recognized in the period in which the expense is incurred. Service charge expenses that are recharged to tenants are recognized as service charge income in the period in which the compensation becomes recoverable, which in turn is included in Net rental income.

Interest income and expenses

Interest income and expense are recognized as they accrue using the effective interest rate method.

Distributions

Distributions to Unitholders are recognized as a liability in the period in which the distributions are approved by the Board of Trustees and are recorded as a reduction of retained earnings.

Income taxes

Canadian income taxes

The Trust is considered a mutual fund trust for income tax purposes in Canada. In Canada, mutual fund trusts are not taxed on income earned in a taxation year, to the extent that such income has been distributed to Unitholders prior to the end of the taxation year. Indeed, according to article 11 of the REIT's amended and restated declaration of trust, dated April 10, 2013, the trustees shall make payable to unit holders a distribution of sufficient net realized capital gains and income that the Trust shall not be liable to pay taxes under Part 1 of the Tax Act. As a result, there is generally little possibility of the trust being taxable on ordinary income under Part 1 of the Income Tax Act. Consequently, the Trust does not recognize Canadian income taxes under IAS 12 Income taxes because it has an "in-substance" exemption.

Foreign income taxes

The REIT's subsidiaries are subject to tax either on their taxable income or on a withholding basis under applicable legislation in France, Germany and Luxembourg. These subsidiaries account for their current or recovered taxes at the current enacted tax rates and use the liability method to account for deferred taxes. The tax expense related to taxable subsidiaries for the period comprises current and deferred taxes.

The REIT's subsidiaries that hold the leasehold rights on the properties located in France are established in France and should therefore be considered as tax residents in France. Under current French tax legislation and on the basis that such subsidiaries intend to comply with their distribution obligations, they are corporate income tax exempt. A withholding tax should be levied in France on dividend distributions made by INOPCI 1 which is an OPCI (a collective undertaking for real estate investment) to CanCorpEurope.

CanCorpEurope and the CanCorpHanover are established in Luxembourg as fully taxable companies, subject to annual corporate income, municipal business and net wealth taxes. There is a minimum corporate income tax in Luxembourg under certain conditions whenever the corporation has zero or negative taxable income. Dividends and liquidation dividends derived by CanCorpEurope from the French OPCI may be tax exempt in Luxembourg for corporate income tax and municipal business tax purposes. CanCorpEurope will benefit from the Luxembourg participation exemption on any dividend income or liquidation proceeds received from the CanCorpHanover. CanCorpHanover will enter into leasing and sub-leasing agreement through which it will realize a spread profit. The Luxembourg/Germany double tax treaty should allocate to Germany an unlimited primary right to tax income deriving from such spread on the leasing agreements relating to the property in Germany. Also based on the Luxembourg/Germany double tax treaty, Luxembourg should exempt this income.

CanCorpHanover is a Luxembourg limited liability company that is managed in Luxembourg and, therefore, should not be considered to be a tax resident of Germany for German tax purposes. However, CanCorpHanover would be subject to tax in Germany on its German source income. Provided the considered treatment of the head lease and sub lease structure is achieved (i.e. the Hanover Owner will be regarded as the beneficial owner of the Hanover Property for German tax purposes), CanCorpHanover would realize income from the sub-leasing of the Hanover property and would have expenses in the form of rental payments under the Vendor Lease entered into with the Hanover Owner, whereas rental prepayment would generally be amortized over the period for which the prepayment was made. As CanCorpHanover's rental revenues would be German source income, such (net) income would be subject to German corporate income tax ("CIT"), even if the CanCorpHanover is not a German tax resident. The right to tax such income by Germany should not be waived under the double tax treaty between Germany and Luxembourg because the Hanover property is located in Germany and income from German real estate is taxed in the country where the real estate is located. Currently, CIT applies at a rate of 15.825% (including a solidarity surcharge of 5.5%) on taxable net income. To determine taxable income for CIT purposes, a tax payer may deduct certain expenses incurred in connection with its German source income (e.g., with respect to the acquisition and ownership of real property and certain operating expenses) provided that such costs are incurred on arm's length terms.

Current income taxes

Where applicable, the current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated balance sheet date where the subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Where applicable, deferred income tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilized.

The carrying value of the REIT's investment properties will generally be realized by combination of income (rental stream during the period of use) and capital (the consideration on the sale at the end of use). The length of the period for which a property will be held prior to disposal is based on the REIT's current plans and recent experience with similar properties. According to the rebuttable presumption exception of IAS 12, the measurement of a deferred tax liability or a deferred tax asset arising on an investment property measured at fair value should reflect the tax consequences of recovering the carrying amount entirely through sale.

