INOVALIS REIT
CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of INOVALIS REIT is responsible for the preparation and fair presentation of the accompanying annual consolidated financial statements and Management's Discussion and Analysis (MD&A). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements and information in the MD&A necessarily include amounts based on best estimates and judgments by management of the expected effects of current events and transactions with the appropriate consideration to materiality. In addition, in preparing this financial information, we must make determinations about the relevancy of information to be included, and estimates and assumptions that affect the reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

In meeting our responsibility for the integrity and fairness of the annual consolidated financial statements and MD&A and for the accounting systems from which they are derived, management has established the necessary internal controls designed to ensure that our financial records are reliable for preparing consolidated financial statements and other financial information, transactions are properly authorized and recorded, and assets are safeguarded against unauthorized use or disposition.

As at December 31, 2017, our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision, the design and operation of our internal controls over financial reporting (as defined in National Instrument. 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and, based on that assessment, determined that our internal controls over financial reporting were appropriately designed and operating effectively that a significant deficiency in internal control existed with respect to accounting for complex financial instruments, as a result, management has taken corrective measures. There was no resulting impact on the consolidated financial statements or MD&A at year-end, and had no impact on financial information reported in prior periods.

The Board of Trustees oversees management's responsibility for financial reporting through an Audit Committee, which is composed entirely of independent trustees. This committee reviews Inovalis REIT's annual consolidated financial statements and MD&A with both management and the independent auditors before such statements are approved by the Board of Trustees. Other key responsibilities of the Audit Committee include selecting Inovalis REIT's auditors, approving the consolidated financial statements and MD&A, and monitoring Inovalis REIT's existing systems of internal controls.

Ernst & Young LLP, independent auditors appointed by the unitholders of Inovalis REIT's upon the recommendation of the Board of Trustees, have examined our 2017 and 2016 annual consolidated financial statements and have expressed their opinion upon the completion of such examination in the following report to the unitholders. The auditors have full and free access to, and meet at least quarterly with, the Audit Committee to discuss their audits and related matters.

David Giraud	*Anne Smolen*
Chief Executive Officer	Chief Financial Officer

Toronto, Canada,
March 20, 2018

Independent auditors' report

To the Unitholders of
Inovalis REIT

We have audited the accompanying consolidated financial statements of Inovalis REIT, which comprise the consolidated balance sheets as at December 31, 2017 and 2016, and the consolidated statements of earnings, comprehensive income, changes in unitholders' equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Inovalis REIT as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montréal, Canada
March 20, 2018

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

INOVALIS REIT

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

Assets	*Note*	2017	2016
Non-current assets			
Investment properties	*7*	440,813	412,232
Investments accounted for using the equity method	*8*	79,094	43,887
Acquisition loans and deposit	*9*	27,035	8,906
Derivative financial instruments	*10*	59	590
Restricted cash	*14*	1,509	1,417
Total non-current assets		548,510	467,032
Current assets			
Trade and other receivables	*11*	4,566	3,368
Derivative financial instruments	*10*	-	520
Other current assets	*12*	2,021	1,638
Other financial current assets	*13*	1,267	27,910
Cash		20,345	9,657
Total current assets		28,199	43,093
Total assets		576,709	510,125

Liabilities and Unitholders' equity	*Note*	2017	2016
Liabilities			
Non-current liabilities			
Mortgage loans	*16*	113,342	83,998
Finance lease liabilities	*16*	122,735	120,891
Lease equalization loans	*17*	3,196	4,051
Tenant deposits		2,292	2,178
Exchangeable securities	*18*	6,907	4,603
Derivative financial instruments	*10*	650	1,616
Deferred tax liabilities	*24*	3,059	2,236
Deferred income	*9*	3,260	-
Total non-current liabilities		255,441	219,573
Current liabilities			
Promissory Notes	*15*	23,789	-
Mortgage loans	*16*	2,660	541
Finance lease liabilities	*16*	6,014	24,179
Lease equalization loans	*17*	1,247	1,184
Tenant deposits		162	198
Exchangeable securities	*18*	9,836	11,995
Derivative financial instruments	*10*	1,316	1,225
Trade and other payables	*19*	6,341	7,392
Other current liabilities		431	734
Deferred income	*9*	4,195	1,975
Total current liabilities		55,991	49,423
Total liabilities		311,432	268,996
Equity			
Trust units	*20*	195,739	189,158
Retained earnings		44,749	43,455
Accumulated other comprehensive income	*20*	24,436	8,395
Total Unitholders' equity		264,924	241,008
Non-controlling interest		353	121
Total equity		265,277	241,129
Total liabilities and equity		576,709	510,125

See accompanying notes to consolidated financial statements

On behalf of the Board of Trustees of Inovalis Real Estate Investment Trust:

Stéphane Amine — Chairman and Trustee

Daniel Argiros — Lead Trustee

Consolidated Statements of Earnings

For the years ended December 31,

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

	Note	2017	2016
Rental income	*21*	24,946	24,404
Service charge income	*21*	6,908	6,546
Service charge expenses		(8,287)	(8,525)
Other revenues	*28*	834	170
Other property operating expenses		(271)	(214)
Net rental earnings		24,130	22,381
Administration expenses	*22*	(5,293)	(5,152)
Foreign exchange gain		(179)	640
Net change in fair value of investment properties	*7*	892	3,632
Gain resulting from exercise of the purchase option	*6*	-	9,213
Acquisition costs		(210)	(575)
Share of net earnings from investments accounted for using the equity method	*8*	2,638	1,107
Operating earnings		21,978	31,246
Loss on financial instruments at fair value through profit or loss		1,066	(1,269)
Loss recognized on exercise of early payment option on finance lease	*16,6*	(122)	(1,242)
Gain on partial disposal of investment in joint venture	*8*	843	-
Loss on refinancing of a debt	*16*	-	(605)
Finance income	*23*	6,601	4,344
Finance costs	*23*	(7,123)	(6,488)
Distributions on Exchangeable securities	*18*	(1,618)	(1,890)
Net change in fair value of Exchangeable securities	*18*	(904)	589
Net change in fair value of Promissory Notes	*15*	(513)	
Earnings before income taxes		20,208	24,685
Current income tax expense	*24*	(186)	(336)
Deferred income tax expense	*24*	(658)	(944)
Earnings for the year		19,364	23,405
Earnings for the year attributable to :			
Non-controlling interest		197	121
Unitholders of the Trust		19,167	23,284
		19,364	23,405
Earnings per unit attributable to unit holders:	*25*		
Basic earnings per unit		0.89	1.28
Diluted earnings per unit		0.89	1.21

See accompanying notes to consolidated financial statements

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

	2017	2016
Earnings for the year	19,364	23,405
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net earnings, net of tax :		
Derivatives designated as a hedge of the net investment in a foreign entity		
Net gains	(1,687)	2,167
Derivatives designated as cash flow hedges		
Net gains	415	96
Reclassification of net losses to earnings	439	131
Items that are not to be reclassified subsequently to net earnings, net of tax :		
Change in cumulative translation adjustment account	16,909	(13,924)
Total other comprehensive income (loss)	16,076	(11,530)
Total comprehensive income for the year	35,440	11,875
Total comprehensive income for the year attributable to :		
Non-controlling interest	232	121
Unitholders of the Trust	35,208	11,754
Total comprehensive income for the year	35,440	11,875

Consolidated Statements of Changes in Unitholders' Equity
(All dollar amounts in thousands of Canadian dollars, unless otherwise stated)

	Note	Number of Units issued and outstanding	Trust Units	Retained earnings	Accumulated other comprehensive income	Total attributable to the Unitholders' of the Trust	Non-controlling interest	Total equity
As at December 31, 2016		21,525,775	189,158	43,455	8,395	241,008	121	241,129
Issuance of units	20	500,014	4,569	-	-	4,569	-	4,569
Distributions earned by Unitholders	26			(17,873)	-	(17,873)	-	(17,873)
Distributions reinvestment Plan	26	209,632	2,012	-	-	2,012	-	2,012
Transactions with owners		709,646	6,581	(17,873)	-	(11,292)	-	(11,292)
Earnings for the year		-	-	19,167	-	19,167	197	19,364
Other comprehensive income		-	-	-	16,041	16,041	35	16,076
Total comprehensive income		-	-	19,167	16,041	35,208	232	35,440
As at December 31, 2017		22,235,421	195,739	44,749	24,436	264,924	353	265,277
As at December 31, 2015		15,637,019	136,365	35,359	19,925	191,649	-	191,649
Issuance of units	20	5,762,190	51,623	-	-	51,623	-	51,623
Distributions earned by Unitholders	26	-	-	(15,188)	-	(15,188)	-	(15,188)
Distributions reinvestment Plan	26	126,566	1,170	-	-	1,170	-	1,170
Transactions with owners		5,888,756	52,793	(15,188)	-	37,605	-	37,605
Earnings for the year		-	-	23,284	-	23,284	121	23,405
Other comprehensive loss		-	-	-	(11,530)	(11,530)	-	(11,530)
Total comprehensive income		-	-	23,284	(11,530)	11,754	121	11,875
As at December 31, 2016		21,525,775	189,158	43,455	8,395	241,008	121	241,129

