INOVALIS REIT
CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2015

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 sheets as at December 31, 2015 and 2014, and the consolidated statements of earnings, comprehensive income, changes in unitholders' equity and cash flows for the years then ended 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 audits. We conducted our audits 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 in our audits 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, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montréal, Canada
March 21, 2016

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

Consolidated Balance Sheets
As at December 31,
(All dollar amounts in thousands of Canadian dollars)

Assets	Note	2015	2014
Non-current assets			
Investment properties	7	355,704	308,596
Investments accounted for using the equity method	8	40,337	18,307
Acquisition loan	9	18,786	17,548
Derivative financial instruments	15	92	875
Restricted cash	11	1,375	309
Total non-current assets		416,294	345,635
Current assets			
Trade and other receivables	10	4,803	2,852
Derivative financial instruments	15	197	761
Other current assets		1,333	731
Restricted cash	11	305	291
Cash and cash equivalents		6,895	24,185
Total current assets		13,533	28,820
Total assets		**429,827**	**374,455**

Liabilities and Unitholders' equity	Note	2015	2014
Liabilities			
Non-current liabilities			
Mortgage loans	12	70,779	47,150
Finance lease liabilities	12	120,285	130,680
Lease equalization loans	13	5,090	3,101
Tenant deposits		1,746	1,626
Exchangeable securities	14	18,034	16,663
Provision relating to an investment accounted for using the equity method	8	925	-
Derivative financial instruments	15	2,698	1,077
Deferred tax liabilities	21	1,651	949
Total non-current liabilities		221,208	201,246
Current liabilities			
Mortgage loans	12	415	-
Finance lease liabilities	12	6,217	6,991
Lease equalization loans	13	1,335	248
Tenant deposits		116	380
Exchangeable securities	14	1,366	1,482
Derivative financial instruments	15	878	605
Trade and other payables	16	6,174	5,653
Other current liabilities		469	233
Total current liabilities		16,970	15,592
Total liabilities		238,178	216,838
Unitholders' equity			
Trust units	17	136,365	133,010
Retained earnings		35,359	17,291
Accumulated other comprehensive income	17	19,925	7,316
Total Unitholders' equity		191,649	157,617
Total liabilities and Unitholders' equity		**429,827**	**374,455**

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 Statements of Earnings
For the years ended December 31,
(All dollar amounts in thousands of Canadian dollars, except for per unit amounts)

	Note	2015	2014
Rental income	18	21,473	18,682
Service charge income	18	7,222	4,696
Service charge expenses		(8,040)	(5,417)
Other revenues	25	1,240	-
Other property operating expenses		(306)	(35)
Net rental earnings		21,589	17,926
Administration expenses	19	(4,266)	(3,555)
Foreign exchange gain (loss)		130	(436)
Net change in fair value of investment properties	7	21,523	5,248
Gain on bargain purchase	6	-	8,289
Acquisition costs		(329)	(1,647)
Share of net earnings from investments accounted for using the equity method	8	517	4,076
Operating earnings		39,164	29,901
Loss on financial instruments at fair value through profit or loss		(951)	(346)
Loss recognized on exercise of early payment option on finance leases	12	(1,077)	(7,968)
Finance income	20	2,115	994
Finance costs	20	(4,919)	(4,125)
Gain on disposal of a 50% interest in a subsidiary	8	-	250
Distributions on Exchangeable securities	14	(1,688)	(1,267)
Net change in fair value of Exchangeable securities	14	(1,118)	107
Earnings before income taxes		31,526	17,546
Current income tax expense	21	(71)	(9)
Deferred income tax expense		(655)	(992)
Earnings for the year		**30,800**	**16,545**
Earnings per unit attributable to unit holders:	22		
Basic earnings per unit		2.00	1.39
Diluted earnings per unit		1.92	1.32

See accompanying notes to consolidated financial statements

Consolidated Statements of Comprehensive Income

For the years ended December 31,

(All dollar amounts in thousands of Canadian dollars)

	Note	2015	2014
Earnings for the year		**30,800**	**16,545**
Other comprehensive income (loss)			
Derivatives designated as a hedge of the net investment in a foreign entity			
Net (losses) gains		(1,260)	1,942
Derivatives designated as cash flow hedges			
Net losses		(140)	(2,142)
Reclassification of net losses to earnings		97	27
Change in cumulative translation adjustment account		13,912	(6,182)
Total other comprehensive income (loss)		12,609	(6,355)
Total comprehensive income for the year		**43,409**	**10,190**

Consolidated Statements of Changes in Unitholders' Equity

(All dollar amounts in thousands of Canadian dollars, except for the number of units)

	Note	Number of Units issued and outstanding	Trust Units	Retained earnings	Accumulated other comprehensive income	Total
As at December 31,2014		15,278,536	133,010	17,291	7,316	157,617
Issuance of units	*14*	264,500	2,529	-	-	2,529
Distributions earned by Unitholders	*23*	-	-	(12,732)	-	(12,732)
Distributions reinvestment Plan	*23*	93,983	826	-	-	826
Transactions with owners		358,483	3,355	(12,732)	-	(9,377)
Earnings for the year		-	-	30,800	-	30,800
Other comprehensive income		-	-	-	12,609	12,609
Total comprehensive income for the year		-	-	30,800	12,609	43,409
As at December 31, 2015		**15,637,019**	**136,365**	**35,359**	**19,925**	**191,649**
As at December 31, 2013		11,285,087	98,719	10,610	13,671	123,000
Public offering of Units		3,978,500	37,000	-	-	37,000
Issue costs		-	(2,845)	-	-	(2,845)
Distributions earned by Unitholders	*23*	-	-	(9,864)	-	(9,864)
Distributions reinvestment Plan	*23*	14,949	136		-	136
Transactions with owners		3,993,449	34,291	(9,864)	-	24,427
Earnings for the year		-	-	16,545	-	16,545
Other comprehensive loss		-	-	-	(6,355)	(6,355)
Total comprehensive income (loss) for the year		-	-	16,545	(6,355)	10,190
As at December 31, 2014		15,278,536	133,010	17,291	7,316	157,617

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows
For the years ended December 31,
(All dollar amounts in thousands of Canadian dollars)

	Note	2015	2014
Operating activities			
Earnings before income taxes for the year		31,526	17,546
Adjustments for non-cash items and other reconciling items	29	(15,567)	(5,775)
		15,959	11,771
Working capital adjustments	29	(1,487)	1,053
Net cash flows related to operating activities		14,472	12,824
Investing activities			
Business acquisition	6	-	(16,706)
Acquisition costs		(329)	(1,647)
Investment in a joint-Venture - Walpur	8	(5,143)	-
Investment in a joint-venture - Arcueil	8	(14,696)	-
Investment in a joint-venture - Cologne	8	(212)	
Investment in loans to a joint venture - CCD		-	(15,001)
Additions to investment properties	7	(98)	-
Proceeds from sale of an interest in a subsidiary		-	9
Loan to Inovalis	9	-	(17,740)
Loan repayments received from joint ventures		1,207	-
Net changes in restricted cash		(1,080)	2,696
Settlement of derivative financial instruments	15	865	(2,408)
Net cash flows related to investing activities		(19,486)	(50,797)
Financing activities			
Units issued for cash		-	37,000
Unit issue costs		-	(2,845)
Distributions on Units paid in cash	23	(11,881)	(9,454)
Distributions on exchangeable securities paid in the form of interest on notes issued by a subsidiary	14	(918)	(625)
Distributions on Exchangeable securities paid in the form of repayment of interest bearing notes issued by a subsidiary	14	(439)	(820)
Proceeds from new mortgage loans, net of transaction costs	12	20,347	50,766
Proceeds from new sale-leaseback, net of initial down payment	12	-	85,709
Transaction fees related to debt refinancing	12	(940)	(2,633)
Repayment of lease liability upon exercise of early payment option	12	(14,377)	(100,095)
Regular repayment of finance lease liabilities		(6,751)	(5,114)
Proceeds from loan from Inovalis		-	4,259
Purchase of derivative financial instrument - CAP on mortgage loan interest		-	(529)
Lease equalization loan		2,678	1,887
Net cash flows related to financing activities		(12,281)	57,506
Net (decrease) increase in cash and cash equivalents		(17,295)	19,533
Effects of foreign exchange adjustments on cash and cash equivalent		5	(1,468)
Cash and cash equivalents at the beginning of the year		24,185	6,120
Cash and cash equivalents at the end of the year		**6,895**	**24,185**
Cash and cash equivalents at the end of the year			
Cash		6,895	23,951
Cash equivalents		-	234
		6,895	24,185

See accompanying notes to consolidated financial statements

Note 1 – Organization

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

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

The REIT's consolidated financial statements for the year ended December 31, 2015 were authorized for issuance by the Board of Trustees on March 21st, 2016.

The REIT has hired Inovalis S.A. ("Inovalis"), a real estate asset manager having operations in France and Germany, to manage certain functions. Refer to Note 3 – Significant accounting policies, Note 9 – Acquisition loan, and Note 14 – Exchangeable securities, for more information about the relationship between Inovalis and the REIT, and to Note 25 – Transactions with related parties, for information regarding the services provided by Inovalis 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").

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 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.

