

INOVALIS

REAL ESTATE INVESTMENT TRUST

**Annual Information Form
For the Year Ended December 31, 2014**

March 31, 2015

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BASIS OF PRESENTATION

Capitalized terms used in this Annual Information Form (“AIF”) are defined under the following “Glossary of Terms”.

Our investment and operating activities are limited, because our operating activities are carried out by our Subsidiaries. For simplicity, we use terms in this AIF to refer to our investments and operations as a whole. Accordingly, in this AIF, unless the context otherwise requires, when we use terms such as “we”, “us” and “our”, we are referring to the REIT and its Subsidiaries. When we use expressions such as “our investments” or “our operations”, we are referring to the investments and operations of the REIT and its Subsidiaries as a whole. When we use expressions such as “our properties”, “our portfolio”, “we own” or “we invest in” in relation to our properties, we are referring to our ownership of and investment in our properties indirectly through our Subsidiaries. When we use expressions such as “we operate”, we are referring to our operations through our Subsidiaries. When we refer to the “REIT”, we are referring only to Inovalis Real Estate Investment Trust.

This AIF should be read in conjunction with the REIT’s audited annual consolidated financial statements for the year ended December 31, 2014, and the notes thereto, the IPO Prospectus, the Business Acquisition Report dated June 25, 2013, the Short-Form Prospectus and the Business Acquisition Report dated December 23, 2014. This AIF has been prepared in respect of the REIT’s financial year ended December 31, 2014 taking into account material transactions and events up to and including March 30, 2015. Financial data provided in the interim consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 - *Interim Financial Reporting*. All amounts in this AIF are in thousands of Canadian dollars, except where otherwise stated. Historical results, including trends which might appear, should not be taken as indicative of future operations or results. Additional information about Inovalis REIT has been filed with applicable Canadian securities regulatory authorities and is available at www.sedar.com. The exchange rate used throughout this AIF for financial information pertaining to 2014 is 1.4671 Canadian dollars per Euro (which is the average rate for the 2014 calendar year). For forecast amounts or amounts that do not refer to the 2014 period, the exchange rate used throughout this AIF is 1.3616 Canadian dollars per euro (which is the rate as of March 26, 2015).

GLOSSARY OF TERMS USED IN THIS AIF

As used in this Annual Information Form, the following acronyms and terms have the respective meanings set out below:

“**Acquiring Person**” means any person who is or becomes the beneficial owner of 20% or more of all REIT Units, as more particularly described under “Unitholders’ Rights Plan”;

“**Acquisition**” means the purchase of the Leaseholds or the purchase of a direct ownership interest in a property by an Affiliate of the REIT;

“**Affiliate**” has the meaning given to that term in NI 45-106;

“**AFFO**” has the meaning given to that term under “Non-IFRS Measures”;

“**Assignment Agreements**” means the five separate assignment of property lease agreements dated April 16, 2013 and November 13, 2014 pursuant to which the French Leaseholds were assigned by the French Inovalis Vehicles to the French SPVs;

“**Baldi Leasehold**” means the leasehold interest in the Baldi Property acquired by one of the French SPVs pursuant to the Acquisition;

“**Baldi Property**” means the Portfolio Property located at the address municipally known as 44-50 avenue du Capitaine Glarner, 93400 Saint-Ouen;

“**Board of Trustees**” means the board of Trustees of the REIT;

“**CanCorp Europe**” means CanCorp Europe SA, a public limited liability company pursuant to the laws of Luxembourg, which is a Subsidiary of the REIT;

“**CDS**” means Clearing and Depository Services Inc.;

“**CFA**” means a controlled foreign affiliate under the Tax Act;

“**Closing Market Price**” means the closing market price of a Unit for the purpose of redemption, as at any date will be: (a) an amount equal to the weighted average trading price of a Unit on the principal exchange or market on which the Units are listed or quoted for trading on the specified date and the principal exchange or market provides information necessary to compute a weighted average trading price of the Units on the specified date; (b) an amount equal to the closing price of a Unit on the principal market or exchange if there was a trade on the specified date and the principal exchange or market provides only a closing price of the Units on the specified date; (c) an amount equal to the simple average of the highest and lowest prices of the Units on the principal market or exchange, if there was trading on the specified date and the principal exchange or market provides only the highest and lowest trading prices of the Units on the specified date; or (d) the simple average of the last bid and last asking prices of the Units on the principal market or exchange, if there was no trading on the specified date;

“**Competing Permitted Bid**” means a competing Permitted Bid made while a Permitted Bid is in existence, as more particularly described under “Unitholders’ Rights Plan”;

“**CRA**” means the Canada Revenue Agency;

“**Declaration of Trust**” means the amended and restated declaration of trust of the REIT dated April 10, 2013 governed by the laws of the province of Ontario, pursuant to which the REIT was created and is governed, as may be amended, supplemented or varied from time to time;

“**Distribution Date**” means a date on which the Trustees have determined that a distribution will be made by the REIT to the Unitholders;

“**Dubonnet Leasehold**” means the leasehold interest in the Dubonnet Property acquired by one of the French SPVs pursuant to the Acquisition;

“**Dubonnet Property**” means the Portfolio Property located at the address municipally known as 19/21 avenue Dubonnet, 92400 Courbevoie, France;

“**Duisburg Property**” means the Portfolio Property located at the address municipally known as Schifferstrasse 80, 47059 Duisburg, Germany;

“**Duisburg SPV**” means a “société à responsabilité limitée” initially formed under Luxembourg law to acquire the Duisburg Property, which became a 50% subsidiary of CanCorp Europe upon completion of the acquisition of the Duisburg Property on July 11, 2014;

“**Equivalent Securities**” means the Exchangeable Securities attached to Special Voting Units;

“**Exchange Agreement**” means the amended and restated exchange agreement dated December 13, 2013 between the REIT, CanCorp Europe and Inovalis SA;

“**Exchangeable Securities**” means the exchangeable securities issued by CanCorp Europe, in the form of interest bearing notes, non-interest bearing notes and common shares;

“**FAPI**” means foreign accrual property income earned by a controlled foreign affiliate of the REIT, allocable to the REIT, computed in accordance with the Tax Act;

“**FFO**” has the meaning given to that term under “Non-IFRS Measures”;

“**Finance**” means the Minister of Finance (Canada);

“**Flip-in Event**” means the acquisition by an Acquiring Person, including persons acting jointly or in concert, of 20% or more of the REIT Units, other than by way of a Permitted Bid in certain circumstances, as more particularly described under “Unitholders’ Rights Plan”;

“**France Telecom**” means France Telecom S.A.;

“**French ICC**” means the French “indice du cout de la construction” or the French ICC construction cost index;

“**French Inovalis Vehicles**” means the entities that owned the French Properties pursuant to the French Leaseholds prior to the completion of the IPO or the completion of the equity offering on November 6, 2014, as the case may be;

“**French Leaseholds**” means, collectively, the Baldi Leasehold, the Dubonnet Leasehold, the Jeûneurs Leasehold, the Sablière Leasehold and the Vanves Leasehold;

“**French Properties**” means, collectively, the Baldi Property, Dubonnet Property, Jeûneurs Property, Sablière Property and Vanves Property;

“**French SPV**” means an indirect, wholly-owned subsidiary of CanCorp Europe formed under French law for the purpose of acquiring one of the French Leaseholds;

“**Genefim**” means Genefim S.A. (a subsidiary of Société Générale), or a subsidiary thereof;

“**German Inovalis Vehicle**” means WEL 6 S.à.r.l, a corporation formed under French Law;

“**German Properties**” means, collectively, the Duisburg Property and Hanover Property;

“**German Purchase Agreement**” means the agreement between Genefim, the German Inovalis Vehicle, PODES Drel Gründstücks-Vermietungsgesellschaft mbH & Co. Objekte WEL 4 KG and CanCorp Germany dated April 3, 2013;

“**German SPV**” means the Duisburg SPV or the Hanover SPV; collectively means both companies;

“**GLA**” means gross leasable area, but excludes gross leasable area resulting from parking space, where applicable;

“**Grandfathered Person**” means any person who owns, directly or indirectly, 20% or more of the Units on Closing, as more particularly described under “Unitholders’ Rights Plan”;

“**Gross Book Value**” means, at any time, the book value of the assets of the REIT and its Subsidiaries, as shown on its then most recent consolidated balance sheet, plus accumulated depreciation and amortization in respect of the REIT’s properties (and related intangible assets) shown thereon or in the notes thereto, less (a) the amount of any receivable reflecting interest rate subsidies on any debt assumed by the REIT and (b) the amount of future income tax liability arising out of the fair value adjustment in respect of the indirect acquisitions of certain properties; provided however that, if approved by a majority of the Trustees, the appraised value of the assets of the REIT and its Subsidiaries may be used instead of book value;

“**Gross Revenue**” means all revenue received or receivable from the real properties owned directly or indirectly by the REIT, including (i) VAT; (ii) recoveries, related proceeds of business or rental interruption insurance after deduction for insurance deductibles and excluding (iii) actual bad debts, gains on sales, and the differential between in-place rents and below or above market rents, determined in accordance with the applicable accounting principles of the REIT at the time of the calculation;

“**Hanover Leasehold**” means the leasehold interest in, and usufructus (or the right of enjoyment) in respect of, the Hanover Property acquired by the Hanover SPV under the Acquisition;

“**Hanover Owner**” means the entity that holds title to the Hanover Property, 6% of the limited partnership interests (*Kommanditanteile*) of which are owned by a subsidiary of Inovalis SA but have been pledged for security to Genefim, 99% of the limited partnership interests (*Kommanditanteile*) of which have been assigned for security to Genefim and the remaining 1% of which are owned by Genefim;

“**Hanover Property**” means the Portfolio Property located at the address municipally known as Hans-Boeckler-Allee 11, 30173, Hanover, Germany;

“**Hanover SPV**” means a “société à responsabilité limitée” initially formed under Luxembourg law to acquire the Hanover Leasehold, which became a wholly-owned subsidiary of CanCorp Europe upon completion of the IPO;

“**Historical Gross Purchase Price**” means the historical price of the real estate plus taxes and legal and administrative costs and, for such purposes and without limitation, (i) if a leasehold interest is acquired, the historical price of the real estate shall be calculated based on the purchase price of the leasehold interest plus the difference between the purchase price of the leasehold interest and the value of the real estate, and (ii) if a freehold interest is acquired, the historical price of the real estate shall be calculated based on the purchase price of the real estate (including the assumption of debt);

“**Holder**” means a holder of Units who, for the purposes of the Tax Act and at all relevant times is resident in Canada, deals at arms length with and is not affiliated with the REIT and holds the Units as capital property;

“**IFRS**” means International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the Canadian Institute of Chartered Accountants in Part I of The Canadian Institute of Chartered Accountants Handbook – Accounting, as amended from time to time;

“**Indebtedness**” means (without duplication) on a consolidated basis:

- (A) any obligation of the REIT for borrowed money;
- (B) any obligation of the REIT incurred in connection with the acquisition of property, assets or business other than the amount of future income tax liability arising out of indirect acquisitions;
- (C) any obligation of the REIT issued or assumed as the deferred purchase price of property;
- (D) any capital lease obligation of the REIT; and
- (E) any obligation of the type referred to in clauses (A) through (D) of another person, the payment of which the REIT has guaranteed or for which the REIT is responsible for or liable,

provided that (i) for the purposes of clauses (A) through (D), an obligation (other than convertible debentures) will constitute indebtedness only to the extent that it would appear as a liability on the consolidated balance sheet of the REIT in accordance with IFRS; (ii) obligations referred to in clauses (A) through (C) exclude trade accounts payable, distributions payable to Unitholders and holders of securities exchangeable into Units and accrued liabilities arising in the ordinary course of business; (iii) convertible debentures will constitute Indebtedness to the extent of the principal amount thereof outstanding; and (iv) Exchangeable Securities issued by Subsidiaries will not constitute indebtedness notwithstanding the classification of such securities as debt under IFRS;

“**Independent Trustee**” means a Trustee who, in relation to the REIT, is “independent” within the meaning of National Instrument 58-101 – *Disclosure of Corporate Governance Practices*, as replaced or amended from time to time (including any successor rule of policy thereto);

“**Initial Retained Interest**” means the ownership by Inovalis SA of Exchangeable Securities on Closing that are exchangeable, in the aggregate, into approximately 10% of the Units (on a fully-exchanged basis) as described under “Inovalis SA and the REIT”;

“**Initial Retained Interest Escrow**” means the three-year escrow pursuant to which the Initial Retained Interest will be automatically released on the third anniversary of the IPO Closing Date, as described under “Inovalis SA and the REIT”;

“**Inovalis SA**” means Inovalis S.A. and its subsidiaries;

“**Investment Criteria**” means office properties outside of Canada with an occupancy level above 80%, secured rental cash flow, a property value between €20 million (\$31 million) to €60 million (\$93 million) and potential future upside with respect to matters including rent and area development;

“**Investment Guidelines**” has the meaning given to that term under “Investment Guidelines and Operating Policies”;

“**IPO**” means the initial public offering of the REIT completed on the IPO Closing Date;

“**IPO Closing Date**” means April 10, 2013;

“**IPO Prospectus**” means the final prospectus of the REIT dated March 28, 2013 relating to the IPO;

“**Jeûneurs Leasehold**” means the leasehold interest in the Jeûneurs Property acquired by one of the French SPVs under the Acquisition;

“**Jeûneurs Property**” means the Portfolio Property located at the address municipally known as 40, rue des Jeûneurs, 75002 Paris, France;

“**Lead Trustee**” means the lead trustee of the Board of Trustees;

“**Lease Equalization Agreements**” means the agreements entered into on April 10, 2013 between Inovalis SA and subsidiaries of the REIT, which has the effect of equalizing the rent payments and providing the REIT with stable and predictable monthly revenue over the term of the France Telecom leases in the Vanves property (on 186,070 sq.ft), the Smart & Co. lease in the Dubonnet property (on 48,981 sq.ft) and the Rue du Commerce lease in the Baldi Property (on 51,926 sq.ft);

“**Leaseholds**” means, collectively, the French Leaseholds and the Hanover Leasehold;

“**License Agreement**” means the license agreement between Inovalis SA and the REIT dated April 10, 2013 pursuant to which Inovalis SA has granted the REIT a royalty-free license to, among other things, use the Inovalis SA name, trademark and related marks, logos and designs on an exclusive basis within Canada and on a non-exclusive basis elsewhere;

“**Luxembourg**” means the Grand Duchy of Luxembourg;

“**Management Agreement**” means the management agreement entered into on April 10, 2013 between the REIT, affiliates of the REIT and Inovalis SA;

“**Management Fees**” has the meaning given to that term under “Management of the REIT”;

“**Market Price**” means the closing market price of a Unit for the purpose of redemption, as at a specified date will be: (a) an amount equal to the weighted average trading price of a Unit on the principal exchange or market on which the Units are listed or quoted for trading during the period of 10 consecutive trading days ending on such date; (b) an amount equal to the weighted average of the closing market prices of a Unit on the principal exchange or market on which the Units are listed or quoted for trading during the period of 10 consecutive trading days ending on such date, if the applicable exchange or market does not provide information necessary to compute a weighted average trading price; or (c) if there was trading on the applicable exchange or market for fewer than five of the 10 trading days, an amount equal to the simple average of the following prices established for each of the 10 consecutive trading days ending on such date: the simple average of the last bid and last asking price of the Units for each day on which there was no trading; the closing price of the Units for each day that there was trading if the exchange or market provides a closing price; and the simple average of the highest and lowest prices of the Units for each day that there was trading, if the market provides only the highest and lowest prices of Units traded on a particular day;

“**Ongoing Retained Interest**” has the meaning given to that term under “Inovalis SA and the REIT”;

“**Ongoing Retained Interest Escrow**” has the meaning given to that term under “Inovalis SA and the REIT”;

“**OPCI**” means the French holding company through which CanCorp Europe holds the French SPVs;

“**Operating Policies**” has the meaning given to that term under “Investment Guidelines and Operating Policies”;

“**PCA Reports**” has the meaning given to that term under “Property Capital Investments”;

“**Person**” includes an individual, body corporate, partnership, limited partnership, joint venture, trust or unincorporated organization, the Crown or any agency or instrumentality thereof, or any other entity recognized by law;

“**Plans**” means, collectively, trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered disability savings plans, tax-free savings accounts and registered education savings plans under the Tax Act;

“**Portfolio Properties**” means, collectively, the French Properties and the German Properties;

“**Redemption Notes**” means unsecured subordinated promissory notes of the REIT having a maturity date and interest rate to be determined at the time of issuance by the Trustees, such promissory notes to provide that the REIT shall at any time be allowed to prepay all or any part of the outstanding principal without notice or bonus;

“**REIT**” means Inovalis Real Estate Investment Trust;

“**REIT Subsidiaries**” means CanCorp Europe, OPCI, the French SPVs and the Hanover SPV, which are to be treated as CFAs of the REIT for the purposes of the Tax Act;

“**REIT Units**” means, collectively, Units and Special Voting Units;

“**Related Party**” means, with respect to any person, a person who is a “related party”, as that term is defined in Multilateral Instrumental 61-101 – *Take-Over Bids and Special Transactions*, as such rule may be amended from time to time (and including any successor rule or policy thereto);

“**RETT**” means German real estate transfer tax (Grunderwerbsteuer);

“**Rights**” means rights issued pursuant to the Rights Plan;

“**Rights Plan**” means the Unitholders’ rights plan of the REIT, to be established at Closing, as more particularly described under “Unitholders’ Rights Plan”;

“**Sablère Leasehold**” means the leasehold interest in the Sablière Property acquired by one of the French SPVs pursuant to the Acquisition;

“**Sablère Property**” means the Portfolio Property located at the address municipally known as 27-29 rue de la Sablière, 75014 Paris;

“**SEDAR**” means the System for Electronic Documents Analysis and Retrieval;

“**Separation Time**” means the time at which the Rights will separate from the Units to which they are attached, as more particularly described under “Unitholders’ Rights Plan”;

“**Short-Form Prospectus**” means the final prospectus dated October 30, 2014 in connection with the offering of Units of the REIT which closed on November 6, 2014;

“**SIFT**” means a specified investment flow-through trust or partnership for the purpose of the Tax Act;

“**SIFT Rules**” means the provisions of the Tax Act that apply to a SIFT and its investors, taking into account all proposed amendments to such rules;

“**Special Voting Unit**” means a unit representing an interest in the REIT (other than Units) authorized and issued under the Declaration of Trust to a holder of Exchangeable Securities which have no economic interest but which provide the Exchangeable Securities holder with the same voting rights in the REIT as a Unit;

“**Subsidiary**” has the meaning given to that term in NI 45-106;

“**Tax Act**” means the *Income Tax Act* (Canada), as amended from time to time, and the *Income Tax Regulations* (Canada), as amended from time to time, as applicable;

“**Trustees**” means the trustees of the REIT from time to time;

“**TSX**” means the Toronto Stock Exchange;

“**Underwriters**” means the underwriters retained by the REIT in connection with the IPO, being Desjardins Securities Inc., GMP Securities L.P., Macquarie Capital Markets Canada Ltd., Laurentian Bank Securities Inc., UBS Securities Canada Inc., Manulife Securities Incorporated, Burgeonvest Bick Securities Limited, Industrial Alliance Securities Inc. and Mackie Research Capital Corporation;

“**Underwriting Agreement**” means the underwriting agreement in connection with the IPO dated March 28, 2013 between the REIT, Inovalis SA and the Underwriters;

“**Units**” meaning Units of the REIT;

“**Unitholders**” means holders of Units, but “unitholders”, when used in lower case type, refers to holders of REIT Units;

“**U.S.**” or “**United States**” means the United States of America;

“**Vanves Leasehold**” means the leasehold interest in the Vanves Property acquired by one of the French SPVs under the Acquisition;

“**Vanves Property**” means the Portfolio Property located at the address municipally known as Le Berry-Artois, 2-4, rue Auguste Comte, 92170 Vanves and Le Bearn, 6, rue Auguste Comte, 92170, Vanves;

“**Vendor Leases**” has the meaning given to that term under “Portfolio Summary”;

“**Vendors**” means, collectively, the French Inovalis Vehicles and the German Inovalis Vehicle, and “Vendor” means each individually; and

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

NON-IFRS MEASURES

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

FFO is defined as net earnings in accordance with IFRS, excluding: (i) acquisition costs incurred in connection with the purchase of properties being accounted for as a business combination, (ii) gain on bargain purchase, (iii) net change in fair value of investment properties, (iv) net change in fair value of financial instruments at fair value through profit and loss, (v) changes in fair value of Exchangeable Securities, (vi) adjustment for property taxes accounted for under IFRIC 21, (vii) loss on exercise of lease option, (viii) adjustment for foreign exchange gains or losses on monetary items not forming part of an investment in a foreign operation, (ix) gain on disposal of an interest in a subsidiary and the non-cash portion of earnings from an investment accounted for using the equity method and (x) non-recurring finance costs. It has also been adjusted to exclude the distributions declared on Exchangeable Securities. These distributions are recognized in profit and loss consistent with the classification of the Exchangeable Securities as a liability. However, they are not to be considered when determining distributions for the Unitholders as indeed they are subordinated to the distributions to the Unitholders.