Deferred income tax assets and liabilities are measured at the tax rates that will apply to the period when it is expected that the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, if such entities intend to settle current tax liabilities and assets on a net basis or the entities tax assets and liabilities will be realized simultaneously.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Segmental reporting

The REIT owns and operates a portfolio of investment properties located in Western Europe. These properties are all used to derive their revenues from the rental of office space leased to corporate clients in urban areas.

Management has determined that this portfolio is a single reporting.

Note 4 – Critical accounting judgments and estimates

The preparation of the REIT's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated interim financial statements are presented below:

Critical accounting judgments

Investment properties

Critical judgments are made by the REIT in respect of the fair values of investment properties. The fair value of these investment properties is reviewed regularly by management with reference to independent property valuations and market conditions existing at the reporting date, using generally accepted market practices. The independent valuators are leading independent appraisers with a recognized and relevant professional qualification and with recent experience in the location and category of the investment property being valued. Judgment is also applied in determining the extent and frequency of independent appraisals. Refer to note 7 – Investment properties for more information regarding the frequency of independent appraisals and the assumptions used.

Business combination

The REIT performs an assessment of each investment property acquired to determine whether the acquisition is to be accounted for as an asset acquisition or business combination. Accounting for business combinations under IFRS 3, *Business Combinations* ("IFRS 3") only applies if it is considered that a business has been acquired. Under IFRS 3, a business is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to the REIT. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. The purchase of investment properties was classified as a business acquisition on the basis that it involved the acquisition of leasable space (inputs), management processes to lease that space to tenants (processes), and leasing arrangements with tenants that generated rental income (outputs that are used to generate revenues). In the absence of such criteria, a group of assets is deemed to have been acquired. If goodwill is present in a transferred set of activities and assets, the transferred set is presumed to be a business. When the acquisition does not represent a business combination, it is accounted for as an acquisition of a group of assets and liabilities. The acquisition cost is allocated to the assets and liabilities acquired based on their relative fair values at the acquisition date.

The REIT applies judgment in determining whether property acquisitions qualify as a business combination in accordance with IFRS 3 or as an asset acquisition.

Critical accounting estimates

Valuation of investment properties

The fair value of investment properties is determined by independent real estate valuation experts using recognized valuation techniques. These techniques comprise both the Yield Method and the Discounted Cash Flow Method. In some cases, the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the REIT assets.

The determination of the fair value of investment properties requires the use of estimates such as future cash flows from assets (such as lettings, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets. Future revenue streams comprise mainly contracted rent (passing rent) such as tenants' profiles and estimated rental value (ERV) after the contract period. In estimating ERV, the potential impact of future lease incentives to be granted to secure new contracts is taken into consideration. All these estimates are based on local market conditions existing at the reporting date.

The significant methods and assumptions used by the valuators in estimating the fair value of investment properties are set out in Note 7 – Investment properties.

The Discounted Cash Flow Method involves the projection of a series of periodic cash flows either to an operating property or a development property. To this projected cash flow series, an appropriate market derived discount rate is applied to establish an indication of the present value of the income stream associated with the property. The calculated periodic cash flow is typically estimated as gross rental income less vacancy and collection losses and less operating expenses/outgoings. A series of periodic net operating incomes, along with an estimate of the reversion/terminal/exit value (which uses the traditional valuation approach) anticipated at the end of the projection period, are discounted to present value. The aggregate of the net present values equals the market value of the property.

Note 5 – Accounting standard 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, 2015. 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.

IFRIC 21, Accounting for levies imposed by governments

IFRIC 21 addresses the accounting for a liability to pay a levy recognized in accordance with IAS 37, "Provisions", and the liability to pay a levy whose timing and amount is certain. IFRIC 21 clarifies that the obligating event giving rise to a liability to pay a levy is the event identified in the relevant legislation that triggers the obligation to pay the levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and should be applied retrospectively. The REIT is currently assessing the impact on the consolidated financial statements.

Note 6 – Business combination

In April 2013, for a consideration of $96,348 thousand in cash, the REIT acquired leasehold interests in three commercial properties located in the greater Paris region in France and one commercial property in the city of Hanover in Germany and the related tenant portfolios. Other assets acquired constitute the financial assets transferred as part of the Dubonnet leasehold in France. The primary reason for the acquisitions was to allow the REIT to commence operations as a real estate investment trust.

The transaction was treated as a business combination. The identifiable assets and liabilities of the acquired businesses were recognized based upon their respective fair values as of the transaction dates, which according to the final sale agreements, were April 12, 2013 for the German property and April 16, 2013 for the French Properties respectively.

