

INOVALIS REIT
CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

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, 2016 and 2015, 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, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP¹

Montréal, Canada
March 21, 2017

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



INOVALIS REIT

Consolidated Balance Sheets

As at December 31,

(All dollar amounts in thousands of Canadian dollars)

Assets	Note	2016	2015
Non-current assets			
Investment properties	7	412,232	355,704
Investments accounted for using the equity method	8	43,887	40,337
Acquisition loans and deposit	9	8,906	18,786
Derivative financial instruments	16	590	92
Restricted cash		-	1,375
Total non-current assets		465,615	416,294
Current assets			
Trade and other receivables	10	3,368	4,803
Derivative financial instruments	16	520	197
Other current assets	11	1,638	1,333
Other financial current assets	12	27,910	
Restricted cash		-	305
Cash		11,074	6,895
Total current assets		44,510	13,533
Total assets		510,125	429,827
Liabilities and Unitholders' equity			
Liabilities	Note	2016	2015
Non-current liabilities			
Mortgage loans	13	83,998	70,779
Finance lease liabilities	13	120,891	120,285
Lease equalization loans	14	4,051	5,090
Tenant deposits		2,178	1,746
Exchangeable securities	15	4,603	18,034
Provision relating to an investment accounted for using the equity method	8	-	925
Derivative financial instruments	16	1,616	2,698
Deferred tax liabilities	22	2,236	1,651
Total non-current liabilities		219,573	221,208
Current liabilities			
Mortgage loans	13	541	415
Finance lease liabilities	13	24,179	6,217
Lease equalization loans	14	1,184	1,335
Tenant deposits		198	116
Exchangeable securities	15	11,995	1,366
Derivative financial instruments	16	1,225	878
Trade and other payables	17	7,392	6,174
Other current liabilities		734	469
Deferred income		1,975	-
Total current liabilities		49,423	16,970
Total liabilities		268,996	238,178
Equity			
Trust units	18	189,158	136,365
Retained earnings		43,455	35,359
Accumulated other comprehensive income	18	8,395	19,925
Total Unitholders' equity		241,008	191,649
Non-controlling interest		121	-
Total equity		241,129	191,649
Total liabilities and equity		510,125	429,827

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

INOVALIS REIT

Consolidated Statements of Earnings

For the years ended December 31,

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

	Note	2016	2015
Rental income	19	24,404	21,473
Service charge income	19	6,546	7,222
Service charge expenses		(8,525)	(8,040)
Other revenues	26	170	1,240
Other property operating expenses		(214)	(306)
Net rental earnings		22,381	21,589
Administration expenses	20	(5,152)	(4,266)
Foreign exchange gain		640	130
Net change in fair value of investment properties	7	3,632	21,523
Gain resulting from exercise of the purchase option	6	9,213	-
Acquisition costs		(575)	(329)
Share of net earnings from investments accounted for using the equity method	8	1,107	517
Operating earnings		31,246	39,164
Loss on financial instruments at fair value through profit or loss		(1,269)	(951)
Loss recognized on exercise of early payment option on finance lease	6	(1,242)	(1,077)
Loss on refinancing of a debt	13	(605)	-
Finance income	21	4,344	2,115
Finance costs	21	(6,488)	(4,919)
Distributions on Exchangeable securities	15	(1,890)	(1,688)
Net change in fair value of Exchangeable securities	15	589	(1,118)
Earnings before income taxes		24,685	31,526
Current income tax expense	22	(336)	(71)
Deferred income tax expense	22	(944)	(655)
Earnings for the year		23,405	30,800
Earnings for the year attributable to :			
Non-controlling interest		121	-
Unitholders of the Trust		23,284	30,800
		23,405	30,800
Earnings per unit attributable to unit holders:	23		
Basic earnings per unit		1.28	2.00
Diluted earnings per unit		1.21	1.92

See accompanying notes to consolidated financial statements

INOVALIS REIT

Consolidated Statements of Comprehensive Income

For the years ended December 31,

(All dollar amounts in thousands of Canadian dollars)

	2016	2015
Earnings for the year	23,405	30,800
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net earnings, net of tax :		
Derivatives designated as a hedge of the net investment in a foreign entity		
Net gains (losses)	2,167	(1,260)
Derivatives designated as cash flow hedges		
Net gains (losses)	96	(140)
Reclassification of net losses to earnings	131	97
Items that are not to be reclassified subsequently to net earnings, net of tax :		
Change in cumulative translation adjustment account	(13,924)	13,912
Total other comprehensive income (loss)	(11,530)	12,609
Total comprehensive income (loss) for the year	11,875	43,409
Total comprehensive income (loss) for the year attributable to :		
Non-controlling interest	121	-
Unitholders of the Trust	11,754	43,409
Total comprehensive income (loss) for the year	11,875	43,409

Consolidated Statements of Changes in Unitholders' Equity

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

	Note	Number of Units issued and outstanding	Trust Units	Retained earnings	Accumulated other comprehensive income	Total attributable to the Unitholders' of the Trust	Non-controlling interest	Total equity
As at December 31, 2015		15,637,019	136,365	35,359	19,925	191,649	-	191,649
Issuance of units	19	5,762,190	51,623	-	-	51,623	-	51,623
Distributions earned by Unitholders	25			(15,188)	-	(15,188)	-	(15,188)
Distributions reinvestment Plan	25	126,566	1,170	-	-	1,170	-	1,170
Transactions with owners		5,888,756	52,793	(15,188)	-	37,605	-	37,605
Earnings for the year		-	-	23,284	-	23,284	121	23,405
Other comprehensive income		-	-	-	(11,530)	(11,530)	-	(11,530)
Total comprehensive income		-	-	23,284	(11,530)	11,754	121	11,875
As at December 31, 2016		21,525,775	189,158	43,455	8,395	241,008	121	241,129
As at December 31, 2014		15,278,536	133,010	17,291	7,316	157,617	-	157,617
Issuance of units	19	264,500	2,529	-	-	2,529	-	2,529
Distributions earned by Unitholders	25	-	-	(12,732)	-	(12,732)	-	(12,732)
Distributions reinvestment Plan	25	93,983	826	-	-	826	-	826
Transactions with owners		358,483	3,355	(12,732)	-	(9,377)	-	(9,377)
Earnings for the year		-	-	30,800	-	30,800	-	30,800
Other comprehensive loss		-	-	-	12,609	12,609	-	12,609
Total comprehensive income		-	-	30,800	12,609	43,409	-	43,409
As at December 31, 2015		15,637,019	136,365	35,359	19,925	191,649	-	191,649

