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)

			Attributable to Unitholders of the Trust			
Statement of changes in equity	**Note**	**Number of Units issued and outstanding**	**Unitholders' equity**	**Retained earnings**	**Accumulated other comprehensive income (Cumulative translation adjustment account)**	**Total**
As at 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$)

				As at December 31, 2013		
Entity	**Nominal value**	**Interest rate**	**Maturity**	**Total**	**Non-current**	**Current**
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$)

	Investment by Inovalis S.A. in CanCorpEurope S.A.				Exchangeable securities	
Exchangeable securities issued and outstanding	**Common shares (number)**	**Investment in shares & share premium**	**Investment in Debt instruments[1]**	**Total investment**	**Number of exchangeable securities**	**Carrying amount of exchangeable securities**
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.

	Measured at Fair Value		Measured at amortized cost		As at December 31,2013
	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$)

Related parties (Inovalis S.A. and subsidiaries)	Financial statement line item	Note	Expenses: For the period from February 8, 2013, to December 31, 2013	As at December 31, 2013: Due from Inovalis S.A.	As at December 31, 2013: 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.

INOVALIS

REAL ESTATE INVESTMENT TRUST

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