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 Trust 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 as the Trust. Subsidiaries are 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 subsidiaries as of December 31, 2015 are as follows:

Name of subsidiary	Principal Activity	Country of Incorporation and Residence	Proportion of Ownership Interest and Voting Power Held
CanCorpEurope S.A. ("CCE")	Holding Company for European assets	Luxembourg	91.12%
CanCorpHanover S.A. ("CCH")	Investment property holding	Luxembourg	100% held by CanCorpEurope
INOPCI1	Holding Company	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
Sablière SCI	Investment property holding	France	100% held by INOPCI1
Baldi SCI	Investment property holding	France	100% held by INOPCI1
Metropolitain SCI	Investment property holding	France	100% held by INOPCI1
Metropolitan LLC	Investment and holding Company	USA	100%
CanCorpCologne Sarl	Investment and holding Company	Luxembourg	100% held by CCE

Also, as further explained in Note 3, the 8.88% interest held by Inovalis in CCE and its subsidiaries is presented as a liability rather than a non-controlling interest (Refer to Note 14 for details regarding this interest).

Joint arrangements

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

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

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

As explained in Note 8, the REIT holds as at December 31, 2015, through its subsidiary CCE, investments in joint ventures accounted for using the equity method as follows:

Name of entity	Principal Activity	Country of Incorporation and Residence	Proportion of Ownership Interest and Voting Power Held
CanCorp Duisburg Sarl. ("CCD")	Investment property holding	Germany	50% joint-venture held by CCE
Walpur Four Sarl. ("Walpur")	Investment property holding	Luxembourg	50% joint-venture held by CCE
Arcueil SI Sarl	General partner for Arcueil SCS	Luxembourg	25% joint-venture held by CCE
Arcueil SCS ("Arcueil")	Investment and holding Company	Luxembourg	25% joint-venture held by CCE
Arcueil SI Sarl	Holding Company	Luxembourg	100% held by Arcueil SCS
INOPCI2	Holding Company	France	100% held by Arcueil SI Sarl
Arcueil Holding S.A.S.	Holding Company	France	100% held by INOPCI2
Lenine Arcueil SCI	Investment property holding	France	100% held by Arcueil Holding S.A.S.
CanCorpCologne1 SCI ("Cologne")	Investment property holding	France	49% joint-venture held by CanCorpCologne Sarl

Business Combinations and Property Acquisitions

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 consideration paid.
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 value irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognized directly in earnings 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 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, including any transaction costs, is allocated to the assets acquired based upon their relative fair value, and no goodwill or deferred tax is recognized.

Foreign currency translation

i. Functional and presentation 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 subsidiaries and joint ventures is the euro, whereas the functional currency of the Trust, as well as its presentation currency, is the Canadian dollar. The functional currency of the entities of the REIT has remained unchanged during the reporting period.

ii. Transactions and balances

Foreign currency transactions are translated into the relevant functional currency of the respective 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 statement of earnings under "Foreign exchange (loss) gain".

iii. Foreign operations

The results and financial position of all the entities that have a functional currency different from the presentation currency of the REIT 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 statement of earnings, 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 (loss) and recognised in the cumulative translation adjustment account in equity.

When a foreign operation or notes issued to them are partially disposed of, sold or repaid, related exchange differences that were recorded in equity are recognized in the consolidated statement of earnings as part of the gain or loss on sale. On consolidation, assets and liabilities have been translated in the Canadian dollar at the closing rate at the reporting date.

Investment properties

An 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 lease 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 statement of earnings 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 by 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:

i. The Units entitle the Unitholder to a pro rata share of the REIT's net assets in the event of the REIT's liquidation. The REIT's net assets are those assets that remain after satisfaction of all its liabilities;
ii. 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;
iii. All Units have identical features;

iv. 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 are not a contract that will or may be settled in the REIT's own equity instruments; and

v. The total expected cash flows attributable to the Units over their life is based substantially on the profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized 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 net 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.

Units are recognized at the fair value of the consideration received in return for units issued by the REIT. Any transaction costs arising on the issuance 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 functional currency that is different from the REIT's presentation currency, as well as gains and losses arising from hedging activities.

Financial instruments

Recognition, initial measurement and derecognition

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

Trade and other receivables

Trade and other receivables are classified as loans and receivables, initially recognized at fair value and subsequently 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 statement of earnings within "Other property operating expenses".

Restricted cash

Restricted cash represents the cash pledged as security for the foreign currency forward contracts. Restricted cash is classified as loans and receivables. Restricted cash is recognized initially at fair value and subsequently at cost.

Derivative financial instruments and hedge accounting

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term investments, if any, with maturities upon acquisition of three months or less or that are redeemable at any time at full value and for which the risk of change in value is insignificant. Cash and cash equivalents are classified as loans and receivables, and initially at fair value and subsequently at cost.
Cash equivalents are principally investments in money market funds in France that are readily convertible through redemption with the fund for an amount of cash that is subject to an insignificant risk of change in fair value.

Acquisition loan

Acquisition loan is classified as loans and receivables, measured initially at fair value and subsequently measured at amortized cost.

Exchangeable securities

The Exchangeable securities issued by the Trust's subsidiary, CCE, 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. However, if upon maturity of the debt instruments, the unit price of the REIT's units is 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. This liability is designated at fair value through profit or loss, and measured initially and subsequently at fair value with changes in fair value recorded in profit or loss. (Refer to Note 14 for details of these financial interests and their maturity dates). Gains and losses on re-measurement to fair value are included in the consolidated statement of earnings in "Net change in fair value of Exchangeable securities". Transaction costs are expensed in the consolidated statement of earnings. Financial liabilities at fair value through profit or loss are classified as current except for the portion expected to be paid beyond twelve months of the balance sheet date, which is classified as non-current.
These Exchangeable securities are economically equivalent to, and exchangeable for, trust units of the REIT. This ownership interest was exercised through the purchase of interest bearing notes of CCE, 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 for units of the Trust.
In performing its obligations under the management agreement, Inovalis, is entitled to receive asset management fees. These asset management fees earned by Inovalis, in its role as manager of the REIT, are payable quarterly in arrears, entirely in Exchangeable securities.
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 CCE 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 on the third anniversary of the closing.

During the Initial Retained Interest Escrow period, Inovalis 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 to receive one of the REIT's units for each of its Exchangeable securities.

The Exchangeable securities issued by CCE 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 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.

Tenant deposits

Tenant deposits are classified as other financial liabilities, measured initially at fair value and subsequently at amortized cost using the effective interest rate method. Under the effective interest rate method, the difference between the fair value and the nominal amount is deferred and recognised over time until the repayment date.

Mortgage and lease equalization loans

Mortgage and lease equalization loans bear interest. They are classified as other financial liabilities, 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.

Trade and other payables

Trade and other payables are classified as other financial liabilities. They are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

Fair value hierarchy of financial and non-financial items

The fair value hierarchy that applies in determining fair value requires that observable market data be used if such data exist. An asset or liability is classified at the lowest hierarchical level when significant unobservable market data has been used in the fair value measurement.

The REIT uses the following hierarchy for the fair value determination of financial and non-financial items:

- 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.

The REIT recognizes transfers between levels of the fair value hierarchy at the date of the event of change in circumstances that caused the transfer.

Leases

Operating lease contracts - REIT as lessor

The REIT has entered into commercial property leases on its investment property portfolio. The REIT 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 statement of earnings 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 12 – Mortgage loans and finance lease liabilities.

Revenue recognition

Rental income from investment properties

Rental income from operating leases is recognized on a straight-line basis over the term of the lease. 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 expenses and income and other property operating expenses

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

Interest income and expenses

Interest income and expenses 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.

Provisions

Provisions are recognized when the REIT has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the REIT and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material

No liability is recognized if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

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 Unitholders 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,Luxembourg and the United States. These subsidiaries account for their current or recovered taxes at the current enacted and substantively 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, income derived from the French REIT's subsidiaries, incorporated under the form of Société Civile Immobilière subject to article 8 of the French Tax Code, and allocated to INOPCI 1 should be corporate income tax exempt in the hands of INOPCI 1 on the basis that INOPCI 1 complies with its distribution obligations. A withholding tax should be levied in France on dividend distributions made by INOPCI 1 which is an OPPCI (a collective undertaking for real estate investment) to CanCorpEuropeCCE, CCH, Arcueil SCS, Arcueil SI Sarl and CanCorpCologne Sarl 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 CCE from the French OPCI may be tax exempt in Luxembourg for corporate income tax and municipal business tax purposes. CCE will benefit from the Luxembourg participation exemption on any dividend income or liquidation proceeds received from CCH, Arcueil SCS, Arcueil SI Sarl and CanCorpCologne Sarl

CCH, which leased a German property to the ultimate tenant, entered into leasing and sub-leasing agreements through which it realized 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. In case Germany has the right to tax the income from such spread, this (net) income would be subject to German corporate income tax ("CIT"). Currently, CIT applies at a rate of 15.825% (including a solidarity surcharge of 5.5%) on the taxable net income. The above described head-lease/sub-lease structure has been terminated in 2016 and CCH became a partner of the partnership which owns the relevant property. As a consequence of this change CCH has to pay CIT on the net income from the property in the future.

CCD (the "Lux Co") is a Luxembourg limited liability company that is managed in Luxembourg and, therefore, should not be considered to be tax resident of Germany for German tax purposes. Similarly, Cologne is an OPCI and should not be considered to be tax resident of Germany for German tax purposes (the Lux Co and Cologne are collectively called the "German Co"). However, the German Co would be subject to tax in Germany on their German source income (or in case German Co is a partnership and therefore transparent for CIT purposes its partners). As the German Co's rental revenues would be German source income, such (net) income would be subject to CIT, even if the German Co (and their shareholders) are not German tax residents. This is true irrespective of whether German Co is a corporation or a partnership and therefore transparent. The right to tax such income by Germany should not be waived under the double tax treaty between Germany and Luxembourg and the double tax treaty between Germany and France because the German Co's properties are located in Germany and income from German real estate is taxed in the country where the real estate is located. 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 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.