AFFO is defined as FFO subject to certain adjustments, including adjustments for: (i) the non-cash effect of straight line rents, (ii) the cash effect of the lease equalization agreements (equalizing the rent payments, providing the REIT with stable and predictable monthly cash flows over the term of the France Telecom leases in the Vanves property on 186,070 sq.ft, the Smart & Co. lease in the Courbevoie property on 48,981 sq.ft and the Rue du Commerce leases in the Baldi property on 51,926 sq.ft), (iii) amortization of fair value adjustment on assumed debt, (iv) the non-cash portion of the asset management fees paid in Exchangeable Securities, (v) capital expenditures, (vi) capital expenditures paid by the vendors of the leasehold interest in the properties and/or tenants and (vii) amortization of transaction costs on mortgage loans.

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

FORWARD-LOOKING INFORMATION

This document contains forward-looking information. Statements other than statements of historical fact contained in this document may be forward-looking information. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “outlook”, “objective”, “may”, “will”, “expect”, “intent”, “estimate”, “anticipate”, “believe”, “should”, “plans”, “predict”, “estimate”, “potential”, “could”, “likely”, “approximately”, “scheduled”, “forecast”, “variation” or “continue”, or similar expressions suggesting future outcomes or events. They include, but are not limited to, statements with respect to expectations, projections or other characterizations of future events or circumstances, and our objectives, goals, strategies, beliefs, intentions, plans, estimates, projections and outlook, including statements relating to our plans and objectives of our Board of Trustees, or estimates or predictions of actions of tenants, suppliers, competitors or regulatory authorities; and statements regarding our future economic performance. We have based these forward-looking statements on our current expectations about future events. Some of the specific forward-looking statements in this document may include, but are not limited to, statements with respect to: (i) our stated objectives; (ii) our intention to make

regular monthly cash distributions; (iii) our ability to execute our business and growth strategies with Inovalis' assistance where applicable, including by making additional acquisitions of properties in our primary markets; (iv) the expected tax treatment of our distributions to Unitholders (including with respect to tax deferrals and the level of foreign tax, if any, payable on amounts that give rise to our distributable income); and (v) our access to available sources of debt and equity financing.

Forward-looking statements do not take into account the effect of transactions or other items announced or occurring after the statements are made. For example, they do not include the effect of dispositions, acquisitions, other business transactions, asset write-downs or other charges announced or occurring after the forward-looking statements are made.

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

The forward-looking statements are subject to inherent uncertainties and risks, including, but not limited to, the factors discussed under the *Risk Factors* section of this Annual Information Form. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements.

MARKET AND INDUSTRY DATA

This AIF includes market and industry data and forecasts that were obtained from third-party sources, industry publications and publicly available information as well as industry data prepared by Inovalis SA on the basis of its knowledge of the commercial real estate industry in which we operate (including Inovalis SA's estimates and assumptions relating to the industry based on that knowledge). Inovalis SA's knowledge of the real estate industry has been developed through more than 16 years of experience and participation in the industry. Inovalis SA believes that its industry data is accurate and that its estimates and assumptions are reasonable, but there can be no assurance as to the accuracy or completeness of this data. Third-party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. Although Inovalis SA believes it to be reliable, Inovalis SA has not verified any of the data from third-party sources referred to in this AIF, or analysed or verified the underlying studies or surveys relied upon or referred to by such sources, or ascertained the underlying assumptions relied upon by such sources.

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

BUSINESS OVERVIEW

Inovalis Real Estate Investment Trust (“**Inovalis REIT**”, or the “**REIT**”, “**we**” or “**us**”) is an unincorporated, open-ended real estate investment trust governed by the laws of the Province of Ontario. Inovalis REIT was founded by Inovalis SA, which is our asset manager. Our Units are listed on the Toronto Stock Exchange under the trading symbol INO.UN since April 10, 2013. Our head and registered office is located at 151 Yonge Street, 11th floor, Toronto, Ontario, M5C 2W7.

The REIT has been created for the purpose of acquiring and owning office properties primarily located in France and Germany but also opportunistically in other European countries where assets meet the REIT’s investment criteria.

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

INOVALIS SA AND THE REIT

Inovalis SA is a local cross-border French and German real estate asset manager which manages \$10 billion of real estate properties and, pursuant to the Management Agreement, assists the REIT in acquiring office properties that Inovalis SA manages or in which it has an ownership interest, in addition to sourcing new acquisition opportunities for properties that it does not currently manage or in which it does not have an ownership interest. To support this intention, Inovalis SA has granted the REIT a right of first opportunity pursuant to which Inovalis SA will not (i) purchase, finance the purchase of, or make any investment in any property that meets the Investment Criteria; or (ii) sell an ownership interest in a property managed or owned by Inovalis SA that meets the Investment Criteria, unless such opportunity has first been offered to the REIT. As at December 31, 2014, Inovalis SA had 500 employees worldwide, including employees within Avenir Finance, a company controlled by Inovalis SA (67% ownership).

To better align Inovalis SA’s interests with that of the Unitholders, Inovalis SA holds an approximate 12.8% ownership interest in the REIT on a fully exchanged basis (as at December 31, 2014) through the ownership of Units (1.0%) and Exchangeable Securities (11.8%), which are economically equivalent to, and exchangeable for, Units. Out of the 11.8% amounting to Exchangeable Securities, 10.8% is subject to an escrow, out of which 7.2% is subject to the Initial Retained Interest Escrow (as defined thereafter) and 2.6% subject to the Ongoing Retained Interest Escrow (as defined thereafter). The 7.2% amounts to the investment made by Inovalis SA at the time of the IPO (the “**Initial Retained Interest**”) and is subject to an escrow arrangement (the “**Initial Retained Interest Escrow**”) whereby they will be automatically released from escrow to Inovalis SA on the third anniversary of the IPO Closing Date. Upon the acquisition by the REIT of properties managed by Inovalis SA prior to termination of the Management Agreement, Inovalis SA shall, concurrently with the closing of such acquisition and subject to regulatory approval, subscribe for that number of Exchangeable Securities (i) having an aggregate value equal to approximately 10% of the equity portion of the purchase price of such properties, and (ii) that are exchangeable into that number of Units as is equal to such approximate 10% equity portion divided by the VWAP of the Units for the five trading days prior to the closing of the applicable acquisition (each an “**Ongoing Retained Interest**”) which will be subject to an escrow arrangement (the “**Ongoing Retained Interest Escrow**”) whereby they will be automatically released from escrow to Inovalis SA on the third anniversary date of the applicable acquisition. During the Initial Retained Interest Escrow and each Ongoing Retained Interest Escrow, Inovalis SA is restricted from selling its Initial Retained Interest and each of its Ongoing Retained Interest, but will retain all ownership rights, however subject to their respective escrow terms, each will be automatically released from escrow upon a change of control of the REIT and the REIT will be required to make arrangements to enable the Initial Retained Interest and the Ongoing Retained Interest, as applicable, to participate in any change of control transaction. The Exchange Agreement between the REIT, CanCorp Europe and Inovalis SA grants Inovalis SA the right to require the REIT to

exchange the Exchangeable Securities for Units, subject to customary anti-dilution adjustments and adjustments in accordance with the Declaration of Trust.

Upon the earlier of (i) the REIT achieving a market capitalization of \$750 million (including any Exchangeable Securities held by Inovalis SA) based on the VWAP over a 20-day trading period; and (ii) the fifth anniversary of the date of the IPO Closing, the Management Agreement will terminate and the management of the REIT will be internalized at no additional cost to the REIT. Notwithstanding the foregoing, upon internalization, certain services, including leasing services, property management services and construction management services, will not be internalized on the basis that it would not be economical for the REIT to provide these services. Under this arrangement, the REIT will be able to take advantage of externalized management (subject to Inovalis SA's right to internalize at any time) while such an arrangement is cost effective, yet benefit from internalized management at such time as it becomes economically feasible to internalize.

Management Fees payable by the REIT to Inovalis SA include the following, to be received by Inovalis SA from the relevant subsidiary of the REIT:

- 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;
- a leasing fee (the “**Leasing Fee**”) in an amount equal to (i) 10% of the first year annual rent for lease renewals signed by existing tenants, or (ii) 20% of the first year annual rent for leases signed by new tenants, payable on the signing of a binding lease, extension, renewal or amending document; provided, that Inovalis SA is responsible for the fees of any external real estate agent retained to assist with a lease renewal or to find a new tenant;
- a construction management fee (the “**Construction Management Fee**”) payable on capital projects in an amount equal to 5% of all hard construction costs incurred on a project excluding work done on behalf of tenants or any maintenance capital expenditures;
- an acquisition fee (“**Acquisition Fee**”) in the amount of 0.50% of the purchase price of any property acquired by the REIT or its subsidiaries payable on completion of each acquisition plus HST/VAT, provided that no such acquisition fee will be payable in respect of the acquisition of properties managed by Inovalis SA; and
- an annual property management fee (the “**Property Management Fee**”) in an amount equal to 3.5% of the Gross Revenue of REIT’s properties, payable quarterly in arrears.

(the Annual Asset Management Fee, Leasing Fee, Construction Management Fee, Acquisition Fee and Property Management Fee are hereinafter collectively referred to as the “**Management Fees**”).

All Management Fees are paid entirely in cash, except for:

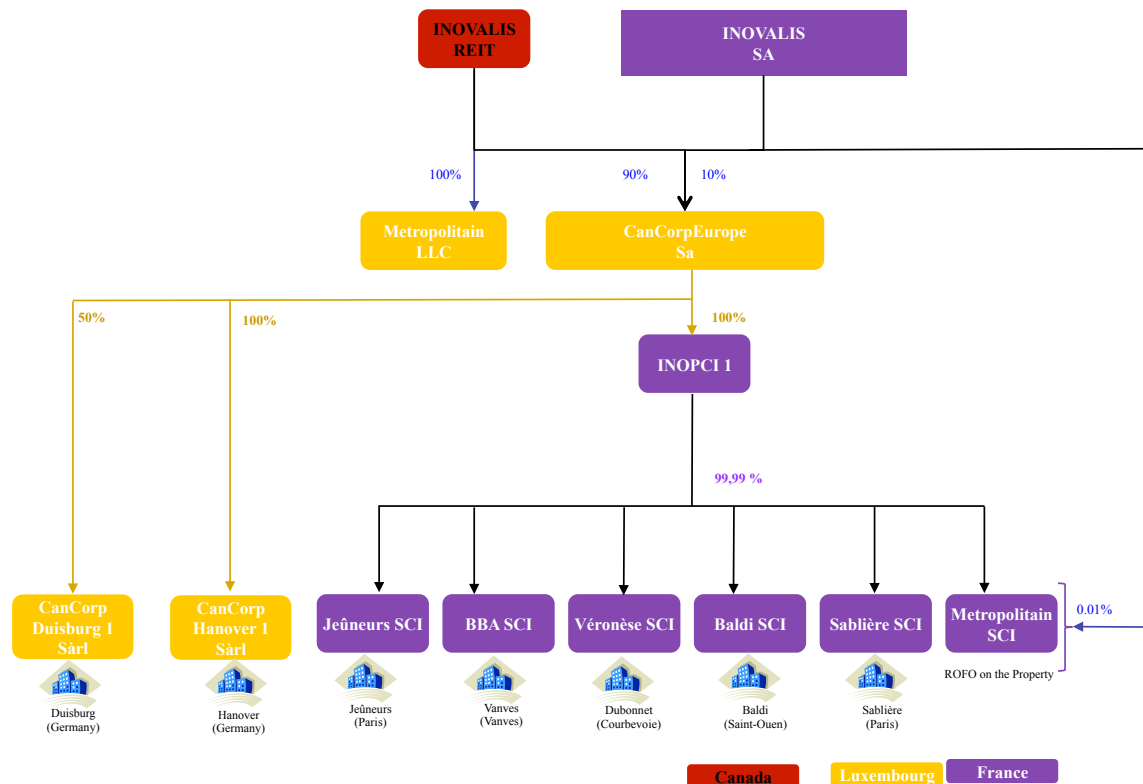
- the Asset Management Fee, to be paid quarterly in arrears, entirely in Exchangeable Securities, subject to any required regulatory approvals. 50% of such Exchangeable Securities paid as part of the Annual Asset Management Fee will be subject to an escrow agreement pursuant to which the Exchangeable Securities will be immediately released from escrow upon termination of the Management Agreement for any reason, except in the case of internalization of the management of the REIT, in which case (i) one third of the Exchangeable Securities will be automatically released upon internalization of the REIT; and (ii) one third of the Exchangeable Securities will be released on the first and second anniversaries of the internalization of the REIT; and
- The Acquisition Fee, to be paid 50% in cash and, subject to any required regulatory approvals, 50% in Exchangeable Securities upon completion of the applicable acquisition. All of such Exchangeable Securities will be subject to an escrow agreement pursuant to which the Exchangeable Securities will be immediately released from escrow upon termination of the Management Agreement for any reason, except in the case of internalization of the management of the REIT, in which case (i) one third of the Exchangeable Securities will be automatically released upon internalization of the REIT; and (ii) one third of the Exchangeable Securities will be released on the first and second anniversaries of the internalization of the REIT.

For its services under the Management Agreement during the fiscal year of the REIT ended December 31, 2014, Inovalis SA received aggregate compensation of \$1,907,000 paid entirely in Exchangeable Securities with the issuance of 200,896 new Exchangeable Securities.

In addition to the Management Fees, Inovalis SA is reimbursed by the relevant subsidiary of the REIT for all reasonable and necessary actual out-of-pocket costs and expenses paid by Inovalis SA in connection with performance of services pursuant to the Management Agreement. Out-of-pocket costs and expenses paid to Inovalis SA in 2014 were \$330,000.

ORGANIZATIONAL STRUCTURE

The following illustrates the organizational structure of Inovalis REIT:



OBJECTIVES & INVESTMENT STRATEGY

The REIT's long-term objectives are to:

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

In the context of our objectives, our investment strategy is to focus on office properties in France and Germany that represent attractive investments due to their stable cash flows from long-term leases with strong tenant bases. We believe office properties that are well located in their respective markets present an attractive investment opportunity given their propensity to experience rental rate increases over the long term. Such properties typically provide growth opportunities through the lease-up of vacant space and the upward trend in rental rates through contractual escalations. The REIT's Investment Criteria encompass office properties outside of Canada with an occupancy level above 80%, secured rental cash flow, a property value between €20 million (\$31 million) to €60 million (\$93 million) and potential future upside with respect to matters including rent and area development.

The REIT can also consider properties that are accretive from an AFFO standpoint despite not meeting exactly all the above-mentioned criteria. The Baldi property was purchased in November 2014 despite having an overall occupancy rate below 80%. The Board of Trustees chose to make this acquisition as the occupancy rate on the office component of this building was 92% and the addition of the Baldi Property was accretive to the REIT.

PORTFOLIO SUMMARY

Our portfolio consists of seven (7) office properties in France and Germany (including the Duisburg property in which the REIT has a 50% interest), comprising a total of 834,529 square feet of gross leasable area with a portfolio occupancy rate of 88.4% (not including the impact of the Vendor Leases (as hereinafter defined)) and a weighted remaining average lease term of 6.6 years (not including tenant early termination rights), offering both a stable lease rollover profile and the potential to benefit from new leasing opportunities. Five properties are situated in and around Paris, France. The remaining properties are located in the German cities of Duisburg and Hanover.