See accompanying notes to consolidated financial statements

INOVALIS REIT

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

	Note	2016	2015
Operating activities			
Earnings before income taxes for the period		24,685	31,526
Adjustments for non-cash items and other reconciling items	30	(5,267)	(15,567)
		19,418	15,959
Working capital adjustments	30	(1,649)	(1,487)
Net cash flows related to operating activities		17,769	14,472
Investing activities			
Business acquisition	6	(21,638)	-
Acquisition costs		(575)	(329)
Investments in joint-ventures	8	(6,189)	(20,051)
Additions to investment properties	7	(1,644)	(98)
Partial disposal of investment properties	7	3,576	-
Loan repayments received from joint ventures	8	-	1,207
Acquisition loan and deposit		(8,906)	-
Investment in financial current assets	12	(37,547)	-
Decrease in financial current assets	12	10,725	-
Net change in restricted cash		1,680	(1,080)
Net cash flows related to investing activities		(60,518)	(20,351)
Financing activities			
Units issued for cash		43,040	-
Distributions on Units paid in cash	24	(13,614)	(11,881)
Distributions in respect of Exchangeable securities paid in cash	15	(1,274)	(1,357)
Proceeds from new mortgage loans, net of transaction costs	13	17,163	20,347
Proceeds from new finance liabilities, net of transaction costs	13	49,117	-
Transaction fees related to the exercise of early payment option on finance leases	6	(1,242)	-
Repayment of mortgage loans and finance lease liabilities	13	(48,094)	(22,068)
Additions to Exchangeable securities	15	2,943	-
Net change on lease equalization loans	14	(672)	2,678
Settlement of derivative financial instruments	16	(313)	865
Net cash flows related to financing activities		47,054	(11,416)
Net increase (decrease) in cash		4,305	(17,295)
Effects of foreign exchange adjustments on cash		(126)	5
Cash at the beginning of the year		6,895	24,185
Cash at the end of the year		11,074	6,895

See accompanying notes to consolidated financial statements

INOVALIS REIT

Notes to the Consolidated Financial Statements For the years ended December 31, 2016 and 2015

(All dollar and euro amounts are respectively in thousands of Canadian dollars and thousands of Euros unless otherwise stated)

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, 2016 were authorized for issuance by the Board of Trustees on March 20th, 2017.

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 loans and deposit, and Note 15 – Exchangeable securities, for more information about the relationship between Inovalis and the REIT, and to Note 26 – Transactions with related parties, for information regarding the services provided by Inovalis to the REIT.

Inovalis S.A. is considered as a related party of the REIT as they share the same management (Chairman of the Board, CIO and CEO).

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 or EUR€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, Derivative financial instruments and Other financial current assets, 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.

INOVALIS REIT

Notes to the Consolidated Financial Statements For the years ended December 31, 2016 and 2015

(All dollar and euro amounts are respectively in thousands of Canadian dollars and thousands of Euros unless otherwise stated)

Details of the REIT's subsidiaries as of December 31, 2016 are as follows:

Name of subsidiary	Principal Activity	Name of the assets	Country of Incorporation and Residence	Proportion of Ownership Interest and Voting Power Held - 2016	Proportion of Ownership Interest and Voting Power Held - 2015
CanCorpEurope S.A. ("CCE")	Holding Company for European assets		Luxembourg	88.11%	91.12%
INOPCI1	Holding Company		France	100% held by CCE	100% held by CCE
BBA SCI	Investment property holding	Vanves Property	France	100% held by INOPCI1	100% held by INOPCI1
Véronèse SCI	Investment property holding	Dubonnet Property	France	100% held by INOPCI1	100% held by INOPCI1
Jeûneurs SCI	Investment property holding	Jeûneurs Property	France	100% held by INOPCI1	100% held by INOPCI1
Sablère SCI	Investment property holding	Sablère Property	France	100% held by INOPCI1	100% held by INOPCI1
Baldi SCI	Investment property holding	Baldi Property	France	100% held by INOPCI1	100% held by INOPCI1
Metropolitain SCI	Investment property holding	Metropolitain Property	France	99% held by INOPCI1	99% held by INOPCI1
Metropolitan LLC	Investment and holding Company		USA	100%	100%
CanCorpCologne Sarl	Investment and holding Company		Luxembourg	100% held by CCE	100% held by CCE
CanCorpHanover S.A. ("CCH")	Holding Company		Luxembourg	100% held by CCE	100% held by CCE
Hanover CanCorp GmbH KG	Investment property holding	Hanover Property	Germany	94% held by CCH	N/A

Also, as further explained in Note 3, the 11.89% (8.88% as at December 31, 2015) interest held by Inovalis in CCE and its subsidiaries is presented as a liability rather than a non-controlling interest (Refer to Note 15 for details regarding this interest).

Joint arrangements

Joint arrangements apply to situations where decisions about the relevant activities 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.

INOVALIS REIT

Notes to the Consolidated Financial Statements For the years ended December 31, 2016 and 2015

(All dollar and euro amounts are respectively in thousands of Canadian dollars and thousands of Euros unless otherwise stated)

As explained in Note 8, the REIT holds as at December 31, 2016, through its subsidiary CCE, investments in joint ventures accounted for using the equity method as follows:

Name of entity	Principal Activity	Property name	Country of Incorporation and Residence	Proportion of Ownership Interest and Voting Power Held - 2016	Proportion of Ownership Interest and Voting Power Held - 2015
CanCorp					
Duisburg Sarl (“CCD”)	Investment property holding	Duisburg Property	Germany	50% joint-venture held by CCE	50% joint-venture held by CCE
Walpur Four Sarl (“Walpur”)	Investment property holding	Bad Homburg Property	Luxembourg	50% joint-venture held by CCE	50% joint-venture held by CCE
Arcueil SI General Partner Sarl	General partner for Arcueil SCS Investment and		Luxembourg	25% joint-venture held by CCE	25% joint-venture held by CCE
Arcueil SCS (“Arcueil”)	holding Company		Luxembourg	25% joint-venture held by CCE	25% joint-venture held by CCE
Arcueil SI Sarl	Company Holding		Luxembourg	100% held by Arcueil SCS	100% held by Arcueil SCS
INOPCI2	Company		France	100% held by Arcueil SI Sarl	100% held by Arcueil SI Sarl
Arcueil Holding S.A.S.	Holding Company		France	100% held by INOPCI2	100% held by INOPCI2
Lenine Arcueil SCI	Investment property holding	Arcueil Property	France	100% held by Arcueil Holding S.A.S.	100% held by Arcueil Holding S.A.S.
CanCorpCologne1 SCI (“Cologne”)	Investment property holding	Cologne Property	France	49% joint-venture held by CanCorpCologne Sarl	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. 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.