Segment reporting

The REIT owns and operates a portfolio of investment properties located in France and Germany. 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 operating segment.

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 and estimates that affect the reported amounts of revenues and investment properties owned directly and indirectly at the reporting date. However, uncertainty about these 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 financial statements are presented below:

Critical accounting judgments

Business combination

The REIT performs an assessment of each acquisition of investment property 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 is classified as a business acquisition on the basis that it involves the acquisition of leasable space (inputs), management processes to lease that space to tenants and leasing arrangements with tenants that generated rental income (processes). In the absence of such criteria, a group of assets is deemed to have been acquired. When the acquisition does not represent a business combination, it is accounted for as an acquisition of a group of assets and liabilities.

Joint arrangements

The classification of joint arrangements in accordance with IFRS 11- *Joint Arrangements* (“IFRS 11”) may require the judgement of management, particularly if there are several agreements related to the joint arrangements.
Because the terms of the agreements clearly stipulate that decisions about the relevant activities relating to the joint ownership require unanimous consent of both partners and that the parties have a right only on the net assets, Management concluded that the 50% interest of CEE in CCD and Walpur, the 25% interest of CCE in Arcueil and the 49% interest of CCE in Cologne are joint ventures.

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. The technique principally used is the Discounted Cash Flow Method ("DCF"). 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.

Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. As an accepted method within the income approach to valuation, the DCF method involves the projection of a series of cash flows associated with an investment property. To this projected cash flow series, an appropriate market-derived discount rate is applied to establish the present value of the cash inflows associated with the investment property.

The duration of the cash flow and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related lease up periods, re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of the investment property. In the case of investment properties, periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net cash inflows, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

The management group that determines the REIT's valuation policies and procedures for property valuations comprises the chief executive officer (CEO) and chief financial officer (CFO). Each year, Inovalis appoints, an external evaluator who is responsible for the external valuations of the REIT's property for the annual consolidated financial statements. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

In addition, the CEO and CFO are responsible for Inovalis' internal valuation department with regards to the REIT's properties. Inovalis' internal valuation department comprises a number of employees that hold relevant internationally recognized professional qualifications and are experienced in valuing the types of property in the applicable locations. Valuations for interim reporting purposes are performed internally by Inovalis' internal valuation department. Internal methods are aligned with those used by external evaluators. External valuations are obtained every six months for the French properties and annually for the German properties to validate the internal valuations for interim reporting purposes or external evaluators are requested to confirm the main input variables used in the internal valuations. As at each year-end, all properties are valued by external evaluators.

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.

Note 5 – Changes in accounting policies

At the date of authorisation of these consolidated financial statements, certain new standards, and amendments to existing standards have been published by the International Accounting Standard Board ("IASB") that are not yet effective, and have not been adopted early by the REIT. Information on those expected to be relevant to the REIT's consolidated financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the REIT's accounting policies for the first period beginning after the effective date of the pronouncement. New standards and amendments not either adopted or listed below are not expected to have a material impact on the REIT's consolidated financial statements.

IFRS 9 - Financial instruments

In July 2014, the IASB recently released IFRS 9 *'Financial Instruments'*, representing the completion of its project to replace IAS 39 '*Financial Instruments: Recognition and Measurement'*. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The REIT's management has yet to assess the impact of IFRS 9 on these consolidated financial statements. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 *'Revenue'*, IAS 11 *'Construction Contracts'*, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.
The REIT's management has not yet assessed the impact of IFRS 15 on these consolidated financial statements. IFRS 15 is effective for reporting periods beginning on or after January 1, 2018.

Amendments to IFRS 11 Joint Arrangements

These amendments provide guidance on the accounting for acquisitions of interests in joint operations constituting a business. The amendments require all such transactions to be accounted for using the principles on business combinations accounting in IFRS 3 'Business Combinations' and other IFRSs except where those principles conflict with IFRS 11. Acquisitions of interests in joint ventures are not impacted by this new guidance.
The REIT's investments made to date in joint arrangements (Note 8) are characterised as joint ventures in which the REIT has rights to a share of the arrangement's net assets rather than direct rights to underlying assets and obligations for underlying liabilities. Accordingly, if adopted today, these amendments would have no impact on the consolidated financial statements.
The amendments are effective for reporting periods beginning on or after January 1, 2016.

IFRS 16 – Leases

In January 2016, the IASB published IFRS 16 which will replace IAS 17 *Leases*. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all lease with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease, sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and options periods; changes the accounting for sale and leaseback arrangements; largely retains IAS 17's approach to lessor accounting and introduces new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain circumstances. The REIT has yet to assess the impact of this new standard on its consolidated financial statements.

Note 6 – Business combination

2015

There were no business combination or acquisition in 2015.

2014

On November 13, 2014, for a consideration of $16,706 in cash, the REIT acquired leasehold interests in two office rental properties (together referred to as the "AREF Portfolio group") located in the greater region of Paris, France, the related tenant portfolios and the management contract. The primary reason for the acquisition was to increase and diversify the REIT's portfolio of investment properties.
The transaction was accounted for as a business combination. The identifiable assets and liabilities of the acquired business were recognized based upon their respective fair values as of the transaction date. A summary is provided below:

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

Purchase price allocation	AREF portfolio group at fair value
Recognized amounts of identifiable assets acquired and liabilities assumed	
Investment properties	65,142
Cash	1,310
Total identifiable assets acquired	66,452
Finance lease liabilities	(40,165)
Deferred rental income	(520)
Other liabilities (tenant deposits)	(772)
Total liabilities assumed	(41,457)
Fair value of net assets acquired	24,995
Consideration given by the REIT consists of the following:	
Cash	16,706
Consideration transferred by the REIT	16,706
Negative goodwill - recognized as a Gain from a bargain purchase	8,289
Net cash impact of acquisition	
Cash transferred to vendor	(16,706)
Tenant deposit funds transferred to REIT	790
Less rental adjustment	520
	1,310
Net cash impact of acquisition	(15,396)

The excess of the fair value of the net assets acquired at the acquisition date over the consideration transferred by the REIT has been recognized in earnings as a Gain on bargain purchase. This gain is principally due to circumstances specific to the sale including improved market conditions and new tenants that occurred during the delay between the date the initial agreement was signed and the date of closing. These special circumstances allowed the purchase to be made at less than the fair value determined by external appraisers.

Acquisition-related costs relating to the AREF group amounting to $1,251 have been recognized in earnings as acquisition costs.

The amounts recognized as revenues and net profits in 2014 by the AREF portfolio group since acquisition were $644 and $7,205 respectively. If the AREF portfolio group had been acquired at the beginning of the REIT's annual reporting period, the amounts that would have been recognized as revenues and net profits would have amounted to approximately $2,715 and $110 respectively.

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

Note 7 – Investment properties

	2015	2014
Beginning of year	**308,596**	**244,900**
Additions and capitalized letting fees	98	-
Acquisitions through business combinations	-	65,142
Amount derecognized upon exercise of early purchase option on lease	(14,377)	(122,420)
Amount recognized upon acquisition of the property	14,377	-
Amount recognized upon entry into new sales-leaseback arrangement	-	122,420
Transaction and transfer fees related to new sales-leaseback arrangement	-	2,633
Rent free periods	2,281	1,997
Net change in fair value of investment properties	21,523	5,248
Foreign currency translation adjustment	23,206	(11,324)
End of year	**355,704**	**308,596**

	As at December 31, 2015			As at December 31, 2014		
	France	Germany	Total	France	Germany	Total
Fair value of investment properties for financial reporting purposes						
Market value (in Euros) as estimated by external appraisers	213,007	23,900	236,907	197,590	23,900	221,490
Option costs and rent free periods	15	(244)	(229)	(1,662)	-	(1,662)
Adjusted market value in Euros	213,022	23,656	236,678	195,928	23,900	219,828
Exchange adjustment	107,129	11,897	119,026	79,117	9,651	88,768
Adjusted market value in CAD$	320,151	35,553	355,704	275,045	33,551	308,596
Date of evaluation	Dec 31, 2015	Dec 31, 2015		Dec 31, 2014	Dec 31, 2014	
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		10	10	
Discount rate	5.0% to 6.0%	6.50%		5.5% to 7.5%	6.50%	
Weighted average discount rate	5.70%	6.50%		6.83%	6.50%	
Weighted average ending capitalization rate	6.69%	5.75%		6.91%	5.90%	
Impact on the fair value of investment properties of :						
an increase of 25 bps in discount rates	(14,054)	(1,367)	(15,421)	(10,069)	(1,290)	(11,360)
a decrease of 25 bps in discount rates	14,054	1,367	15,421	10,069	1,290	11,360

Significant increases (decreases) in the estimated rental value (“ERV”) (per sqm p.a.) and rental growth p.a. in isolation would result in a significantly higher (lower) fair value measurement. Significant increases (decreases) in the long-term vacancy rate and discount rate (and exit or yield) in isolation would result in a significantly lower (higher) fair value measurement.