See accompanying notes to consolidated financial statements

INOVALIS REIT

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

	Note	December 31, 2017	December 31, 2016
Operating activities			
Earnings before income taxes for the period		20,208	24,685
Adjustments for non-cash items and other reconciling items	*32*	8,046	(5,267)
		28,254	19,418
Working capital adjustments	*32*	(705)	(1,649)
Net cash flows related to operating activities		27,549	17,769
Investing activities			
Business acquisition	*6*	-	(21,638)
Acquisition costs		(210)	(575)
Investments in joint ventures	*8*	(33,706)	(6,189)
Distribution / Partial disposal of joint ventures	*8*	325	-
Investment properties	*7*	(1,736)	1,932
Loan repayments received from joint ventures	*8*	5,552	-
Investment in acquisition loans and deposit	*9*	(24,793)	(8,906)
Reimboursement of acquisition loans	*9*	7,600	-
Investment in financial current assets	*13*	-	(37,547)
Decrease in financial current assets	*13*	27,736	10,725
Net change in restricted cash	*14*	-	1,680
Net cash flows related to investing activities		(19,232)	(60,518)
Financing activities			
Units issued for cash		-	43,040
Distributions on Units paid in cash	*26*	(15,811)	(13,614)
Distributions in respect of exchangeable securities paid in cash	*18*	(2,192)	(1,274)
Increase in restricted cash	*14*	-	(1,417)
Proceeds from new mortgage loans, net of transaction costs	*16*	63,854	17,163
Proceeds from new finance lease liabilities, net of transaction costs	*16*	-	49,117
Transaction fees related to the exercise of early payment option on finance leases		(122)	(1,242)
Repayment of mortgage loans and finance lease liabilities	*16*	(64,325)	(48,094)
Repayment of promissory notes	*15*	(645)	-
Proceeds from new promissory notes	*15*	23,353	-
Additions to Exchangeable securities	*18*	-	2,943
Net change on lease equalization loans		(1,099)	(672)
Settlement of derivative financial instruments	*10*	-	(313)
Net cash flows related to financing activities		3,013	45,637
Net increase in cash		11,330	2,888
Effects of foreign exchange adjustments on cash		(643)	(125)
Cash at the beginning of the year		9,658	6,895
Cash at the end of the year		20,345	9,658
Cash at the end of the year			
Cash		20,345	9,658
Cash at the end of the year		20,345	9,658

See accompanying notes to consolidated financial statements

Note 1 – Organization

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

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

The REIT's consolidated financial statements for the year ended December 31, 2017 were authorized for issuance by the Board of Trustees on March 20, 2018.

The REIT has hired Inovalis S.A. ("Inovalis"), a real estate asset manager having operations in France and Germany, to manage certain functions. Refer to Note 3 – Significant accounting policies, Note 9 – Acquisition loans and deposit, and Note 18 – Exchangeable securities, for more information about the relationship between Inovalis an
d the REIT, and to Note 28 – Transactions with related parties, for information regarding the services provided by Inovalis to the REIT.

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

Note 2 – Basis of preparation of consolidated financial statements

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of presentation

The consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars for reporting to the REIT's Unitholders. All financial information has been rounded to the nearest thousand (CAD$ 000 or EUR€ 000) except when otherwise indicated. The accounting policies set out below have been applied consistently in all material respects.
The consolidated financial statements have been prepared on the historical cost basis except for Investment properties, Exchangeable securities, Promissory Notes, Derivative financial instruments and Investment in mutual funds, which are measured at their fair values.

Note 3 – Significant accounting policies

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Trust and all of its subsidiaries. The REIT controls a subsidiary if it has power over it, is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have the same reporting date as the Trust. Subsidiaries are consolidated from the date of acquisition, being the date on which the REIT obtains control, and continue to be consolidated until the date when such control ceases.
All intra-group balances, transactions and unrealized gains and losses resulting from intra-group transactions are eliminated on consolidation.

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

Details of the REIT's subsidiaries as of December 31, 2017 are as follows:

Name of subsidiary	Principal Activity	Name of the assets	Country of Incorporation and Residence	Proportion of Ownership Interest and Voting Power Held - 2017	Proportion of Ownership Interest and Voting Power Held - 2016
CanCorpEurope S.A. ("CCE")	Holding Company for European assets		Luxembourg	81.82%	88.11%
INOPCI1	Holding Company		France	100% held by CCE	100% held by CCE
BBA SCI	Investment property holding	Vanves Property	France	100% held by INOPCI1	100% held by INOPCI1
Véronèse SCI	Investment property holding	Dubonnet Property	France	100% held by INOPCI1	100% held by INOPCI1
Jeûneurs SCI	Investment property holding	Jeûneurs Property	France	100% held by INOPCI1	100% held by INOPCI1
Sablière SCI	Investment property holding	Sablière Property	France	100% held by INOPCI1	100% held by INOPCI1
Baldi SCI	Investment property holding	Baldi Property	France	100% held by INOPCI1	100% held by INOPCI1
Metropolitain SCI	Investment property holding	Metroplitain Property	France	99% held by INOPCI1	99% held by INOPCI1
CanCorpCologne Sarl	Investment and holding Company		Luxembourg	100% held by CCE	100% held by CCE
CanCorpHanover S.A. ("CCH")	Holding Company		Luxembourg	100% held by CCE	100% held by CCE
Hanover CanCorp GmbH KG	Investment property holding	Hanover Property	Germany	94% held by CCH	94% held by CCH
CanCorp Caesar Sarl	Investment and holding Company	Stuttgart Property	Luxembourg	100% held by CCE from April 28 to June 9	-
Metropolitan LLC	Investment and holding Company		USA	100%	100%

Also, as further explained in Note 3, the 18.18% (11.89% as at December 31, 2016) interest held by Inovalis in CCE and its subsidiaries is presented as a liability rather than a non-controlling interest (Refer to Note 18 for details regarding this interest).

Joint arrangements

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

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

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

As explained in Note 8, the REIT holds as at December 31, 2017, through its subsidiary CCE, investments accounted for using the equity method as follows:

Name of entity	Principal Activity	Property name	Country of Incorporation and Residence	Proportion of Ownership Interest and Voting Power Held - 2017	Proportion of Ownership Interest and Voting Power Held - 2016
CanCorp Duisburg Sarl (“CCD”)	Investment property holding	Duisburg Property	Luxembourg	50% joint-venture held by CCE	50% joint-venture held by CCE
Walpur Four Sarl (“Walpur”)	Investment property holding	Bad Homburg Property	Luxembourg	50% joint-venture held by CCE	50% joint-venture held by CCE
Arcueil SI General Partner Sarl	General partner for Arcueil SCS		Luxembourg	25% joint-venture held by CCE	25% joint-venture held by CCE
Arcueil SCS (“Arcueil”)	Investment and holding Company		Luxembourg	25% joint-venture held by CCE	25% joint-venture held by CCE
Arcueil SI Sarl	Holding Company		Luxembourg	100% held by Arcueil SCS	100% held by Arcueil SCS
INOPCI2	Holding Company		France	100% held by Arcueil SI Sarl	100% held by Arcueil SI Sarl
Arcueil Holding S.A.S.	Holding Company		France	100% held by INOPCI2	100% held by INOPCI2
Lenine Arcueil SCI	Investment property holding	Arcueil Property	France	100% held by Arcueil Holding S.A.S.	100% held by Arcueil Holding S.A.S.
CanCorpCologne1 SCI (“Cologne”)	Investment property holding	Cologne Property	France	6% as from December 31 held by CanCorpCologne Sarl	49% joint-venture held by CanCorpCologne Sarl
TFI CanCorp Stuttgart Sarl (“TFICC”)	Investment property holding	Stuttgart Property	Luxembourg	50% held by CCE as from June 9	-
SCI Delizy	Investment property holding	Delizy Property	France	50% held by INOPCI 1 as from February 28	-
Square Isenburg GmbH	Investment property holding	Neu Isenburg Property	Germany	50% held by CCE as from December 27	-

Business Combinations and Property Acquisitions

The purchase method of accounting is used for acquisitions meeting the definition of a business. The cost of an acquisition is measured as the fair value of the consideration paid.
The REIT recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree’s financial statements prior to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their acquisition date fair value irrespective of the extent of any minority interest. The excess of the cost of acquisition and the amount of any non controlling interest over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition and the amount of any non controlling interest is less than the fair value of the net assets acquired, the difference is recognized directly in earnings for the period as a gain. Any transaction costs incurred with respect to the business combination are expensed in the period incurred.