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Notes to the Consolidated Financial Statements For the years ended December 31, 2016 and 2015

(All dollar and euro amounts are respectively in thousands of Canadian dollars and thousands of Euros unless otherwise stated)

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.

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 income statement, comprehensive income and cash flows are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income, expenses and cash flows are translated at the rate on the dates of the transactions); and
- iii. all resulting exchange differences are recognized in other comprehensive income and recognised in the cumulative translation adjustment account in equity.

When a foreign operation 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.

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 or use for administrative purposes. 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 leased property or, if lower, the present value of the minimum payments, each determined at the inception of the lease.

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

Subsequent to initial recognition, investment property is carried at fair value. Under the fair value model, investment properties are recorded at fair value, determined based on available market evidence at each reporting date. Gains or losses arising from changes in the fair values are recognized in the consolidated 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, letting fees and option costs.

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Notes to the Consolidated Financial Statements For the years ended December 31, 2016 and 2015

(All dollar and euro amounts are respectively in thousands of Canadian dollars and thousands of Euros unless otherwise stated)

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 initially 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

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Notes to the Consolidated Financial Statements For the years ended December 31, 2016 and 2015

(All dollar and euro amounts are respectively in thousands of Canadian dollars and thousands of Euros unless otherwise stated)

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.

Acquisition loans and deposit

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

Other financial current assets

Other financial current assets includes financial assets at fair value through profit or loss composed by financial assets held for trading such as money market fund.

The caption also includes other financial current assets whose carrying amounts are considered to be the same as their fair values due to their short-term nature.

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Exchangeable securities

The Exchangeable securities issued by the Trust's subsidiary, CCE, are exchangeable into units of the REIT at the discretion of the holder and represent the financial interest not held by the REIT in controlled and consolidated subsidiaries. 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 15 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 over-allotment, 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.

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.

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Mortgage loans

Mortgage loans bear interest and are repayable in total at maturity date. 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.

Lease equalization loans

Lease equalization correspond to an advance from the seller of the first investment properties bought by the REIT, to compensate the effects of other rental franchises and the non linearization of rental cash inflows in the first years of existence of the REIT, whereas the REIT is committed to monthly distributions.

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 13 – Mortgage loans and finance lease liabilities.

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Revenue recognition

Rental income from investment properties

Rental income receivable 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.

Rental income received during the financial year but relating to a subsequent financial year are included in the liabilities under the caption “Deferred Income”.

Service charge expenses and income

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 income.

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.

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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 OPCI (a collective undertaking for real estate investment) to CCE. CCE, 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 net wealth tax and corporate income tax in Luxembourg under certain condition. 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.

Since 2016, CCH hold 94% of Hanover Cancorp GmbH KG ("HCC"), investment property holding a building in Germany. The latter is considered as tax transparent entity from a Luxembourgish tax perspective.

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 SCI and should not be considered to be tax resident of Germany for German tax purposes (the Lux Co, Cologne and CCH 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

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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 shareholders 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.

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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 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 group that determines the REIT’s valuation policies and procedures for property valuations comprises the chief executive officer (CEO), chief investment officer (CIO) and chief financial officer (CFO). Each year, Inovalis appoints, an external evaluator who is responsible for the 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, CIO 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. 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 valuers 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.

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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.

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.

Amendments to IAS 12 – Income taxes

The amendments clarify the existing guidance under IAS 12. They do not change the underlying principles for the recognition of deferred tax assets. The amendments arose from a question about the deferred tax accounting on debt investments measured at fair value, however, the amendments are not limited to any specific type or class of assets, and they clarify several of the general principles underlying the accounting for deferred tax assets.

The amendments to IAS 12 are effective for annual reporting periods beginning on or after January 1, 2017 with early adoption permitted. The REIT's management has not yet assessed the impact of those amendments on its consolidated financial statements.

Amendments to IAS 7 – Cash flow statements

The amendments respond to request from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities.

The amendments are effective for annual periods beginning on or after 1 January 2017. Earlier application is permitted. When an entity first applies the amendments, it is not required to provide comparative information in respect of preceding periods. The REIT's management has not yet assessed the impact of those amendments on its consolidated financial statements.

INOVALIS REIT

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Note 6 – Business combination

2016

On March 21, 2016, the REIT completed the acquisition from Inovalis of a property located at 35 rue Greneta, 75002 Paris, France (the “Metropolitan property”), together with the related tenant portfolio and the management contract. The Acquisition loan made to Inovalis in 2014 was considered as part of the consideration paid for this acquisition.

This acquisition is 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 and revised during the quarter ended June 30, 2016. A summary is provided below:

Purchase price allocation	As at March 21, 2016
<u>Recognized amounts of identifiable assets acquired and liabilities assumed</u>	
Investment property	78,068
Finance lease liability	(23,166)
Other liabilities (tenant deposits)	(602)
Total liabilities assumed	(23,768)
Fair value of net asset acquired	54,300
Consideration transferred by the REIT for the acquisition consists of the following:	
Cash	21,638
Acquisition loan including related interest receivable and trade and other receivables	23,449
Consideration transferred by the REIT	45,087
Gain resulting from exercise of the purchase option	9,213

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 disclosed in the caption “Gain resulting from exercise of the purchase option”. This gain is principally due to the fact that the REIT bought the properties at a discount to its market value as a consequence of a profit sharing mechanism featured in the Acquisition loan granted by Inovalis REIT to Inovalis SA when the latter bought the Metropolitan property in 2014.

Acquisition costs related to the acquisition amounting to \$391 (€67) have been recognized in consolidated statement of earnings as Acquisition costs.

Immediately following the acquisition, the REIT exercised its option to purchase the investment property that was leased and concomitantly, closed a new finance lease contract to replace the finance lease assumed as part of the transaction. Therefore, finance lease liability amounting to \$23,166 (€15,742) was derecognized and a loss on the exercise of early payment option of finance lease of \$1,242 (€844) was recognized in the consolidated statement of earnings. Costs related to the acquisition amounted to \$856 (€80) and were capitalized to the investment property.

2015

There were no business combination or acquisition in 2015.