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

Debt Profile

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

The key performance indicators in the management of our debt are ⁽¹⁾:

	As at December 31, 2014
Weighted average interest rate ⁽²⁾	1.98%
Debt-to-book value ⁽³⁾	52.2%
Debt-to-book value, net of cash ⁽⁴⁾	49.0%
Interest coverage ratio ⁽⁵⁾	4.7 x
Debt due in next 12 months in thousand of CAD\$ (including interests)	6,991
Weighted average term to maturity of debt ⁽⁶⁾	7.2 years

(1) Taking into account 50% of the Duisburg property

(2) Calculated as the weighted average interest rate paid on all the finance leases and the mortgage financings

(3) Defined as total debt divided by total assets

(4) Defined as total debt divided by total assets, each of which excludes \$24.2 million of cash at December 31, 2014

(5) Calculated as net rental income plus interest, less general and administrative expenses, divided by interest expense on finance leases and mortgage financings

(6) Calculated as the weighted average term on all the leaseholds and mortgages

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

Our weighted average term to maturity is 7.2 years. Our debt consists of finance leases for \$137.7 million and of mortgage loans for \$47.1 million). They account respectively for 74.4% and 25.6% of the total of finance leases and mortgage loans.

As at December 31, 2014							
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	20,355	Euribor 3M + 1,75% ¹	2019-05-05	20,128	20,128	-
Mortgage loan - Jeûneurs SCI	19,500	27,374	Euribor 3M + 1,75% ¹	2019-05-05	27,022	27,022	-
Mortgage loans	34,000	47,729			47,150	47,150	-
Finance lease liabilities - BBA SCI	57,518	80,742	Euribor 3M + 2.00% ²	2026-06-20	80,742	77,780	2,962
Finance lease liabilities - CanCorpHanover	12,857	18,049	Euribor 3M + 0.82%	2023-06-30	17,314	16,474	840
Finance lease liabilities - Sabliere SCI	10,305	14,466	Euribor 3M + 1.05%	2017-06-09	14,229	12,998	1,231
Finance lease liabilities - Baldi SCI	18,438	25,883	Euribor 3M + 1.00%	2017-09-30	25,386	23,428	1,958
Finance lease liabilities	99,118	139,140			137,671	130,680	6,991
Total mortgage loan and finance lease liabilities	133,118	186,869			184,821	177,830	6,991

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

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

As at December 31, 2013							
Entity	Nominal value (in 000's of €)	Nominal value (in 000's of \$)	Interest rate	Maturity	Total	Non-current	Current
Finance lease liabilities - BBA SCI	37,287	56,746	Euribor 3M + 1.15%	2016-12-02	54,645	50,011	4,634
Finance lease liabilities - Véronèse SCI	12,026	17,825	Euribor 3M + 1.20% & Euribor 3M + 2.20%	2015-10-16	17,624	15,767	1,857
Finance lease liabilities - Jeûneurs SCI	14,250	22,170	Euribor 3M + 1.05%	2019-01-13	20,882	18,951	1,931
Finance lease liabilities - CanCorpHanover	13,372	19,597	Euribor 3M + 0.82%	2023-06-30	18,477	17,844	633
Total finance lease liabilities	76,935	116,338			111,628	102,573	9,055

As at December 31, 2014, the finance leases and mortgages held in France amounted to \$167.5 million (90.6% of total) and the finance lease held in Germany amounted to \$17.3 million (9.4% of total finance leases).

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

The following table highlights the scheduled repayments of our finance leases:

	As at December 31, 2014		As at December 31, 2013	
	Carrying value	Minimum lease payments	Carrying value	Minimum lease payments
Carrying value and minimum lease payments				
Within 1 year	6,991	9,530	9,055	9,567
After 1 year, but not more than 5 years	55,448	66,294	76,380	84,756
More than 5 years	75,232	83,601	26,193	31,054
	137,671	159,425	111,628	125,377
Less : future interest costs		(21,754)		(13,749)
Total carrying value and present value	137,671	137,671	111,628	111,628

Real Estate Management and Advisory Services

Pursuant to the Management Agreement, Inovalis SA is the manager of the REIT and provides the strategic, advisory, asset management, project management, construction management, property management and administrative services necessary to manage the operations of the REIT. In connection with the Management Agreement, Inovalis SA has agreed to: provide the services of a senior management team to the REIT; provide the services of administrative, management and executive personnel as is reasonably necessary; provide advisory, consultation and investment management services and monitor the financial performance of the REIT; advise the Trustees on strategic matters, including potential acquisitions, dispositions, financings, development and redevelopment; provide guidance to property managers on operating and capital expenditures; identify, evaluate, recommend, negotiate and assist in the structuring of acquisitions, dispositions and other transactions; advise and assist with borrowings, issuances of securities and other capital requirements, including assistance in dealings with banks and other lenders, investment dealers, institutions and investors; make recommendations with respect to the payment of distributions; prepare business plans and annual budgets, implement such plans and budgets and report on the financial performance of the REIT; with cooperation from the REIT's Chief Financial Officer, establish and maintain disclosure controls and procedures and internal controls over financial reporting of the REIT; maintain the books and financial records of the REIT's properties and prepare reports, tax returns and other disclosure documents based on the maintenance of such books and records; assist the REIT with respect to investor relations strategies and activities, including compiling and preparing the materials required for those strategies and activities; advise the REIT with respect to regulatory compliance requirements, risk management policies and certain litigation matters; prepare all documents, reports, data and analysis required by the REIT for its filings and documents necessary for its continuous disclosure requirements pursuant to applicable stock exchange rules and securities laws; prepare all reports reasonably requested by the REIT, including operational reporting such as cash flow by property and by asset type, reports on development costs and executive summaries by asset type describing each of the REIT's properties; supervise and conduct all leasing services (including research to find potential tenants, contacting potential tenants, coordination of potential third-party brokers, negotiations with tenants and support in finalization of the leasing agreements); provide property management services (including through third parties); provide construction management services; supervise property expansions, capital projects and development and redevelopment projects for the REIT; and provide any additional services as may from time to time be agreed to in writing by the REIT and Inovalis SA for which Inovalis SA will be compensated on terms to be agreed upon between Inovalis SA and the REIT prior to the provision of such services. Notwithstanding the foregoing, it may at times be prudent for Inovalis SA to delegate certain of its responsibilities under the Management Agreement to a third party provider. As a result, Inovalis SA is entitled to subcontract certain of its obligations under the Management Agreement where it is appropriate to do so, provided that, unless otherwise provided, such subcontracting is done at the expense of Inovalis SA and will not relieve Inovalis SA of its obligations or liability under the Management Agreement.

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

OUR OPERATIONS

Performance Indicators

As at	December 31, 2014	December 31, 2013
Gross Leasable Area (sq.ft)	834,529	529,267
Number of properties	7	4
Number of tenants	26	12
Occupancy rate (excluding Vendor Leases)	88.4%	96.0%
Occupancy rate (including Vendor Leases)	92.3%	100.0%
Weighted average lease term ⁽²⁾	6.6 years	7.5 years

(1) See definition of the Vendor Leases in the Occupancy sub-section below.

(2) Excluding early termination rights. Taking into account early termination rights, the weighted average lease term is 4.5 years.

Occupancy

The overall weighted average occupancy rate across our portfolio was 88.4% at December 31, 2014. Taking into account the Vendor Leases on the Baldi, Sablière and Vanves properties (on 31,130 sq.ft. in total or 3.7% of our portfolio's total GLA), occupancy rate across the portfolio reaches 92.3%. The decrease in the overall occupancy is driven by the departure of Westcon in the Courbevoie property during the second quarter of 2014 and by the addition of the Baldi property. As subsequent event to the fourth quarter 2014, two new leases were signed with an international tenant on the Courbevoie property (9,569 sq.ft) and Vanves property (11,022 square feet), increasing overall occupancy rate to 90.9% as of March 1, 2015.

External brokers are working with the Inovalis SA team to lease remaining vacant premises in the REIT's portfolio.

Tenants

The tenant base in the portfolio is well diversified from an industry segment standpoint, with many tenants having large national or multinational footprints. Over 84% of 2015 estimated gross rental income comes from French public agencies, are guaranteed by large German or international banks, or are signed with an affiliate of an investment grade corporation.

The following table shows our five largest tenants, sorted out by contribution to gross leasable area (GLA). The tenant marked with (*) is a tenant from property owned on a partnership basis and is taken into account applying the percentage of ownership the REIT has in the underlying property.

Tenant	Tenant Sector	Tenant Since	GLA (sq.ft.)	% of Total GLA
France Telecom	Telecommunications	1999	186,070	22.3%
Facility Services Hannover GmbH	Banking / Real estate	2003	124,076	14.9%
Mitsubishi Hitachi Power Systems Europe GmbH (*)	Manufacturer	2007	54,480	6.5%
National Conservatory of Arts and Crafts	Education and training	2003	50,407	6.0%
French Environment and Energy Agency	Public sector / Government	1982	49,460	5.9%
Top 5 tenants			464,492	55.6%
Other tenants	Diversified		273,548	32.8%
Vendor Lease	-		32,636	3.9%
Vacant			63,852	7.7%
Total			834,529	100.0%

Leasing Profile

Rental indexation

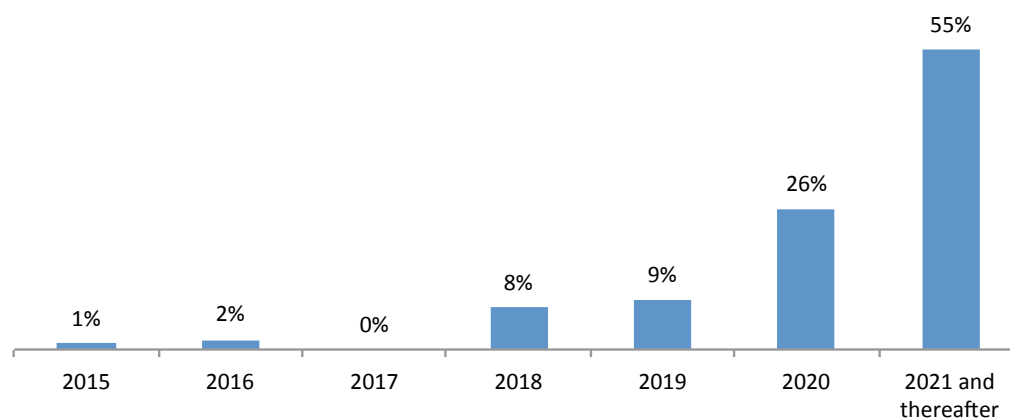
All leases have rental indexation based on either the French ICC (construction cost index) or ILAT (index averaging construction costs and CPI indexes) or the German Consumer Price Index, as applicable.

Lease rollover profile

Our stable tenant base is complemented by a balanced lease maturity profile, with an average of 7.6% of GLA maturing each year between 2015 and 2020, as illustrated by the chart below. The REIT has an average remaining lease term of approximately 6.6 years (not including tenant early termination rights). Assuming all tenants leave at next possible early termination rights, which is a highly improbable scenario, average remaining lease term on our portfolio is 4.5 years.

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

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



PROPERTY CAPITAL INVESTMENTS

Fair value

The fair value of our investment property portfolio as at December 31, 2014, including our 50% interest in Duisburg, was \$344.0 million (\$244.9 million as at December 31, 2013). The fair value of the French properties was \$275.0 million (80.0% of total value) and the fair value of the German properties, including our 50% interest in Duisburg, was \$69.0 million (20.0% of total value).

Management principally uses discounted cash flows to determine the fair value of the investment properties. These values are supported by third party appraisals. Our assessment of the fair values of the French properties was in line with the values determined by Jones Lang LaSalle France in conformity with the requirements of the *Royal Institution of Chartered Surveyors Standards*, the *Charte de l'expertise immobilière* and the *European Valuation Standards of TEGoVA* (the European Group of Valuers' Association) and IFRS 13. Our assessment of the fair value of the German property was in line with the value determined by Jones Lang LaSalle Germany in conformity with the requirements of the *Royal Institution of Chartered Surveyors Standards*.

Building improvements

The REIT is committed to improving its operating performance by incurring appropriate capital expenditures in order to replace and maintain the productive capacity of its property portfolio so as to sustain its rental income generating potential over the portfolio's useful life.

An escrow account totalling \$4.2 million of cash was set aside by the vendors of the four initial properties acquired by the REIT or payment of capital expenditures to be invested before April 2016 in the event a need for capital expenditure arises. As at December 31, 2014, approximately \$1 million was spent.

Initial direct leasing costs and lease incentives

Initial direct leasing costs include leasing fees and related costs, and broker commissions incurred in negotiating and arranging tenant leases. Lease incentives include costs incurred to make leasehold improvements to tenant spaces and cash allowances. Initial direct leasing costs and lease incentives are dependent on asset type, lease terminations and expiries, the mix of new leasing activity compared to renewals, portfolio growth and general market conditions. Short-term leases generally have lower costs than long-term leases.

Guarantees, Commitments and contingencies

The REIT and its subsidiaries have provided guarantees in connection with the finance lease liabilities and the mortgage loans, including pledge of affiliates of the REIT, first mortgages and assignment of receivables and future receivables.

The revolving credit facility granted by Inovalis SA in April 2013 with a maximum aggregate amount of \$10,000,000 was cancelled during the year, as the REIT had not drawn any amount from it and did not intend to do so before expiry of this facility in April 2015.

OTHER SIGNIFICANT ASSETS

Investment accounted for using the equity method

This encompasses the 50% interest the REIT has in the Duisburg property via its 50% ownership of CanCorp Duisburg I S.à.r.l. Simplified balance sheet and statement of earnings of CanCorp Duisburg I S.à.r.l. can be found in the note 8 of the Consolidated Financial Statements of the REIT as at and for the period ended December 31, 2014. The REIT's share of the investment property amounts to \$35,446 as at December 31, 2014. The REIT's share of the mortgage debt associated with this property amounts to \$17,017.

Acquisition Loan

On November 6, 2014, Metropolitan LLC, a 100% subsidiary of the REIT, made a loan to Inovalis in the amount of 12,500 Euros (\$17,740) so that Inovalis SA could acquire a property in the greater metropolitan area of Paris France (the "**Acquisition Loan**"). The Acquisition Loan is secured by a share pledge from a holding company owned by Inovalis (which also owns another property in the Greater Paris Region), bears interest at a rate of 8.75% for three years (with an option to extend for one year) and includes a right of first opportunity in favour of the REIT to purchase the property at a discount to the then market price. Whether the REIT exercises its option to buy the property or the property is sold to a third party, the REIT will receive 50% of the profit generated by the sale of the property less all interests received on the Acquisition Loan, in the first case in the form of a discount to the price and in the second case in the form of a cash gain. The minimum income for the REIT on this transaction will be 8.75% per annum.

RECENT DEVELOPMENTS & OUTLOOK

During the quarter ended June 30, 2014, the REIT refinanced the three French properties it owned at that time with a view to optimizing its balance sheet and financing new acquisitions, increasing the weighted average term to maturity, locking-in historically low interest rates for a longer period of time, and reducing the principal repayment charge paid under the leasehold interests. The Jeuneurs Property and Dubonnet Property were refinanced with a mortgage loan secured by a first-ranking mortgage and a share pledge made by the property owning companies. The Dubonnet Leasehold and the Jeuneurs Leasehold thereafter ceased to exist and were converted into property ownership. The Vanves Property was refinanced with a new finance lease.

On July 16, 2014, the REIT announced that it had completed the acquisition, on a 50-50 joint-venture basis, of an office property located in Germany (the “**Duisburg Property**”), for a total purchase price of \$65.7 million (the REIT’s share being \$32.8 million), representing a going-in capitalization rate of 7.4%. The Duisburg Property is located in Duisburg, Germany, in the district of Kasslerfeld, at the Innenhafen harbour. The REIT acquired the Duisburg Property in a 50-50 co-ownership arrangement with Injazzat Real Estate Development Company K.S.C., a strategic, global institutional investor that has had a long-standing relationship with Inovalis. The acquisition was financed with a mortgage loan of \$35.8 million and equity investments of \$29.9 million. The REIT’s share of the equity investment (\$15.0 million) came from existing cash on hand and increased financing on the REIT’s existing French properties. The \$35.8 million first mortgage was granted by Pfandbrief Bank (one of the largest German mortgage banks). It is an interest-only 5-year term facility at an all-in fixed interest rate of 2.28% secured by a first-ranking mortgage and a pledge of shares and bank accounts. The Duisburg Property was valued by Jones Lang LaSalle GmbH as at November 1, 2013 at \$73.0 million, reflecting a loan to value of 49.0%. The REIT’s 50% interest in the Duisburg Property is accounted for using the equity method.

On November 6, 2014, the REIT closed a public offering of 3,978,500 trust Units, on a bought deal basis, at a price of \$9.30 per unit for total gross proceeds of \$37.0 million. At the same time, Inovalis SA increased its commitment in the REIT with the purchase of 453,766 Exchangeable Securities for an additional investment of \$4.1 million. The net proceeds from this public offering were invested as follows: approximately \$17 million for the acquisition of two office properties located in the Greater Paris Region (the “**Baldi Property**” and the “**Sablère Property**”), \$18 million to fund the Acquisition Loan and the balance for future acquisitions and general trust purposes. The Acquisition Loan gives the REIT a right of first opportunity to purchase the related property at a discount once it meets the investment criteria of the REIT.

We believe that the current market environment, with all the uncertainties it may bear, is a favourable one for the REIT to prosper. We are continuously assessing potential acquisitions in our target markets and will focus on the ones offering value and stability. Our long-term credit worthy tenants, low cost of debt and the fixed foreign exchange rate contracts for our distributions until January 2018, not only provide investors with steady cash flows, but also serve as a basis for future growth.

In addition to actively managing our properties, we will continue to look at new potential acquisitions for the REIT in France and in Germany. In the course of the next acquisitions, we intend to rebalance the portfolio between France and Germany. We also intend to look at other European cities where assets meet our investment criteria. On January 21, 2015, the REIT announced that it had entered into an agreement to purchase a 50% interest, on a joint venture basis, in an office property located in Germany for an all-in-cost of approximately \$25 million. The property, located in Bad Homburg (15 km North of Frankfurt), is a five-story multi-tenanted office building developed in 2004 with 77,662 square feet of office space. The property also comprises 31,442 square feet of storage and service space as well as 204 parking spaces. The REIT has the ability to acquire the property at a going-in capitalization rate of 7.0% and expects to capture additional rental income through the lease-up of vacant areas as the property has an occupancy rate of 77%. The addition of the property will be immediately accretive to the REIT’s AFFO per unit. The closing of the transaction is expected to take place before the end of the second quarter of 2015. The REIT

will be responsible for the management of the property, a task that will initially be subcontracted to Inovalis SA, until the REIT internalizes all asset management services. This transaction in partnership with another strategic, global institutional investor that has had a long-standing relationship with Inovalis SA confirms the partnership strategy developed by the REIT as a value-enhancement and portfolio risk diversification tool for future acquisitions or existing properties.