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

Foreign currency translation

i. Functional and presentation currencies

Items included in the financial statements of each of the REIT's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the REIT's subsidiaries and joint ventures is the euro, whereas the functional currency of the Trust, as well as its presentation currency, is the Canadian dollar.

ii. Transactions and balances

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

iii. Foreign operations

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

- i. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- ii. items presented in the income statement, comprehensive income and cash flows are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income, expenses and cash flows are translated at the rate on the dates of the transactions); and
- iii. all resulting exchange differences are recognized in other comprehensive (loss) income and recognised in the cumulative translation adjustment account in equity.

When a foreign operation or notes issued to them are partially disposed of, sold or repaid, related exchange differences that were recorded in equity are recognized in the consolidated statement of earnings as part of the gain or loss on sale.

Investment properties

An investment property is defined as property held to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business or use for administrative purposes. Property held under a finance lease is classified as investment property when the definition of an investment property is met.

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

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

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

Unitholders' equity

The REIT classifies issued Units as equity in the consolidated balance sheet. The Units are puttable financial instruments because of the Unitholders' option to redeem Units, at any time, at a redemption price per unit equal to the fair market value of the units at that time. The REIT has classified the Units as equity pursuant to the provisions of IAS 32, Financial Instruments: Presentation, on the basis that the Units meet all of the criteria in IAS 32 for such classification, also referred to as the "puttable exemption", as follows:

i. The Units entitle the Unitholder to a pro rata share of the REIT's net assets in the event of the REIT's liquidation. The REIT's net assets are those assets that remain after satisfaction of all its liabilities;
ii. The Units are in the class of instruments that are subordinate to all other classes of instruments because they have no priority over other claims to the assets of the REIT on liquidation, and do not need to be converted into another instrument before they are in the class of instruments that is subordinate to all other classes of instruments;
iii. All Units have identical features;
iv. Apart from the contractual obligation for the REIT to redeem the Units for cash or another financial asset, the Units do not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the REIT, and are not a contract that will or may be settled in the REIT's own equity instruments; and
v. The total expected cash flows attributable to the Units over their life is based substantially on the profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the REIT over the life of the Units.

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

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

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

Accumulated other comprehensive income includes the cumulative foreign currency translation differences arising on the translation of consolidated entities that use a functional currency that is different from the REIT's presentation currency, as well as gains and losses arising from hedging activities.

Financial instruments

Recognition, initial measurement and derecognition

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

Classification and subsequent measurement

Trade and other receivables

Trade and other receivables are classified as loans and receivables, initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less a provision for impairment if applicable. Loans and receivables are reviewed for impairment at least at each reporting date to determine if there is any objective evidence that a financial asset is impaired. A provision for impairment of loans and receivables is recognized when there is objective evidence that the REIT will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote. Changes in the provision for impairment of loans and receivables are presented in the consolidated statement of earnings within “Other property operating expenses”.

Derivative financial instruments and hedge accounting

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

On July 1st, 2017, the REIT discontinued the application of the hedge accounting to its interest rate swap and cap relationships. Hedge accounting for foreign exchange has been maintained. Accordingly, the cumulative gain or loss on the interest rate swaps or caps that has been recognised in other comprehensive income from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs or is no longer expected to occur. If the transaction is no longer expected to occur, the cumulative gain or loss that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment

Acquisition loan and deposit

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

Other financial current assets

Other financial current assets include investments in money market mutual fund which are classified as held for trading and measured at fair value through profit and loss.

Exchangeable securities

The Exchangeable securities issued by the Trust’s subsidiary, CCE, are exchangeable into units of the REIT at the discretion of the holder and represent the financial interest not held by the REIT in controlled and consolidated subsidiaries. However, if upon maturity of the debt instruments, the unit price of the REIT's units is less than $10 per unit (the price at which the Exchangeable securities were initially issued), the REIT has the right to exchange the Exchangeable securities for units of the REIT rather than reimburse the debt. This liability is designated at fair value

through profit or loss, and measured initially and subsequently at fair value with changes in fair value recorded in profit or loss. (Refer to Note 18 for details of these financial interests). Gains and losses on re-measurement to fair value are included in the consolidated statement of earnings in "Net change in fair value of Exchangeable securities". Transaction costs are expensed in the consolidated statement of earnings. Financial liabilities at fair value through profit or loss are classified as current except for the portion expected to be paid beyond twelve months of the balance sheet date, which is classified as non-current.
These Exchangeable securities are economically equivalent to, and exchangeable for, trust units of the REIT. This ownership interest was exercised through the purchase of interest bearing notes of CCE, the REIT's holding company for its European assets. These instruments, which are collectively referred to as the Exchangeable securities, are economically equivalent to and exchangeable at the option of Inovalis for units of the Trust.
In performing its obligations under the management agreement, Inovalis, is entitled to receive asset management fees. These asset management fees earned by Inovalis, in its role as manager of the REIT, are payable quarterly in arrears, entirely in Exchangeable securities.
The per-unit value of the Exchangeable securities issued at the time of the Initial Public Offering, including the overallotment, was based on the offering price. The per-unit value of Exchangeable securities issued by CCE in lieu of payment for annual management fees is determined using the average quoted market price of the REIT's units on the Toronto stock exchange for the five days immediately preceding the transaction.

The Exchangeable securities acquired at the time of the Initial Public Offering are subject to the Initial Retained Interest Escrow whereby they will be automatically released from escrow to Inovalis on the third anniversary of the closing.
During the Initial Retained Interest Escrow period, Inovalis is restricted from selling its Initial Retained Interest but will retain all ownership rights. Further, 50% of the Exchangeable securities issued for payment of management fees are subject to an escrow arrangement that only releases the Exchangeable securities after the termination of the management agreement or after the internalisation of Management to the REIT. In the case of internalization, one third of the latter securities will be released immediately and one third will be released on the first and second anniversary of internalization. Once the Exchangeable securities are released from escrow, it will be possible for Inovalis to receive one of the REIT's units for each of its Exchangeable securities.
The Exchangeable securities issued by CCE are exchangeable into Units of the Trust by virtue of the Exchange Agreement. The Exchangeable securities are accompanied by Special Voting Units issued by the Trust, which have no economic interest but provide the Exchangeable securities holder with the same voting rights in the Trust as a Unit. Special Voting Units may only be issued in connection with or in relation to Exchangeable securities for the purpose of providing voting rights with respect to the Trust to the holders of such securities.

Tenant deposits

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

Mortgage loans and Lease equalization loans

Mortgage are classified as other financial liabilities, recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. These financial liabilities are classified as current liabilities if payment is due within twelve months which can include accrued interest. Otherwise, they are presented as non-current liabilities.

Trade and other payables

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

Promissory notes

Promissory Notes bear interest at a fixed rate and are repayable in total at maturity date and includes a prepayment option. They are designated at fair value through profit or loss, and measured initially and subsequently at fair value with changes in fair value recorded in profit or loss. Fair value is considered to be equal to the fair value of the units.

Fair value hierarchy of financial and non-financial items

The fair value hierarchy that applies in determining fair value requires that observable market data be used if such data exist. An asset or liability is classified at the lowest hierarchical level when significant unobservable market data has been used in the fair value measurement.
The REIT uses the following hierarchy for the fair value determination of financial and non-financial items:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 - use of a model with inputs (other than quoted prices included in level 1) that are directly or indirectly observable market data.
- Level 3 - use of a model with inputs that are not based on observable market data.

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

Leases

Operating lease contracts - REIT as lessor

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

Finance lease – REIT as lessee

Finance leases, which transfer to the REIT substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.
Lease payments are apportioned between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the consolidated statement of Earnings using the effective interest method.

Revenue recognition

Rental income from investment properties

Rental income from operating leases is recognized on a straight-line basis over the term of the lease. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the REIT is reasonably certain that the tenant will exercise that option.
Rental income received during the financial year but relating to a subsequent financial year are included in the liabilities under the caption “Deferred Income”.

Service charge expenses and income

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

Interest income and expenses

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

Distributions

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

Provisions

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

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

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

Income taxes

Canadian income taxes

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

Foreign income taxes

The REIT's subsidiaries are subject to tax either on their taxable income or on a withholding basis under applicable legislation in France, Germany, Luxembourg and the United States. These subsidiaries account for their current or recovered taxes at the current enacted and substantively enacted tax rates and use the liability method to account for deferred taxes. The tax expense related to taxable subsidiaries for the period comprises current and deferred taxes.
The REIT's subsidiaries that hold the leasehold rights on the properties located in France are established in France and should therefore be considered as tax residents in France. Under current French tax legislation, income derived from the French REIT's subsidiaries, incorporated under the form of Société Civile Immobilière subject to article 8 of the French Tax Code, and allocated to INOPCI 1 should be corporate income tax exempt in the hands of INOPCI 1 on the basis that INOPCI 1 complies with its distribution obligations. A withholding tax should be levied in France on dividend distributions made by INOPCI 1 which is an OPCI (a collective undertaking for real estate investment) to CCE. CCE, CCH, Arcueil SI Sarl and CanCorpCologne Sarl are established in Luxembourg as fully taxable companies, subject to annual corporate income, municipal business and net wealth taxes. There is a minimum net wealth tax and corporate income tax in Luxembourg under certain condition. Dividends and liquidation dividends derived by CCE from the French OPCI may be tax exempt in Luxembourg for corporate income tax and municipal business tax

purposes. CCE will benefit from the Luxembourg participation exemption on any dividend income or liquidation proceeds received from CCH, Arcueil SI Sarl, CanCorpCologne Sarl and Square Isenburg GmbH.