Note 8 – Investments accounted for using the equity method

2015

Walpur

On April 8, 2015, the REIT, through its subsidiary CCE, purchased a 50% interest in Walpur Four SARL (“Walpur”), a joint venture which owns an office property located in Germany, for a total consideration of 3,832 Euros ($5,143). This consideration is composed of a cash consideration paid of 332 Euros ($445) for the equity interest and a 8.75% interest-bearing loan of 3,500 Euros ($4,698), repayable the date the Joint Venture Agreement terminates.

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

Arcueil

On July 8, 2015, the REIT, through its subsidiary CCE, completed its 25% equity interest investment in Arcueil SCS, a joint venture which purchased a company that owns an office property located in Greater Paris, France, for a total cash consideration of 10,433 Euros ($14,696). This consideration is composed of a cash consideration paid of 433 Euros ($610) for the equity interest and a loan of 10,000 Euros ($14,086). This loan entitles the REIT to receive distributions based on distributable profit determined twice a year. Upon the disposal of the property, after the repayment of the 7.6% interest-bearing loan in the amount of 30,000 Euros ($44,853) and the hedging cost of the other partner, the REIT is entitled to receive its 10,000 Euros ($14,086) loan as well as 75% of the remaining net assets. In addition, as part of this new joint venture structure, the REIT will have the option to purchase the other partner's interest in the joint venture on the same basis starting July 2, 2018.

Cologne

On November 25, 2015, the REIT, through its subsidiary CCE, completed its 49% equity interest investment in Cologne for a total cash consideration of 150 Euros ($212). Cologne is a joint venture which purchased an office property located in Cologne, Germany. The other partner provided all of the funds necessary for Cologne to acquire the office property through loans totalling 8,800 Euros ($13,226). The other partner in the joint venture is also managed by Inovalis. The REIT has committed to repurchase its share of these loans for an amount of 4,312 Euros ($6,480) representing 49% of the total loans to Cologne from the other partner no later than May 6, 2016. In order to guarantee this repurchase, the REIT agreed to pledge its 49% equity interest investment in Cologne in favor of the other partner. While the REIT has not yet fully funded its share of the transaction, the REIT is entitled to exercise its voting rights and retain its rights to dividends and other distributions attached to its 49% equity interest investment in Cologne.

As at December 31, 2015, the REIT's share in the net loss incurred by Cologne is 766 Euros ($1,142), which exceeds the initial carrying amount of its equity interest investment by 616 Euros ($925). Since the REIT has incurred obligations on behalf of Cologne, the REIT reduced its equity interest investment in Cologne to nil and recognized a provision of 616 Euros ($925). The REIT does not expect to have to invest additionnal funds in Cologne to pay its share of the losses as it expects that they will be offset gradually over the next years as income from operations is generated and the property increases in value.

Outlined below is a breakdown of the carrying amounts of the components of the investment in CCD, Walpur, Arcueil and Cologne:

Carrying amount of investment in joint ventures	**CCD**	**Walpur**	**Arcueil**	**Cologne**	**2015**	**2014**
Balance at the beginning of the year	18,307	-	-	-	18,307	-
Net change in equity investment in joint ventures	561	1,957	651	(925)	2,244	3,668
Net change in loans to joint ventures	320	4,961	13,580	-	18,861	14,639
Reclassed to liabilities	-	-	-	925	925	-
Balance at the end of the year	**19,188**	**6,918**	**14,231**	**-**	**40,337**	**18,307**
Provision relating to an investment accounted for using the equity method	**-**	**-**	**-**	**(925)**	**(925)**	**-**

2014

On July 3, 2014 the REIT disposed of 50% interest in CCD in exchange for $9, and entered into a contractual agreement giving all parties control of the arrangement collectively and requiring unanimous vote of all such parties for all decisions about relevant activities, thus creating a joint arrangement. CCD is a private limited liability company incorporated under the laws of Luxembourg having its registered office in Luxembourg. This joint venture then proceeded immediately therafter with the purchase of an office property located in Duisburg, Germany.

In conformity with IFRS 10, when the REIT lost control of CCD, it derecognised the assets and liabilities of its former subsidiary from its consolidated balance sheet and recognised the investment retained in the former subsidiary at its fair value at the time control was lost. At the time control was lost, CCD was in a deficit position and this deficit was funded solely by an intercompany loan due to the REIT. Consequently, the fair value of the equity component of the REIT’s investment in CCD was estimated at 50% of the value of CCD’s net deficit or $241. The difference between the negative fair value of the investment retained and the sum of the net liabilities derecognised and the cash received was recognized in the gain on disposal of $250. In addition, the REIT made an interest-bearing loan of 10,400 Euros ($15,200) to CCD bearing an interest rate of 10%, which is repayable on demand.

This acquisition was accounted for by CCD as an asset acquisition rather than a business combination, because the acquisition did not involve the transfer of any management processes.

Note 9 – Acquisition Loan

On November 6, 2014, Metropolitan LLC, a wholly-owned subsidiary of the REIT, made a loan to Inovalis in the amount of 12,500 Euros ($17,740) so that Inovalis could acquire a property in Paris, France (the “Metropolitan Property”). The loan bears interest at a rate of 8.75% for three years (with an option to extend for one year), is secured by a share pledge from a holding company owned by Inovalis (which also owns another property in the Greater Paris Region) and includes a right of first opportunity in favour of the REIT to purchase the Metropolitan property at a discount to the then fair value when the property meets the investment criteria of the REIT (the “REIT ROFO”), should Inovalis decide to sell the building. If the REIT ROFO is not exercised and the Metropolitan Property is sold by Inovalis to a third party, Metropolitan LLC shall receive 50% of the profit generated by the sale of the property less all interest received on the Acquisition Loan. Whether the REIT exercises its option to buy the property or the property is sold to a third party, the REIT will receive 50% of the profit generated by the sale of the property less all interests received on the acquisition Loan, in the first case in the form of a discount to the price and in the second case in the form of a cash gain.
Refer to Note 31 – Subsequent events for details of a subsequent event relating to the Metropolitan property.

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

Note 10 – Trade and other receivables

	As at December 31, 2015	As at December 31, 2014
Trade receivables	3,173	1,064
Trade receivables - Inovalis	185	393
Trade receivable - joint ventures	173	-
Provision for impairment of trade receivables	(240)	-
Trade receivables	**3,291**	**1,457**
Other receivables	239	1,089
Other receivables - joint ventures	255	62
Other receivables - Inovalis	1,015	244
Other receivables	**1,509**	**1,395**
Total trade and other receivables	**4,800**	**2,852**

Note 11 – Restricted cash

	As at December 31, 2015	As at December 31, 2014
Restricted cash as collateral for hedge - non-current	1,377	309
Restricted cash as collateral for hedge - current	307	291
Total restricted cash	**1,684**	**600**

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

Note 12 – Mortgage loans and finance lease liabilities

Entity	Nominal value (in 000's of €)	Nominal value (in 000's of $)	Interest rate	Maturity	As at December 31, 2015 Total	Non-current	Current
Mortgage loan - Véronèse SCI	14,500	21,792	Euribor 3M + 1,75%[1]	5/5/2019	21,721	21,721	-
Mortgage loan - Jeûneurs SCI	19,500	29,307	Euribor 3M + 1,75%[1]	5/5/2019	29,175	29,175	-
Mortgage loan - Sablière SCI	13,500	20,289	Euribor 3M + 1.72%[2]	12/23/2025	20,298	19,883	415
Mortgage loans	**47,500**	**71,388**			**71,194**	**70,779**	**415**
Finance lease liabilities - BBA SCI	55,406	83,270	Euribor 3M + 2.00%[2]	6/20/2026	83,270	79,965	3,305
Finance lease liabilities - CanCorpHanover	12,337	18,541	Euribor 3M + 0.82%	6/30/2023	17,635	16,965	670
Finance lease liabilities - Baldi SCI	17,235	25,902	Euribor 3M + 1.00%	9/30/2017	25,597	23,355	2,242
Finance lease liabilities	**84,978**	**127,713**			**126,502**	**120,285**	**6,217**
Total mortgage loan and finance lease liabilities	**132,478**	**199,101**			**197,696**	**191,064**	**6,632**

Entity	Nominal value (in 000's of €)	Nominal value (in 000's of $)	Interest rate	Maturity	As at December 31,2014 Total	Non-current	Current
Mortage loan - Véronèse SCI	14,500	20,355	Euribor 3M + 1,75%[1]	5/5/2019	20,128	20,128	-
Mortage loan - Jeûneurs SCI	19,500	27,374	Euribor 3M + 1,75%[1]	5/5/2019	27,022	27,022	-
Mortage loans	**34,000**	**47,729**			**47,150**	**47,150**	**-**
Finance lease liabilities - BBA SCI	57,518	80,742	Euribor 3M + 2.00%[2]	6/20/2026	80,742	77,780	2,962
Finance lease liabilities - CanCorpHanover	12,857	18,049	Euribor 3M + 0.82%	6/30/2023	17,314	16,474	840
Finance lease liabilities - Sablière SCI	10,305	14,466	Euribor 3M + 1.05%	6/9/2017	14,229	12,998	1,231
Finance lease liabilities - Baldi SCI	18,438	25,883	Euribor 3M + 1.00%	9/30/2017	25,386	23,428	1,958
Finance lease liabilities	**99,118**	**139,140**			**137,671**	**130,680**	**6,991**
Total mortgage loan and finance lease liabilities	**133,118**	**186,869**			**184,821**	**177,830**	**6,991**

Note 1 : Interest rate is subject to a CAP - see note 15 *Financial derivatives and hedging activities*

Note 2 : Interest rate is subject to SWAP - see note 15 *Financial derivatives and hedging activities*

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.