With respect to our capital structure, we are focusing our attention on deepening our relationships with lenders in the markets in which we operate. This has proved to be essential for securing mortgage financing for new acquisitions and also for putting in place new mortgage financings to replace existing leasehold contracts on the French properties. We intend to target an overall debt level not to exceed 55% of our gross book value. We endeavour, as much as possible, to have staggered debt maturities to mitigate interest rate risk and limit refinancing exposure in any particular period.

RISK FACTORS

We are exposed to various risks and uncertainties, many of which are beyond our control, the occurrence of which could materially and adversely affect our investments, prospects, cash flows, results of operations or financial condition and our ability to make cash distributions to Unitholders. We believe the risk factors described below are the most material risks that we face, however they are not the only ones. Additional risk factors not presently known to us or that we currently believe are immaterial could also materially and adversely affect our investments, prospects, cash flows, results of operations or financial condition and our ability to make cash distributions to Unitholders and negatively affect the value of the Units.

Risks relating to the REIT and its business

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

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

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

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

Concentration of tenants may result in significant vacancies on the Portfolio Properties

Four of our largest tenants, by percentage of total GLA, occupy approximately 50% of the total GLA. Although all four tenants are committed to multi-year leases, which are set to expire in 2021 (France Telecom), 2024 (Facility Services Hannover GmbH), 2020 (Mitsubishi Hitachi Power Systems Europe GmbH and National Conservatory of Arts and Crafts) respectively, there is no assurance that such tenants will continue to occupy such premises for the remainder of their lease terms. France Telecom would still have to pay the rent pertaining to its lease at least until December 2019 (as France Telecom has a lease break option in September 2019 which can be exercised with the payment of an additional 3-month of rent). The other three main tenants do not have any break option on their leases and therefore have to pay the rent until leases end. In order to minimize this risk of vacancy, Inovalis REIT will continue to closely monitor all leases and ensure that they work with the current tenants to determine their future leasing plans, which would allow Inovalis REIT to source tenants in advance of the current tenants vacating the property.

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

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

Recent global financial market developments

Global financial markets have been experiencing a sharp increase in volatility since 2008. This has been, in part, the result of the revaluation of assets on the balance sheets of international financial institutions and related securities contributing to a reduction in liquidity among financial institutions and a reduction in the availability of credit to those institutions and to the issuers who borrow from them. Most recently, several European countries have been documented as having rising debts and are having difficulties refinancing those debts to pay back bondholders. The “European debt crisis” as it has been called, referring to the set of events from late 2009 to present day, has seen the sovereign debt ratings of several countries, including France, downgraded by Standard & Poor’s Ratings Services and other ratings agencies, the rise in borrowing costs and the decline in investor confidence.

While the European Union, central banks and governments continue attempts to preserve financial stability in Europe and restore liquidity to the global economy, no assurance can be given that the combined impact of the significant revaluations and constraints on the availability of credit will not continue to materially and adversely affect economies around the world in the near to medium term. Some or all of these economies may experience significantly diminished growth and some or all may suffer a recession the duration of which cannot be predicted. These debt crises and the ongoing efforts of governments around the world to address these debt crises have resulted in increased volatility and uncertainty, and diminished liquidity and credit availability, in the global economy and securities markets. It is impossible to predict the effects of these or similar events in the future on the global economy and securities markets or on our investments, though it is possible that these or similar events could have a significant adverse impact on our value and risk profile. If the current economic and financial market conditions in Europe and the rest of the world remain uncertain, persist or deteriorate further, the business of our tenants and potential tenants may be negatively impacted, which may adversely affect our business, operating results and financial condition.

Even if the economic situation has improved, the European debt crisis and related financial restricting efforts may also cause the value of the European currencies, including the Euro, to further deteriorate, which may impact the European economy in general, including the real estate sector. Moreover, as the European debt crisis has progressed, the possibility of one or more Eurozone countries exiting the European monetary union, or even the collapse of the Euro as a common currency, has arisen. Despite measures taken by the European Union to provide funding to certain European Union member states in

financial difficulties and by a number of European countries to stabilize their economies and reduce their debt burdens, it is possible that the Euro could be abandoned as a currency in the future by countries that have already adopted its use. This could lead to the re-introduction of individual currencies in one or more European Union member states, or in more extreme circumstances, the dissolution of the European Union. The effects of the collapse of the Euro, the exit of one or more countries from the European monetary union or a potential dissolution of the European Union, on the global economy, the European real estate market and securities markets are impossible to predict with certainty, and any such events could have a significant adverse impact on our business, trading volumes, value, risk profile and results of operations, particularly in the near term. In the event that one or more countries where we do business were to replace the Euro with their legacy currency, then our revenue and operating results in such countries, or Europe generally, would likely be adversely affected until stable exchange rates are established and economic confidence is restored.

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

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

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

There are risks with regard to the Hanover Property that the lease may be terminated prematurely if certain statutory standard form requirements are not met. Moreover, under German law standard terms contained in leases are invalid and not enforceable by the party that included the prohibited term if such term does not comply with the civil code provisions regarding standard terms. German courts have, in particular, increased the standard for cosmetic repair clauses shifting the obligation for maintenance and repairs to the tenant. The invalidity of such clauses could impose obligations and result in costs to the landlord, thereby negatively impacting a landlord's financial condition.

Smart & Co. premises have limits on operating costs and/or tax recoveries. As a result, we will bear the economic cost of increases in certain of the operating costs and/or tax recoveries in such cases to the extent we are not able to fully recover increases in operating costs and tax recoveries from these tenants which increases would likely adversely impact our financial condition and results of operations and decrease the amount of cash available for distribution to Unitholders.

Moreover, pursuant to the lease agreement with the National Conservatory of Arts and Crafts, none of the taxes legally due by the REIT will be recoverable, with the exception of property taxes and office taxes. Similarly pursuant to the Fresh & Co. and French Environment and Energy and Management Agency lease agreements, several forms of taxes, including but not limited to, property taxes, household refuse taxes and annual office taxes will be borne by the REIT. As a result, we will bear the economic cost of increases to these taxes which would likely adversely impact our financial condition and results of operations and decrease the amount of cash available for distribution to Unitholders.

Head Lease for Portfolio Properties

The Hanover Property is owned by the Hanover Owner and is subject to a head lease, with the Hanover Owner as lessor and the Hanover SPV as lessee. Since the Hanover Property will still be owned by the Hanover Owner, if the Hanover Owner were to sell the Hanover Property or were to become insolvent,

there is a risk that the head lease may be terminated by the Hanover Owner or a future owner of the Hanover Property.

According to the head leases for certain of the Portfolio Properties, the owners of such Portfolio Properties have certain participation rights with respect to such Portfolio Properties pursuant to which the French SPV or the Hanover SPV, as the case may be, would need to obtain written consent from the respective owner prior to taking certain actions with respect to such Portfolio Property, including cancelling or amending lease agreements for such Portfolio Property. If the owner does not give its prior consent to such actions, it may terminate the applicable head lease.

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

The Portfolio Properties may contain ground contamination, hazardous substances, wartime relics (including potentially unexploded ordnance) and/or other residual pollution and environmental risks. Buildings and their fixtures might contain asbestos or other hazardous substances such as polychlorinated biphenyl, dichlordiphenyltrichlorethan, pentachlorophenol or lindane above the allowable or recommended thresholds, or the buildings could bear other environmental risks.

We bear the risk of cost-intensive assessment, remediation or removal of such ground contamination, hazardous substances, wartime relics or other residual pollution. The discovery of any such residual pollution on the sites and/or in the buildings, particularly in connection with the lease or sale of properties or borrowing using the real estate as security, could trigger claims for rent reductions or termination of leases for cause, for damages and other breach of warranty claims against us. The remediation of any pollution and the related additional measures we would have to undertake could negatively affect us and could involve considerable additional costs that we may have to bear. We are also exposed to the risk that recourse against the polluter or the previous owners of the properties might not be possible, for example, because they cannot be identified, no longer exist or have become insolvent. Moreover, the existence or even the mere suspicion of the existence of ground contamination, hazardous materials, wartime relics or other residual pollution can negatively affect the value of a property and our ability to lease or sell such a property.

We are subject to various federal, state and municipal laws relating to environmental matters. Such environmental laws impose actual and contingent liabilities on us to undertake remedial action on contaminated sites and in contaminated buildings. These obligations may relate to sites we currently own or operate, sites we formerly owned or operated or sites where waste from our operations has been deposited. Furthermore, actions for damages or remediation measures may be brought against us, including under the *German Federal Soil Protection Act* (Bundesbodenschutzgesetz) and the *French Environmental Code* (Code de l'environnement). According to the *German Federal Soil Protection Act*, not only the polluter but also its legal successor, the owner of the contaminated site and certain previous owners may be held liable for soil contamination. The costs of any removal, investigation or remediation of any residual pollution on such sites or in such buildings as well as costs related to legal proceedings, including potential damages, regarding such matters may be substantial, and it may be impossible, for a number of reasons, for us to have recourse against a former seller of a contaminated site or building or the party that may otherwise be responsible for the contamination. Laws and regulations, as may be amended over time, may also impose liability for the release of certain materials into the air or water from a property, including asbestos, and such release could form the basis for liability to third persons for personal injury or other damages. In addition, if our officers or employees infringe or have infringed environmental protection laws, we could be exposed to civil or criminal damages. Similarly, the *French Environmental Code* is governed by “the polluter pays principle”, according to which the costs arising from measures to prevent, reduce or combat pollution must be borne by the polluter. As a result, we may be required to provide for additional reserves to sufficiently allocate toward our potential obligations to remove and dispose of any hazardous and toxic substances. Any such event could have a material and adverse effect on our cash flows, financial condition and results of operations and our ability to make distributions on the Units.

In order to obtain financing for the purchase of a new property through traditional channels, we may be requested to arrange for an environmental audit to be conducted. Although such an audit provides us and our lenders with some assurance, we may become subject to liability for undetected pollution or other environmental hazards on our properties against which we cannot insure, or against which we may elect not to insure where premium costs are disproportionate to our perception of relative risk.

We have formal policies and procedures to review and monitor environmental exposure. These policies include, where the Trustees so determine, the requirement to conduct the local equivalent of a Phase I environmental audit before acquiring any real property or any interest therein. Where circumstances so warrant, designated substance surveys and/or local equivalent of Phase II environmental assessments are conducted to determine the presence and/or extent of these or any other materials or potential environmental hazards. If appropriate, we remediate such situations. In connection with our acquisition of the Portfolio Properties, we have negotiated limited indemnities from Inovalis SA and some exclusion rights relating to certain properties which we determined during our due diligence of the Portfolio Properties to require environmental remediation. We are not aware of any further environmental conditions with respect to any of the other Portfolio Properties that we believe would involve material expenditure by us.

We have insurance in place to protect against certain environmental liabilities in respect of certain of the Portfolio Properties, with limits which are customary and available for portfolios similar to the Portfolio Properties. In addition, under applicable law, the tenants must conduct their business in their leased premises in accordance with applicable environmental laws and regulations and will be responsible for any liabilities arising out of infractions to such laws and regulation.

We intend to make the necessary capital and operating expenditures to ensure compliance with environmental laws and regulations. However, environmental laws and regulations can change and we may become subject to more stringent environmental laws and regulations (or more stringent enforcement or administration of existing legislation) in the future.

We may incur significant capital expenditures and other fixed costs

Certain significant expenditures, including property taxes, maintenance costs, mortgage and leasehold payments, insurance costs and related charges, must be made throughout the period of ownership of real property, regardless of whether the property is producing sufficient income to pay such expenses. This may include expenditures to fulfill mandatory requirements for energy efficiency. In order to retain desirable rentable space and to generate adequate revenue over the long term, we must maintain or, in some cases, improve each property's condition to meet market demand. Maintaining a rental property in accordance with market standards can entail significant costs, which we may not be able to pass on to our tenants. Numerous factors, including the age of the relevant building structure, the material and substances used at the time of construction or currently unknown building code violations, could result in substantial unbudgeted costs for refurbishment or modernization.

If the actual costs of maintaining or upgrading a property exceed our estimates, or if hidden defects are discovered during maintenance or upgrading, which are not covered by insurance or contractual warranties, or if we are not permitted to raise the rents due to legal constraints, we will incur additional and unexpected costs. If competing properties of a similar type are built in the area where one of our properties is located or similar properties located in the vicinity of one of our properties are substantially refurbished, the net operating income derived from and the value of, such property could be reduced.

Any failure by us to undertake appropriate maintenance and refurbishment work in response to the factors described above could adversely affect the rental income we earn from such properties; for example, such a failure could entitle tenants to withhold or reduce rental payments or even to terminate existing leases. Any such event could have a material adverse effect on our cash flows, financial condition and results of operations and our ability to make distributions on the Units.

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

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

Our access to third-party financing will be subject to a number of factors, including:

- General market conditions;
- The market's perception of our growth potential;
- Our current and expected future earnings;
- Our cash flow and cash distributions and cash interest payments; and
- The market price of our Units.

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

The degree to which we are leveraged could have important consequences to unitholders. Such factors include:

- A significant portion of our cash flow may be dedicated to the payment of the principal of, and interest on, our indebtedness, thereby reducing the amount of funds available for the payment of cash distributions to Unitholders;
- Certain of our borrowings will be at variable rates of interest which exposes us to the risk of increased interest rates;
- A significant portion of cash flows could be used to service indebtedness;
- A high level of debt would increase vulnerability to general adverse economic and industry conditions;
- The covenants contained in the agreements governing our other indebtedness may limit our ability to borrow additional funds, dispose of assets, encumber our assets and make potential investments;
- A high level of debt may place us at a competitive disadvantage compared to other owners of similar real estate properties that are less leveraged and therefore may be able to take advantage of opportunities that our indebtedness would prevent us from pursuing;
- Our debt covenants may also affect flexibility in planning for, and reacting to, changes in the economy and in the industry;
- A high level of debt may make it more likely that a reduction in our borrowing base following a periodic valuation (or redetermination) could require us to repay a portion of then-outstanding borrowings; and
- A high level of debt may impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general trust or other purposes.

A high level of indebtedness increases the risk that we may default on our debt obligations. Our ability to make scheduled payments of the principal of, or interest on, and to otherwise satisfy our debt obligations depends on future performance, which is subject to the financial performance of our properties, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond our control. We may not be able to generate sufficient cash flows to pay the interest on our indebtedness, and our future working capital, borrowings or equity financing may not be available to pay or refinance such debt.

Changes in government regulations may affect our investment in the Portfolio Properties

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

Legal and political risks related to France and Germany

Our investments, and ultimately our revenues, are in investments located in France and Germany, which subjects us to legal and political risks specific to France and Germany, including but not limited to:

- The enactment of laws prohibiting or restricting the foreign ownership of property;
- Laws restricting us from removing profits earned from activities in France and Germany to Luxembourg, including the payment of distributions and nationalisation of assets;
- Change in the availability, cost and terms of mortgage funds resulting from varying national economic policies;
- Changes in the real estate and other tax rates and other operating expenses in France and Germany; and
- More stringent environmental laws or changes in such laws.

Any of these factors could adversely impact our investments, cash flows, operating results or financial condition, or ability to make distributions on the Units and our ability to implement our growth strategy.

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

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

Changes in currency exchange rates could adversely affect our business

Substantially all of our investments and operations will be conducted in currencies other than Canadian dollars; however, we pay distributions to Unitholders in Canadian dollars. We also raise funds primarily in Canada from the sale of securities in Canadian dollars and invest such funds indirectly through our Subsidiaries in currencies other than Canadian dollars. As a result, fluctuations in such foreign currencies against the Canadian dollar could have a material adverse effect on our financial results, which are denominated and reported in Canadian dollars, and on our ability to pay cash distributions to Unitholders. We implement active hedging programs in order to offset the risk of revenue losses and to

provide more certainty regarding the payment of distributions to Unitholders if the Canadian dollar increases in value compared to foreign currencies. However, to the extent that we fail to adequately manage these risks, including if any such hedging arrangements do not effectively or completely hedge changes in foreign currency rates, our financial results, and our ability to pay distributions to Unitholders, may be negatively impacted.

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

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

We require extensive financial resources to implement our future investment concepts and growth strategy. We are dependent on a substantial portion of these resources to finance the potential purchase of future real estate properties. When concluding financing agreements or extending such agreements, we depend on our ability to agree on terms for interest payments that will not impair our desired profit and on amortization schedules that do not restrict our ability to pay distributions. In addition to the variable rate portion of the leaseholders and the mortgage loans in respect of the Portfolio Properties, we will enter into future financing agreements with variable interest rates if the current historical low level of interest rates continue. Given the current historical low level of interest rates there is a risk that interest rates will increase. An increase in interest rates could result in a significant increase in the amount paid by us and our Subsidiaries to service debt, resulting in a decrease in distributions to Unitholders, and could impact the market price of the Units. In addition, increasing interest rates may put competitive pressure on the levels of distributable income paid by us to Unitholders, increasing the level of competition for capital faced by us, which could have a material impact on the trading price of the Units.

Acquisitions of properties may expose us to undisclosed defects and obligations

Our growth prospects depend in large part on identifying suitable acquisition opportunities, pursuing such opportunities and consummating acquisitions. We intend to make acquisitions and dispositions of properties in accordance with our external growth strategy. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner, as well as our ability to realize our anticipated growth opportunities and synergies from our newly acquired properties.

Notwithstanding pre-acquisition due diligence, it is not possible to fully understand a property before it is owned and operated for an extended period of time. For example, we could acquire a property that contains undisclosed defects in design or construction. Furthermore, we are not always able to obtain from the seller the records and documents that we need in order to fully verify that the buildings we acquire were constructed in accordance, and that their use complies, with planning laws and building code requirements. Accordingly, in the course of acquiring a property, specific risks might not be or might not have been, recognized or correctly evaluated. Thus, we could overlook or misjudge legal and/or economic liabilities. These circumstances could lead to additional costs and could have an adverse effect on our proceeds from sales and rental income of the relevant properties. In addition, after the acquisition of a property by us, the market in which the acquired property is located may experience unexpected changes that adversely affect the property's value. The occupancy of properties that we acquire may decline during its ownership, and rents that are in effect at the time a property is acquired may decline thereafter. For these reasons, among others, our property acquisitions may cause us to experience losses. If we are unable to manage our growth and integrate our acquisitions effectively, our investments, operating results and financial condition could be adversely affected.