Arceuil SCS is a Luxembourg partnership that is tax transparent for Luxembourg corporate income tax purposes, i.e. all the income and expenses are deemed to be realized directly by the partners. As CCE holds 25% of the partnership interest, 25% of the income and expenses will be allocated to the latter from a Luxembourg tax perspective.

Since 2016, CCH holds 94% of Hannover CanCorp GmbH & KG ("HCC"), investment property holding a building in Germany. The latter is considered as tax transparent entity from a German as well as Luxemburgish tax perspective.

CCD and TFICC (collectively called the "Lux Co") are Luxembourg limited liability companies that are managed in Luxembourg and, therefore, should not be considered to be tax resident of Germany for German tax purposes. Similarly, Cologne is an SCI and should not be considered to be tax resident of Germany for German tax purposes (the Lux Co, Cologne and CCH are collectively called the "German Co"). However, the German Co would be subject to corporate income tax ("CIT") in Germany on their German source income (or in case German Co is a partnership and therefore transparent for CIT purposes its partners). As the German Co's rental revenues would be German source income, such (net) income would be subject to CIT, even if the German Co (and their shareholders) are not German tax residents. This is true irrespective of whether German Co is a corporation or a partnership and therefore transparent. The right to tax such income by Germany should not be waived under the double tax treaty between Germany and Luxembourg and the double tax treaty between Germany and France because the German Co's properties are located in Germany and income from German real estate is taxed in the country where the real estate is located. To determine taxable income for CIT purposes, a tax payer may deduct certain expenses incurred in connection with its German source income (e.g., with respect to the acquisition and ownership of real property (in particular depreciation) and certain operating expenses) provided that such costs are incurred on arm's length terms.

Square Isenburg GmbH is a German limited liability company fully taxable in Germany. That means the income from the real estate is not only subject to CIT but in principle also subject to trade tax. However, trade tax reductions or trade tax exemptions might be applicable.

Current income taxes

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

Deferred income tax

Where applicable, deferred income tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognized only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilized.
The carrying value of the REIT's investment properties will generally be realized by combination of income (rental stream during the period of use) and capital (the consideration on the sale at the end of use). The length of the period for which a property will be held prior to disposal is based on the REIT's current plans and recent experience with similar properties. According to the rebuttable presumption exception of IAS 12, the measurement of a deferred tax liability or a deferred tax asset arising on an investment property measured at fair value should reflect the tax consequences of recovering the carrying amount entirely through sale.
Deferred income tax assets and liabilities are measured at the tax rates that will apply to the period when it is expected that the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.
Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Segment reporting

The REIT owns and operates a portfolio of investment properties located in France and Germany. These properties are all used to derive their revenues from the rental of office space leased to corporate clients in urban areas. Management has determined that this portfolio is a single operating segment.

Note 4 – Critical accounting judgments and estimates

The preparation of the REIT's consolidated financial statements in conformity with IFRS requires management to make judgments and estimates that affect the reported amounts of revenues and investment properties owned directly and indirectly at the reporting date. However, uncertainty about these estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.
The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are presented below:

Critical accounting judgments

Business combination

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

Joint arrangements

The classification of joint arrangements in accordance with IFRS 11- Joint Arrangements ("IFRS 11") may require the judgement of management, particularly if there are several agreements related to the joint arrangements.
Because the terms of the agreements clearly stipulate that decisions about the relevant activities relating to the joint ownership require unanimous consent of both shareholders and that the parties have a right only on the net assets, Management concluded that all the investments in joint arrangements are joint ventures.

Critical accounting estimates

Valuation of investment properties

The fair value of investment properties is determined by independent real estate valuation experts using recognized valuation techniques. The technique principally used is the Discounted Cash Flow Method ("DCF"). In some cases, the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the REIT assets.
Under the DCF method, a property's fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. As an accepted method within the income approach to valuation, the DCF method involves the projection of a series of cash flows associated with an investment property. To this projected cash flow series, an appropriate market-derived discount rate is applied to establish the present value of the cash inflows associated with the investment property.

The duration of the cash flow and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related lease up periods, re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of the investment property. In the case of investment properties, periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net cash inflows, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.
The group that determines the REIT's valuation policies and procedures for property valuations comprises the chief executive officer (CEO), chief investment officer (CIO) and chief financial officer (CFO). Each year, Inovalis appoints an external evaluator who is responsible for the valuations of the REIT's property for the annual consolidated financial statements. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.
In addition, the CEO, CIO and CFO are responsible for Inovalis' internal valuation department with regards to the REIT's properties. Inovalis' internal valuation department comprises a number of employees that hold relevant internationally recognized professional qualifications and are experienced in valuing the types of property in the applicable locations. Internal methods are aligned with those used by external evaluators. External valuations are obtained every six months for the French properties and annually for the German properties to validate the internal valuations for interim reporting purposes or external evaluators are requested to confirm the main input variables used in the internal valuations. As at each year-end, all properties are valued by external evaluators.
The significant methods and assumptions used by the valuators in estimating the fair value of investment properties are set out in Note 7 – Investment properties.

Note 5 – Changes in accounting policies

At the date of authorisation of these consolidated financial statements, certain new standards, and amendments to existing standards have been published by the International Accounting Standard Board ("IASB") that are not yet effective, and have not been adopted early by the REIT. Information on those expected to be relevant to the REIT's consolidated financial statements is provided below.
Management anticipates that all relevant pronouncements will be adopted in the REIT's accounting policies for the first period beginning after the effective date of the pronouncement. New standards and amendments not either adopted or listed below are not expected to have a material impact on the REIT's consolidated financial statements.

IFRS 9 - Financial instruments

IFRS 9 comes into effect for annual periods beginning on or after 1 January 2018.

It includes requirements on the classification and measurement of financial assets and liabilities and replaces IAS 39 "Financial instruments: Recognition and Measurement". IFRS 9 essentially corresponds to IAS 39 in terms of financial liabilities. However, for liabilities recognized at fair value, the portion of the change in fair value that is attributable to the company's own credit risks is recognized under other comprehensive income instead of profit or loss, provided that this does not cause inconsistencies in reporting.

In addition, this new standard brings major changes on four main areas as detailed below:

<u>Classification and measurement of financial assets after initial recognition:</u>
Similarly, to IAS 39, financial assets are classified under different categories, of which some are measured at amortized cost and others at fair value (recognized either in Profit and Loss or in Other Comprehensive Income).

IFRS 9 is systematizing the use of the fair value for the measurement of financial assets. Indeed, under IFRS 9 a financial instruments can be measured at amortized cost only in case both of the following criteria are met:
- The asset is held to collect its contractual cash flows; and

- The asset's contractual cash flows represent "solely payments of principal and interest".

This amendment should only affect the "Acquisition loan and deposits". Considering the characteristics of the loans classified as such, the REIT's management assessed that this amendment should have no impact.

Hedge accounting:
The new standard also establishes new criteria for hedge accounting. The amended criteria for hedge accounting may result in more financial hedging strategies meeting the requirements on hedge accounting under IFRS 9 than under IAS 39.

This amendment should have no impact as the REIT is only applying hedge accounting for the foreign exchange contracts.

Impairment of financial assets:
IFRS 9 also introduces some changes for the impairment of financial assets:
- It removes the impairment assessment requirements for investment in equity instruments;
- It establishes a new model for loans and receivables.

The REIT's management has not yet assessed the impact of these amendments on these consolidated financial statements.

For loans and receivables, the purpose of the new model includes the reporting of credit losses at an earlier stage than under IAS 39. Under the "expected credit loss" model, an entity calculates the allowance for credit losses by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. The allowance is the sum of these probability-weighted outcomes. Because every loan and receivable carries with it some risk of default, every such asset has an expected loss attached to it - from the moment of its origination or acquisition. In all cases, the allowance and any changes to it are recognized by recognizing impairment gains and losses in profit and loss. IFRS 9 establishes three separate approaches for measuring and recognizing expected credit losses, depending on the nature of the financial assets.

Disclosures:
IFRS 9 will have significant impacts on disclosures, especially in respect of credit risk and expected credit losses. Accounting policies will also be affected and updated accordingly.

The REIT's management has not yet assessed the impact of these amendments on these consolidated financial statements.

IFRS 16 – Leases

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

The REIT's management has not yet assessed the impact of these amendments on these consolidated financial statements.

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

Note 6 – Business combination

2017

There were no acquisition meeting the definition of business combination in 2017.