	France			Germany	Total
Purchase price allocation	**Vanves Leasehold**	**Jeuneurs Leasehold**	**Dubonnet Leasehold**	**Hanover Leasehold**	**Total Portfolio Fair Value**
Recognized amounts of identifiable assets acquired and liabilities assumed					
Investment properties acquired	108,141	46,449	35,759	27,170	217,519
Other Assets acquired	-	-	224	-	224
Total identifiable assets acquired	**108,141**	**46,449**	**35,983**	**27,170**	**217,743**
Finance leases liabilities	(51,846)	(19,896)	(17,000)	(21,124)	(109,866)
Derivative financial instrument (interest rate swap)	-	-	-	(1,733)	(1,733)
Other liabilities assumed	-	-	-	(80)	(80)
Total liabilities assumed	**(51,846)**	**(19,896)**	**(17,000)**	**(22,937)**	**(111,679)**
Net fair value of assets acquired and liabilities assumed	**56,295**	**26,553**	**18,983**	**4,233**	**106,064**
Consideration given by the REIT consists of the following:					
Cash					96,348
Consideration transferred by the REIT					**96,348**
Negative goodwill - recognized as a Gain from a bargain puchase					**9,716**

Negative goodwill estimated at the acquisition date has been recognized as a Gain on bargain purchase in profit or loss. This gain resulted principally due to variances in the fair values of assets acquired and liabilities assumed between the time the purchase price was negotiated and the acquisition was finalized.

Costs relating to the above-mentioned acquisition amounting to $3,324 have been recognized directly in profit or loss.

During the measurement period, an adjustment to the fair value of the finance lease of the Jeûneurs leasehold had the effect of decreasing the finance lease liability and increasing the gain on bargain purchase price by $39.

The acquisition was financed by way of net proceeds from an initial public offering of the REIT's units (see Note 15 – Unitholders' Equity) and the issuance of Exchangeable Securities to Inovalis S.A. (see Note 12 – Exchangeable Securities).

The amounts recognized as revenues and net profits in 2013 by the acquired entities since acquisition were $15,368 and $9,221 respectively. If the investment properties had been acquired at the beginning of the REIT's annual reporting period, which in the current year was February 8, 2013, the date of incorporation of the Trust, the amounts that would have been recognized as revenues and net profits would have amounted to approximately $19,000 and $12,000 respectively.

Partial early payment of the Hanover's finance lease liability and swap settlement

As requested by the lessor of the Hanover property, the REIT made, at the acquisition date, a partial reimbursement of the finance lease liability attached to the property situated in Germany (Hanover) and settled the out-of-the money interest rate swap attached. The total cost of this transaction, which was for an amount of $5,498, was accounted for as a reduction in the liabilities in question.

Note 7 – Investment properties

Investment properties	For the period from February 8, 2013, to December 31, 2013
Beginning of period	**-**
Additions:	36
Acquisitions through business combination	217,519
Rent free period	1,389
Valuation gains (losses) from fair value adjustment on investment properties	5,894
Foreign currency translation adjustment	20,062
End of period	**244,900**

The fair value of the investment properties as at December 31, 2013, have been determined based on an appraisals prepared by independent appraisers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment properties being valued. Outlined in the following tables is a summary of the evaluations performed as well as the significant assumptions used.

Valuators' reports and significant assumptions	As at December 31, 2013			At acquisition date		
	France	Germany	Total	France	Germany	Total
Fair value of investment properties for financial reporting purposes						
Market value (in Euros) as estimated by external appraisers..	149,640	20,500	170,140	144,280	20,500	164,780
Adjustments : finance lease purchase option execution fee...	(2,741)	(288)	(3,029)	(2,672)	(288)	(2,960)
Adjusted market value in Euros....................................	146,899	20,212	167,111	141,608	20,212	161,820
Exchange adjustment..	68,380	9,409	77,789	48,741	6,958	55,699
Adjusted market value in 000's of CAD$.........................	215,279	29,621	244,900	190,349	27,170	217,519
Date of appraisal	Dec 31, 2013	Dec 31, 2013		Dec 16, 2012	April 30, 2013	
Appraiser	Catella	REAG		Jones Lang Lasalle	REAG	
Principal method used to value property	Discounted cash flow	Discounted cash flow		Discounted cash flow	Discounted cash flow	
Number of years used in cash flow projection	10	10		7 to 11	10	
Average estimated rental value (ERV) rate/m^2/year in Euros	295	114		280	114	
Discount rate / True equivalent yield	5.5% to 7.5%	5.45%		5,65% to 7,55%	5.45%	
Projected occupancy rate	100%	100%		94.59%	100%	
Actual occupancy rate at value date	100%	100%		100%	100%	
Projected growth in real ERV rates	2.25%	0%		0%	0%	
Impact on the fair value of investment properties of :						
an increase of 25bps in yield.......................................	(4,015)	(1,172)	(5,187)			
a decrease of 5% in rental rates..................................	(1,407)	(1,466)	(2,873)			