If we discover, during the course of a refurbishment or modernization, that a building we acquired is subject to historic preservation laws, the need to comply with the respective historic preservation

requirements could lead to significant delays in the refurbishment or modernization process, the inability to carry out particular refurbishment or modernization measures, and also significantly higher costs for the particular project. These factors could result in us being unable to perform our contractual obligations to a tenant, with the consequence that the tenant's obligation to make payments would be excused or deferred. The same would be true if the legal requirements relating to existing and permitted properties and their use become more onerous, particularly with respect to construction and environmental requirements. We will continually assess the value and contribution of our properties and may dispose of properties from time to time if determined to be in our best interests. Depending on the state of the market for these types of properties, if disposed of, we may realize less than our carrying value in our financial statements.

Limitations of appraisals and engineering and environmental reports

In general, the appraisals of the Portfolio Properties represent only the analysis and opinion of qualified experts and are not guarantees of present or future value. There is no assurance that the assumptions employed in determining the appraised value of the Portfolio Properties are correct or that such valuation actually reflects an amount that would be realized upon a current or future sale of the Portfolio Properties or that any projections included in the appraisals will be attainable. Moreover, the appraised value of the Portfolio Properties may be significantly higher than the amount that can be obtained from the sale of the Portfolio Properties under a distress or liquidation sale. As a result, the fair market value of the Portfolio Properties shown on the appraisals may be an unreliable indication of its current market value. The environmental and property condition assessment reports represent only the analysis of the individual engineers or site inspectors preparing such reports, and may not reveal all necessary or desirable repairs, maintenance or capital improvement items. Generally, reports such as the appraisals, environmental reports and property condition assessment reports are subject to material contractual limitations on the persons entitled to rely on such reports and on amounts that may be claimed thereunder in the event of any error or omission in such reports. As a result, it is unlikely that investors will have any right to recover any losses from any such error or omission against the parties who prepared the appraisals, environmental reports and property condition assessment reports.

We rely on Inovalis SA for management services

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

While the Trustees have similar oversight responsibility with respect to the services provided by Inovalis SA pursuant to the Management Agreement, the services provided by Inovalis SA will not be performed by employees of the REIT, but by Inovalis SA directly and through entities to which it may subcontract. Further, the foregoing arrangements are subject to limited termination rights in favour of the REIT. As a result, Inovalis SA, directly and through entities to which it may subcontract, will have the ability to influence many matters affecting the REIT and the performance of its properties now and in the foreseeable future.

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

Losses of key personnel may affect our ability to operate

Our operations are dependent upon the participation of our key personnel, including the key employees of Inovalis SA. While we believe that we could find replacements for these employees, the loss of their services and our inability to attract and retain qualified and experienced personnel may materially affect our ability to operate and expand which could materially and adversely affect our operating results and financial condition.

Failure of technology, human processes or external events may lead to direct or indirect losses

Operational risk is the risk that a direct or indirect loss may result from an inadequate or failed technology, from a human process or from external events. The impact of this loss may be financial loss, loss of reputation or legal and regulatory proceedings. Management endeavours to minimize losses in this area by ensuring that effective infrastructure and controls exist. These controls are constantly reviewed and if deemed necessary improvements are implemented.

Our Trustees, executive officers and representatives of Inovalis SA may be put in a position of conflict as a result of their positions held and interests in other businesses

Certain of our Trustees and executive officers are also trustees, directors and/or officers of Inovalis SA, entities affiliated with Inovalis SA or other entities or are otherwise engaged, and may continue to be engaged, in activities that may put them in conflict with our investment strategy. In addition, these individuals may hold equity in or positions with other companies managed by Inovalis SA or its Affiliates and, accordingly, these individuals may not devote all of their time and attention to us. Consequently, these positions or equity interests could create, or appear to create, conflicts of interest with respect to matters involving us or Inovalis SA or its Affiliates.

Pursuant to the Declaration of Trust, all decisions to be made by the Trustees which involve us are required to be made in accordance with the Trustees' duties and obligations to act honestly and in good faith with a view to the best interests of the REIT and the unitholders. In addition, our Trustees and officers are required to declare their interests in, and such Trustees are required to refrain from voting on, any matter in which they may have a material conflict of interest. However, there can be no assurance that the provisions in the Declaration of Trust will adequately address potential conflicts of interest or that such actual or potential conflicts of interest will be resolved in our favour.

Inovalis SA provides management services to other public and private companies. As manager for other entities and on its own behalf, Inovalis SA will pursue other business opportunities, including but not limited to real estate and development business opportunities outside of the REIT. These multiple responsibilities to public companies and other businesses could create competition for the time and efforts of Inovalis SA which could materially and adversely affect our cash flows, operating results and financial condition.

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

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

Numerous other developers, managers and owners of properties will compete with us in seeking tenants. Some of the properties owned by our competitors are better located, better quality or less leveraged than the properties owned by us. Some of our competitors are better capitalized and stronger financially and hence better able to withstand an economic downturn. The existence of competition for tenants could have

an adverse effect on our ability to lease space in our properties and on the rents charged or concessions granted, and could materially and adversely affect our cash flows, operating results and financial condition and our ability to make distributions on the Units.

We may not be able to source suitable acquisitions

Our strategy includes growth through identifying suitable acquisition opportunities pursuing such opportunities, consummating acquisitions and effectively operating and leasing such properties. If we are unable to manage growth effectively, it could adversely impact our cash flows, financial condition and results of operations. There can be no assurance as to the pace of growth through property acquisitions or that we will be able to acquire assets on an accretive basis, and as such there can be no assurance that distributions to holders of Units will increase in the future.

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

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

Investments through joint venture, partnership and co-ownership agreements may restrict our ability to deal with a property or expose us to liability

From time to time we may choose to enter into any of such arrangements in respect of future acquisitions of properties. A joint venture or partnership involves certain additional risks, including, (a) the possibility that such co-venturers/partners may at any time have economic or business interests or goals that will be inconsistent with us or take actions contrary to our instructions or requests or to our policies or objectives with respect to our real estate investments, (b) the risk that such co-venturers/partners could experience financial difficulties or seek the protection of bankruptcy, insolvency or other laws, which could result in additional financial demands on us to maintain and operate such properties or repay the co-venturers’/partners’ share of property debt guaranteed by us or for which it will be liable and/or result in its suffering or incurring delays, expenses and other problems associated with obtaining court approval of joint venture or partnership decisions, (c) the risk that such co-venturers/partners may, through their activities on behalf of or in the name of, the ventures or partnerships, expose or subject us to liability, and (d) the need to obtain co-venturers’/partners’ consents with respect to certain major decisions, including the decision to distribute cash generated from such properties or to refinance or sell a property. In addition, the sale or transfer of interests in certain of the joint ventures and partnerships may be subject to rights of first refusal or first offer and certain of the joint venture and partnership agreements may provide for buy-sell or similar arrangements. Such rights may be triggered at a time when we may not desire to sell but may be forced to do so because we do not have the cash to purchase the other party’s interests. Such rights may also inhibit our ability to sell an interest in a property or a joint venture/partnership within the time frame or otherwise on the basis we desire.

We may not be able to fully manage internal controls

Effective internal controls are necessary for us to provide reliable financial reports and to help prevent fraud. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our results of operations or cause us to fail to meet our reporting obligations. If we or our auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in our consolidated financial statements and adversely affect the trading price of the Units.

IFRS reporting may result in our balance sheet and net income being subject to increased volatility as the fair value of our portfolio changes

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

Regulatory requirements may limit a future change of use for some Portfolio Properties

A change of use of the Portfolio Properties may be limited by several regulatory requirements, including monument protection regulations, urban development regulations, specific limitations for postal buildings and general planning law requirements. This may therefore inhibit our ability to re-lease vacant space to subsequent tenants, or may adversely affect our ability to sell, lease or finance the affected Portfolio Properties.

Legal proceedings in the normal course of our operations may result in claims against us

In the normal course of our operations, whether directly or indirectly, we may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to personal injuries, property damage, property taxes, land rights, the environment and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined in a manner adverse to us and as a result, could have a material adverse effect on our assets, liabilities, business, financial condition and results of operations. Even if we prevail in any such legal proceeding, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from our business operations, which could have a material adverse effect on our business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

Limitations on enforcement of certain civil judgments by Canadian investors

Inovalis SA and our Subsidiaries are organized under the laws of France, Germany and Luxembourg. All of the assets of Inovalis SA and our Subsidiaries are located outside of Canada and certain of their Trustees, directors and officers, as well as certain of the experts retained by us, are residents of countries other than Canada. As a result, it may be difficult or impossible for investors to effect service within Canada upon such persons, or to realize against them in Canada upon judgments of courts of Canada predicated upon the civil liability provisions of applicable Canadian provincial securities laws. There is some doubt as to the enforceability in Europe by a court in original actions, or in actions to enforce judgments of Canadian courts, of civil liabilities predicated upon such applicable Canadian provincial securities laws.

Risks Relating to an Investment in Units

Structural subordination of the Units may limit our ability to pay distributions

In the event of a bankruptcy, liquidation or reorganization of us or any of our Subsidiaries, holders of our indebtedness and our trade creditors will generally be entitled to payment of their claims from our assets and those of our Subsidiaries before any assets are made available for distribution to us or Unitholders. Upon completion of the Offering, the Units will be subordinated to the debt and other obligations of us and our Subsidiaries. We and our Subsidiaries will generate all of our revenue available for distribution and hold substantially all of our operating assets.

Cash distributions are not guaranteed and may fluctuate with our financial performance

Our distribution policy is established in the Declaration of Trust and may only be changed with the approval of a majority of Unitholders. However, the Trustees may reduce or suspend cash distributions indefinitely, which could have a material adverse impact on the market price of the Units. Although we intend to make cash distributions in accordance with our distribution policy, the actual cash flow available for distribution to Unitholders is dependent on the amount of cash flow paid to us by our operating entities and can vary significantly from period to period for a number of reasons, including among other things: (a) the amount of net rental income derived from our properties; (b) the amount of cash required or retained for debt service or repayment; (c) amounts required to fund capital expenditures and working capital requirements; (d) tenant allowances; (e) leasing commissions; (f) Unit redemptions; (g) foreign currency exchange rates and interest rates; (h) the level of foreign taxes, if any, payable by a Subsidiary and (i) other factors that may be beyond our control. These amounts are subject to the discretion of the Trustees, which will regularly evaluate our distribution payout with respect to anticipated cash flows, debt levels, capital expenditure plans and amounts to be retained to fund acquisitions and expenditures. In addition, our level of distributions per Unit will be affected by the number of outstanding Units and other securities that may be entitled to receive cash distributions. Distributions may be increased, reduced or suspended entirely depending on our operations and the performance of our assets. The market value of the Units may deteriorate if we are unable to meet distribution expectations in the future and such determination may be material.

Unitholders do not have legal rights normally associated with ownership of shares of a corporation

Unitholders do not have all of the statutory rights normally associated with ownership of shares of a company including, for example, the right to bring “oppression” or “derivative” actions against us. The Units are not “deposits” within the meaning of the Canada Deposit Insurance Corporation Act and are not insured under the provisions of that Act or any other legislation. Furthermore, we are not a trust company and, accordingly, are not registered under any trust and loan company legislation as we do not carry on or intend to carry on the business of a trust company.

The issuance of additional REIT Units will result in dilution

The number of Units we are authorized to issue is unlimited. We may, in our sole discretion, issue additional Units from time to time. Any issuance of Units, including Units issued in consideration for properties acquired by us, will have a dilutive effect on existing unitholders.

Regulatory approvals may be required in connection with a distribution of securities on a redemption of Units or our termination

Upon a redemption of Units or termination of the REIT, the Trustees may distribute securities directly to the unitholders, subject to obtaining any required regulatory approvals. No established market may exist for the securities so distributed at the time of the distribution and no market may ever develop. In addition, the

securities so distributed may not be qualified investments for registered plans, depending upon the circumstances at the time.

Risks Relating to Tax Matters

Taxation of Trusts

The REIT currently qualifies as a “unit trust” and a “mutual fund trust” for purposes of the Tax Act. There can be no assurance that Canadian federal income tax laws and the administrative policies and assessing practices of the CRA respecting mutual fund trusts will not be changed in a manner that adversely affects Unitholders. Should the REIT cease to qualify as a mutual fund trust under the Tax Act, the income tax considerations relating to the Units would be materially and adversely different in certain respects.

Application of the SIFT Rules

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

FAPI

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

Foreign Currency

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

Change of Tax Law

There can be no assurance that Canadian or foreign income tax laws, the judicial interpretation thereof, the terms of any income tax treaty applicable to the REIT or its affiliates or the administrative policies and assessing practices and policies of the CRA, Finance and any foreign tax authority or tax policy agency will not be changed in a manner that adversely affects the REIT, its affiliates or Unitholders. Changes in tax legislation, administrative practice or case law could have adverse tax consequences for us, and amendments to applicable laws, orders and regulations can be issued or altered with retroactive effect. Additionally, divergent interpretations of tax laws by the tax authorities or the tax courts are possible. These

interpretations may be changed at any time with adverse effects on our taxation. Furthermore, court decisions are often overruled by the tax authorities by way of issuing non-application decrees. As a result, major uncertainties exist with regard to the taxation rules applicable to us and our Subsidiaries. Deviating views adopted by the tax authorities or the tax courts might lead to a higher tax burden for us. Additionally, if adverse changes in the tax framework should occur, or if we are subject to tax audits or reassessments that result in the imposition of taxes individually or together, this could adversely impact our investments, cash flows, operating results or financial condition, our ability to make distributions on the Units and our ability to implement our growth strategy.

Residents of Canada

The Tax Act may impose additional withholding or other taxes on distributions made by the REIT to Unitholders who are Non-Residents. These taxes and any reduction thereof under a tax treaty between Canada and another country may change from time to time.

Taxation of the REIT and its Subsidiaries

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

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

Qualified Investors

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

German Taxes

The German SPVs would be subject to municipal trade tax ("TT") if it acts through a German permanent establishment. We have assumed that the German SPVs will not be subject to TT based on our current understanding of the structure. On an ongoing basis, we intend to manage our affairs in a manner consistent with this assumption, with a view to minimizing, to the extent possible, the amount of taxable income from operations in Germany and to mitigating the risk that the German SPVs are subject to TT. However, no assurances can be given that the German SPVs will not be subject to TT. If it is determined that the German SPVs do have a permanent establishment in Germany and it would gain a taxable profit for TT purposes, the overall German income tax burden would increase substantially from 15.825% to a rate that ranges between approximately 23% and 33%, depending on the German municipality in which such permanent establishment is located. If the German SPVs are subject to TT, it could materially and adversely affect our cash flows, financial condition and distributions to Unitholders.

The intended treatment of the lease structure is that the Hanover Owner still qualifies as the beneficial owner of the Hanover Property for German tax purposes. Accordingly, such characterization has

been assumed in historical tax filings and will be reflected going forward. However, no assurances can be given that the German tax authorities will agree with this characterization. If the German tax authorities challenge this position, it may adversely impact the past, current and future tax treatment and may result in increased tax payments. Any challenge in this regard could materially and adversely affect our cash flows, financial condition and distributions to Unitholders.

RETT generally applies where there is a transfer of legal title of properties from one legal person to another. If the exerciser of the purchase option in respect of the Hanover Property, legal title to German real estate would be transferred and, consequently, RETT would be payable in connection therewith. The rate of RETT is currently 4.5%. Moreover, no assurances can be given that the applicable rate of RETT will not increase. The payment of RETT could materially and adversely affect our cash flows, financial condition and distributions to Unitholders.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

Management’s Discussion and Analysis of Results of Operations and Financial Condition of the REIT as at December 31, 2014, as filed on SEDAR at www.sedar.com, is incorporated by reference herein.

MANAGEMENT OF THE REIT

Trustees and Officers

The Board of Trustees consists of seven Trustees, six of whom are Independent Trustees within the meaning of National Instrument 58-101 – *Disclosure of Corporate Governance Practices* (“**NI 58-101**”). The REIT has determined that Stéphane Amine is not independent under NI 58-101 due to his role as Chairman and Founder of Inovalis SA. The Trustees are elected by unitholders at each annual meeting of unitholders and hold office for a term expiring at the close of the next annual meeting or until their respective successors are elected or appointed and are eligible for re-election or re-appointment. Pursuant to the Declaration of Trust, the Board of Trustees has established three committees: the Audit Committee, the Compensation and Governance Committee and the Investment Committee. Each Committee is to be composed of at least three Trustees, all of whom must be Independent Trustees and a majority of whom must be residents of Canada. The nominees for election as Trustees are determined by the Compensation and Governance Committee (“**Compensation and Governance Committee**”) in accordance with the provisions of the Declaration of Trust and the Charter of the Compensation and Governance Committee.

The services of the REIT’s senior management team will be provided by Inovalis SA pursuant to the Management Agreement.

The following table sets forth the name, municipality of residence and positions held with the REIT (or functions performed on behalf of the REIT) of each Trustee and executive officer of the REIT.

Name, Province or State and Country of Residence	Position/Title	Committees	Principal Occupation
Stéphane Amine <i>Paris, France</i>	Chairman and Trustee	N/A	Chairman and Founder, Inovalis SA
Daniel Argiros <i>Ontario, Canada</i>	Independent and Lead Trustee	Audit Committee	Co-Founder, Conundrum Capital Corporation Chief Executive Officer, Potentia Solar Inc.
Jean-Daniel Cohen <i>Paris, France</i>	Independent Trustee	Audit Committee	Chairman, Hoche Partners Group of Companies Managing Director, Laforêt Real Estate
Richard Dansereau <i>Quebec, Canada</i>	Independent Trustee	Compensation and Governance Committee (Chairman) and Investment Committee	Managing Director at Stonehenge Partners
Marc Manasterski <i>Paris, France</i>	Independent Trustee	Investment Committee, Compensation and Governance Committee	Partner, Quilvest Real Estate
Raymond Paré <i>Quebec, Canada</i>	Independent Trustee	Audit Committee (Chairman)	Chief Financial Officer and Vice-President, Alimentation Couche-Tard Inc.
Michael Zakuta <i>Quebec, Canada</i>	Independent Trustee	Investment Committee (Chairman) and Compensation and Governance Committee	President & Chief Executive Officer, Plaza Retail REIT
David Giraud <i>Paris, France</i>	Chief Executive Officer	N/A	Managing Director, Inovalis SA Chief Executive Officer of the REIT
Antoine Tronquoy <i>Québec, Canada</i>	Chief Financial Officer	N/A	Chief Financial Officer, Inovalis REIT
Khalil Hankach <i>Paris, France</i>	Chief Investment Officer	N/A	Deputy Managing Director, Inovalis SA

All Trustees have been Trustees of the REIT since April 10, 2013. Mr. Giraud has been Chief Executive Officer of the REIT since April 10, 2013. Mr. Tronquoy was appointed to Chief Financial Officer of the REIT on August 13, 2013, and Mr. Hankach was appointed as Chief Investment Officer of the REIT on January 28, 2014.