2015

On December 23, 2015, the REIT exercised its option to purchase the Sablière investment property that had, up to the moment of the transaction, been leased by its Sablière SCI subsidiary. Concurrently, the REIT entered into a mortgage loan agreement. The mortgage loan, which has a principal amount of 13,500 Euros, has a term of ten years maturing on December 23, 2025. A principal amount of the loan of 6,750 Euros is payable in quarterly instalments and a principal amount of the loan of 6,750 Euros is payable on maturity. Interest payments, which will be made quarterly on March 23, June 23, September 23, and December 23, will be variable, based on the 3 month EURIBOR rate (including an interest rate floor at 0%) plus a spread of 1.59% regarding the principal amount payable in quarterly instalments and a spread of 1.85% regarding the principal amount payable on maturity. The EURIBOR portion of the interest payments has been hedged using an interest rate swap with a fixed rate of 0.394%. For more information regarding the interest rate swap, refer to Note 15 - Financial derivatives and hedging activities.

The exercise of the option, together with transaction costs of $940, amounted to a cash payment of 10,163€ ($15,317). Finance lease liabilities amounting to 9,539€ ($14,377) were derecognized and a loss on the exercise of early payment option of finance leases of $1,077, including transactions costs of 715€ ($940) was recognized in the consolidated statement of earnings.

2014

During 2014, the REIT refinanced its existing investment properties in France which was done in two steps as follows:
First, on May 5, 2014, the REIT exercised its option to purchase the Jeûneurs and Veronese investment properties that had, up to the moment of the transaction, been leased by its Jeûneurs SCI and Véronèse SCI subsidiaries respectively. Concurrently, the REIT entered into a mortgage loan agreement with ING Bank. The mortgage loan, which had a principal amount of 34,000 Euros, is comprised of two tranches – one of 19,500 Euros for the Jeûneurs property and one of 14,500 Euros for the Veronese property. The mortgage loan has a term of five years maturing on May 5, 2019. The loan agreement does not specify any significant requirements for principal repayments, except at maturity. Interest payments, which will be made quarterly on March 31, June 30, September 30, and December 31, will be variable, based on the 3 month EURIBOR rate plus a spread of 1.75%. The EURIBOR portion of the interest payments has been hedged using an interest rate cap with a strike price of 2%. For more information regarding the hedges, refer to Note 15 - Financial derivatives and hedging activities.
Second, on June 20, 2014, the REIT exercised its option to purchase the BBA investment property that had, up to the moment of the transaction, been leased by its BBA SCI subsidiary. Concurrently, the REIT entered into a sale-leaseback arrangement with CMCIC LEASE S.A. The lease is for a total amount of 83,700 Euros, less a down-payment of 25,100 Euros giving a net lease amount of 58,600 Euros. The lease has a term of twelve years maturing on June 20, 2026. The rent, which is paid quarterly in advance, includes a component representing the repayment of capital and a component representing the repayment of interest. The interest charges will be variable, based on the 3 Month EURIBOR rate plus a spread of 2%. The EURIBOR portion of the interest charges have been hedged using an interest rate swap with a fixed rate of 0.685%. For more information regarding the hedges, refer to Note 15 - Financial derivatives and hedging activities.
The exercise of these options, together with transaction costs, amounted to a cash payment of $100,095. Finance lease liabilities amounting to $92,127 were derecognized and a loss on the exercise of early payment option of finance leases of $7,968 was recognized in the consolidated statement of earnings.

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

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

	As at December 31, 2015		As at December 31,2014	
Carrying value and minimum lease payments	**Carrying value**	**Minimum lease payments**	**Carrying value**	**Minimum lease payments**
Within 1 year	6,222	8,781	6,991	9,530
After 1 year, but not more than 5 years	45,948	55,669	55,448	66,294
More than 5 years	74,332	81,389	75,232	83,601
	126,502	**145,839**	**137,671**	**159,425**
Less : future interest costs	-	(19,337)	-	(21,754)
Total carrying value and present value	**126,502**	**126,502**	**137,671**	**137,671**

Note 13 – Lease equalization loans

			As at December 31, 2015		
Entity	**Interest rate**	**Maturity**	**Total**	**Non-current**	**Current**
Lease equalization loan - BBA SCI	5%	9/30/2021	4,920	3,636	1,284
Lease equalization loan - Véronèse SCI	5%	9/30/2019	337	286	51
Lease equalization loan - Le Baldi SCI	5%	10/1/2021	1,168	1,168	-
Total lease equalization loans			**6,425**	**5,090**	**1,335**

			As at December 31,2014		
Entity	**Interest rate**	**Maturity**	**Total**	**Non-current**	**Current**
Lease equalization loan - BBA SCI	5%	9/30/2021	3,108	2,860	248
Lease equalization loan - Véronèse SCI	5%	9/30/2019	241	241	-
Total lease equalization loans			**3,349**	**3,101**	**248**

Inovalis entered into Lease Equalization Agreements with certain of the REIT's subsidiaries, which have the effect of equalizing the rent payments providing the REIT with stable and predictable monthly revenue over the term of certain leases in the BBA, Veronese and Le Baldi properties.

Under the Lease Equalization Agreements, Inovalis 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, corresponding to the difference between the actual lease payments over such period and the average lease payments over the term of the lease, which is $4,596 in the aggregate, and BBA SCI will be required to make payments to Inovalis, on a quarterly basis during the period commencing on January 1, 2016 and ending on September 30, 2021, corresponding to the difference between actual lease payments over such period and the average lease payments over the term of the lease, which is $4,596 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.

For Veronèse SCI, Inovalis is also required to make payments on a quarterly basis during the period commencing on April 16, 2013 and ending on September 30, 2016, corresponding to the difference between the actual lease payments over such period and the average lease payments over the term of the lease, which is $357 in the aggregate, and Véronèse SCI will be required to make payments to Inovalis, on a quarterly basis during the period commencing on January 1, 2016 and ending on September 30, 2019, corresponding to the difference between actual lease payments over such period and the average lease payments over the term of the lease, which is $357 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.

Inovalis is also required to make payments to Le Baldi SCI on a quarterly basis during the period commencing on January 1, 2015 and ending on December 31, 2016, corresponding to the difference between the actual lease payments over such period and the average lease payments over the term of the lease, which is $1,390 in the aggregate, and Le Baldi SCI will be required to make payments to Inovalis, on a quarterly basis during the period commencing on January 1, 2017 and ending on December 31, 2021, corresponding to the difference between actual lease payments over such period and the average lease payments over the term of the lease, which is $1,390 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.

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

Note 14 – Exchangeable securities

Exchangeable securities issued and outstanding	Exchangeable securities: Number of Exchangeable securities	Exchangeable securities: Carrying amount of Exchangeable securities
Balance - December 31, 2013	1,388,685	12,234
Transactions in 2014		
Asset management fees paid in Exchangeable securities	200,896	1,907
Share offering 2014	453,766	4,111
Net change in fair value of Exchangeable securities	-	(107)
Balance - December 31, 2014	2,043,347	18,145
Transactions in 2015		
Asset management fees paid in Exchangeable securities	291,551	2,666
Conversion of Exchangeable securities into units of the REIT	(264,500)	(2,529)
Net change in fair value of Exchangeable securities	-	1,118
Balance - December 31, 2015	**2,070,398**	**19,400**

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

Debt instruments	Nominal interest rate	Maturity date		As at December 31, 2015	As at December 31, 2014
Interest bearing note	8.78%	10 April 2028		9,959	9,786
Interest bearing note	4.28%	10 April 2028		1,854	1,701
				11,813	11,487
Non-interest bearing note		10 April 2028		6,987	6,412
				18,800	17,899
Less current portion				(1,324)	(1,462)
Non-current portion of debt instruments				**17,476**	**16,437**

[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 $600. The REIT would not be required to pay any amount for the Investment in shares & share premium.

Exchangeable securities	As at December 31, 2015	As at December 31, 2014
Exchangeable securities	19,400	18,145
Less current portion	(1,366)	(1,482)
Non-current portion of Exchangeable securities	**18,034**	**16,663**

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
Number of Exchangeable securities outstanding - beginning of year	1,876,433	166,914	2,043,347	19,146
Securities converted into units in 2015		(264,500)	(264,500)	(2,478)
Securities issued in lieu of asset management fees	145,776	145,775	291,551	2,732
Number of Exchangeable securities outstanding - end of year	2,022,209	48,189	2,070,398	19,400
Classification of liability for Exchangeable securities	18,034	1,366		19,400

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

2014

In connection with the sale of units that the REIT realized in November 2014, Inovalis, who acts as the manager of the REIT, acquired 453,766 additional Exchangeable securities to maintain its approximate 10% ownership interest in the REIT, at a price per unit of $9.06 that was based on the 5-day Volume Weighted Average Price ("VWAP") on the closing date of the issue. This transaction was not subject to any underwriting commission.

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
Number of Exchangeable securities outstanding - beginning of year	1,322,219	66,466	1,388,685	12,332
Securities issued in lieu of asset management fees	100,448	100,448	200,896	1,784
Securities issued at the time of the share offering in 2014	453,766		453,766	4,029
Number of Exchangeable securities outstanding - beginning of year	1,876,433	166,914	2,043,347	18,145
Classification of liability for Exchangeable securities	16,663	1,482		18,145

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 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.