Note 8 – Trade and other receivables

(in thousands of CAD$)

Trade and other receivables	As at December 31, 2013
Trade receivables	507
Trade receivables - related parties	346
Trade receivables	**853**
VAT receivable	627
Other receivables	266
Other receivables	**893**
Total trade and other receivables	**1,746**

As at December 31, 2013, none of the REIT's Trade or other receivables is past due or impaired. The REIT's management considers that their credit quality is good.

The share of trade and other receivables with related parties is disclosed in Note 23 – Transactions with related parties. Rent and service charge receivables are non-interest bearing and are typically due within 30 days.

Note 9 – Other financial assets

Financial assets	**As at December 31, 2013**
Restricted cash as collateral for hedge - non-current	1,813
Other financial assets	245
Total other financial assets - non-current	2,058
Restricted cash as collateral for hedge - current	1,236
Total other financial assets	**3,294**

The collateral for hedge is classified as current or non-current based on the relative value of derivative financial instruments in each category.

Note 10 – Finance lease liabilities

(in thousands of CAD$)

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

Reconciliation of lease liabilities	
Balance - beginning of the period	-
Business acquisitions	109,866
Partial early payment of Hanover finance lease	(3,764)
Regular repayment of principal	(4,952)
Amortization of fair value adjustment on assumed debt	1,093
Foreign currency translation adjustment	9,385
Balance - end of period	111,628

The REIT acquired certain leasehold properties that it classifies as investment properties (See Note 7 - 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 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 11 – Lease equalization loan and tenant deposits

Lease equalization loan

(in thousands of CAD$)			As at December 31, 2013		
Entity	**Interest rate**	**Maturity**	**Total**	**Non-current**	**Current**
Lease equalization loan - BBA SCI	5%	2021-09-30	1,291	1,291	-
Lease equalization loan - Véronèse SCI	5%	2019-09-30	179	179	-
Total lease equalization loan			**1,470**	**1,470**	**-**
Reconciliation of lease equalization loan					
Balance - beginning of the period			-		
Increases in loan amount			1,389		
Foreign currency translation adjustment			81		
Balance - end of period			**1,470**		

Inovalis S.A. entered into Lease Equalization Agreements on April 10, 2013 with certain of the REIT's subsidiaries, which has the effect of equalizing the rent payments providing the REIT with stable and predictable monthly revenue over the term of certain leases in the Vanves property and the Dubonnet property.

In particular, the payments on these leases will be lower immediately following closing than the lease payments required to be made towards the end of the respective lease terms.

Under the Lease Equalization Agreements:

Inovalis S.A. is required to make payments to BBA SCI on a quarterly basis during the period commencing on April 16, 2013 and ending on September 30, 2015, (i) the difference between the actual lease payments over such period and the average lease payments over the term of the lease, which is $4,481 thousand in the aggregate, and (ii) BBA SCI will be required to make payments to Inovalis S.A., on a quarterly basis during the period commencing on October 1, 2015 and ending on September 30, 2021, the difference between actual lease payments over such period and the average lease payments over the term of the lease, which is $4,481 thousand in the aggregate, plus 5.00% per annum of such amount which shall begin to accrue on any amount when such amount is advanced by Inovalis S.A.

Inovalis S.A. is required to make payments to Véronèse SCI on a quarterly basis during the period commencing on April 16, 2013 and ending on September 30, 2016, (i) the difference between the actual lease payments over such period and the average lease payments over the term of the lease, which is $348 thousand in the aggregate, and (ii) Véronèse SCI will be required to pay to Inovalis S.A., on a quarterly basis during the period commencing on October 1, 2015 and ending on September 30, 2019, the difference between actual lease payments over such period and the average lease payments over the term of the lease, which is $348 thousand in the aggregate, plus 5.00% per annum of such amount which shall begin to accrue on any amount when such amount is advanced by Inovalis S.A.

Tenant deposits

(in thousands of CAD$)		**As at December 31, 2013**		
Entity	**Maturity**	**Total**	**Non-current**	**Current**
Tenant deposits		1,189	1,189	-
Total tenants deposits		**1,189**	**1,189**	**-**
Reconciliation of tenant deposits				
Balance - beginning of the period		-		
Transfer of tenant deposits concurrent with acquisition		1,054		
Increases in tenant deposits during the year		4		
		1,058		
Foreign currency translation adjustment		131		
Balance - end of period		**1,189**		

Concurrent with the acquisition of the investment properties in April 2013, and in accordance with the final purchase agreements, the REIT took over the deposits held by the vendor. The tenant deposits were transferred to the REIT for their nominal value amounting to $1,054.