As a group, our Trustees and executive officers beneficially own, or control or direct, directly or indirectly, 372,200 Units, representing approximately 2.4% of the issued and outstanding Units (on a fully-exchanged basis). In addition, Inovalis SA owns Exchangeable Securities, which are, in the aggregate, exchangeable into 2,043,347 Units (as at December 31, 2014), representing an approximate 11.8% ownership interest in the REIT, and which combined with the 180,000 Units directly owned by Inovalis SA, represent a total ownership interest of 12.8% in the REIT.

Additional information regarding the Trustees and executive officers of the REIT is set forth below:

Stéphane Amine, Trustee. Mr. Amine has over 20 years of management experience in the European real estate market and serves as the Chairman of the REIT. Since founding Inovalis SA in 1998, Mr. Amine has helped build Inovalis SA into one of Western Europe's leading privately owned real estate investment management companies. Under his stewardship, Inovalis SA has grown to manage commercial real estate

properties in France and Germany, with assets under management of approximately \$10 billion as at December 31, 2014. Inovalis SA now has over 500 employees, including employees within Avenir Finance, a company controlled by Inovalis SA. Prior to founding Inovalis SA, Mr. Amine managed the multinational investors of Constructa S.A., a leading developer and property manager with offices, at the time, in the United Kingdom, Switzerland and the United States. Mr. Amine graduated with a Masters in Management from Reims Management School (RMS Grand Ecole / Sup de Co Reims).

Daniel Argiros, *Independent Trustee.* In 2000, Mr. Argiros co-founded Conundrum Capital, a real estate private equity fund manager serving major pension funds and institutional investors. In addition, Mr. Argiros is the founder and Chief Executive Officer of Potentia Solar Inc., an independent power producer focused on the development, ownership and operation of solar photovoltaic energy systems. As founder, President and Chief Executive Officer of Acanthus Real Estate Corporation, he grew the firm, between 1997 and 2000, to an asset value of over \$500-million on the Toronto Stock Exchange, selling it in September 2000 to La Caisse de Depot et Placement du Quebec. Prior to forming Acanthus, Mr. Argiros led the investment management subsidiary of Corporate Planning Associates, from 1988 to 1997. Mr. Argiros began his career with the national accounting firm, Deloitte, Haskins & Sells in 1985, after completing his Bachelor of Commerce degree at the University of Toronto. He obtained his designation as a Chartered Accountant (C.A.) the following year. Mr. Argiros is a Director and Past President of ProAction, Cops and Kids. Mr. Argiros serves as the Lead Trustee of the REIT.

Jean-Daniel Cohen, *Independent Trustee.* Since 2001 Mr. Cohen has served as the Chairman and CEO of Hoche Partners Group of Companies, an international investment bank focused on providing advisory, structured financing, private equity and real estate services to family offices and medium-sized businesses. He also serves as Managing Director of LAURAD, a real estate-focused private equity investment group, whose investments include Laforêt Real Estate, a leading France based retail real estate broker franchise. Mr. Cohen sits on the Board of Société Centrale des Bois et Scieries de la Manche (SCBSM), a real estate investment trust listed on NYSE Euronext Paris, as well as Crosswood, and Focière Volta, two French listed NYSE Euronext Paris investment companies. Prior to his current role, Mr. Cohen was the Managing Partner at Aurel-Leven, a leading independent French brokerage and investment bank, the Managing Partner at UFFI REAM, a real estate asset manager and CEO of Louis Dreyfus Finance (Banque), the banking arm of the Louis Dreyfus Group. Mr Cohen graduated from Ecole Centrale de Paris.

Richard Dansereau, *Independent Trustee.* Mr. Dansereau brings over 30 years of real estate experience, during which time he has been involved in all aspects of real estate for a variety of different firms. Mr. Dansereau is currently a Managing Director at Stonehenge Partners, a New York-based real estate company, which owns and manages a portfolio of more than 3,000 luxury rental apartments in Manhattan. Prior to joining Stonehenge, Mr. Dansereau was President and Chief Operating Officer of Cadim, a real estate division of Caisse de depot et placement du Québec, from 2000 to 2009 and, prior to that, he was Vice-President of Acquisitions for Canadian Real Estate Investment Trust from 1997 to 2000. In addition, he has been employed at a number of notable real estate firms, including Brasos Advisors (now Lonestar), Colliers International and Marcil Trust, and has served on the boards of private and public companies, including MCAN Mortgage Corporation. Mr. Dansereau has a certificate in marketing from the Business School of the University of Montreal. Mr. Dansereau serves as Chairman of the REIT's Compensation and Governance Committee.

Marc Manasterski, *Independent Trustee.* Mr. Manasterski is a partner and Head of Quilvest Real Estate, a division of Quilvest, a multi-family office with global reach. Before joining Quilvest in February 2008, Mr. Manasterski served as Chief Executive Officer of Alliance Hospitality Group, managing a large hotel portfolio in France, Belgium and Italy on behalf of Whitehall, Goldman Sachs' real estate opportunity fund. Prior to that, Mr. Manasterski enjoyed more than 20 years of direct experience in real estate development. As Chief Executive Officer of several private investment funds owned by banks or/and high net worth individuals, he led concept development and construction of market multi-component resorts and smaller redevelopment projects. Mr. Manasterski holds an H.N.D. in Marketing from the College for the Distributive Trades (London) and a Masters in Business Administration from INSEAD, Fontainebleau.

Raymond Paré, Independent Trustee. Mr. Paré is the Chief Financial Officer and a Vice-President of Alimentation Couche-Tard Inc., the largest independent convenience-store operator in terms of company-owned stores in North America. Prior to assuming his current position, Mr. Paré held the position of Vice-President, Corporate Finance and Treasurer and previously, the position of Director, Finance within Alimentation Couche-Tard Inc. since 2003. In 1992, Mr. Paré began his professional career at Ernst & Young as a Chartered Accountant and, prior to joining Alimentation Couche-Tard Inc., held several senior positions in financial and operational management at JAC Canada / USA Inc. and Bombardier Inc. Mr. Paré graduated in 2008 with a Masters in Business Administration for management in Financing. In 1992 Mr. Paré obtained a Bachelor's Degree in Accounting from the Université du Québec in Montréal became a Chartered Accountant in 1994. Mr. Paré serves as the Chairman of the REIT's Audit Committee.

Michael Zakuta, Independent Trustee – Mr. Zakuta has served as President, Chief Executive Officer and Director of Plaza Retail REIT (previously named Plazacorp Retail Properties Limited) since 2005. Plaza Retail REIT is one of Eastern Canada's leading retail property owners with interests in 332 properties comprising over 6.6 million square feet of retail space. Previously, Mr. Zakuta was Vice-President of Plazacorp Retail Properties Limited. He is a co-founder of Plaza Retail REIT and has served as a Director of the company since its inception in 1999. Mr. Zakuta is a Director of Fronsac REIT (TSX Venture) an owner of "management free", triple net retail assets in Quebec. He began his career in real estate after obtaining a law degree (L.L.B) from the University of Montreal and a business degree (B. Comm) from McGill University. Mr. Zakuta will serve as the Chairman of the REIT's Investment Committee.

David Giraud, Chief Executive Officer. Mr. Giraud has over 20 years of management experience in the European real estate market and serves as the Chief Executive Officer of the REIT. Since co-founding Inovalis SA in 1998, Mr. Giraud has helped build Inovalis SA into one of Western Europe's leading privately owned real estate investment management companies, growing from approximately \$19 million in equity under management to almost \$750 million in equity under management and ten key accounts as of the end of fiscal 2011. During this time Mr. Giraud has focused on fund structuring, investor relations and overall fund management. Prior to co-founding Inovalis SA, Mr. Giraud acted as Chief Operating Officer of various private equity companies which made investments in various industries Turkey, Lebanon and France. Mr. Giraud graduated with a Masters in Management from Reims Management School (RMS Grande Ecole / Sup de Co Reims).

Antoine Tronquoy, Chief Financial Officer. Mr. Tronquoy has 12 years of experience in real estate financing in Europe and in Canada. Prior to joining Inovalis, Mr. Tronquoy spent three years at Otéra Capital, the real estate debt affiliate of Caisse de dépôt et placement du Québec. Before that, he spent seven years in the real estate structured finance group and one year in the mergers and acquisition group of Morgan Stanley in Europe.

Khalil Hankach, Chief Investment Officer. Mr. Hankach has 12 years of experience in the European real estate market. From 2003 to 2006, he worked in the acquisitions department and was responsible for acquiring assets in both France and Germany. During this same time he helped Inovalis cultivate strong relationships with various European banks and was charged with raising senior debt for real estate acquisitions. In 2006, Mr. Hankach headed a joint-venture between Inovalis and U.S. and Middle Eastern investors in order to purchase performing loans and secure mezzanine financing for third party buyers of real estate. Since 2010, Mr. Hankach has managed the internal Inovalis' team responsible for bank and investor relations while also securing senior debt financing for a variety of real estate acquisitions. Mr. Hankach graduated from the University of Manchester with a bachelor's degree and Master's degree in Economics.

Penalties or Sanctions

None of our Trustees or executive officers, and to the best of our knowledge, no Unitholder holding a sufficient number of our securities to affect materially the control of the REIT, has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

Individual Bankruptcies

None of our Trustees or executive officers, and to the best of our knowledge, no Unitholder holding a sufficient number of our securities to affect materially the control of us, has, within the 10 years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

Corporate Cease Trade Orders and Bankruptcies

None of our Trustees or executive officers, and to the best of our knowledge, no Unitholder holding a sufficient number of our securities to affect materially the control of us is, as at the date hereof, or has been within the 10 years before the date hereof, (a) a director, chief executive officer or chief financial officer of any company that was subject to an order that was issued while the existing or proposed director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer, or (b) was subject to an order that was issued after the existing or proposed director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer, or (c) a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets. For the purposes of this paragraph, “order” means a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case, that was in effect for a period of more than 30 consecutive days.

Independent Trustee Matters

In addition to requiring the approval of a majority of our Trustees, the following matters require the approval of at least a majority of our Independent Trustees who have no interest in the matter to become effective:

- (a) making any material change to the Management Agreement (including any termination thereof) or any increase in the fees payable thereunder (or any change thereto which has the effect of increasing the fees payable thereunder);
- (b) entering into any agreement or transaction in which any Related Party has a material interest or making a material change to any such agreement or transaction;
- (c) approving or enforcing any agreement entered into by us with a Related Party;
- (d) permitting any of our Subsidiaries to acquire any real or other property in which a Related Party has an interest or to sell any interest in any real or other property to a Related Party; and
- (e) making or prosecuting any claim by or against any Related Party.

Conflict of Interest Restrictions and Provisions

The Declaration of Trust contains “conflict of interest” provisions similar to those applicable to corporations under Section 120 of the *Canada Business Corporations Act*, which serve to protect unitholders without creating undue limitations on us. Given that our Trustees and officers will be engaged in a wide range of real estate and other business activities, the Declaration of Trust requires each of our Trustees and officers to disclose to us if he or she is a party to a material contract or transaction or proposed material contract or transaction with us or the fact that such person is a director or officer of or otherwise has a material interest in any person who is a party to a material contract or transaction or proposed material contract or transaction with us. The Board of Trustees has also adopted a written code of conduct that applies to all of our Trustees, officers and employees and addresses conflicts of interests, among other fair dealing, compliance and ethical obligations of such persons.

Certain of our Trustees may have conflicts of interest as a result of their current full-time positions and these conflicts will be expressly acknowledged. See “Risk Factors”.

As the Chair of the Board is not an Independent Trustee, Mr. Argiros, an Independent Trustee serves as Lead Trustee in order to ensure appropriate leadership for the Independent Trustees. The primary responsibilities of the Lead Trustee are to (i) seek to ensure that appropriate structures and procedures are in place so that the Board of Trustees may function independently of management of the REIT; and (ii) lead the process by which the Independent Trustees seek to ensure that the Board of Trustees represents and protects the interests of all unitholders.

Audit Committee

National Instrument 52-110 – *Audit Committees* (“**NI 52-110**”) and the Declaration of Trust require the Board of Trustees to have an Audit Committee consisting of at least three Trustees, all of whom must be Independent Trustees, to enhance the independence of the REIT’s external auditors and oversee the financial reporting and risk management of the REIT. A copy of the written charter for the Audit Committee is attached to this AIF as Exhibit A. All of the members of the Audit Committee are financially literate and independent (as such terms are defined in NI 52-110).

The Trustees have appointed an Audit Committee consisting of, namely, Messrs. Argiros, Cohen and Paré. The education and experience of each member of the Audit Committee relevant to the performance of his responsibilities on the Audit Committee is as follows: Mr. Argiros is a chartered accountant and completed a Bachelor of Commerce degree at the University of Toronto; Mr. Cohen graduated from Ecole Centrale de Paris and Mr. Paré is a chartered accountant and obtained a Bachelor’s Degree in Accounting from the Université du Québec in Montréal and graduated with a Master’s degree in Business Administration for management in financing. The Audit Committee members have the relevant professional experience to perform their role as members of the Audit Committee. As founder, President and Chief Executive Officer of Acanthus Real Estate Corporation, a listed company that was sold to the Caisse de depot et placement du Québec in 2000, Mr. Argiros has the experience of the compliance and audit requirements pertaining to listed companies. Mr. Cohen is the Chairman of Hoche Partners Group of Companies, an international investment bank focused on providing advisory, structured financing, private equity and real estate services to family offices and medium sized companies. Mr. Cohen also sits on the board of Société Centrale des Bois et Scieries de la Manche (SCBSM), a real estate investment trust listed on NYSE Euronext Paris, as well as Crosswood and Foncière Volta, two French listed NYSE Euronext Paris investment companies. Mr. Paré is the Chief Financial Officer and a Vice-President of Alimentation Couche-Tard, a listed company and the largest independent convenience-store operator in terms of company-owned stores in North America.

The Audit Committee pre-approves the nature and fees of any non-audit services to be provided to the REIT by the external auditors and considers whether the nature and extent of such services could detract from the independence of the external auditors in carrying out the audit function. The Audit Committee also reviews the performance of any non-audit services provided by the external auditors. At no time since the commencement of the REIT’s most recently completed financial year has the REIT relied on exemptions in relation to “De Minimis Non-Audit Services” or any exemption provided by Part 8 of National Instrument 52-110 – *Audit Committees*.

AUDIT FEES

The following table sets forth all services rendered by Ernst & Young LLP (and its network), our external auditor, for fees accrued by us in 2014 for each category of service for the financial year ended December 31, 2014.

	Year Ended December 31, 2014	Year Ended December 31, 2013
Audit fees.....	\$ 446,503 ⁽¹⁾	1,506,800 ⁽²⁾
Audit-related fees	\$ 10,600	10,000 ⁽³⁾
Tax fees.....	\$ -	-
All other fees	\$ —	—
Total	\$ 457,103	1,516,800

Notes

- (1) Represents the aggregate fees billed by our external auditor for audit services. \$299,815 was related to the prospectus relating to the equity offering which closed on November 6, 2014 and the BAR associated with the properties purchased with the equity offering proceeds
- (2) Represents the aggregate fees billed by our external auditor for audit services. \$1,394,100 was related to the creation of the REIT, preparation of the April 2013 prospectus and BAR and initial audit of historical financial data
- (3) Represents the aggregate fees billed by our external auditor in 2013 for assurance and related services that are reasonably related to the performance of the auditor review of our financial statements and are not reported under “Audit fees” in the table above.

Compensation and Governance Committee

The Declaration of Trust requires a Compensation and Governance Committee, consisting of at least three (3) Trustees, to review, oversee and evaluate the governance and nominating policies and the compensation policies of the REIT. All members of the Compensation and Governance Committee are independent Trustees. The Trustees have appointed Messrs. Dansereau, Manasterski and Zakuta, with Mr. Dansereau as Chairman, all of whom are independent, to the Compensation and Governance Committee.

Investment Committee

The Declaration of Trust provides that an Investment Committee may be appointed from among the Trustees consisting of at least three (3) Trustees, all of whom must be independent Trustees in accordance with the Charter of the Investment Committee. Members of the Investment Committee, may authorize, without the Board of Trustees’ approval, proposed acquisitions, dispositions or borrowings where the acquisition, disposition or borrowing, including the assumption or granting of any mortgage, does not exceed €40 million. The Investment Committee will also recommend to the Board of Trustees whether to approve or reject proposed Transactions, where the value of such transaction exceeds €40 million. The Trustees have appointed Messrs. Zakuta, Manasterski and Dansereau, with Mr. Zakuta as Chairman, to the Investment Committee.

DECLARATION OF TRUST

Units and Special Voting Units

The REIT is authorized to issue an unlimited number of Units and an unlimited number of Special Voting Units. Issued and outstanding Units and Special Voting Units may be subdivided or consolidated from time to time by the Trustees without notice to or approval of the Unitholders.

Trust Units

No Unit has any preference or priority over another. Each Unit represents a Unitholder's proportionate undivided beneficial ownership interest in the REIT and confers the right to one vote at any meeting of unitholders and to participate pro rata in any distributions by the REIT, whether of net income, net realized capital gains or other amounts and, in the event of termination or winding-up of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities. Units are fully paid and non-assessable when issued and are transferable. The Units are redeemable at the holder's option, and the Units have no other conversion, retraction, redemption or pre-emptive rights.

Units are redeemable at any time on demand by the holders thereof. Upon receipt of the redemption notice by the Transfer Agent and the REIT, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof will be entitled to receive a price per Unit (the "**Redemption Price**") equal to the lesser of: (a) 90% of the Market Price of a Unit calculated as of the date on which the Units were surrendered for redemption; and (b) 100% of the Closing Market Price calculated on the date on which the Units were surrendered for redemption. Cash payable on redemptions will be paid pro rata in cash to all Unitholders tendering Units for redemption in any month. To the extent a Unitholder is not entitled to receive cash upon the redemption of Units, then the balance of the Redemption Price for such Units will, subject to any applicable regulatory approvals, be paid and satisfied by way of a distribution in specie to such Unitholder of Redemption Notes or securities of a REIT subsidiary or other property of the REIT, as determined by the Trustees in their sole discretion.