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Note 7 – Investment properties

	2016	2015
Beginning of year	355,704	308,596
Additions	862	98
Capitalized letting fees	119	
Acquisitions through business combinations	78,731	-
Amount derecognized upon exercise of early purchase option on lease	-	(14,377)
Amount recognized upon acquisition of the property	-	14,377
Partial Disposal	(3,576)	-
Rent free periods	84	2,281
Net change in fair value of investment properties	3,632	21,523
Foreign currency translation adjustment	(23,324)	23,206
End of year	412,232	355,704

	As at December 31, 2016			As at December 31, 2015		
	France	Germany	Total	France	Germany	Total
Fair value of investment properties for financial reporting purposes						
Market value (in Euros) as estimated by external appraisers	269,100	24,100	293,200	213,007	23,900	236,907
Option costs and rent free periods	(2,261)	-	(2,261)	15	(244)	(229)
Adjusted market value in Euros	266,839	24,100	290,939	213,022	23,656	236,678
Exchange adjustment	111,246	10,047	121,293	107,129	11,897	119,026
Adjusted market value in CAD\$	<u>378,085</u>	<u>34,147</u>	<u>412,232</u>	<u>320,151</u>	<u>35,553</u>	<u>355,704</u>
Date of evaluation	Dec 31, 2016	Dec 31, 2016		Dec 31, 2015	Dec 31, 2015	
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	4.5% to 7.0%	6.50%		5.0% to 6.0%	6.50%	
Weighted average discount rate	5.78%	6.50%		5.70%	6.50%	
Weighted average ending capitalization rate	5.78%	5.75%		6.69%	5.75%	
Impact on the fair value of investment properties of :						
an increase of 25 bps in discount rates	(16,353)	(1,313)	(17,667)	(14,054)	(1,357)	(15,412)
a decrease of 25 bps in discount rates	16,353	1,313	17,667	14,054	1,357	15,412

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 discount rate (and exit or yield) would result in a significantly lower (higher) fair value measurement.

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Note 8 – Investments accounted for using the equity method

Outlined below is a breakdown of the carrying amounts of the components of the investment in the Joint Ventures:

Carrying amount of investment in joint ventures	CCD	Walpur	Arcueil	Cologne	2016	2015
Balance at the beginning of the year	19,188	6,918	14,231	-	40,337	18,307
Reclassified to (from) liabilities				(925)	(925)	925
Share of net earnings from investments accounted for using the equity method (*)	600	556	(277)	(49)	830	(679)
Additional investment of the year				6,189	6,189	20,051
Loan repayments		(200)			(200)	(834)
Exchange differences	(1,104)	(409)	(805)	(26)	(2,344)	2,567
Balance at the end of the year	18,684	6,865	13,149	5,189	43,887	40,337
Provision relating to an investment accounted for using the equity method	-	-	-	-	-	(925)

(*) Considering the specific features of the transaction Arcueil, share of net earnings from investments in Arcueil is disclosed in the caption Finance income of the consolidated statement of earnings.

2016

Cologne

On May 6, 2016, the REIT repurchased its share of the loans granted to CanCorpCologne1 SCI (“Cologne”) by the partner for an amount of 4,312 Euros (\$6,189) representing 49% of the total loans. The loan bears interest of 10.5%.

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.

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.

INOVALIS REIT

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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 favour 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 additional 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.

Note 9 – Acquisition loans and deposit

At the end of the year, the outstanding balances of the “acquisition loans and deposit” were as follows :

	As at December 31, 2016	As at December 31, 2015
Metropolitain loan	-	18,786
Ingolstadt deposit	1,255	-
Rueil loan	7,651	-
Acquisition loan and deposit	8,906	18,786

Metropolitain investment

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 “Metropolitain 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 Metropolitain 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. This loan was repaid by Inovalis SA to Inovalis REIT when the latter exercised its option to purchase the property on March 21, 2016 (see Note 6).

Ingolstadt investment

On September 15, 2016, the REIT entered into an agreement for the forward purchase of an office property to be developed in Ingolstadt, Germany. A deposit of €1.5 million (\$ 2.2 million) has already been paid upon signature of the forward purchase agreement. In addition to its share of the deposit of €750 (\$ 1.063), the REIT incurred acquisition costs related to the investment for an amount of €136 (\$ 192) which have been included in the carrying value of the deposit. The share of the deposit of €750 (\$ 1.063) of the co-investor has been paid by the REIT on behalf of the co-investor. This advance to the co-investor is disclosed under the caption other financial current assets (see details in Note 12).

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Rueil investment

During the year, the REIT has committed to fund a €21.7 million (\$32.1 million) acquisition and redevelopment loan to a company 80% owned by Inovalis SA related to a property located in Rueil, in Paris Western periphery. The facility amount will be drawn in several installments by completion of the project in 2019. The loan bears an annual interest rate of 8.50%, gives the REIT 20% of the profit generated upon the sale of the underlying investment property and also gives the REIT an option for the purchase of up to 50% of the property once it meets the REIT's investment criteria. To date, €5.4 million (\$7.65 million) was funded by the REIT as a loan. The loan is secured by a share pledge.

Note 10 – Trade and other receivables

	As at December 31, 2016	As at December 31, 2015
Trade receivables	2,976	3,173
Trade receivables - Inovalis	8	185
Trade receivable - joint ventures	-	173
Provision for impairment of trade receivables	(313)	(240)
Trade receivables	2,671	3,291
Other receivables	237	242
Other receivables - Inovalis	271	1,015
Other receivables - joint ventures	189	255
Other receivables	697	1,512
Total trade and other receivables	3,368	4,803

Note 11 – Other current assets

	As at December 31, 2016	As at December 31, 2015
VAT and other sales tax receivables	1,540	1,192
Prepaid expenses	98	141
Other current assets	1,638	1,333

Note 12 – Other financial current assets

On November 15, 2016, the REIT invested, indirectly through CCE, in units of a French euro money market mutual fund, which are accounted for as financial current assets. At December 31, 2016, the fair value of the units invested has been estimated to \$26,822 (€18,930) based on its quoted price on French market.

The other financial current assets also includes the 50% share of the deposit pertaining to the Ingolstadt forward purchase that will be borne by the partner on this transaction (see details in Note 9), amounting to \$1.088. This amount is bearing interest at a rate of 9.5%.