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

Distributions in respect of Exchangeable securities:

The Exchangeable securities entitle the holders to cash distributions from CCE 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 years ended December 31:

	2015	2014
Amount payable at the beginning of the year	35	213
Declared and recognized in earnings during the year	1,688	1,267
Accrued or paid in cash in the form of interest on interest bearing notes issued by CanCorpEurope S.A.	(918)	(625)
Paid in cash in the form of repayment of interest bearing notes issued by CanCorpEurope S.A.	(439)	(820)
Amount payable at the end of the year	**366**	**35**
Weighted average number of Exchangeable securities outstanding	2,058,346	1,528,074
Distributions paid per unit (based on weighted average Exchangeable securities outstanding)	0.6593	0.9456
Distributions paid per unit (on an annual basis)	0.8250	0.8250

Note 15 – Financial derivatives and hedging activities

2015

During the year ended December 31, 2015, the REIT entered into a series of 36 option contracts whereby it purchased put options and sold call options, both in Euros. These new option contracts cover monthly periods up to and including January 10, 2018. Put options purchased and call options sold have the same strike price. These contracts are not designated as part of a hedging relationship. Accordingly, they are classified as financial instruments at fair value through profit or loss, with changes in fair value recognized in profit or loss.

The REIT also entered into 11 new monthly foreign currency hedge contracts whereby the REIT will purchase $1,000 each month at a weighted average exchange rate of 1.4762 Canadian dollars per euro. The new contracts cover 12 monthly periods from February 14, 2018 to December 14, 2018. These contracts have been designated as hedges of the REIT's net investment in a foreign operation and changes in fair value are recognized in other comprehensive income (loss).

Together with the new financing arrangement described in Note 12, an interest rate SWAP arrangement was contracted. This arrangement is settled on a net basis at every interest payment date. This contract is not designated as part of a hedging relationship. Accordingly, it is classified as financial instrument at fair value through profit or loss, with changes in fair value recognized in profit or loss.

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

2014

On April 22, 2014, the REIT proceeded with the settlement of the 24 foreign exchange contracts still outstanding from its original economic hedging strategy entered into shortly after the initial public offering in April 2013. These contracts provided for the monthly purchase of $722 Canadian at an exchange rate of 1.3211 Canadian dollars per euro. The settled contracts covered monthly periods up to and including April 16, 2016. A loss of approximately $2,800 was realized at the time of settlement. Approximately $2,500 of this unrealized loss had been previously recognized in earnings since these contracts were not accounted for as hedging instruments.

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

Included in the 2014 financing arrangements described in Note 12, are an interest rate SWAP and an interest rate CAP. These features of the 2014 financing arrangements have been separated from the main contracts and accounted for and measured separately. These arrangements are settled on a net basis at every interest payment date. These contracts have been designated as cash flow hedges.

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

		Period covered		Conversion from/to			As at December 31, 2015		As at December 31, 2014	
Classification and type	Number of contracts	From	To	Euros or rate	$ or rate	Rate	Total notional amount	Fair value	Total notional amount	Fair value
Derivatives classified for hedge accounting										
Foreign exchange	11	14-Feb-18	14-Dec-18	677	1,000	1.4762	11,000	(525)	-	-
Foreign exchange	16	1-Jan-16	13-Apr-17	486	750	1.5437	12,000	241	21,000	1,567
Interest rate SWAP	1	1-Jan-16	1-Jul-19	Variable	Fixed	0.685%	83,270	(1,924)	82,181	(1,682)
Interest rate CAP	2	31-Dec-15	5-May-19	Variable	Capped	2.000%	51,099	48	47,729	69
Other derivatives										
Option contracts on foreign exchange										
Put options purchased	16	12-Jan-16	11-Apr-17	167	250	1.4956	4,000			
Call options sold	16	12-Jan-16	11-Apr-17	334	500	1.4956	8,000			
Put options purchased	9	10-May-17	10-Jan-18	669	1,000	1.4956	9,000			
Call options sold	9	10-May-17	10-Jan-18	1,337	2,000	1.4956	18,000			
Option contracts on foreign exchange - fair value								(1,042)		-
Interest rate SWAP	1	23-Dec-15	23-Dec-21	Variable	Fixed	0.394%	20,289	(85)		
								(3,287)		**(46)**

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

Note 16 – Trade and other payables

	As at December 31, 2015	As at December 31, 2014
Trade payables	1,711	1,786
Trade payables - Inovalis	2,223	942
Trade payables	**3,934**	**2,728**
Other payables	290	1,015
Other payables - Inovalis	509	825
Distributions payable	1,075	1,050
Distributions payable - Inovalis	366	35
Other payables	**2,240**	**2,925**
Total trade and other payables	**6,174**	**5,653**

Note 17 – Trust Units and Accumulated other comprehensive income

Trust Units

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 pro rata 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 settlement 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.
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 14 – Exchangeable securities) for the purpose of providing voting rights with respect to the REIT to the holders of such securities. As at December 31, 2015, 2,070,398 Special Voting Units were issued and outstanding (2014 - 2,043,347).

2015

During the year, Inovalis converted 264,500 Exchangeable securities in the amount of $2,529 into 264,500 units of the REIT (see Note 14 – Exchangeable securities).

2014

On November 6, 2014, the REIT completed the issue of Units to the public pursuant to a public offering for gross proceeds of $37,000 through the issuance of 3,978,500 Units at $9.30 per Unit. Costs relating to the issuance of Units, including underwriters' fees, amounting to $2,845 were charged directly to Equity.

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

Accumulated other comprehensive income

	As at December 31, 2015	As at December 31, 2014
Net unrealized gains on derivatives designated as a hedge of the net investment in a foreign entity	682	1,942
Net unrealized losses on interest rate derivatives designated as a cash flow hedge	(2,158)	(2,115)
Cumulative translation adjustment account	21,401	7,489
Accumulated other comprehensive income	**19,925**	**7,316**

Note 18 – Revenue

Revenue	2015	2014
Regular rents	19,192	16,685
Amortization of rent free periods (lease incentives)	2,281	1,997
Rental income	21,473	18,682
Service charge income	7,222	4,696
Total revenue	**28,695**	**23,378**

In 2015, two tenants account for more than 10% of rental income: France Telecom (32.1%) and Conservatoire National des Arts et Métiers (12.7%). In 2014, the same 2 tenants account for more than 10% of rental income: France Telecom (40.4%) and Conservatoire National des Arts et Métiers (14.6%).

Future minimum lease payments receivable under non-cancellable operating leases	As at December 31, 2015	As at December 31, 2014
Within 1 year	21,418	18,814
After 1 year, but not more than 5 years	59,181	70,631
More than 5 years	137	3,856
Future minimum lease receivable under non-cancellable operating leases	**80,736**	**93,301**

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

Note 19 – Administration expenses

	2015	2014
Asset management fees - Inovalis	(2,666)	(1,907)
Less: amount reinvoiced to joint ventures	487	114
	(2,179)	(1,793)
Other general and administrative expenses	(2,087)	(1,762)
Total administration expenses	**(4,266)**	**(3,555)**

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

Note 20 – Finance costs and finance income

	2015	2014
Interest costs on mortgage loans	(877)	(641)
Interest costs related to finance leases	(2,404)	(2,041)
Interest costs related to lease equalization loans	(220)	(123)
	(3,501)	(2,805)
Interest SWAP	(540)	(198)
Other finance costs	(51)	(262)
Standby charge on finance lease during approval period	-	(37)
	(4,092)	(3,302)
Amortization of fair value adjustment on finance leases assumed at a discount at the time of a business acquisition	(433)	(516)
Amortization of transaction costs on mortgage loans	(394)	(307)
Finance costs	**(4,919)**	**(4,125)**
Finance income	7	15
Finance income from Inovalis relating to the acquisition loan	1,550	227
Finance income from joint ventures	558	752
Finance income	**2,115**	**994**
Net Finance costs	**(2,804)**	**(3,131)**

Note 21 – Income taxes

The Trust qualifies as a Real Estate Investment Trust for Canadian income tax purposes. The Trust expects to distribute all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes. Accordingly, no provision for Canadian current income tax payable is required. The Trust consolidates certain wholly-owned incorporated entities that remain subject to tax. The tax disclosures and expense relate only to these entities.

The major components of income tax expense for the years ended December 31 are:

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

Income tax expense	**2015**	**2014**
Income tax expense		
Income tax expense	(71)	(9)
Deferred income tax recovery (expense)		
Relating to origination and reversal of temporary differences	(655)	(992)
Income tax expense reported in the consolidated statement of earnings	**(726)**	**(1,001)**

	Balance Sheet		**Statement of Earnings**	
Deferred tax liability	**As at December 31, 2015**	**As at December 31, 2014**	**2015**	**2014**
Losses carryforward	(428)	-	404	-
Revaluations of investment properties to fair value	2,079	949	(1,059)	(992)
	1,651	**949**	**(655)**	**(992)**
Reflected on balance sheet as follows:				
Deferred tax liabilities	**1,651**	**949**		

Note 22 – 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.

Basic earnings per unit	**2015**	**2014**
Earnings attributable to unitholders	30,800	16,545
Weighted average number of units outstanding	15,413,196	11,891,720
Basic earnings per unit	**2.00**	**1.39**

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

(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 14 - Exchangeable securities for the number of Exchangeable securities outstanding.