Exchangeable Securities and Special Voting Units

The Exchangeable Securities are accompanied by Special Voting Units, which 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 for the purpose of providing voting rights with respect to the REIT to the holders of such securities. Special Voting Units will be issued in conjunction with Exchangeable Securities to which they relate, and will be evidenced only by the certificates representing such Exchangeable Securities. Special Voting Units are not transferable separately from the Exchangeable Securities to which they are attached and will be automatically transferred upon the transfer of such Exchangeable Securities. Each Special Trust Unit will entitle the holder thereof to that number of votes at any meeting of unitholders that is equal to the number of Units that may be obtained upon the exchange of the Exchangeable Securities to which such Special Trust Unit is attached. Upon the exchange or surrender of an Exchangeable Security for a Unit, the Special Trust Unit attached to such Exchangeable Securities will automatically be redeemed and cancelled for no consideration without any further action of the Trustees, and the former holder of such Special Trust Unit will cease to have any rights with respect thereto. Special Voting Units shall not be transferable separately from the Exchangeable Securities to which they relate and will automatically be transferred upon the transfer of any such Exchangeable Securities. Special Voting Units may only be transferred to permitted transferees of Special Voting Units.

Limitation on Non-Resident Ownership

Since we do not own taxable Canadian property (as defined in the Tax Act) we are not subject to restrictions on our ownership by non-Canadian investors.

Investment Guidelines and Operating Policies

The Declaration of Trust provides for certain guidelines on investments that may be made by the REIT. Our investment and operating activities are limited because our operating business is carried out by our Subsidiaries. The Investment Guidelines governing our investments in real estate and other assets and the Operating Policies governing our investments are set out below.

Investment Guidelines

Pursuant to the Declaration of Trust and other documents governing us, our assets may be invested only in accordance with the following Investment Guidelines:

1. The REIT will only invest in units, notes and securities of its Subsidiaries, amounts receivable in respect of such units, notes and securities, cash and similar deposits in a Canadian or European chartered bank or trust company;
2. The REIT will not make, or permit any of its Subsidiaries to make, any investment that could result in: (a) the Units being disqualified for investment by Plans; (b) the REIT owning “non-portfolio property” as defined in subsection 122.1(1) of the Tax Act; or (c) the REIT ceasing to qualify as a “mutual fund trust” for purposes of the Tax Act;
3. Subject to the other provisions hereof, Subsidiaries of the REIT shall invest only in income-producing real property or assets (including ownership and leasehold interests) or assets ancillary thereto located outside of Canada;
4. Subsidiaries of the REIT will not invest in raw land (except for the acquisition of properties adjacent to our existing properties for the purpose of renovation or expansion of existing assets where the total cost of all such investments does not exceed 10% of our Gross Book Value);
5. Subsidiaries of the REIT may invest in a joint venture arrangement only if:
 - a. the arrangement is an arrangement pursuant to which the applicable Subsidiary of the REIT holds, directly or indirectly, an interest in real property jointly or in common with others (“joint venturers”) and the arrangement is formed and operated solely for the purpose of holding a particular real property or properties; and
 - b. the joint venture arrangement provides an appropriate mechanism to enable the applicable Subsidiary of the REIT to: (i) acquire the joint venturer’s interest; (ii) dispose of or otherwise liquidate its interests; or (iii) sell the entire property, unless, in each case, the joint venture arrangement is an existing arrangement that is assumed as part of a portfolio acquisition or other similar transaction;
6. Except for temporary investments held in cash, deposits with a Canadian or European chartered bank or trust company registered under the laws of a province of Canada, short-term government debt securities or in money market instruments of, or guaranteed by, a Schedule I Canadian chartered bank or a European chartered bank maturing prior to one year from the date of issue, Subsidiaries of the REIT may not hold securities or enter into derivative contracts other than (i) for hedging and other risk management purposes; or (ii) securities of a joint venture entity or a partnership, or any entity formed and operated solely for the purpose of carrying on ancillary activities to any real estate owned by the applicable Subsidiary of the REIT, or an entity owned by the applicable Subsidiary of the REIT formed and operated solely for the purpose of holding a particular real property or real properties; or (iii) securities of a public real estate entity;
7. Subsidiaries of the REIT shall not invest in rights to or interests in mineral or other natural resources, including oil or gas, except as incidental to an investment in real property;
8. Subsidiaries of the REIT may invest in a mortgage or mortgage bonds (including participating or convertible mortgages) only where:
 - a. (i) the real property which is security therefor is income-producing real property which otherwise meets our Investment Guidelines; (ii) the mortgage is a first mortgage registered on title to the real property which is security therefor; (iii) the amount of the mortgage loan is not in excess of 75% of the appraised market value of the property securing the mortgage; and (iv) the aggregate value of our investments in mortgages, after giving effect to the proposed investment, will not exceed 20% of our Gross Book Value; or
 - b. the sole intention is to use the acquisition of the mortgages as a method of acquiring control of an income-producing real property which would otherwise meet the Investment Guidelines set forth in the Declaration of Trust, provided that the aggregate value of our investments in these mortgages will not exceed 10% of our Gross Book Value and provided that we have an option to acquire a 100% interest in the subject property or properties;

provided that, notwithstanding the foregoing, Subsidiaries of the REIT may invest in any mortgage, which does not satisfy either (a) or (b) above, if such investment is specifically approved by the Trustees; and

9. Subsidiaries of the REIT may invest an amount (which, in the case of an amount invested to acquire real property, is the purchase price less the amount of any indebtedness assumed or incurred by us and secured by a mortgage on such property) up to 25% of our Gross Book Value in investments or transactions which do not otherwise comply with our Investment Guidelines, so long as the investment is outside of Canada and does not contravene Paragraph 2 above.

(collectively, the “Investment Guidelines”)

For the purpose of the foregoing restrictions, the assets, liabilities and transactions of a corporation, trust, partnership or other entity in which we have an interest will be deemed to be those of the REIT on a proportionate consolidated basis. In addition, any references in the foregoing to an investment in real property will be deemed to include an investment in a joint venture arrangement that holds real property.

Operating Policies

The Declaration of Trust and other documents governing us provide that our operations and affairs must be conducted in accordance with the following Operating Policies and that we will not permit any of our Subsidiaries to conduct its operations and affairs other than in accordance with the following Operating Policies:

1. To the extent our Trustees determine to be practicable and consistent with their fiduciary duty to act in the best interests of the REIT and our unitholders, any written instrument which, in the judgment of our Trustees, creates a material obligation of the REIT must contain a provision, or be subject to an acknowledgement to the effect, that the obligation being created is not personally binding upon, and that resort will not be had to, nor will recourse or satisfaction be sought from the private property of any of the Trustees, unitholders of the REIT, annuitants or beneficiaries under a plan of which a unitholder acts as a Trustee or carrier or officers, employees or agents of the REIT, but that only property of the REIT or a specific portion thereof will be bound;
2. The REIT will only guarantee the obligations of Subsidiaries, provided that the REIT may guarantee the obligations of Subsidiaries of the REIT that are general partners in partnerships that are not wholly-owned by the REIT if the REIT has received an unqualified legal opinion that the guarantee by the REIT will not cause the REIT to cease to qualify as a “mutual fund trust” for the purposes of the Tax Act;
3. Subsidiaries of the REIT will not enter into any transaction involving the purchase of lands or land and improvements thereon and the leasing thereof back to the vendor where the fair market value net of encumbrances of the property being leased to the vendor together with all other property being leased by Subsidiaries of the REIT to the vendor and its affiliates exceeds 15% of our Gross Book Value;
4. The limitation referred to in paragraph 3 above will not apply where the lessee or sublessee is, or where the lease or sublease is guaranteed by: (a) a federal, provincial, state, municipal or city government, or any agency or crown corporation thereof, of any jurisdiction; or (b) any corporation which has securities outstanding that have received and continue to hold an investment grade rating from a recognized credit rating agency at the time the lease or sublease is entered into, or at the time other satisfactory leasing or pre-leasing arrangements were entered into that is not less than “A low” or its equivalent;
5. Subsidiaries of the REIT may engage in construction, development or redevelopment of real property provided such real property could, on completion, meet our Investment Guidelines and Operating Policies;
6. To the extent that a Subsidiary of the REIT acquires a freehold interest in a property, title to such real property shall be held by and registered in the name of the relevant subsidiary of the REIT, the Trustees or in the name of a corporation or other entity majority owned, directly or indirectly, by the REIT or jointly, directly or indirectly, by the REIT with joint venturers;

7. Subsidiaries of the REIT will obtain and maintain at all times insurance coverage in respect of potential liabilities of Subsidiaries of the REIT and the accidental loss of value of the assets of Subsidiaries of the REIT from risks, in amounts, with such insurers, and on such terms as the Trustees consider appropriate, taking into account all relevant factors including the practices of owners of comparable properties;
8. The REIT shall not incur or assume any Indebtedness if, after giving effect to the incurring or assumption of the Indebtedness, the total Indebtedness of the REIT would be more than 55% of our Gross Book Value (or 60% of Gross Book Value including convertible debentures); and
9. Subsidiaries of the REIT shall obtain a Phase I ESA of each real property to be acquired by it and, if the Phase I ESA report recommends that a further environmental site assessment be conducted, the REIT shall have conducted such further environmental site assessments, in each case by an independent and experienced environmental consultant, and as a condition to any acquisition such assessments shall be satisfactory to the Trustees.

(collectively, the “**Operating Policies**”)

For the purpose of the foregoing Operating Policies, the assets, liabilities and transactions of a corporation, trust, partnership or other entity in which we have an interest will be deemed to be owned by the REIT on a proportionate consolidated basis. In addition, any references in the foregoing to investment in property will be deemed to include an investment in a joint venture arrangement.

Amendments to Investment Guidelines and Operating Policies

Pursuant to the Declaration of Trust, the Investment Guidelines set forth above may only be amended with the approval of at least 66²/₃% of the votes cast at a meeting of unitholders of the REIT called for that purpose, except for certain amendments that may be undertaken by a majority of the Trustees pursuant to the Declaration of Trust. Pursuant to the Declaration of Trust, the Operating Policies set forth above may only be amended with the approval of a majority of the votes cast at a meeting of unitholders of the REIT called for that purpose.

PRICE RANGE AND TRADING VOLUME OF THE UNITS

The Units of the REIT are listed on the TSX and are quoted under the symbol “INO.UN.” The following table sets forth, for the periods indicated, the price ranges and trading volumes of the Units on the TSX.

	High (\$)	Low (\$)	Volume
2014			
January	9.07	8.70	438,462
February	8.96	8.75	408,487
March	9.91	8.83	407,917
April	10.00	9.67	237,826
May	10.01	9.55	322,964
June	9.95	9.71	184,114
July	9.88	9.67	407,723
August	9.96	9.61	249,298
September	9.95	9.54	215,825
October	9.77	9.15	888,396
November	9.23	8.75	358,012
December	9.20	8.75	407,803

2015			
January	9.12	8.84	215,470
February	9.12	8.80	286,208
March 1-27	9.33	9.01	219,936

On March 27, 2015, the closing price of the Units on the TSX was \$9.20.

PRIOR SALES

On November 6, 2014, the REIT completed an equity offering of 3,978,500 Units at a price of \$9.30 per Unit for aggregate gross proceeds of \$37.0 million. Concurrently with the equity offering, Inovalis SA purchased Exchangeable Securities for a total consideration of \$4.1 million.

For the year ended December 31, 2014, a total of 21,070 Units were issued to Unitholders who chose to take advantage of the DRIP for the distributions at an average price of 9.01\$ (including DRIP bonus).

For its services under the Management Agreement during the fiscal year of the REIT ended December 31, 2014, Inovalis SA received payment of its fees through the issuance of 200,896 Exchangeable Securities, issued at an average price of \$9.49.

ESCROWED SECURITIES

The following table sets forth, to the knowledge of the REIT, the aggregate number of Units of the REIT subject to an escrow agreement with CIBC Mellon Trust Company as escrow agent, being the Initial Retained Interest, the additional 87,000 Exchangeable Securities issued as part of the over-allotment option, the Ongoing Retained Interest further to the equity offering which closed on November 6, 2014 and 50% of the Exchangeable Securities issued in favor of Inovalis SA as payment of the asset management fee (66,461 Exchangeable Securities for the year ended December 31, 2013 and 100,466 Exchangeable Securities for the year ended December 31, 2014), and the percentage of that number represents the percentage of the issued and outstanding Units of the REIT as at December 31, 2014.

	Total Number of Units held in Escrow (as at December 31, 2014)	Percentage of Outstanding Units (fully diluted)
Exchangeable Securities ⁽¹⁾		
As at Dec 31, 2013	1,322,223	7.6%
Ongoing Retained Interest	453,766	2.6%
Asset management fees (50%)	100,446	0.6%
Total as at Dec 31, 2014	1,876,435	10.8%

Note:

(1) The Exchangeable Securities are held by Inovalis SA and will be immediately released from escrow upon termination of the Management Agreement, except in the case of internalization of the management of the REIT, in which case (i) one third of the Exchangeable Securities will be automatically released upon internalization of the management of the REIT, and (ii) one third of the Exchangeable Securities will be released on the first and second anniversaries of the internalization of the REIT.

DISTRIBUTIONS AND DISTRIBUTION POLICY

The following outlines the distribution policy of the REIT. Subject to compliance with such distribution policy, determinations as to the amounts distributable are in the discretion of our Trustees to

determine the percentage payout of income that would be in the best interests of the REIT in accordance with our Declaration of Trust. Given that the level of working capital tends to fluctuate over time and should not affect our distribution policy, working capital is not considered when determining our distributions.

In order to ensure the predictability of distributions to our Unitholders, we have established an active foreign exchange hedging program. As at December 31, 2014, according to the hedging program in place, until April 2017, every month, the REIT was committed to sell €486 at a rate of 1.5437 and to receive \$750. In January 2015, in order to cover 100% of the cash distributions monthly paid by the REIT (including the Units issued in November 2014), the REIT entered into additional hedging contracts. Further to the combination of the contracts in place as at December 31, 2014 and the additional coverage taken in January 2015, the REIT will, every month, be selling on the average €657 at an average rate of 1.5227 and receiving \$1,000.

The REIT makes monthly cash distributions to Unitholders on each Distribution Date (being in respect of a month), on or about the 15th day of the following month. The following table sets out the distributions paid by the REIT for the periods indicated:

<i>(in thousands of CAD\$ except for per Unit amounts)</i>	3-month period		12-month period	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Declared distributions on Units	2,877	2,327	9,864	6,771
Declared distributions on Exchangeable securities	378	275	1,267	752
Total declared distributions	3,255	2,602	11,131	7,523
Distribution per Unit (diluted) ⁽¹⁾	\$0.21	\$0.21	\$0.83	\$0.60

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

Distribution Reinvestment Plan

A Distribution Reinvestment Plan (“**DRIP**”) has been put in place starting from the July distribution (paid on August 15, 2013) pursuant to which Unitholders may elect to have cash distributions of the REIT automatically reinvested in additional Units at a price per Unit equal to the VWAP for the five (5) trading days immediately preceding the relevant Distribution Date. Unitholders who so elect will receive a further distribution of Units with a value equal to 3% of each distribution that was so reinvested by the Unitholder. Unitholders resident outside of Canada will not be entitled to participate in the DRIP. Upon ceasing to be a resident of Canada, a Unitholder must terminate the Unitholder’s participation in the DRIP. For the year ended December 31, 2014, a total of 21,070 Units were issued to Unitholders who chose to take advantage of the DRIP for the distributions. As of March 15, 2015, approximately 5.7% of the Units were enrolled in the DRIP.

Unitholder Rights Plan

General

The REIT has established a Unitholders’ rights protection plan. The purposes of the Rights Plan are as follows: (i) to ensure, to the extent possible, that the Trustees have sufficient time to consider and evaluate any unsolicited take-over bid for the REIT Units or other acquisition of control of the REIT; (ii) to provide the Trustees with adequate time to explore and develop alternatives, in order to maximize unitholder value; and (iii) to ensure, to the extent possible, the equal treatment of unitholders in connection with any unsolicited take-over bid.

One Right is attached to each outstanding REIT Unit. The Rights will separate from the REIT Units and become exercisable (the “Separation Time”) at the close of business on the 10th business day after the earlier of (A) the first date of public announcement by the REIT or an Acquiring Person of facts indicating that a person has become an Acquiring Person, and (B) the date of the commencement of, or first public announcement of, the intent of any person (other than the REIT or any subsidiary of the REIT) to commence, a take-over bid (other than a Permitted Bid or “Competing Permitted Bid” (as described below)), or the date on which a Permitted Bid or Competing Permitted Bid ceases to qualify as such, or, in either case, such later date as may be determined by the Trustees. Until a Right is exercised, the holder thereof, as such, will have no rights as a unitholder.

Acquiring Person

An “Acquiring Person” is any person who beneficially owns 20% or more of all REIT Units. An Acquiring Person does not, however, include: (a) the REIT or any Subsidiary of the REIT; (b) any person who owns, directly or indirectly, 20% or more of the REIT Units (a “**Grandfathered Person**”), provided, however, that this exception shall not be, and shall cease to be, applicable to a Grandfathered Person in the event that such Grandfathered Person shall, after the close of business on the IPO Closing Date, other than pursuant to certain exempt transactions, (i) cease to beneficially own 10% or more of the outstanding REIT Units or (ii) become the owner, directly or indirectly, of Units that increases its percentage ownership interest in the REIT to an amount that exceeds its percentage ownership interest in the REIT following the close of business on the IPO Closing Date, plus an additional 1.0%; or (c) any person who becomes the beneficial owner of 20% or more of the REIT Units as a result of certain exempt transactions.

Exempt transactions include: (a) specified acquisitions (including pursuant to the DRIP) or redemptions of Units; (b) acquisitions pursuant to a Permitted Bid (which may include a Competing Permitted Bid), as described below; or (c) acquisitions of REIT Units in exchange for additional properties being acquired by the REIT.

Flip-In Event

The acquisition by an Acquiring Person, including persons acting jointly or in concert, of 20% or more of the REIT Units, other than by way of a Permitted Bid in certain circumstances, is referred to as a “**Flip-in Event**”. Any Rights held by an Acquiring Person on or after the earlier of the Separation Time or the first date of public announcement by the REIT or by an Acquiring Person that an Acquiring Person has become such, will become void upon the occurrence of a Flip-in Event. Ten business days after the occurrence of the Flip-in Event, the Rights (other than those held by the Acquiring Person) will permit the holder to purchase, for example, Units with a total market value of \$200, on payment of \$100 (i.e., at a 50% discount).

The issue of the Rights is not initially dilutive. Upon a Flip-in Event occurring and the Rights separating from the attached REIT Units, reported earnings per Unit on a fully diluted or non-diluted basis may be affected. Holders of Rights who do not exercise their Rights upon the occurrence of a Flip-in Event may suffer substantial dilution.