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Note 13 – Mortgage loans and finance lease liabilities

					As at December 31, 2016		
Entity	Nominal value (in 000's of €)	Nominal value (in 000's of \$)	Interest rate	Maturity	Total	Non-current	Current
Mortgage loan - Véronèse SCI	14,500	20,545	Euribor 3M + 1.75% ¹	05/05/2019	20,587	20,587	-
Mortgage loan - Jeûneurs SCI	19,500	27,630	Euribor 3M + 1.75% ¹	05/05/2019	27,658	27,658	-
Mortgage loan - Sablière SCI	13,230	18,746	Euribor 3M + 1.59% ²	23/12/2025	18,597	18,140	457
Mortgage loan - Hanover CanCorp GmbH KG	12,600	17,853	Euribor 3M + 1.45%	31/12/2022	17,697	17,613	84
Mortgage loans³	59,830	84,774			84,539	83,998	541
Finance lease liabilities - BBA SCI	53,207	75,389	Euribor 3M + 2.00% ²	20/06/2026	75,389	71,338	4,051
Finance lease liabilities - Metropolitan SCI	35,684	50,560	Euribor 3M + 1.85% ² and Euribor 3M + 1.6% ²	20/03/2028	50,560	49,553	1,007
Finance lease liabilities - Baldi SCI	13,539	19,184	Euribor 3M + 1.00%	30/09/2017	19,121	-	19,121
Finance lease liabilities	102,430	145,133			145,070	120,891	24,179
Total mortgage loans and finance lease liabilities	162,260	229,907			229,609	204,889	24,720

					As at December 31, 2015		
Entity	Nominal value (in 000's of €)	Nominal value (in 000's of \$)	Interest rate	Maturity	Total	Non-current	Current
Mortgage loan - Véronèse SCI	14,500	21,792	Euribor 3M + 1.75% ¹	05/05/2019	21,721	21,721	-
Mortgage loan - Jeûneurs SCI	19,500	29,307	Euribor 3M + 1.75% ¹	05/05/2019	29,175	29,175	-
Mortgage loan - Sablière SCI	13,500	20,289	Euribor 3M + 1.85% ²	23/12/2025	20,298	19,883	415
Mortgage loans³	47,500	71,388			71,194	70,779	415
Finance lease liabilities - BBA SCI	55,406	83,270	Euribor 3M + 2.00% ²	20/06/2026	83,270	79,965	3,305
Finance lease liabilities - CanCorpHanover	12,337	18,541	Euribor 3M + 0.82%	30/06/2023	17,635	16,965	670
Finance lease liabilities - Baldi SCI	17,235	25,902	Euribor 3M + 1.00%	30/09/2017	25,597	23,355	2,242
Finance lease liabilities	84,978	127,713			126,502	120,285	6,217
Total mortgage loans and finance lease liabilities	132,478	199,101			197,696	191,064	6,632

Note 1 : Interest rate is subject to a CAP - see note 16 *Financial derivatives and hedging activities*

Note 2 : Interest rate is subject to SWAP - see note 16 *Financial derivatives and hedging activities*

Note 3 : All mortgage loans are *in fine*.

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.

2016

On January 20, the REIT refinanced its debt on the Hanover investment property through a series of transactions, including the acquisition of a 94% interest in the entity holding the Hanover property. The new mortgage loan contracted during the three-month period ended March 31, 2016, as the replacement of a finance lease that was terminated, has a principal amount of 12,660 Euros as at December 31, 2016, a term of seven years maturing on December 31, 2022 and bears interest at variable rate, based on the 3 month EURIBOR rate plus a spread of 1.45%. Interest are due and payable quarterly on March 31, June 30, September 31, and December 31, Principal is payable on maturity.

The impact of the derecognition of the initial finance lease amounting to \$605 (400€) was recognized in the consolidated statement of earnings under the caption “Loss on refinancing of a debt”.

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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 16 - 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) were recognized in the consolidated statement of earnings.

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

	As at December 31, 2016		As at December 31, 2015	
	Carrying value	Minimum lease payments	Carrying value	Minimum lease payments
Carrying value and minimum lease payments				
Within 1 year	24,180	25,928	6,222	8,781
After 1 year, but not more than 5 years	24,858	30,095	45,948	55,669
More than 5 years	96,032	99,207	74,332	81,389
	145,070	155,230	126,502	145,839
Less : future interest costs		(10,160)	-	(19,337)
Total carrying value and present value	145,070	145,070	126,502	126,502

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Note 14 – Lease equalization loans

Entity	Interest rate	Maturity	As at December 31, 2016		
			Total	Non-current	Current
Lease equalization loan - BBA SCI	5%	30/09/2021	3,494	2,708	786
Lease equalization loan - Véronèse SCI	5%	30/09/2019	344	196	148
Lease equalization loan - Baldi SCI	5%	31/12/2021	1,397	1,147	250
Total lease equalization loans			5,235	4,051	1,184

Entity	Interest rate	Maturity	As at December 31, 2015		
			Total	Non-current	Current
Lease equalization loan - BBA SCI	5%	30/09/2021	4,920	3,636	1,284
Lease equalization loan - Véronèse SCI	5%	30/09/2019	337	286	51
Lease equalization loan - Baldi SCI	5%	31/12/2021	1,168	1,168	-
Total lease equalization loans			6,425	5,090	1,335

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 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, 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 \$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.

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Note 15 – Exchangeable securities

	Exchangeable securities	
	Number of Exchangeable securities	Carrying amount of Exchangeable securities
Exchangeable securities issued and outstanding		
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
Transactions in 2016		
Asset management fees paid in Exchangeable securities	361,617	3,450
Distribution in respect of Exchangeable securities	296,036	2,943
Conversion of Exchangeable securities into units of the REIT	(920,000)	(8,606)
Net change in fair value of Exchangeable securities	-	(589)
Balance - December 31, 2016	1,808,051	16,598

	As at December 31, 2016		
	Number in escrow - presented as non-current	Number not in escrow - presented as current	Total number of Exchangeable securities
Exchangeable securities in escrow until internalization of management			
Number of Exchangeable securities outstanding - beginning of year	2,022,209	48,189	2,070,398
Securities converted into units in 2016	-	(920,000)	(920,000)
Partial release of exchangeable securities in escrow	(2,008,634)	2,008,634	-
Securities issued in lieu of asset management fees and in lieu of reimbursement of notes	487,858	169,795	657,653
Number of Exchangeable securities - outstanding - end of year	<u>501,433</u>	<u>1,306,618</u>	<u>1,808,051</u>
Classification of liabilities for Exchangeable securities (\$)	<u>4,603</u>	<u>11,995</u>	<u>16,598</u>

	As at December 31, 2015		
	Number in escrow - presented as non-current	Number not in escrow - presented as current	Total number of Exchangeable securities
Exchangeable securities in escrow until internalization of management			
Number of Exchangeable securities outstanding - beginning of year	1,876,433	166,914	2,043,347
Securities converted into units in 2015	-	(264,500)	(264,500)
Securities issued in lieu of asset management fees	145,776	145,775	291,551
Number of Exchangeable securities - outstanding - end of year	<u>2,022,209</u>	<u>48,189</u>	<u>2,070,398</u>
Classification of liabilities for Exchangeable securities (\$)	<u>18,034</u>	<u>1,366</u>	<u>19,400</u>

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.