Note 12 – Exchangeable Securities

(in thousands of CAD$)

Exchangeable securities issued and outstanding	Investment by Inovalis S.A. in CanCorpEurope S.A. Common shares (number)	Investment in shares & share premium	Investment in Debt instruments[1]	Total investment	Exchangeable securities Number of exchangeable securities	Carrying amount of exchangeable securities
Beginning of period					0	0
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	0	83	787	870	87,000	870
Asset management fees paid in exchangeable securities	0	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	-	-
End of period	**170**	**1,311**	**13,498**	**14,809**	**1,388,685**	**12,234**

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
Interest bearing note	9.00%	10 April 2028	5,988
Interest bearing note	4.50%	10 April 2028	1,575
			7,563
Non-interest bearing note		10 April 2028	5,935
			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 $1,264. The REIT would not be required to pay any amount for the Investment in shares & share premium.

According to the ammended 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 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 $161. 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 period ended December 31, 2013:

(in thousands of CAD$)

Distributions in respect of exchangeable securities	**For the period from February 8, 2013, to December 31, 2013**
Amount payable at the beginning of the period	-
Declared and recognized during the period	752
Accrued or paid in cash in the form of interest on interest bearing notes issued by CanCorpEurope S.A.	(378)
Paid in cash in the form of repayment of interest bearing notes issued by CanCorpEurope S.A.	(161)
Amount payable at the end of the period	213
Total distributions on exchangeable securities recognized in profit or loss	**752**
Average number of exchangeable securities outstanding..	1,245,250
Distributions paid per unit (based on weighted average exchangeable securities outstanding)...........	(0.4328)

Note 13 – Derivative financial instruments

A series of forward exchange contracts are used to economically hedge foreign currency cash flow for distributions to Unitholders. The following table provides a summary of the foreign exchange contracts in place:

		Period covered		**Coversion from/to**			**As at December 31, 2013**	
Classification	**Number of contracts**	**From**	**To**	**Euros**	**$**	**Rate**	**Total notional buy amount in $**	**Fair value in $**
Current	12	2014-01-14	2014-12-13	546	721	1.3211	8,652	1,002
Non-current	16	2015-01-14	2016-04-14	546	721	1.3211	11,536	1,469
	28						**20,188**	**2,471**

Note 14 – Trade and other payables

(in thousands of CAD$)

Trade and other payables	**As at December 31, 2013**
Trade payables	1,320
Trade payables - related parties	228
Trade payables	**1,548**
Other payables	16
Other payables - related parties	821
VAT payable	694
Distributions payable	776
Distributions payable - related parties	213
Other payables	**2,520**
Total trade and other payables	**4,068**

The share of trade and other payables to related parties is disclosed in Note 23 – Transactions with related parties. Trade payables are non-interest bearing and are normally settled on 30-day terms.

Note 15 – 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 12 – Exchangeable Securities) for the purpose of providing voting rights with respect to the REIT to the holders of such securities. As at December 31, 2013, 1,388,685 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 16 – Net rental income

(in thousands of CAD$)

Revenue	**For the period from February 8, 2013, to December 31, 2013**
Rental income	12,523
Service charge income	2,845
Total revenue	**15,368**

The REIT has entered into operating leases on its investment property portfolio. These leases typically have lease terms between three and nine years. Rents can typically be increased once a year by applying yearly indexation based on an index that has been contractually agreed by the lessor and lessee. Some leases contain break-options before the end of the lease term.

Total revenue from largest customers	**For the period from February 8, 2013, to December 31, 2013**
France Telecom	5,880
National Conservatory of Arts & Crafts	2,267
French environment and Energy Management Agency	1,423
Facility Services Hanover GMbH (Hanover Municipal Savings Bank)	1,425
Smart & Co	1,309
Subtotal	12,304
Revenue from all other tenants	3,064
Rental revenues from investment properties	**15,368**

Types of rental income recognized in respect of investment property	**For the period from February 8, 2013, to December 31, 2013**
Regular rents	11,134
Amortization of rent free periods (lease incentives)	1,389
Rental income recognized in respect of investment property	**12,523**

Future minimum leases receivable under non-cancellable operating leases	As at December 31, 2013
Within 1 year	18,436
After 1 year, but not more than 5 years	70,303
More than 5 years	32,606
Future minimum leases receivable under non-cancellable operating leases	**121,345**