Permitted Bid

The requirements of a Permitted Bid include the following: (a) the take-over bid must be made by way of a take-over bid circular; (b) the take-over bid must be made to all holders of Units and holders of Exchangeable Securities attached to Special Voting Units (“**Equivalent Securities**”), if any, other than the bidder; (c) the take-over bid must not permit REIT Units and Equivalent Securities tendered pursuant to the take-over bid to be taken up prior to the expiry of a period of not less than 60 days from the date of the bid and then only if at such time more than 50% of the REIT Units held by unitholders other than the bidder, Grandfathered Persons, their respective affiliates and persons acting jointly or in concert with the bidder or a Grandfathered Person (the “**Independent Unitholders**”) have been tendered pursuant to the take-over bid and not withdrawn; and (d) if more than 50% of the REIT Units held by Independent Unitholders are tendered to the takeover bid within the 60-day period, the bidder must make a public announcement of that

fact and the take-over bid must remain open for deposits of REIT Units and Equivalent Securities for at least an additional 10 business days from the date of such public announcement.

The Rights Plan allows a competing Permitted Bid (a “**Competing Permitted Bid**”) to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all the requirements of a Permitted Bid except that, provided it is outstanding for a minimum period of 35 days (or such minimum period prescribed by law in the Province of Ontario), it may expire on the same date as the earliest date for take-up specified in a Permitted Bid.

Waiver & Redemption

The Trustees acting in good faith may determine, with the prior consent of the unitholders, or the holders of Rights, as the case may be, at any time prior to the occurrence of a Flip-in Event, to redeem all, but not less than all, of the outstanding Rights at a redemption price of \$0.00001 per Right, subject to appropriate anti-dilution adjustments.

The Trustees acting in good faith may determine, with the prior consent of the unitholders, or the holders of Rights, as the case may be, at any time prior to the occurrence of a Flip-in Event that may occur by reason of an acquisition of REIT Units otherwise than pursuant to a take-over bid made by means of a take-over bid circular to all holders of record of REIT Units and Equivalent Securities, to waive the application of the Flip-in Event provisions to such Flip-in Event.

The Trustees acting in good faith may determine, at any time prior to the occurrence of a Flip-in Event that may occur by reason of a take-over bid made by take-over bid circular sent to all holders of record of REIT Units and Equivalent Securities, to waive the application of the Flip-in Event provisions to such Flip-in Event, provided that if the Trustees do so, they shall be deemed to have waived the application of the Flip-in Event provisions to any other Flip-in Event occurring by reason of any take-over bid made by take-over bid circular to all holders of record of REIT Units and Equivalent Securities which is made prior to the expiry of any take-over bid (as the same may be extended from time to time) in respect of which such waiver is, or is deemed to have been, granted.

Redemption of Rights on Withdrawal or Termination of Bid

Where a take-over bid that is not a Permitted Bid is withdrawn or otherwise terminated after the Separation Time and prior to the occurrence of a Flip-in Event, provided that the provisions of the Rights Plan are deemed to continue to apply as if the Separation Time had not occurred, the Trustees acting in good faith may elect to redeem all the outstanding Rights at the applicable redemption price. Upon such redemption, the REIT is deemed to have issued replacement Rights to all holders of its then outstanding REIT Units.

Waiver of Inadvertent Flip-in Event

The Trustees acting in good faith may, prior to the close of business on the tenth business day after a person has become an Acquiring Person, waive the application of the Rights Plan to an inadvertent Flip-in Event, on the condition that such person reduces its beneficial ownership of REIT Units such that it is not an Acquiring Person within 14 days of the determination of the Trustees.

Supplement and Amendments

The Trustees may, prior to the time for re-confirmation of the Rights Plan, supplement, amend, vary, rescind or delete any of the provisions of the plan in order to make any changes which the Trustees acting in good faith deem necessary or desirable, without the approval of any holders of Rights or REIT Units, only if such supplement, amendment, rescission or deletion would not materially adversely affect the interests of holders of Rights. Any such change must be submitted for approval by unitholders at the next meeting of unitholders or, if made after the Separation Time, any such change must be submitted for approval by the holders of Rights at a meeting to be called by a date immediately following the next meeting of unitholders, and will only continue in effect if such approval is obtained. The Trustees may also

supplement or amend the Rights Plan to correct any clerical or typographical error or as required to maintain the validity of the Rights Plan as a result of change in applicable legislation, rules or regulations.

Notwithstanding any provision of the Rights Plan, certain amendment made by the REIT to the Rights Plan by supplement or otherwise shall be subject to the prior approval of any governmental or regulatory authority having jurisdiction over the REIT.

Eligibility for Investment

The issue of Rights will not affect the status under the Tax Act of the Units as “qualified investments” (as defined in the Tax Act) for Plans.

Regulatory Approvals

Any obligation of the REIT or action or event contemplated by the Rights Plan shall be subject to the receipt of any requisite approval or consent from any applicable governmental or regulatory authority having jurisdiction over the REIT.

Management believes that the Rights Plan taken as a whole should not be an unreasonable obstacle to a serious bidder willing to make a bona fide and financially fair offer open to all unitholders. The provisions of the Rights Plan relating to portfolio managers are designed to prevent the triggering of the Rights Plan by virtue of the customary activities of such persons. The Rights Plan will be subject to re-confirmation by unitholders and Independent Unitholders every three years and terminate upon the termination of the first annual meeting of the unitholders following the third anniversary date of the IPO Closing Date, unless terminated earlier.

PROMOTERS

Inovalis SA has taken the initiative in founding and organizing the REIT and is therefore a promoter of the REIT for the purposes of applicable securities legislation. The nature of the relationship between Inovalis SA and the REIT is described under “Inovalis SA and the REIT”. As of December 31, 2014, Inovalis SA holds 180,000 Units and 2,043,347 Exchangeable Securities, representing approximately 12.8% ownership in the REIT on a fully exchanged basis through the ownership of Exchangeable Securities (being all the securities of that class).

To the knowledge of our Trustees and executive officers, no other person or company owns, directly or indirectly, more than 10% of the REIT Units.

LEGAL PROCEEDING AND REGULATORY ACTIONS

None of the REIT or its Subsidiaries is currently involved in any outstanding, threatened or pending litigation that would have a material adverse effect on the REIT.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as described in the IPO Prospectus, no Trustee, officer of the REIT, or unitholder that beneficially owns, or controls or directs more than 10% of the REIT Units, or any associate or affiliate of any of the foregoing persons, has or has had any material interest in any transaction within the last three years, or any proposed transaction, that has materially affected or would materially affect the REIT or any of its Subsidiaries.

EXPERTS & INTERESTS OF EXPERTS

Appraisals of the Portfolio Properties were prepared by Jones Lang LaSalle Expertises SAS and Jones Lang LaSalle GmbH. The employees of Jones Lang LaSalle Expertises SAS and Jones Lang LaSalle GmbH, as a group, each beneficially own, directly or indirectly, less than 1% of the outstanding securities of any class or series of the REIT.

The REIT's financial statements for the year ended December 31, 2014, have been audited by Ernst & Young LLP (and its network).

AUDITORS, TRANSFER AGENT AND REGISTRAR

Our auditors are Ernst & Young LLP, located at 800 boulevard René Lévesque West, Montreal, Québec, a member firm of Ernst & Young Global Limited. They were re-appointed as our auditors on May 7, 2014 and are independent within the meaning of the Code of Ethics of the Ordre des comptables professionnels agréés du Québec. The transfer agent and registrar for the Units is CST Trust Company at its principal office located in Toronto, Ontario.

MATERIAL CONTRACTS

The following are the only material contracts, other than contracts entered into in the ordinary course of business, entered into by the REIT or its Subsidiaries within the most recently completed financial year of the REIT:

1. Declaration of Trust;
2. Management Agreement;
3. Assignment Agreements;
4. German Purchase Agreement;
5. Underwriting Agreement;
6. Exchange Agreement;
7. License Agreement; and
8. Vendor Leases;

Descriptions of these material contracts are set out in this AIF and in the IPO Prospectus. Electronic copies of the contracts set out above may be accessed on SEDAR at www.sedar.com or by contacting Antoine Tronquoy at Inovalis REIT at 151 Yonge Street, 11th Floor, Toronto (Ontario) M5C 2W7.

ADDITIONAL INFORMATION

Additional information relating to the REIT can be found on SEDAR at www.sedar.com, and will also be included in the REIT's Management Information Circular to be prepared in connection with the annual general meeting of Unitholders currently scheduled to be held on May 13, 2015. Additional financial information is also provided in the REIT's audited consolidated financial statements and management's discussion and analysis of financial condition and results of operations for the period ended December 31, 2014.

Exhibit A
Charter of the Audit Committee

AUDIT COMMITTEE CHARTER

INOVALIS REAL ESTATE INVESTMENT TRUST.

PURPOSE

The overall purpose of the Audit Committee (the “**Committee**”) of the REIT is to oversee the accounting and financial reporting practices of the REIT, monitor the REIT’s system of internal financial controls, evaluate and report on the integrity of the financial statements of the REIT, enhance the independence of the REIT’s external auditors and exercise the responsibilities and duties set out in this Charter and any other duties delegated thereto by the Board of Trustees.

COMPOSITION, PROCEDURES AND ORGANIZATION

1. The Committee shall consist of at least three members of the board of trustees of the REIT (the “**Board of Trustees**”), each of whom shall be, in the determination of the Board of Trustees, “independent” as that term is defined by Multilateral Instrument 52-110, as may be replaced or amended from time to time (including any successor rule or policy thereto), and the majority of whom shall be resident Canadians.
2. The members of the Committee shall be appointed annually by the Board of Trustees. Each member of the Committee shall serve at the pleasure of the Board of Trustees until the member resigns, is removed, or ceases to be a member of the Board of Trustees. Unless a Chair is elected by the Board of Trustees, the members of the Committee may designate a Chair by majority vote of the full Committee membership.
3. At the time of his or her appointment to the Committee, each member of the Committee shall have, or shall acquire within a reasonable time following appointment to the Committee, the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the REIT’s financial statements.
4. The Board of Trustees, at its organizational meeting held in conjunction with each annual meeting of unitholders, shall appoint the members of the Committee for the ensuing year. The Board of Trustees may at any time remove or replace any member of the Committee and may fill any vacancy in the Committee. Any member of the Committee ceasing to be a trustee of the REIT shall cease to be a member of the Committee.
5. Unless the Board of Trustees shall have appointed a chair of the Committee, the members of the Committee shall elect a chair from among their number.
6. The Committee shall have access to such officers and employees of the REIT and to the REIT’s external auditors and its legal counsel, and to such information respecting the REIT as it considers to be necessary or advisable in order to perform its duties.
7. Notice of every meeting shall be given to the external auditors, who shall, at the expense of the REIT, be entitled to attend and to be heard thereat.

8. Meetings of the Committee shall be conducted as follows:
 - (a) the Committee shall meet on a regular basis, at such times and at such locations as the chair of the Committee shall determine;
 - (b) the external auditors or any member of the Committee may call a meeting of the Committee;
 - (c) any trustee of the REIT may request the chair of the Committee to call a meeting of the Committee and may attend such meeting to inform the Committee of a specific matter of concern to such trustee, and may participate in such meeting to the extent permitted by the chair of the Committee; and
 - (d) the external auditors and management employees shall, when required by the Committee, attend any meeting of the Committee.
9. The external auditors shall be entitled to communicate directly with the chair of the Committee and may meet separately with the Committee. The Committee, through its chair, may contact directly any employee in the REIT as it deems necessary, and any employee may bring before the Committee any matter involving questionable, illegal or improper practices or transactions.
10. Compensation to members of the Committee shall be limited to trustee's fees, either in the form of cash or equity, and members shall not accept consulting, advisory or other compensatory fees from the REIT (other than as members of the Board of Trustees and members of committees of the Board of Trustees).
11. The Committee is authorized, at the REIT's expense, to retain independent counsel and other advisors as it determines necessary to carry out its duties and to set their compensation.

MEETINGS

12. The Committee may meet as many times in the year as is necessary for it to carry out its responsibilities.
13. All meetings of the Committee must take place in Canada. One member of the Committee may participate in such a meeting by teleconference so long as a majority of those members attending the meeting are physically present in Canada.
14. The Committee shall hold unscheduled or regularly scheduled meetings, or portions of meetings, at which management is not present.
15. No business may be transacted by the Committee at a meeting unless a quorum of the Committee is present. A majority of members of the Committee shall constitute a quorum, provided that a majority of the members of the Committee comprising the quorum shall be resident Canadians.
16. The Chair, any member of the Committee, the external auditors, the Chairman of the Board of Trustees, the Chief Executive Officer or the Chief Financial Officer may call a meeting of the Committee by notifying the REIT's Secretary who will notify the members of the Committee. The Chair shall chair all Committee meetings that he or she attends, and in the absence of the Chair, the members of the Committee present may appoint a chair from their number for a meeting.
17. The external auditors are entitled to attend and be heard at each Committee meeting. In addition, the Committee may invite to a meeting any officers or employees of the REIT, legal counsel, advisors and other persons whose attendance it considers necessary or desirable in order to carry out its responsibilities. At least once per year, the Committee shall meet with management in separate sessions to discuss any matters that the Committee or such individuals consider appropriate.

18. The Committee shall have the authority to retain external legal counsel, consultants or other advisors to assist it in fulfilling its responsibilities and to set and pay the respective compensation for these advisers without consulting or obtaining the approval of the Board of Trustees or any REIT officer. The REIT shall provide appropriate funding, as determined by the Committee, for the services of these advisers.
19. The Committee shall have unrestricted access to the REIT's management and employees and the books and records of the REIT

DUTIES

20. The overall duties of the Committee shall be to:
 - (a) assist the Board of Trustees in the discharge of its duties relating to the REIT's accounting policies and practices, reporting practices and internal controls;
 - (b) establish and maintain a direct line of communication with the REIT's external auditors and assess their performance;
 - (c) oversee the co-ordination of the activities of the external auditors;
 - (d) ensure that the management of the REIT has designed, implemented and is maintaining an effective system of internal controls;
 - (e) monitor the credibility and objectivity of the REIT's financial reports;
 - (f) report regularly to the Board of Trustees on the fulfillment of the Committee's duties;
 - (g) assist the Board of Trustees in the discharge of its duties relating to the REIT's compliance with legal and regulatory requirements; and
 - (h) assist the Board of Trustees in the discharge of its duties relating to risk assessment and risk management.
21. The Committee shall be directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the REIT, including the resolution of disagreements between management and the external auditors regarding financial reporting, and in carrying out such oversight the Committee's duties shall include:
 - (a) recommending to the Board of Trustees a firm of external auditors to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the REIT;
 - (b) reviewing, where there is to be a change of external auditors, all issues related to the change, including the information to be included in the notice of change of auditor called for under National Instrument 51-102 – *Continuous Disclosure Obligations* or any successor legislation (“**NI 51-102**”), and the planned steps for an orderly transition;
 - (c) reviewing all reportable events, including disagreements, unresolved issues and consultations, as defined in NI 51-102 or any successor legislation, on a routine basis, whether or not there is to be a change of external auditor;
 - (d) reviewing the engagement letters of the external auditors, both for audit and non-audit services;

- (e) reviewing the performance, including the fee, scope and timing of the audit and other related services and any non-audit services provided by the external auditors; and
 - (f) reviewing and approving the nature of and fees for any non-audit services performed for the REIT by the external auditors and consider whether the nature and extent of such services could detract from the firm's independence in carrying out the audit function.
22. The duties of the Committee as they relate to audits and financial reporting shall be to:
- (a) review the audit plan with the external auditor and management;
 - (b) review with the external auditor and management any proposed changes in accounting policies, the presentation of the impact of significant risks and uncertainties, and key estimates and judgments of management that may in any such case be material to financial reporting;
 - (c) question the external auditor and management regarding significant financial reporting issues discussed during the fiscal period and the method of resolution;
 - (d) review the scope and quality of the audit work performed;
 - (e) review the adequacy of the REIT's financial and auditing personnel;
 - (f) review the co-operation received by the external auditor from the REIT's personnel during the audit, any problems encountered by the external auditors and any restrictions on the external auditor's work;
 - (g) review the internal resources used;
 - (h) review the appointments of the chief financial officer, internal auditor (or persons performing the internal audit function) and any key financial executives involved in the financial reporting process;
 - (i) review and approve the REIT's annual consolidated audited financial statements and those of its subsidiaries, the auditor's report thereon and the related management's discussion and analysis of the REIT's financial condition and results from operations ("MD&A"), and obtain an explanation from management of all significant variances between comparative reporting periods before release to the public;
 - (j) review and approve the REIT's interim unaudited financial statements and the related MD&A and obtain an explanation from management of all significant variances between comparative reporting periods before release to the public; and
 - (k) establish a procedure for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and employees' confidential anonymous submission of concerns regarding accounting and auditing matters.
23. The duties of the Committee as they relate to accounting and disclosure policies and practices shall be to:
- (a) review changes to accounting principles of the Canadian Institute of Chartered Accountants which would have a significant impact on the REIT's financial reporting as reported to the Committee by management and the external auditors;

- (b) review the appropriateness of the accounting policies used in the preparation of the REIT's financial statements and consider recommendations for any material change to such policies;
 - (c) review the status of material contingent liabilities as reported to the Committee by management;
 - (d) review the status of income tax returns and potentially significant tax problems as reported to the Committee by management;
 - (e) review any errors or omissions in the current or prior year's financial statements;
 - (f) review and approve before their release all public disclosure documents containing audited or unaudited financial information, including all earnings, press releases, MD&A, prospectuses, annual reports to unitholders, annual information forms, management's discussion and analysis and financial guidance provided to analysts, rating agencies or otherwise publicly disseminated; and
 - (g) oversee and review all financial information and earnings guidance provided to analysts and rating agencies.
24. The other duties of the Committee shall include:
- (a) reviewing any inquires, investigations or audits of a financial nature by governmental, regulatory or taxing authorities;
 - (b) approving the hiring of any employee from an external auditor;
 - (c) reviewing the funding and administration of the REIT's compensation and pension plans;
 - (d) reviewing and reporting to the Board of Trustees on difficulties and problems with regulatory agencies which are likely to have a significant financial impact;
 - (e) inquiring of management and the external auditors as to any activities that may be or may appear to be illegal or unethical;
 - (f) ensuring procedures are in place for the receipt, retention and treatment of complaints and employee concerns received regarding accounting or auditing matters and the confidential, anonymous submission by employees of the REIT of concerns regarding such; and
 - (g) any other questions or matters referred to it by the Board of Trustees.