2016

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

This acquisition is accounted for as a business combination. The identifiable assets and liabilities of the acquired business were recognized based upon their respective fair values as of the transaction date and revised during the quarter ended June 30, 2016. A summary is provided below:

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

The excess of the fair value of the net assets acquired at the acquisition date over the consideration transferred by the REIT has been recognized in earnings as a gain disclosed in the caption "Gain resulting from exercise of the purchase option". This gain is principally due to the fact that the REIT bought the properties at a discount to its market value as a consequence of a profit sharing mechanism featured in the Acquisition loan granted by Inovalis REIT to Inovalis SA when the latter bought the Metropolitain property in 2014.

Acquisition costs related to the acquisition amounting to $391 (€267) have been recognized in consolidated statement of earnings as Acquisition costs.

Immediately following the acquisition, the REIT exercised its option to purchase the investment property that was leased and concomitantly, closed a new finance lease contract to replace the finance lease assumed as part of the transaction. Therefore, finance lease liability amounting to $23,166 (€15,742) was derecognized and a loss on the exercise of early payment option of finance lease of $1,242 (€844) was recognized in the consolidated statement of earnings. Costs related to the acquisition amounted to $856 (€580) and were capitalized to the investment property.

During the year 2017, the loss realized in 2016 on the exercise of early payment option of finance lease has been adjusted down by an amount of $ 71 (€ 48).

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

Note 7 – Investment properties

	2017	2016
Beginning of year	412,232	355,704
Additions	1,616	862
Capitalized letting fees	120	119
Acquisitions through business combinations	-	78,731
Partial Disposal	-	(3,576)
Rent free periods	(893)	84
Net change in fair value of investment properties	892	3,632
Foreign currency translation adjustment	26,846	(23,324)
End of year	440,813	412,232

	As at December 31, 2017			As at December 31, 2016		
	France	Germany	Total	France	Germany	Total
Fair value of investment properties for financial reporting purposes						
Market value (in Euros) as estimated by external appraisers	268,400	25,590	293,990	269,100	24,100	293,200
Option costs and other costs	(1,867)	-	(1,867)	(2,261)	-	(2,261)
Adjusted market value in Euros	266,533	25,590	292,123	266,839	24,100	290,939
Exchange adjustment	135,665	13,025	148,690	111,246	10,047	121,293
Adjusted market value in CAD$	402,198	38,615	440,813	378,085	34,147	412,232
Date of evaluation	Dec 31, 2017	Dec 31, 2017		Dec 31, 2016	Dec 31, 2016	
Principal method used to value property	Discounted cash flow	Discounted cash flow		Discounted cash flow	Discounted cash flow	
Number of years used in cash flow projection	10	10		10	10	
Discount rate	4.25% to 7%	5.10%		4.5% to 7.0%	6.50%	
Weighted average discount rate	5.67%	5.10%		5.78%	6.50%	
Weighted average ending capitalization rate	5.67%	5.10%		5.78%	5.75%	
Impact on the fair value of investment properties of :						
an increase of 25 bps in discount rates	(17,734)	(1,893)	(19,626)	(16,353)	(1,313)	(17,667)
a decrease of 25 bps in discount rates	17,734	1,893	19,626	16,353	1,313	17,667

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

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

Note 8 – Investments accounted for using the equity method

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

Carrying amount of investment in joint ventures	CCD	Walpur	Arcueil	Cologne	Stuttgart	Delizy	Neu Isenburg	Total
Balance - December 31, 2015	19,188	6,918	14,231	-	-	-	-	40,337
Reclassified from liabilities				(925)				(925)
Additional investment of the year	-	-	-	6,189	-	-	-	6,189
Share of net earnings from investments accounted for using the equity method [1]	600	556	(277)	(49)	-	-	-	830
Loan repayments	-	(200)	-	-	-	-	-	(200)
Exchange differences	(1,104)	(409)	(805)	(26)	-	-	-	(2,344)
Balance - December 31, 2016[2]	18,684	6,865	13,149	5,189	-	-	-	43,887
Reclassified from liabilities								-
Additional investment of the year	-	-	-	-	12,794	8,682	12,230	33,706
Share of net earnings from investments accounted for using the equity method [1]	388	1,432	(217)	21	2,390	(551)	(1,042)	2,421
Partial disposal	-	-	-	835	-	-	-	835
Loan repayments	-	-	-	(5,544)	-	-	-	(5,544)
Exchange differences	1,226	489	848	197	451	244	334	3,789
Balance - December 31, 2017[3]	20,298	8,786	13,780	698	15,635	8,375	11,522	79,094

(1) The share of net earnings regarding Arcueil property includes the variance of the foreign exchange derivative (conversion from € to KRW). The REIT is entitled to receive a 25% share of the net earnings and, upon asset disposal, 75% of the variance of fair value of investment properties, reduced by 100% of foreign exchange derivative costs. As at December 31, 2017 the fair value of the forward is $(3,016). Considering the specific features of the transaction Arcueil, share of net earnings from investments in Arcueil is disclosed in the caption Finance income of the consolidated statement of earnings.
(2) The balance of the investments accounted for using the equity method as at December 2016 includes loans to Joint Ventures for an amount of $ 39,058.
(3) The balance of the investments accounted for using the equity method as at December 2017 includes loans to Joint Ventures for an amount of $ 67,640.

2017

Stuttgart

On June 9, 2017, the REIT, through its subsidiary CCE, purchased a 50% interest in TFI Cancorp Stuttgart, a joint venture which owns an office property located in Germany, for a total consideration of € 8,844 ($12,959). This total consideration includes a cash consideration of € 30 ($ 45) paid for equity, a 6.5 % interest-bearing loan of € 8,814 ($ 12,914) repayable the date the Joint Venture Agreement terminates. The difference between the total consideration disclosed in the above table ($ 165) corresponds to the accounting loss of Cancorp Caesar S.à r.l., entity which has been merged subsequently to the acquisition.

SCI Delizy Diamants ("Pantin Investment")

On August 29, 2017, the REIT, through its subsidiary INOPCI 1, completed for a total cash consideration of € 5,926 ($8,682) its 50% interest in SCI Delizy Diamants ("Pantin Investment"), a joint venture which acquired an office property located in France. This total consideration is composed of a cash consideration paid of €1 ($1) for the equity interest and a 9% interest-bearing loan of € 5,925 ($8,681), repayable the date the Joint Venture Agreement terminates.

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

Neu Isenburg

On June 9, 2017, the REIT, through its subsidiary CCE, purchased a 50% interest in Neu Isenburg, a joint venture which owns an office property located in Germany, for a total consideration of € 8,347 ($12,230). This consideration is composed of an equity interest for € 6,017 ($ 8,816) and a 8.7% interest-bearing loan of € 2,330 ($ 3,414) repayable the date the Joint Venture Agreement terminates.

Cologne

On December 31, 2017, the REIT sold 43% of the shares held in Cologne and 43% of the interest-bearing loan to the joint venture partner for a total consideration of € 3,789 ($ 5,552). The transaction generated a gain of € 575 ($ 843) recognised in the consolidated statement of earnings as “Gain on partial disposal of investment in joint venture”.

2016

Cologne

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

Note 9 –Acquisition loan and deposit

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

	As at December 31, 2017	As at December 31, 2016
Ingolstadt deposit	1,132	1,255
Rueil loan	25,903	7,651
Acquisition loan and deposit	27,035	8,906

Ingolstadt investment

On September 15, 2016, the REIT and a co-investor entered into an agreement with a third-party for the forward purchase of an office property to be developed in Ingolstadt, Germany. A deposit of €1.5 million ($ 2.2 million) has already been paid upon signature of the forward purchase agreement. In addition to its share of the deposit of €750 ($ 1,063), the REIT incurred acquisition costs related to the investment for an amount of € 136 ($ 192) which have been included in the carrying value of the deposit. The share of the deposit of €750 ($ 1,063) of the co-investor has been paid by the REIT on behalf of the co-investor. This advance to the co-investor is disclosed under the caption “Other financial current assets” (see details in Note 13).

As at December 31, 2017, the carrying value of the investment includes only the deposit of € 750 ($ 1,132), as the acquisition costs will be recharged to the property holding entity, TK Bau Verwaltung GmbH.

Rueil investment

During the year 2016, the REIT has committed to fund a €21.7 million ($32.1 million) acquisition and redevelopment loan to a company 80% owned by Inovalis related to a property located in Rueil, in Paris Western periphery. The facility amount will be drawn in several installments by completion of the project in 2019. The loan bears an annual interest rate of 8.50%, gives the REIT 20% of the profit generated upon the sale of the underlying investment property and also gives the REIT an option for the purchase of up to 50% of the property once it meets the REIT’s investment criteria.

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

During the year 2016, € 5,4 million ($ 7.65 million) has been drawn in several instalments under the facility agreement.

During the year 2017, € 11,8 million ($ 17.2 million) has been drawn in several instalments under the facility agreement. To date, €17.2 million ($25.903 million) was funded by the REIT as a loan. The loan is secured by a share pledge.