(in thousands of CAD$)

Service charge and other property operating expenses	For the period from April 16, 2013, to December 31, 2013
Service charge expenses	
Repairs, maintenance & utilities	(1,261)
Property management expenses - related parties	(941)
Facilities management fees - related parties	(255)
Property insurance costs	-
Other (land tax, office tax, non-recoverable VAT)	(468)
	(2,925)
Other property operating expenses	
Repairs, maintenance & utilities	-
Bad debts allowance	-
Facilities management fees - related parties	(255)
Other	(63)
	(318)
Total direct operating expenses (including repairs and maintenance) arising from investment property	**(3,243)**

Expenses from rental generating property	For the period from April 16, 2013, to December 31, 2013
Direct operating expenses for investment properties that generated rental income during the period	(2,883)
Direct operating expenses for investment properties that did not generate rental income during the period	(360)
Total direct operating expenses arising from investment property	**(3,243)**

Note 17 – Administration expenses

(in thousands of CAD$)

Administration expenses	**For the period from February 8, 2013, to December 31, 2013**
Asset management fees - related parties	(1,198)
Other general and administrative expenses	(1,586)
Other general and administrative expenses - related parties	(35)
Net foreign exchange gain	64
Total administration expenses	**(2,755)**

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 18 – Finance costs

(in thousands of CAD$)

Finance costs	**For the period from February 8, 2013, to December 31, 2013**
Interest costs related to finance leases	(1,209)
Amortization of fair value adjustment on debt assumed at a discount at the time of a business acquisition	(1,093)
Other finance costs	(22)
	(2,324)
Finance income	21
Total Finance costs	**(2,303)**

Note 19 – Income tax expense

The income tax expense amounting to $13 for the period from February 8, 2013 to December 31, 2013 arises due to the minimum corporate income tax in Luxembourg.

Note 20 – 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"(Note 3 – Significant accounting policies).

(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 period from February 8, 2013, to December 31, 2013**
Net profit attributable to unitholders	17,381
Weighted average number of units outstanding	11,334,375
Basic earnings per unit	**1.533**

(b) Diluted earnings per Unit

Diluted earnings per unit is calculated by adjusting the weighted average number of Units outstanding to assume conversion of all dilutive potential Units. The REIT has one category of dilutive potential Units: the Exchangeable Securities. Refer to Note 12 - Exchangeable Securities for the number of Exchangeable Securities outstanding.

(in thousands of CAD$)

Diluted earnings per Unit	**For the period from February 8, 2013, to December 31, 2013**
Net profit attributable to unitholders	17,381
Distributions recognized on exchangeable securities	752
Net change in fair value of exchangeable securities	(1,522)
Net profitable attributtable to diluted unitholders	**16,611**
Weighted average number of units outstanding	11,334,375
Weighted average number of Exchangeable securities outstanding	1,245,250
Weighted average number of units used for diluted earnings per unit	12,579,625
Diluted earnings per unit	**1.320**

The weighted average number of units outstanding was calculated starting April 10, 2013, the date of the IPO.

Note 21 – Distributions

(in thousands of CAD$)

Distributions	**For the period from February 8, 2013, to December 31, 2013**
Amount payable at the beginning of the period	-
Declared and recognised during the period	6,771
Distributions paid in units (Distribution Reinvestment Plan)	(18)
Paid in cash	(5,977)
Amount payable at the end of the period	776
Total distributions	**6,771**
Distributions paid per unit (based on weighted average number of units outstanding)	0.5289

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 December 18, 2013, the distribution for the month of December was declared, amounting to a total distribution of $776. This amount was paid on January 15, 2013.

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 12 – Exchangeable Securities.

Note 22 – Financial risk management objectives and policies

The REIT is exposed to market risk, credit risk and liquidity risk.

Management has reviewed and agreed to policies for managing each of these risks, which are summarized below.

The REIT's risk management activities are is coordinated by senior management, in close cooperation with the Board of Trustees, and focuses on actively securing the REIT's short to medium-term cash flows by minimizing the exposure to financial markets.

The REIT does not actively engage in the trading of financial assets for speculative purposes.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk consists of interest rate risk and currency risk.

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The REIT's exposure to the risk of changes in market interest rates relates to the REIT's long-term debt obligations with floating interest rates related to finance leases.

The interest rate hedging strategy is as follows: the REIT intends to pay floating 3M-EURIBOR for the base rate as long as the 3-year 3M-EURIBOR swap rate is below 0.75%. If the 3-year 3M-EURIBOR swap rate reaches 0.75%, the REIT will then as early as possible enter into such a swap.