Diluted earnings per unit	**2015**	**2014**
Earnings attributable to unitholders	30,800	16,545
Distributions recognized on Exchangeable securities	1,688	1,267
Net change in fair value of Exchangeable securities	1,118	(107)
Earnings attributable to diluted unitholders	**33,606**	**17,705**
Weighted average number of units outstanding	15,413,196	11,891,720
Weighted average number of Exchangeable securities outstanding	2,058,346	1,528,074
Weighted average number of units used for diluted earnings per unit	17,471,542	13,419,794
Diluted earnings per unit	**1.92**	**1.32**

Note 23 – Distributions

	2015	**2014**
Amount payable at the beginning of the year	1,050	776
Declared and recognised during the year	12,732	9,864
Distributions paid in units (Distribution Reinvestment Plan)	(826)	(136)
Paid in cash	(11,881)	(9,454)
Amount payable at the end of the year	**1,075**	**1,050**
Total distributions	**12,732**	**9,864**
Distributions paid per unit (based on weighted average number of units outstanding)	0.8244	0.8064
Distributions paid per unit (based on an annualized basis)	0.8250	0.8250

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 17, 2015, the distribution of $1,075 for the month of December was declared, of which $990 was paid on January 15, 2016.

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 14 – Exchangeable securities.

Note 24 – Risk arising from financial instruments

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

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

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 long-term debt obligations with floating interest rates related to finance leases and mortgage loans.
The interest rate risk is mitigated by the REIT's hedging strategy on mortgage loans and on the finance lease liabilities of BBA SCI. At December 31, 2015, after taking into consideration the effect of interest rate swap and interest rate cap, 78 % of the REIT's long term debt obligation are hedged (2014 – 69%).
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 the 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.

	As at December 31, 2015	
Interest rate sentivity	**Impact on profit and loss**	**Impact on Equity**
Reasonably possible increase in interest rates	50 basis points	50 basis points
Annualized impact of an increase on profit and loss and equity	(216)	(216)

	As at December 31,2014	
Interest rate sentivity	**Impact on profit and loss**	**Impact on Equity**
Reasonably possible increase in interest rates	50 basis points	50 basis points
Annualized impact of an increase on profit and loss and equity	(285)	(285)

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

Currency risk

	As at December 31, 2015		
	Exposure to Euro		
Financial assets and liabilities denominated in foreign currencies	**Short-term exposure**	**Long-term exposure**	**Total**
Monetary assets denominated in other than functional currency	7,421	12,500	19,921
Monetary liabilities denominated in other than functional currency	(2,661)	-	(2,661)
Net exposure in respect of monetary items denominated in other than functional currency	4,760	12,500	17,260
Net exposure in respect of foreign currency exchange contracts (notional net buy amount in CAD$)	(6,000)	(4,000)	(10,000)
Net exposure	(1,240)	8,500	7,260

Impact on	% change	Net income	OCI	Total
Gain or (loss) in the event of an increase in the value of the Euro/CAD$	10%	(124)	850	726
Gain or (loss) in the event of a decrease in the value of the Euro/CAD$	-10%	124	(850)	(726)

	As at December 31,2014		
	Exposure to Euro		
Financial assets and liabilities denominated in foreign currencies	**Short-term exposure**	**Long-term exposure**	**Total**
Monetary assets denominated in other than functional currency	19,193	12,500	31,693
Monetary liabilities denominated in other than functional currency	(2,722)	-	(2,722)
Net exposure in respect of monetary items denominated in other than functional currency	16,471	12,500	28,971
Net exposure in respect of foreign currency exchange contracts (notional buy amount in CAD$)	(9,000)	(12,000)	(21,000)
Net exposure	7,471	500	7,971

Impact on	% change	Net income	OCI	Total
Gain or (loss) in the event of an increase in the value of the Euro/CAD$	10%	747	50	797
Gain or (loss) in the event of a decrease in the value of the Euro/CAD$	-10%	(747)	(50)	(797)

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. As such, the exchange rate relating to 73% of the REIT's current distributions are secured by these foreign currency forward contracts until April, 2017. Refer to Note 15 for a summary of the foreign exchange contracts in place.

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 the acquisition loan with Inovalis, derivatives, deposits with banks and financial institutions and indirectly exposed in 2014 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.

Accounts receivable are presented on the consolidated balance sheet, net of allowance for credit losses. This provision is based on the expected recovery percentage of amounts receivable from each tenant and various other indicators, such as a deterioration of the credit situation of a given tenant. Management regularly review accounts receivable and monitors past due balances. The factors considered are as follows: the tenant is in bankruptcy or under administration, payments are in dispute or the recovery history justifies the impairment.

Tenant receivables

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

Cash deposit, cash equivalents and derivatives

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.

Acquisition loan to Inovalis

The credit risk for the acquisition loan to Inovalis is not considered to be significant because the REIT is secured by a share pledge from a holding company owned by Inovalis (which also owns another property in the Greater Paris Region) and management considers the credit quality of Inovalis to be good.

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 the maturity of financial assets and liabilities is used by key management personnel to manage liquidity risks and is derived from managerial reports at the company level.

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 maturities 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 on the balance sheet, as the impact of discounting is not significant.

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

As at December 31, 2015	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Mortgage loans	434	1,300	57,418	18,795	77,947
Finance leases principal and interest	2,196	6,586	55,669	81,388	145,839
Lease equalization loans	414	1,242	4,734	999	7,389
Exchangeable securities (value of securities plus interest on notes)	244	732	975	19,775	21,726
Tenant deposits	-	116	1,159	587	1,862
Derivative financial instruments	220	659	775	1,923	3,576
Trade and other payables	5,730	444	-	-	6,174
Total	**9,238**	**11,079**	**120,730**	**123,467**	**264,513**

As at December 31,2014	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Mortgage loans	225	672	51,084	-	51,981
Finance leases principal and interest	2,382	7,148	66,294	83,601	159,425
Lease equalization loans	42	374	2,274	1,161	3,851
Exchangeable securities (value of securities plus interest on notes)	239	718	958	18,857	20,772
Tenant deposits	-	380	543	1,083	2,006
Derivative financial instruments	201	404	1,077	-	1,682
Trade and other payables	5,618	35	-	-	5,653
Total	**8,707**	**9,731**	**122,230**	**104,702**	**245,370**

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

Classification of financial instruments

The following tables summarize the classification of the REIT's financial instruments as at December 31, 2015 and 2014.

	As at December 31, 2015				
	Measured at Fair Value		Measured at amortized cost		
	Classified as Held for trading	Designated as FVTPL[1]	Loans and Receivables	Financial liabilities	Total
Financial assets					
Restricted cash	-	-	1,684	-	1,684
Trade and other receivables	-	-	4,800	-	4,800
Acquistion loan	-	-	18,786	-	18,786
Derivative financial instruments	289	-	-	-	289
Cash and cash equivalents	-	-	6,895	-	6,895
Total financial assets	**289**	**-**	**32,165**	**-**	**32,454**
Financial liabilities					
Mortgage loans	-	-	-	71,194	71,194
Lease equalization loans	-	-	-	6,425	6,425
Tenant deposits	-	-	-	1,862	1,862
Derivative financial instruments	3,576	-	-	-	3,576
Exchangeable securities	-	19,400	-	-	19,400
Trade and other payables	-	-	-	6,174	6,174
Total financial liabilities	**3,576**	**19,400**	**-**	**85,655**	**108,631**

1 - Fair value through profit or loss

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

	As at December 31,2014				
	Measured at Fair Value		Measured at amortized cost		
	Classified as Held for trading	Designated as FVTPL[1]	Loans and Receivables	Financial liabilities	Total
Financial assets					
Restricted cash	-	-	600	-	600
Trade and other receivables	-	-	2,852	-	2,852
Acquistion loan	-	-	17,548	-	17,548
Derivative financial instruments	1,636	-	-	-	1,636
Cash and cash equivalents	-	-	24,185	-	24,185
Total financial assets	1,636	-	45,185	-	46,821
Financial liabilities					
Mortgage loans	-	-	-	47,150	47,150
Lease equalization loans	-	-	-	3,349	3,349
Tenant deposits	-	-	-	2,006	2,006
Derivative financial instruments	1,682	-	-	-	1,682
Exchangeable securities	-	18,145	-	-	18,145
Trade and other payables	-	-	-	5,653	5,653
Total financial liabilities	1,682	18,145	-	58,158	77,985

1 - Fair value through profit or loss

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.

As at December 31, 2015	Fair value hierarchy level	Carrying amount	Fair value
Financial assets			
Acquisition loan	3	18,786	18,786
Financial liabilities			
Mortgage loans	2	71,194	71,621
Finance leases	2	126,502	126,078
Lease equalization loans	3	6,425	6,425
Tenant deposits	3	1,862	1,862

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

As at December 31, 2014	Fair value hierarchy level	Carrying amount	Fair value
Financial assets			
Acquisition loan	3	17,548	17,548
Financial liabilities			
Mortgage loans	2	47,150	47,150
Finance leases	2	137,671	136,341
Lease equalization loans	3	3,349	3,351
Tenant deposits	3	2,006	1,991

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

- The fair value of the acquisition loan is estimated using the nominal amounts expected to be received at maturity and a discount rate based on prevailing market interest rates adjusted by an internally determined credit spread. The fair value approximates its carrying amount as there were no material changes during the period in the assumptions used for fair value determination at inception.