Advance payments have been received by the REIT. These advance payments cover accrued interests due on the loan for subsequent financial periods. Advance payment related to the accrued interests estimated on the period 1 January to 31 December 2018 for an amount of $ 2,202, have been classified as current deferred income. Advance payment related to subsequent periods for an amount of $ 3,260 have been classified as non-current deferred income.

Pantin investment

On April 13, 2017 the REIT granted a short term acquisition loan to Aref Diamants Sarl (100%-owned by Inovalis) for an amount of €5.3 million ($7.6 million) to finance the Pantin (Paris North-Eastern periphery) asset acquisition announced in Q4 2016. The loan has generated 9.5% interest income until the acquisition date for the property.

The acquisition loan has been repaid by AREF Diamants Sarl to the REIT on August 29, 2017 (please refer to Note 8 for further details of the acquisition).

Note 10 – Financial derivatives and hedging activities

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

		Period covered		Conversion from/to			As at December 31, 2017		As at December 31, 2016	
Classification and type	Number of contracts	From	To	Euros or rate	$ or rate	Rate	Total notional amount	Fair value	Total notional amount	Fair value
Foreign exchange	16	2018/01/12	2019/04/12	663	1,000	1.5077	16,000	(189)	28,000	1,029
Foreign exchange	16	2018/01/12	2019/04/10	205	300	1.4651	4,800	(200)	8,400	72
Interest rate SWAP	1	2018/01/01	2019/07/01	Variable	Fixed	0.685%	77,141	(1,070)	76,180	(1,685)
Interest rate CAP	2	2017/12/31	2019/05/05	Variable	Capped	2.000%	51,306	-	48,175	9
Interest rate SWAP	1	2018/01/01	2021/12/23	Variable	Fixed	0.394%	19,455	(244)	18,746	(413)
Interest rate SWAP	1	2018/01/01	2023/01/10	Variable	Fixed	0.282%	52,774	(204)	50,560	(743)
								(1,907)		(1,731)

2017

On July 1st, 2017, the REIT discontinued the application of the hedge accounting to its interest rate swap and cap relationships. An amount of $ 382 was reclassified from Other comprehensive income to Consolidated statement of earning. The remaining amount to be reclassified in future periods amounts to $ 1,077. This amount will be fully amortised in Q3-2019.

2016

On May 4, 2016, the REIT proceeded with the settlement of the 25 foreign exchange contracts and 21 option contracts still outstanding from its original economic hedging strategy. The settled contracts covered monthly periods up to and including February 14, 2019. A loss of approximately $467 was realized at the time of settlement. Of this loss of $467, an unrealized loss of approximately $675 had been previously recognized in earnings regarding the contracts not accounted for as hedging instruments and an unrealized gain of approximately $208 had been previously recognized in other comprehensive income (loss) regarding the contracts accounted for as hedging instruments. The REIT replaced them with a new series of 36 monthly forward contracts provided by a French bank that has no cash collateral requirements.

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

Note 11 – Trade and other receivables

	As at December 31, 2017	As at December 31, 2016
Trade receivables	2,360	2,976
Trade receivables - Inovalis	498	8
Provision for impairment of trade receivables	(365)	(313)
Trade receivables	2,493	2,671
Other receivables	1,930	237
Other receivables - Inovalis	90	271
Other receivables - joint ventures	53	189
Other receivables	2,073	697
Total trade and other receivables	4,566	3,368

Note 12 – Other current assets

	As at December 31, 2017	As at December 31, 2016
VAT and other sales tax receivables	1,289	1,540
Interest receivables - Joint ventures	626	-
Prepaid expenses	106	98
Other current assets	2,021	1,638

Note 13 – Other financial current assets

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

The other financial current assets also includes the 50% share of the deposit pertaining to the Ingolstadt forward purchase that will be borne by the partner on this transaction (see details in Note 9), amounting to $1.267 including accrued interest. at a rate of 9.5%.

Note 14 – Restricted cash

The restricted cash corresponds to a guaranty deposit of € 1,000 ($ 1,509) in relation to the finance lease agreement in place between Metropolitan SCI and the leaser (refer to Note 16 for details of these finance lease agreement). The guaranty deposit should be repaid at the latest at the maturity date of the finance lease agreement.

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

Note 15 – Promissory Notes

On June 22, 2017, the REIT issued a Euro denominated promissory note (hereafter "Promissory Notes 1") through its subsidiary CCE. to a single non-Canadian investor "the Investor" for € 9,146 ($ 13,801) paying interest at 8.18%. The Promissory Notes 1 matures on June 22, 2020 and includes a prepayment option allowing the REIT to repay all or any portion of the Promissory Notes 1 as from June 22, 2018.

On August 11, 2017, a partial repayment of the Promissory Notes 1 was done for € 440 ($ 664).

On October 4, 2017, the REIT issued a second Euro denominated promissory note (hereafter "Promissory Notes 2") through its subsidiary CCE. to the same investor "the Investor" for € 7,262 ($ 10,958) paying interest at 8.13%. The Promissory Notes 2 matures on October 4, 2020 and includes a prepayment option allowing the REIT to repay all or any portion of the Promissory Notes 2 as from October 4, 2018.

Concurrent with the issuance of Promissory Notes 1 and Promissory Notes 2 (together referred as "the Notes"), the Investor and the REIT entered into put/call agreements. Pursuant to the call option, the REIT can satisfy its obligation to the Investor at any time by delivering a fixed number of units of the REIT determined at the issuance of the Notes ("Conversion Prices"). Pursuant to the put option, at any time after June 25, 2018 for Promissory Notes 1 and October 7, 2018 for Promissory Notes 2 the Investor can transfer all or any portion of the Notes to the REIT in consideration for cash, in which case the REIT has the option to exercice its call option.

The carring value of the Promissory Notes (including the put-call and prepayment options) is estimated to CAD 23,789 as at December 31, 2017.

				As at December 31, 2017	
Entity	Nominal value (in 000's of €)	Nominal value (in 000's of $)	Interest rate	Maturity	Carrying value of the Promissory Notes
Promissory Notes 1	8,706	13,137	8.18%	22/06/2020	12,911
Promissory Notes 2	7,262	10,958	8.13%	04/10/2020	10,878
Total Promissory Notes	15,968	24,095			23,789

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

Note 16 – Mortgage loans and finance lease liabilities

As at December 31, 2017

Entity	Nominal value (in 000's of €)	Nominal value (in 000's of $)	Interest rate	Maturity	Total	Non-current	Current
Mortgage loan - Jeûneurs SCI	30,000	45,270	Euribor 3M + 1.75%[1]	26/10/2027	44,778	43,352	1,427
Mortage loan - Véronèse SCI	7,675	11,582	Euribor 3M + 1.75%[1]	05/05/2019	11,592	11,592	-
Mortgage loan - Sablière SCI	12,893	19,455	Euribor 3M + 1.59%[2]	23/12/2025	19,327	18,737	590
Mortgage loan - CanCorpHanover GmbH KG³	12,600	19,013	Euribor 3M + 1.45%	31/12/2022	18,798	18,798	-
Mortgage loan - Baldi SCI	14,500	21,881	Euribor 3M + 1.75%	26/10/2027	21,506	20,863	643
Mortgage loans	77,668	117,201			116,001	113,342	2,660
Finance lease liabilities - BBA SCI	50,348	75,974	Euribor 3M + 2.00%[2]	20/06/2026	75,975	71,102	4,873
Finance lease liabilities - Metropolitain SCI	34,973	52,774	Euribor 3M + 1.85%[2]	20/03/2028	52,774	51,633	1,141
Finance lease liabilities	85,321	128,748			128,749	122,735	6,014
Total mortgage loans and finance lease liabilities	162,989	245,949			244,750	236,077	8,674

As at December 31, 2016

Entity	Nominal value (in 000's of €)	Nominal value (in 000's of $)	Interest rate	Maturity	Total	Non-current	Current
Mortgage loan - Jeûneurs SCI	19,500	27,630	Euribor 3M + 1.75%[1]	05/05/2019	27,658	27,658	-
Mortgage loan - Véronèse SCI	14,500	20,545	Euribor 3M + 1.75%[1]	05/05/2019	20,587	20,587	-
Mortgage loan - Sablière SCI	13,230	18,746	Euribor 3M + 1.59%[2]	23/12/2025	18,597	18,140	457
Mortgage loan - CanCorpHanover GmbH KG³	12,600	17,853	Euribor 3M + 1.45%	31/12/2022	17,697	17,613	84
Mortgage loans	59,830	84,774			84,539	83,998	541
Finance lease liabilities - BBA SCI	53,207	75,389	Euribor 3M + 2.00%[2]	20/06/2026	75,389	71,338	4,051
Finance lease liabilities - Metropolitain SCI	35,684	50,560	Euribor 3M + 1.85% and Euribor 3M + 1.6%[2]	20/03/2028	50,560	49,553	1,007
Finance lease liabilities - Baldi SCI	13,539	19,184	Euribor 3M + 1.00%	30/09/2017	19,121	-	19,121
Finance lease liabilities	102,430	145,133			145,070	120,891	24,179
Total mortgage loans and finance lease liabilities	162,260	229,907			229,609	204,889	24,720

Note 1 : Interest rate is subject to a CAP - see note 9 *Financial derivatives and hedging activities*

Note 2 : Interest rate is subject to SWAP - see note 9 *Financial derivatives and hedging activities*

Note 3 : The morgage loan - CancorpHanover GmbH KG is in fine

In these leases, the REIT has the option to purchase each of the properties at the end of their respective leases. The fixed price of the option to purchase is expected to be lower than the fair value at the date the option becomes exercisable.