The following table illustrates the sensitivity of profit or loss and equity to a reasonably possible change in interest rates. These changes are considered to be reasonably possible based on observation of current market conditions. More specifically, it was considered that any further decreases in the interest rates would be unlikely or insignificant given the low rates at the period end. The calculations are based on a change in the average market rate for each period presented, and the finance leases held at the reporting date that were sensitive to changes in the interest rates. All other variables are held constant.

Interest rate sensitivity as at December 31, 2013	Impact on Profit or loss	Impact on Equity
Reasonably possible increase in interest rates	100 bps	100 bps
Annualized impact of an increase on profit or loss and retained earnings	(1,116)	(1,116)

Currency risk

(in thousands of CAD$)		As at December 31, 2013		
		Exposure to Euro		
Financial assets and liabilities denominated in foreign currencies	**Possible variation**	**Short-term exposure**	**Long-term exposure**	**Total**
Monetary assets denominated in other than functional currency		507	-	507
Monetary liabilities denominated in other than functional currency		-	-	-
Net exposure in respect of monetary items denominated in other than functional currency		507	-	507
Net exposure in respect of foreign currency exchange contracts (notional buy amount in CAD$)		(8,652)	(11,536)	(20,188)
Net exposure		(8,145)	(11,536)	(19,681)

Impact on	% change	Net income	OCI	Total
Gain or (loss) in the event of an increase in the value of the Euro/CAD$	10%	(1,969)	-	(1,969)
Gain or (loss) in the event of a decrease in the value of the Euro/CAD$	-10%	1,967	-	1,967

The REIT operates in France and Germany, and the functional currency for these operations is the Euro. The REIT's distributions are paid to Unitholders in Canadian dollars. Thus, the cash available for distribution to Unitholders could be adversely impacted by currency variations. In order to ensure the predictability of distributions to its Unitholders, the REIT has implemented an economic foreign exchange hedging program and entered into a series of foreign currency forward contracts that cover approximately 84% of the forecast monthly distributions. Refer to note 13 for a summary of the foreign exchange contracts in place.

Due to its long-term vision regarding the ownership of investment properties, the REIT does not hedge its investment properties.

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The REIT is directly exposed to credit risk from its leasing activities and its financing activities, including deposits with banks and financial institutions and indirectly exposed via its investments in units of a money market mutual fund, which are accounted for as cash equivalents. The REIT's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at December 31, 2013.

In respect of trade receivables, the REIT is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Based on historical information about custom default rates, management consider the credit quality of trade receivables that are not past due or impaired to be good.

Tenant receivables

Credit risk is managed by requiring tenants to pay rentals in advance. Also, in certain cases, deposits are obtained from tenants.

Credit risk related to financial instruments and cash deposit

The credit risk for cash and cash equivalents and derivative financial instruments is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Liquidity risk

The REIT's objective is to maintain a balance between continuity of funding and flexibility through the use of bank deposits and loans.

Liquidity risk inherent to the financial structure of the business is mainly managed through quarterly updates of short term cash flow forecasts (which are set up for the next twelve months) and through updates and follow-up of the 3 to 5 year Business Plan.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The REIT's liquidity position is monitored on a regular basis by management. A summary table with maturity of financial assets and liabilities is used by key management personnel to manage liquidity risks and is derived from managerial reports at company level.

To facilitate liquidity and cash flow management, the REIT has signed a revolving credit facility agreement with Inovalis S.A. Refer to Note 23 – Transactions with related parties for more information about this facility.

Long term debt service projections are reviewed on a quarterly basis, playing a key role in strategic decisions for the REIT's operation.

The table below summarizes the maturity profile of the REIT's financial liabilities and finance lease liabilities based on contractual undiscounted payments. Undiscounted cash flows in respect of balances due within 12 months generally equal their carrying amounts in the balance sheet, as the impact of discounting is not significant.

(in thousands of CAD$)

As at December 31, 2013	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**	**Total**
Finance lease principal and interest	158	9,409	84,756	31,054	125,377
Lease equalization loan	18	55	74	1,544	1,691
Exchangeable securities (value of securities plus interest on notes)	153	457	610	14,108	15,328
Tenant deposits	-	-	379	810	1,189
Derivative financial instruments	244	765	1,505	-	2,514
Trade and other payables (1)	3,161	213	-	-	3,374
Total	**3,734**	**10,899**	**87,324**	**47,516**	**149,473**

(1) Excluding VAT payable and deferred income

Classification of financial instruments

The following table summarizes the classification of the REIT's financial statements as at December 31, 2013.