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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:

	2016	2015
Amount payable at the beginning of the period	366	35
Declared and recognised during the period	1,890	1,688
Distribution on exchangeable securities paid	(1,274)	(1,357)
Amount payable at the end of the period	982	366
Weighted average number of Exchangeable securities outstanding	2,167,019	2,058,346
Distributions paid per unit (based on weighted average number of units outstanding)	0.5879	0.6593
Distributions paid per unit (based on an annual basis)	0.8250	0.8250

Note 16 – Financial derivatives and hedging activities

2016

On May 4, 2016, the REIT proceeded with the settlement of the 25 foreign exchange contracts and 21 option contracts still outstanding from its original economic hedging strategy. The settled contracts covered monthly periods up to and including February 14, 2019. A loss of approximately \$467 was realized at the time of settlement. Of this loss of \$467, an unrealized loss of approximately \$675 had been previously recognized in earnings regarding the contracts not accounted for as hedging instruments and an unrealized gain of approximately \$208 had been previously recognized in other comprehensive income (loss) regarding the contracts accounted for as hedging instruments.

In 2016, the REIT terminated all the collateral for the foreign exchange currency contracts entered into with a Canadian bank and replaced them with a new series of 36 monthly forward contracts provided by a French bank that has no cash collateral requirements.

2015

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 the period 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).

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

Classification and type	Period covered		Conversion from/to			As at December 31, 2016		As at December 31, 2015	
	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	2018/02/14	2018/12/14	677	1,000	1.4762	-	-	11,000	(525)
Foreign exchange	2016/01/01	2017/04/13	486	750	1.5437	-	-	12,000	241
Foreign exchange	2017/01/12	2019/04/12	667	1,000	1.4984	28,000	1,029	-	-
Foreign exchange	2017/01/12	2019/04/10	206	300	1.4566	8,400	72	-	-
Interest rate SWAP	2017/01/01	2019/07/01	Variable	Fixed	0.685%	82,949	(1,685)	83,270	(1,924)
Interest rate CAP	2016/12/31	2019/05/05	Variable	Capped	2.000%	48,175	9	51,099	48
Other derivatives									
Option contracts on foreign exchange									
Put options purchased	2016/01/12	2017/04/11	167	250	1.4956	-	-	4,000	-
Call options sold	2016/01/12	2017/04/11	334	500	1.4956	-	-	8,000	-
Put options purchased	2017/05/10	2018/01/10	669	1,000	1.4956	-	-	9,000	-
Call options sold	2017/05/10	2018/01/10	1,337	2,000	1.4956	-	-	18,000	-
Option contracts on foreign exchange - fair value							-	-	(1,042)
Interest rate SWAP	2015/12/23	2021/12/23	Variable	Fixed	0.394%	19,128	(413)	20,289	(85)
Interest rate SWAP	2016/04/10	2021/01/10	Variable	Fixed	0.282%	50,808	(743)	-	-
							(1,731)		(3,287)

Note 17 – Trade and other payables

	As at December 31, 2016	As at December 31, 2015
Trade payables	2,331	1,711
Trade payables - Inovalis	1,850	2,223
Trade payables	4,181	3,934
Other payables	348	290
Other payables - Inovalis	401	509
Distributions payables	1,480	1,075
Distributions payables - Inovalis	982	366
Other payables	3,211	2,240
Total trade and other payables	7,392	6,174

Note 18 – 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.

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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 15 – Exchangeable securities) for the purpose of providing voting rights with respect to the REIT to the holders of such securities. As at December 31, 2016, 1,808,051 Special Voting Units were issued and outstanding (2015 - 2,070,398).

2016

On July 25, 2016, the REIT closed a public offering of 4,842,190 trust units (“Units”), inclusive of 631,590 Units issued pursuant to the exercise in full of the over-allotment option, on a bought deal basis, at a price of \$9.50 per Unit for total gross proceeds to the REIT of \$46,001 reduced by the offering costs amounting to \$2,961 i.e. net proceeds of \$43,040.

During the year, Inovalis converted 920,000 Exchangeable securities in the amount of \$8,606 into 920,000 units of the REIT (see Note 15 – Exchangeable securities).

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 15 – Exchangeable securities).

Accumulated other comprehensive income

	As at December 31, 2016	As at December 31, 2015
Net unrealized gains on derivatives designated as a hedge of the net investment in a foreign entity	2,849	682
Net unrealized losses on interest rate derivatives designated as a cash flow hedge	(1,931)	(2,158)
Cumulative translation adjustment account	7,477	21,401
Accumulated other comprehensive income	8,395	19,925

Note 19 – Revenue

	2016	2015
Regular rents	23,478	19,192
Amortization of rent free periods (lease incentives)	926	2,281
Rental income	24,404	21,473
Service charge income	6,546	7,222
Total revenue	30,950	28,695

In 2016, three tenants account for more than 10% of rental income: Sparkasse (30%), France Telecom (29%), Conservatoire National des Arts et Métiers (12%). In 2015, the two tenants account for more than 10% of rental income: France Telecom (32%) and Conservatoire National des Arts et Métiers (13%).

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Future minimum leases receivable under non-cancellable operating leases	As at December 31, 2016	As at December 31, 2015
Within 1 year	19,165	21,418
After 1 year, but not more than 5 years	34,053	59,181
More than 5 years	135	137
Future minimum lease receivable under non-cancellable operating leases	53,353	80,736

Note 20 – Administration expenses

	2016	2015
Asset management fees - Inovalis	(3,380)	(2,666)
Less: amount invoiced to joint ventures	589	487
	(2,791)	(2,179)
Other general and administrative expenses	(2,361)	(2,087)
Total administration expenses	(5,152)	(4,266)

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.

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Note 21 – Finance costs and finance income

	2016	2015
Interest costs related to mortgage loans	(1,595)	(877)
Interest costs related to finance leases	(2,678)	(2,404)
Interest costs related to lease equalization loans	(273)	(220)
	<u>(4,546)</u>	<u>(3,501)</u>
Interest SWAP	(1,072)	(540)
Other finance costs	(329)	(51)
	<u>(5,947)</u>	<u>(4,092)</u>
Amortization of fair value adjustment on finance leases assumed at a discount at the time of a business acquisition	(239)	(433)
Amortization of transaction costs on mortgage loans	(302)	(394)
Finance costs	<u>(6,488)</u>	<u>(4,919)</u>
Finance income	51	7
Finance income from Inovalis relating to the acquisition loan	1,200	1,550
Finance income from joint ventures	3,093	558
Finance income	<u>4,344</u>	<u>2,115</u>
Net Finance costs	<u>(2,144)</u>	<u>(2,804)</u>

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Note 22 – 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:

Income tax expense	2016	2015
Current income tax expense		
Current income tax expense	(336)	(71)
Deferred income tax expense		
Relating to origination and reversal of temporary differences	(944)	(655)
Income tax expense reported in the consolidated statement of earnings	(1,280)	(726)