- 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 the credit spread has not changed significantly.

- The fair values of mortgage loans, finance leases, lease equalization loans and 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. The fair value approximates its carrying amount as there were no material changes during the period in the assumptions used for fair value determination at inception.

Fair value hierarchy

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

	As at December 31, 2015			
	Level 1	Level 2	Level 3	Total
Investment properties	-	-	355,704	355,704
Derivative financial instruments - assets	-	289	-	289
Derivative financial instruments - liabilities	-	(3,576)	-	(3,576)
Exchangeable securities	-	(19,400)	-	(19,400)

	As at December 31, 2014			
	Level 1	Level 2	Level 3	Total
Investment properties	-	-	308,596	308,596
Derivative financial instruments - assets	-	1,636	-	1,636
Derivative financial instruments - liabilities	-	(1,682)	-	(1,682)
Exchangeable securities	-	(18,145)	-	(18,145)

There were no transfers between Level 1 and Level 2 during the year ended December 31, 2015 (none in 2014).
The REIT's management is responsible for determining fair value measurements included in the consolidated financial statements, including Level 3 fair values. The inputs, processes and results for recurring measurements, including those

valuations calculated by an independent consultant, are reviewed each quarter by senior management to ensure conformity with IFRS.

The reconciliation of the carrying amounts of non-financial assets classified within Level 3 is in Note 7 – Investment properties. The gains or losses relating to the investment properties are recognized in profit or loss on the consolidated statement of earnings line entitled “Net change in fair value of investment properties”. The entire amount of the gain or loss reported on this line in the reporting period is unrealized.

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

- 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. Other features of the Exchangeable securities have no significant impact on their fair value.

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

Note 25 – Transactions with related parties

Inovalis – Asset manager

Pursuant to the Management agreement, Inovalis is the Asset 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 except for asset management fees to Inovalis which are paid in Exchangeable shares (refer to Note 14, Exchangeable securities). No guarantees were given.

Inovalis and its subsidiaries	Financial statement line item	*Note*	2015	2014
Revenues				
Rental income	Rental income		827	927
Service charge income	Service charge income		678	312
Other revenue [(1)]	Other revenue		1,240	-
Interest income from acquisition loan	Finance income	*20*	1,550	227
			4,295	1,467
Expenses				
Asset management fees	Administration expenses	*A*	(2,666)	(1,907)
less portion reinvoiced to joint-ventures	Administration expenses		487	114
Facilities management fees	Service charge expenses	*B*	(3,419)	(2,041)
Property management fees	Service charge expenses	*C*	(980)	(910)
Leasing fees	Service charge expenses	*D*	(156)	-
Reimbursement of travel expenses	Acquisition costs		(235)	-
Interest on lease equalization loan	Finance costs	*20*	(220)	(123)
Other finance costs	Finance costs	*20*	-	(37)
Reimbursement of travel expenses	Administration expenses		(220)	(148)
Reimbursement of travel expenses	Issue costs		-	(182)
			(7,409)	(5,234)

[(1)] Recovery of an amount paid for anticipated repairs that are no longer required

Inovalis and its subsidiaries	Financial statement line item	*Note*	2015	2014
Exchangeable securities				
Interest on notes	Distributions in resptect of Exchangeable securities	*14*	(918)	(625)
Reimbursement of debt		*14*	(439)	(820)
Total distributions paid on Exchangeable securities			(1,357)	(1,445)
Unitholders' Equity				
Conversion of 264,500 Exchangeable securities into 264,500 units of the REIT	Issuance of Units	*14*	2,529	-

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

In performing its obligations under the management agreement, Inovalis 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. A facility management fee related to the management of service charges that are rebilled directly to tenants;
C. An annual property management fee (the "Property Management Fee") in an amount equal to 3.5% of the charges to the tenants of the REIT's properties, payable quarterly in arrears, approximately 60% of which is rebilled to tenants;
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 lnovalis is responsible for the fees of any external real estate agent retained to assist with a lease renewal or to find a new tenant.

	Due to (from) Inovalis	
	As at December 31, 2015	As at December 31, 2014
Trade and other receivables	(1,200)	(637)
Trade and other payables	2,732	1,767
Acquisition loan	(18,786)	(17,548)
Distributions payable	366	35
Lease equalization loans	6,425	3,349
	(10,463)	(13,034)

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

Joint ventures

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

Joint ventures	Financial statement line item	2015	2014
Management fees reinvoiced to joint ventures	Administration expenses	487	114
Earnings from joint ventures	Share of net earnings from investments accounted for using the equity method	517	4,076
Acquisition costs	Acquisition costs	-	(323)
Finance income	Finance income	558	752
		1,562	4,619

		Due from joint ventures	
		As at December 31, 2015	As at December 31, 2014
Loan receivable	Investment accounted for using the equity method	33,500	14,639
Accounts receivable	Trade and other receivables	428	62
		33,928	14,701

For more information, please refer to Note 8 – Investments accounted for using the equity method.

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 rather than the REIT, and the costs of their services are not invoiced distinctly from the overall asset management fees.

	2015	2014
Wages, fees and other benefits	263	262
	263	262

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

Note 26 – 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 mortgage loan, 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 as amended at the special meeting of Unitholders held January 20th, 2016 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 60% of the REIT's Gross Book Value (GBV). 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 49.4 % of its GBV as at December 31, 2015 (2014 – 54.6 %).

Total indebtedness as a % of Gross Book Value	**As at December 31, 2015**	**As at December 31, 2014**
Investment properties	355,704	308,596
Investments accounted for using the equity method	40,466	18,307
Acquisition loan	18,786	17,548
Gross book value	**414,956**	**344,451**
Mortgage loans - non-current	70,779	47,150
Finance lease liabilities - non-current	120,285	130,680
Lease equalization loan	6,425	3,349
Provision relating to an investment accounted for using the equity method	925	-
Mortgage loans - current	415	-
Finance lease liabilities - current	6,217	6,991
Total indebtedness	**205,046**	**188,170**
Total indebtedness as a % of Gross Book Value	**49.4%**	**54.6%**

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

Note 27 – Commitments and guarantees

Guarantees provided by the REIT with respect to its long term debts include a preferential claim held by mortgage lenders on the Jeuneur, Veronese and Sablière properties in the amount of €48,042 (Can $72,202).
The REIT also has a share pledge on the shares of a company owned by Inovalis that holds certain properties to guarantee the acquisition loan.
The REIT agreed to pledge, up to May 6, 2016, its 49% equity investment in Cologne as a guarantee of the commitment to repurchase a 4,312 Euros ($6,480) loan from the other partner in Cologne (Note 8).

Note 28 – Geographical information

Total revenue by geographic region	Rental Income	Service Charge Income	2015	2014
France	19,456	6,910	26,366	21,219
Germany	2,017	312	2,329	2,159
	21,473	**7,222**	**28,695**	**23,378**

Investment properties and investments in joint ventures by geographic region	As at December 31, 2015	As at December 31, 2014
France	334,514	275,045
Germany	60,731	51,858
	395,245	**326,903**

(All dollar amounts are in thousands of Canadian dollars unless otherwise stated)

Note 29 – Cash flow information

	Note	2015	2014
Adjustments for non-cash items and other reconciling items:			
Rent free period		(2,281)	(1,997)
Management fees paid in Exchangeable securities	25	2,666	1,907
less portion reinvoiced to joint-ventures	25	(487)	(114)
Net change in fair value of investment properties		(21,523)	(5,248)
Loss on financial instruments at fair value through profit or loss	15	951	346
Distributions on Exchangeable securities	14	1,688	1,267
Net change in fair value of Exchangeable securities	14	1,118	(107)
Finance income	20	(2,115)	(994)
Finance costs	20	4,919	4,125
Income taxes paid		(65)	(3)
Loss recognized on exercise of early payment option on finance leases		1,077	7,968
Gain on bargain purchase	6	-	(8,289)
Other items		-	7
Share of earnings from investments accounted for using the equity method	8	(517)	(4,076)
Net impact of disposal of an interest in a subsidiary		-	250
Unrealized exchange (gains) losses		(139)	(4)
Cash items classified as operating activities			
Interest received		2,717	639
Interest paid		(3,905)	(3,099)
Acquisition costs classified in investing activities		329	1,647
		(15,567)	**(5,775)**
Working capital adjustments			
Increase in trade and other receivables		(1,389)	(2,140)
(Decrease) increase in tenant deposits		(269)	879
Increase in trade and other payables		171	2,314
		(1,487)	**1,053**

Note 30 – Classification of information reported in prior periods

Some comparative figures have been reclassified to be compliant with the presentation adopted for this year. More specically, all the interest revenue from joint ventures are presented in finance income while in 2014, 50% was grouped with “share of earnings from investments accounted for using the equity method” in the consolidated statement of earnings and the consolidated statement of cash flows.

Note 31 – Subsequent events

On January 20, 2016, unitholders of the REIT approved the acquisition from Inovalis of a property located at 35 rue Grenata, 75002 Paris, France from Inovalis SA for a purchase price of approximately $70 million (the “Metropolitain property”). The transaction was closed on March 21, 2016 and concomitantly, the REIT closed a new finance lease contract of approximately 65% of the value of the transaction. The Acquisition loan made to Inovalis as described in Note 9 will also be considered as part of the consideration paid for this acquisition. The REIT has still to analyze the accounting impact of this transaction on its consolidated financial statements.

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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