2017

On October 26, the REIT completed the refinancing of the Baldi and Jeuneurs properties, securing loans of €44.5 million ($65.6 million). After the reimbursement of the existing loans amounting to €39.0 million ($57.5 million), which includes a €6.9million ($10.2 million) partial early repayment of the loan associated with the

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Courbevoie property, the proceeds from refinancing were €4.8 million ($7.1 million) before a cash reserve of €0.9 million ($1.3 million) and associated refinancing costs.

The impact of the derecognition of the initial finance lease amounting to $193 (132€) was recognized in the consolidated statement of earnings under the caption "Loss recognized on exercise of early payment option on finance lease".

2016

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

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

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

	As at December 31, 2017		As at December 31, 2016	
Carrying value and minimum lease payments	Carrying value	Minimum lease payments	Carrying value	Minimum lease payments
Within 1 year	6,014	8,940	24,180	25,928
After 1 year, but not more than 5 years	28,147	37,234	24,858	30,095
More than 5 years	94,588	101,171	96,032	99,207
	128,749	147,345	145,070	155,230
Less : future interest costs		(18,596)	-	(10,160)
Total carrying value and present value	128,749	128,749	145,070	145,070

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

Note 17 – Lease equalization loans

			As at December 31, 2017			
Entity	Interest rate	Maturity	Total (in 000's of €)	Total (in 000's of $)	Non current (in 000's of $)	Current (in 000's of $)
Lease equalization loan - BBA SCI	5%	30/09/2021	1,934	2,919	2,114	804
Lease equalization loan - Véronèse SCI	5%	30/09/2019	159	239	90	149
Lease equalization loan - Baldi SCI	5%	31/12/2021	852	1,286	992	294
Total lease equalization loans			2,945	4,444	3,196	1,247

			As at December 31, 2016			
Entity	Interest rate	Maturity	Total (in 000's of €)	Total (in 000's of $)	Non current (in 000's of $)	Current (in 000's of $)
Lease equalization loan - BBA SCI	5%	30/09/2021	2,466	3,494	2,708	786
Lease equalization loan - Véronèse SCI	5%	30/09/2019	243	344	196	148
Lease equalization loan - Baldi SCI	5%	31/12/2021	986	1,397	1,147	250
Total lease equalization loans			3,695	5,235	4,051	1,184

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

Under the Lease Equalization Agreements, Inovalis is required to make payments to BBA SCI on a quarterly basis during the period commencing on April 16, 2013 and ending on September 30, 2015, corresponding to the difference between the actual lease payments over such period and the average lease payments over the term of the lease, which is $4,596 in the aggregate, and BBA SCI will be required to make payments to Inovalis, on a quarterly basis during the period commencing on January 1, 2016 and ending on September 30, 2021, corresponding to the difference between actual lease payments over such period and the average lease payments over the term of the lease, which is $4,596 in the aggregate, plus 5.00% per annum of such amount, which shall begin to accrue on any amount when such amount is advanced by Inovalis.

For Veronèse SCI, Inovalis is also required to make payments on a quarterly basis during the period commencing on April 16, 2013 and ending on September 30, 2015, corresponding to the difference between the actual lease payments over such period and the average lease payments over the term of the lease, which is $357 in the aggregate, and Véronèse SCI will be required to make payments to Inovalis, on a quarterly basis during the period commencing on January 1, 2016 and ending on September 30, 2019, corresponding to the difference between actual lease payments over such period and the average lease payments over the term of the lease, which is $357 in the aggregate, plus 5.00% per annum of such amount which shall begin to accrue on any amount when such amount is advanced by Inovalis.

Inovalis is also required to make payments to Baldi SCI on a quarterly basis during the period commencing on January 1, 2015 and ending on December 31, 2016, corresponding to the difference between the actual lease payments over such period and the average lease payments over the term of the lease, which is $1,397 in the aggregate, and Baldi SCI will be required to make payments to Inovalis, on a quarterly basis during the period commencing on January 1, 2017 and ending on December 31, 2021, corresponding to the difference between actual lease payments over such period and the average lease payments over the term of the lease, which is $1,390 in the aggregate, plus 5.00% per annum of such amount which shall begin to accrue on any amount when such amount is advanced by Inovalis.

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Note 18 – Exchangeable securities

Exchangeable securities issued and outstanding	Exchangeable securities: Number of Exchangeable securities	Exchangeable securities: Carrying amount of Exchangeable securities
Balance - December 31, 2015	2,070,398	19,400
Transactions in 2016		
Asset management fees paid in Exchangeable securities	361,617	3,450
Distribution of Exchangeable securities	296,036	2,943
Conversion of Exchangeable securities into units of the REIT	(920,000)	(8,606)
Net change in fair value of Exchangeable securities	-	(589)
Balance - December 31, 2016	1,808,051	16,598
Transactions in 2017		
Asset management fees paid in Exchangeable securities	375,824	3,711
Conversion of Exchangeable securities into units of the REIT	(500,014)	(4,426)
Redemption of Exchangeable securities	(4,491)	(44)
Net change in fair value of Exchangeable securities	-	904
Balance -December 31, 2017	1,679,370	16,743

Exchangeable securities in escrow until internalization of management	Number in escrow - presented as non-current	As at December 31, 2017: Number not in escrow - presented as current	As at December 31, 2017: Total number of Exchangeable securities
Number of Exchangeable securities outstanding - beginning of year	501,433	1,306,618	1,808,051
Securities converted into units in 2017	-	(500,014)	(500,014)
Issuance of Exchangeable securities	6,952	-	6,952
Redemption of Exchangeable securities	-	(4,491)	(4,491)
Securities issued in lieu of asset management fees	184,436	184,436	368,872
Number of Exchangeable securities - outstanding - end of year	692,821	986,549	1,679,370
Classification of liabilities for Exchangeable securities ($)	6,907	9,836	16,743

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

In the event that, on or after April 10, 2028, the units of the REIT have a current market price of less than $10, the REIT shall have the right to require Inovalis to exchange all of its Exchangeable securities for units of the REIT at a price determined using the average quoted market price of the REIT's units on the Toronto stock exchange for the five days immediately preceding the transaction.

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

Distributions in respect of Exchangeable securities:

The Exchangeable securities entitle the holders to cash distributions from CCE equal, on a per Unit basis, to the distributions paid to holders of Units by the REIT.
The following table breaks down distribution payments for the years ended December 31:

	2017	2016
Amount payable at the beginning of the period	982	366
Declared and recognised during the period	1,618	1,890
Distribution on exchangeable securities paid	(2,338)	(1,274)
Amount payable at the end of the period	262	982
Weighted average number of Exchangeable securities outstanding	1,915,075	2,167,019
Distributions paid per unit (based on weighted average number of units outstanding)	1.2208	0.5879
Distributions paid per unit (based on an annual basis)	0.8250	0.8250

Note 19 – Trade and other payables

	As at December 31, 2017	As at December 31, 2016
Trade payables	2,264	2,331
Trade payables - Inovalis	1,098	1,850
Trade payables	3,362	4,181
Other payables	921	348
Other payables - Inovalis	268	401
Distributions payables	1,528	1,480
Distributions payables - Inovalis	262	982
Other payables	2,979	3,211
Total trade and other payables	6,341	7,392

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

Note 20 – Trust Units and Accumulated other comprehensive income

Trust Units

The REIT is authorized to issue an unlimited number of Units and an unlimited number of Special Voting Units. The beneficial interests of the REIT are comprised of a single class of units which represent a Unitholders' proportionate undivided beneficial interest in the REIT. No unit has any preference over any other unit. Each unit confers the right to one vote at any meeting of Unitholders and to participate on a pro rata basis in any distributions by the REIT and, in the event of termination of the REIT, in the net assets of the REIT remaining after settlement of all liabilities of the Trust. The units of the Trust are redeemable at the demand of the Unitholders at the fair market value of the units at that time.
Special Voting Units have no economic entitlement in the REIT but entitle the holder to one vote per Special Trust Unit at any meeting of the Unitholders of the REIT. Special Voting Units may only be issued in connection with or in relation to Exchangeable securities (see Note 18 – Exchangeable securities) for the purpose of providing voting rights with respect to the REIT to the holders of such securities. As at December 31, 2017, 1,679,370 Special Voting Units were issued and outstanding (2016 – 1,808,051).

As at December 31, 2017, the carrying value of the Trust Units amounts to $ 195,739. The movements of the carrying value of the Trust Units during the year are detailed in the consolidated statements of Changes in Unitholders' Equity.