	Balance Sheet		Statement of Earnings	
	As at December 31, 2016	As at December 31, 2015	2016	2015
Deferred tax liability				
Losses carryforward	(336)	(428)	927	404
Revaluations of investment properties to fair value	2,572	2,079	(1,871)	(1,059)
	2,236	1,651	(944)	(655)
Reflected on balance sheet as follows:				
Deferred tax liabilities	2,236	1,651		

Note 23 – 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	2016	2015
Earnings attributable to unitholders	23,284	30,800
Weighted average number of units outstanding	18,194,558	15,413,196
Basic earnings per unit	1.28	2.00

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

	2016	2015
Diluted earnings per unit		
Earnings attributable to unitholders	23,284	30,800
Distributions recognized on Exchangeable securities	1,890	1,688
Net change in fair value of Exchangeable securities	(589)	1,118
Earnings attributable to diluted unitholders	24,585	33,606
Weighted average number of units outstanding	18,194,558	15,413,196
Weighted average number of Exchangeable securities outstanding	2,167,019	2,058,346
Weighted average number of units used for diluted earnings per unit	20,361,577	17,471,542
Diluted earnings per unit	1.21	1.92

Note 24 – Distributions

	2016	2015
Amount payable at the beginning of the year	1,075	1,050
Declared and recognised during the year	15,188	12,732
Distributions paid in units (Distribution Reinvestment Plan)	(1,170)	(826)
Paid in cash	(13,614)	(11,881)
Amount payable at the end of the year	1,479	1,075
Distributions paid per unit (based on weighted average number of units outstanding)	0.8125	0.8244
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.

In December 2016, the distribution of \$1,480 for the month of December was declared, of which \$1,363 was paid on January 15, 2017.

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 15 – Exchangeable securities.

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Note 25 – Risk arising from financial instruments

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

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. At December 31, 2016, after taking into consideration the effect of interest rate swap and interest rate cap, 84 % of the REIT's long term debt obligation are hedged (2015 – 78 %).

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.

Interest rate sensitivity	As at December 31, 2016	
	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	(184)	(184)

Interest rate sensitivity	As at December 31, 2015	
	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)

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Currency risk

		As at December 31, 2016		
		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		29,526	6,286	35,812
Monetary liabilities denominated in other than functional currency		(2,587)	-	(2,587)
Net exposure in respect of monetary items denominated in other than functional currency		26,939	6,286	33,225
Net exposure in respect of foreign currency exchange contracts (notional net buy amount in CAD\$)		(15,600)	(20,800)	(36,400)
Net exposure		<u>11,339</u>	<u>(14,514)</u>	<u>(3,175)</u>
Impact on		<u>% change</u>	<u>Net income</u>	<u>OCI</u>
Gain or (loss) in the event of an increase in the value of the Euro/CAD\$		10%	1,134	(1,451)
Gain or (loss) in the event of a decrease in the value of the Euro/CAD\$		-10%	(1,134)	1,451
			<u>318</u>	<u>318</u>

		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		7,423	12,500	19,923
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		4,762	12,500	17,262
Net exposure in respect of foreign currency exchange contracts (notional buy amount in CAD\$)		(6,000)	(4,000)	(10,000)
Net exposure		<u>(1,238)</u>	<u>8,500</u>	<u>7,262</u>
Impact on		<u>% change</u>	<u>Net income</u>	<u>OCI</u>
Gain or (loss) in the event of an increase in the value of the Euro/CAD\$		10%	(124)	850
Gain or (loss) in the event of a decrease in the value of the Euro/CAD\$		-10%	124	(850)
			<u>726</u>	<u>(726)</u>

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 87% of the REIT's current distributions are secured by these foreign currency forward contracts until April, 2019 (2015: 73%). Refer to Note 16b for a summary of the foreign exchange contracts in place.

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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 loans and deposits, derivatives, deposits with banks and financial institutions and indirectly exposed in 2016 via its investments in units of a French euro money market mutual fund, which are accounted for as financial current assets. 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.

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.

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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.

As at December 31, 2016	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Mortgage loans	167	1,884	54,960	34,210	91,221
Finance leases principal and interest	-	25,928	30,095	99,208	155,231
Lease equalization loans	65	1,380	4,313	-	5,758
Exchangeable securities (value of securities plus interest on notes)	192	576	769	16,091	17,628
Tenant deposits	-	198	1,716	462	2,376
Derivative financial instruments	-	-	2,098	743	2,841
Trade and other payables	4,450	4,386	703	-	9,539
Total	4,874	34,352	94,654	150,714	284,594

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

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Classification of financial instruments

The following tables summarize the classification of the REIT's financial instruments as at December 31, 2016 and 2015.

As at December 31, 2016					
Classified as Held for trading	Measured at Fair Value		Measured at amortized cost		Total
	Designated as FVTPL ¹	Loans and Receivables	Financial liabilities		
Financial assets					
Acquisition loan and deposit	-	-	8,906	-	8,906
Derivative financial instruments	1,110	-	-	-	1,110
Trade and other receivables	-	-	4,067	-	4,067
Other current assets	-	-	2,027	-	2,027
Financial current assets	-	26,822	-	-	26,822
Cash	-	-	11,074	-	11,074
Total financial assets	1,110	26,822	26,074	-	54,006
Financial liabilities					
Mortgage loans	-	-	-	84,539	84,539
Lease equalization loans	-	-	-	5,235	5,235
Tenant deposits	-	-	-	2,376	2,376
Exchangeable securities	-	16,598	-	-	16,598
Derivative financial instruments	2,841	-	-	-	2,841
Trade and other payables	-	-	-	7,392	7,392
Other current liabilities	-	-	-	2,710	2,710
Total financial liabilities	2,841	16,598	-	102,252	121,691

1 - Fair value through profit or loss

As at December 31, 2015					
Classified as Held for trading	Measured at Fair Value		Measured at amortized cost		Total
	Designated as FVTPL ¹	Loans and Receivables	Financial liabilities		
Financial assets					
Acquisition loan and deposit	-	-	18,786	-	18,786
Derivative financial instruments	289	-	-	-	289
Restricted cash	-	-	1,680	-	1,680
Trade and other receivables	-	-	4,803	-	4,803
Cash	-	-	6,895	-	6,895
Total financial assets	289	-	32,164	-	32,453
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

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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, 2016	Fair value hierarchy level	Carrying amount	Fair value
Financial assets			
Acquisition loan and deposit	3	8,906	8,952
Financial liabilities			
Mortgage loans	2	84,539	84,379
Finance leases	2	145,070	145,021
Lease equalization loans	3	5,235	5,235
Tenant deposits	3	2,376	2,372
As at December 31, 2015	Fair value hierarchy level	Carrying amount	Fair value
Financial assets			
Acquisition loan and deposit	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

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

- The fair value of the acquisition loans and deposit 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.