					As at December 31,2013
	Measured at Fair Value		Measured at amortized cost		
	Classified as Held of trading	Designated as FVTPL[1]	Loans and Receivables	Financial liabilities	Total
Financial assets					
Other financial assets			3,294		3,294
Trade and other receivables[2]			1,119		1,119
Cash and cash equivalents			6,120		6,120
Total financial assets	0	0	10,533	0	10,533
Financial liabilities					
Lease equalization loan				1,470	1,470
Tenant deposits				1,189	1,189
Derivative financial instruments	2,471				2,471
Exchangeable securities		12,234			12,234
Trade and other payables[2]				3,374	3,374
Total financial liabilities	2,471	12,234	0	6,033	20,738

1 - Fair value through profit or loss

2 - Certain items within other receivables and other payables are not financial instruments

Fair value of assets and liabilities

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 December 31, 2013	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.

Fair value hierarchy

The following table shows an analysis of the fair values of financial instruments and Exchangeable Securities and non-financial assets measured at fair value on a recurring basis recognized in the consolidated balance sheet by level of the fair value hierarchy:

(in thousands of CAD$)

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 of non-financial assets classified within Level 3 is in Note 7 – Investment property.

The following methods and assumptions 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 valuers. 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 volatilities 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.

Note 23 – 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	As at December 31, 2013	
Related parties (Inovalis S.A. and subsidiaries)	**Financial statement line item**	**Note**	**For the period from February 8, 2013, to December 31, 2013**	**Due from Inovalis S.A.**	**Due to Inovalis S.A.**
Fees					
Asset management fees	Administration expenses	A	1,198		
Property management expenses	Service charge expense	B	941		
Facilities management fees	Service charge expense	C	255		
Facilities management fees	Other property operating expense	C	256		
Commitment fees for revolving credit facility	Administration expense	H	35		
			2,685		
Reimbursement of disbursements paid to 3rd parties on behalf of the REIT					
Issue costs	Issue costs	G	2,256		
Acquisition costs	Acquisition costs	G	822		
Distributions recognized on exchangeable securities					
Paid and payable in the form of interest on notes	Distributions recognized on exchangeable securities	12	378		
Payable in the form of distributions		12	213		
Total distributions on exchangeable securities recognized in profit or loss			591		
Trade receivables	Trade and other receivables			346	
Trade and other payables	Trade and other payables				1,049
Distributions payable	Trade and other payables				213
Lease equalization loan	Lease equalization loan				1,470

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 December 31, 2013, the REIT has not drawn on this facility.

Remuneration of key management personnel

The following table presents the remuneration of key management personnel, which for the purposes of this note are defined as the members of the board of trustees. The named officers of the REIT are employed and remunerated by Inovalis S.A rather than the REIT, and the costs of their services are not invoiced distinctly from the overall asset management fees, which are based on the value of assets under management.

Key management personnel compensation	**For the period from February 8, 2013, to December 31, 2013**
Short-term employees benefits	225
Other benefits	-
Total compensation for key management personnel	225

Note 24 – 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 45.6 % of its GBV as at December 31, 2013.

(in thousands of CAD$)

Total indebtedness as a % of Gross Book Value	**As at December 31, 2013**
Investment properties	244,900
Gross book value	**244,900**
Finance lease liabilities - non-current	102,573
Finance lease liabilities - current	9,055
Outstanding convertible securities (other than exchangeable securities)	-
Total indebtedness	**111,628**
Total indebtedness as a % of Gross Book Value	**45.6%**

The REIT did not have any outstanding convertible securities (other than the Exchangeable Securities of CanCorpEurope S.A.) at December 31, 2013.

Note 25 – Commitments and guarantees

The REIT did not have any significant ongoing commitments incurred in the ordinary course of business other than those already recognized in these financial statements.

Guarantees provided by the REIT with respect to the finance lease are as follows:

(in thousands of CAD$)

Guarantees	**As at December 31, 2013**
Pledges and assignments 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
	127,203

Note 26 – Geographical information

(in thousands of CAD$)

Total revenue by geographic region	Rental Income	Service Charge Income	For the period from February 8, 2013, to December 31, 2013
France	11,168	2,776	13,944
Germany	1,355	69	1,424
Total revenue	**12,523**	**2,845**	**15,368**

Investment properties by geographic region	As at December 31, 2013
France	215,279
Germany	29,621
Total investment properties	**244,900**

Note 27 – 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 $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 on or about May 2014. The REIT will be responsible for the management of the facility, a task that will initially be subcontracted to Inovalis S.A, until all asset management services are internalized by the REIT. An amount of $47 included in Acquisition costs relates to this transaction.

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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