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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, 2016			
	Level 1	Level 2	Level 3	Total
Investment properties	-	-	412,232	412,232
Derivative financial instruments - assets	-	1,110	-	1,110
Financial current assets	26,822	-	-	26,822
Derivative financial instruments - liabilities	-	(2,841)	-	(2,841)
Exchangeable securities	-	(16,598)	-	(16,598)

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

There were no transfers between Level 1 and Level 2 during the year ended December 31, 2016 (none in 2015).

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 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 the units held in a French euro money market mutual fund which are accounted for as financial current assets, is determined based on its quoted price at December 31, 2016.
- 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.

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Note 26 – 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 15, Exchangeable securities). No guarantees were given.

Inovalis and its subsidiaries	Financial statement line item	Note	2016	2015
Revenues				
Rental income	Rental income		249	827
Service charge income	Service charge income		(132)	678
Other revenue	Other revenue		170	1,240
Interest income from acquisition loan	Finance income	22	1,200	1,550
			<u>1,487</u>	<u>4,295</u>
Expenses				
Asset management fees	Administration expenses	A	(3,380)	(2,666)
less portion reinvoiced to joint-ventures	Administration expenses		589	487
Facilities management fees (1)	Service charge expenses	B	(3,494)	(3,419)
Property management fees	Service charge expenses	C	(1,234)	(966)
Letting fees invoiced	Service charge expenses		(196)	(88)
less portion accounted for over the lease term	Service charge expenses		77	74
Leasing fees	Service charge expenses	D	-	(156)
Reimbursement of travel expenses	Acquisition costs		(575)	(235)
Interest on lease equalization loan	Finance costs	22	(273)	(220)
Other finance costs	Finance costs		(2)	-
Reimbursement of travel expenses	Administration expenses		(165)	(220)
Reimbursement of travel expenses	Issue costs	19	(277)	-
Trustee fees	Administration expenses		(249)	(249)
			<u>(9,179)</u>	<u>(7,658)</u>
Unitholders' Equity				
Conversion of Exchangeable securities into units of the REIT	Issuance of Units	16	8,606	2,529

(1) The amount recorded under the caption facilities management fees is based on service charge expenses budgeted.

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 gross paid revenue from the REIT’s properties, payable quarterly in arrears, approximately 90% of which is rebilled to tenants;
- D. Certain service charge expenses and other costs are paid to third parties by Inovalis and its subsidiaries on behalf of the REIT and are reimbursed from time to time. To facilitate the initial start-up of the REIT, certain acquisition costs and offering costs have been paid by Inovalis and have been recharged to the REIT’s subsidiaries.

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	Due (to) from Inovalis	
	As at December 31, 2016	As at December 31, 2015
Inovalis and its subsidiaries		
Trade and other receivables	176	1,200
Trade and other payables	(1,615)	(2,732)
Acquisition loan	7,651	18,786
Distributions payable	(982)	(366)
Lease equalization loans	(5,235)	(6,425)
	<u>(5)</u>	<u>10,463</u>

Joint ventures

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

Joint ventures	Financial statement line item	2016	2015
Management fees invoiced to joint ventures	Administration expenses	589	487
Finance income	Finance income	3,093	558
		<u>3,682</u>	<u>1,045</u>

		Due from joint ventures	
		As at December 31, 2016	As at December 31, 2015
Loan receivable	Investment accounted for using the equity method	38,242	33,500
Accounts receivable	Trade and other receivables	189	428
		<u>38,431</u>	<u>33,928</u>

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.

	2016	2015
Wages, fees and other benefits	249	263
	<u>249</u>	<u>263</u>

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Note 27 – 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 50.5 % of its GBV as at December 31, 2016 (2015 – 49.4 %).

	As at December 31, 2016	As at December 31, 2015
Total indebtedness as a % of Gross Book Value		
Investment properties	412,232	355,704
Investments accounted for using the equity method	43,887	40,337
Acquisition loan	8,906	18,786
Gross book value	465,025	414,827
Mortgage loans - non-current	83,998	70,779
Finance lease liabilities - non-current	120,891	120,285
Lease equalization loan	5,235	6,425
Provision relating to an investment	-	925
Mortgage loans - current	541	415
Finance lease liabilities - current	24,179	6,217
Total indebtedness	234,844	205,046
Total indebtedness as a % of Gross Book Value	50.5%	49.4%

Note 28 – 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 EUR 36,799 (CAD 52,140).

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 has various commitment (see note 9).

INOVALIS REIT

Notes to the Consolidated Financial Statements For the years ended December 31, 2016 and 2015

(All dollar and euro amounts are respectively in thousands of Canadian dollars and thousands of Euros unless otherwise stated)

Note 29 – Geographical information

Total revenue by geographic region	Rental Income	Service Charge Income	2016	2015
France	22,319	6,457	28,776	26,366
Germany	2,085	89	2,174	2,329
	24,404	6,546	30,950	28,695

Investment properties, investments in joint ventures by geographic region	As at December 31, 2016	As at December 31, 2015
France	391,233	334,514
Germany	64,886	60,731
	456,119	395,245

Note 30 – Cash flow information

CASH FLOW INFORMATION

	Note	2016	2015
Adjustments for non-cash items and other reconciling items:			
Rent free period		(84)	(2,281)
Management fees paid in Exchangeable securities	26	3,380	2,666
less portion invoiced to joint-ventures	26	(589)	(487)
Net change in fair value of investment properties	7	(3,632)	(21,523)
Net change in fair value of financial instruments at fair value through profit or loss	16	1,269	951
Loss on refinancing of a debt	13	605	-
Distributions recognized on Exchangeable securities	15	1,890	1,688
Net change in fair value of Exchangeable securities	15	(589)	1,118
Finance income	21	(4,344)	(2,115)
Finance costs	21	6,488	4,919
Income taxes paid	22	(336)	(65)
Loss recognized on exercise of early payment option on finance leases	6	1,242	1,077
Gain resulting from exercise of the purchase option	6	(9,213)	-
Share of net earnings from investments accounted for using the equity method	8	(1,107)	(517)
Net unrealized exchange gains		(640)	(139)
Cash items classified as operating activities			
Interest received		3,669	2,717
Interest paid		(3,851)	(3,905)
Acquisition costs classified in investing activities	26	575	329
		(5,267)	(15,567)
Working capital adjustments			
Increase in trade and other receivables		(4,805)	(1,389)
Increase (decrease) in tenant deposits		33	(269)
Increase in trade and other payables		3,123	171
		(1,649)	(1,487)

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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