2017

During the year, Inovalis converted 500,014 Exchangeable securities in the amount of $4,569 into 500,014 units of the REIT (see Note 18 – Exchangeable securities).

2016

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

During the year, Inovalis converted 920,000 Exchangeable securities in the amount of $8,606 into 920,000 units of the REIT (see Note 18 – Exchangeable securities).

Accumulated other comprehensive income

	As at December 31, 2017	As at December 31, 2016
Net unrealized gains on derivatives designated as a hedge of the net investment in a foreign entity	1,162	2,849
Net unrealized losses on interest rate derivatives designated as a cash flow hedge	(1,077)	(1,931)
Cumulative translation adjustment account	24,351	7,477
Accumulated other comprehensive income	24,436	8,395

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

Note 21 – Revenue

	2017	2016
Regular rents	25,838	23,478
Amortization of rent free periods (lease incentives)	(892)	926
Rental income	24,946	24,404
Service charge income	6,908	6,546
Total revenue	31,854	30,950

In 2017, three tenants account for more than 10% of rental income: France Telecom (29%), Sparkasse (25%) and Conservatoire National des Arts et Métiers (12%). In 2016, three tenants account for more than 10% of rental income: Sparkasse (30%), France Telecom (29%) and Conservatoire National des Arts et Métiers (12%).

Future minimum leases receivable under non-cancellable operating leases	As at December 31, 2017	As at December 31, 2016
Within 1 year	22,716	19,165
After 1 year, but not more than 5 years	27,001	34,053
More than 5 years	1,515	135
Future minimum lease receivable under non-cancellable operating leases	51,232	53,353

Note 22 – Administration expenses

	2017	2016
Asset management fees - Inovalis	(3,715)	(3,380)
Less: amount reinvoiced to joint ventures	796	589
	(2,919)	(2,791)
Other general and administrative expenses	(2,374)	(2,361)
Total administration expenses	(5,293)	(5,152)

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

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

Note 23 – Finance costs and finance income

	2017	2016
Interest costs related to mortgage loans	(1,687)	(1,595)
Interest costs related to finance leases	(2,643)	(2,678)
Interest costs related to lease equalization loans	(232)	(273)
Interest costs related to promissory notes	(857)	-
	(5,419)	(4,546)
Interest SWAP	(1,235)	(1,072)
Other finance costs	(325)	(329)
	(6,979)	(5,947)
Amortization of fair value adjustment on finance leases assumed at a discount at the time of a business acquisition	(65)	(239)
Amortization of transaction costs on mortgage loans	(79)	(302)
Finance costs	(7,123)	(6,488)
Finance income	271	51
Finance income from Inovalis relating to the acquisition loan	1,884	1,200
Finance income from joint ventures	4,446	3,093
Finance income	6,601	4,344

Note 24 – Income taxes

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

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

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

Income tax expense	2017	2016
Current income tax expense		
Current income tax expense	(186)	(336)
Deferred income tax expense		
Relating to origination and reversal of temporary differences	(658)	(944)
Income tax expense reported in the consolidated statement of earnings	(844)	(1,280)

	Balance Sheet		Statement of Earnings	
Deferred tax liability	As at December 31, 2017	As at December 31, 2016	2017	2016
Losses carryforward	(446)	(336)	86	927
Revaluations of investment properties to fair value	3,505	2,572	(744)	(1,871)
	3,059	2,236	(658)	(944)
Reflected on balance sheet as follows:				
Deferred tax liabilities	3,059	2,236		

Note 25 – Earnings per Unit

The REIT has classified the Units that it issued as equity pursuant to the provisions of IAS 32, *Financial Instruments*: Presentation, on the basis that the Units meet all of the criteria in IAS 32 for such classification, also referred to as the "puttable exemption".

(a) Basic earnings per Unit

Basic earnings per unit is calculated by dividing the profit attributable to the Unitholders of the REIT by the weighted average number of Units outstanding during the period.

Basic earnings per unit	2017	2016
Earnings attributable to unitholders	19,167	23,284
Weighted average number of units outstanding	21,635,553	18,194,558
Basic earnings per unit	0.89	1.28

(b) Diluted earnings per Unit

Diluted earnings per unit is calculated by adjusting the weighted average number of Units outstanding to assume conversion of all dilutive potential Units. The REIT has two categories of dilutive potential Units: the exchangeable securities (refer to Note 18) and the promissory notes (refer to Note 15)

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

Diluted earnings per unit	2017	2016
Earnings attributable to unitholders	19,167	23,284
Distributions recognized on Exchangeable securities	1,618	1,890
Net change in fair value of Exchangeable securities	904	(589)
Interest on promissory notes	857	
Net change in fair value of Promissory Notes	513	
Earnings attributable to diluted unitholders	23,059	24,585
Weighted average number of units outstanding	21,635,553	18,194,558
Weighted average number of Exchangeable securities outstanding	1,915,075	2,167,019
Weighted average number of Promissory Notes outstanding	941,312	-
Weighted average number of units used for diluted earnings per unit	24,491,940	20,361,577
Diluted earnings per unit	0.94	1.21

When dilution does not result in a reduction in earnings per unit, the diluted earnings per share is identical to basic earnings per unit.

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

Note 26 – Distributions

	2017	2016
Amount payable at the beginning of the year	1,479	1,075
Declared and recognised during the year	17,873	15,188
Distributions paid in units (Distribution Reinvestment Plan)	(2,012)	(1,170)
Paid in cash	(15,811)	(13,614)
Amount payable at the end of the year	1,529	1,479
Distributions paid per unit (based on weighted average number of units outstanding)	0.8238	0.8125
Distributions paid per unit (based on an annualized basis)	0.8250	0.8250

A Distribution Reinvestment Plan (“DRIP”) has been put in place starting from the July, 2013 distribution, providing Unitholders with the opportunity to accumulate additional Units plus additional bonus Units in an amount equal to three percent of the distributions reinvested by the Unitholders. The DRIP provides an efficient and cost-effective way for the REIT to issue additional equity to existing Holders.

In December 2017, the distribution of $1,529 for the month of December was declared, of which $1,270 was paid on January 15, 2017.

The REIT’s Declaration of Trust endeavours to maintain monthly distribution payments to Unitholders payable on or about the 15th day of the following month. In addition, on December 31 of each year, having regard to the present intention of the Trustees, the REIT intends to make payable to such Unitholders, a distribution of sufficient net realized capital gains and net income for the taxation year ended on that date, net of any capital losses or non-capital losses recognized on or before the end of such year such that the REIT will not be liable for ordinary income taxes for such year, net of tax refunds. The payment of such amounts shall be made on or before the following January 15.

Notwithstanding the REIT’s distribution policy, the Trustees retain full discretion with respect to timing and quantum of distributions, if declared.

Distributions in respect of Exchangeable securities are detailed in Note 18 – Exchangeable securities.

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

Note 27 – Risk arising from financial instruments

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

Market risk

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

Interest rate risk

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

The interest rate risk is mitigated by the REIT's strategy using derivative financial instruments on mortgage loans and on the finance lease liabilities. At December 31, 2017, after taking into consideration the effect of interest rate swap and interest rate cap, 84 % of the REIT's long term debt obligation is no more exposed to interest rate risk (2016 – 84 %).

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

	As at December 31, 2017	
Interest rate sentivity	Impact on profit and loss	Impact on Equity
Reasonably possible increase in interest rates	50 basis points	50 basis points
Annualized impact of an increase on profit and loss and equity	(202)	(202)

	As at December 31,2016	
Interest rate sentivity	Impact on profit and loss	Impact on Equity
Reasonably possible increase in interest rates	50 basis points	50 basis points
Annualized impact of an increase on profit and loss and equity	(184)	(184)

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

Currency risk

Financial assets and liabilities denominated in foreign currencies	As at December 31, 2017 – Exposure to Euro: Short-term exposure	Long-term exposure	Total
Monetary assets denominated in other than functional currency	17,673	62,740	80,413
Monetary liabilities denominated in other than functional currency	(4,649)	(75,110)	(79,759)
Net exposure in respect of monetary items denominated in other than functional currency	13,024	(12,370)	654
Net exposure in respect of foreign currency exchange contracts (notional net buy amount in CAD$)	(15,600)	(5,200)	(20,800)
Net exposure	(2,576)	(17,570)	(20,146)

Impact on	% change	Net income	OCI	Total
Gain or (loss) in the event of an increase in the value of the Euro/CAD$	10%	(258)	(1,757)	(2,015)
Gain or (loss) in the event of a decrease in the value of the Euro/CAD$	-10%	258	1,757	2,015

Financial assets and liabilities denominated in foreign currencies	As at December 31, 2016 – Exposure to Euro: Short-term exposure	Long-term exposure	Total
Monetary assets denominated in other than functional currency	29,526	33,852	63,378
Monetary liabilities denominated in other than functional currency	(2,969)	(59,283)	(62,252)
Net exposure in respect of monetary items denominated in other than functional currency	26,557	(25,431)	1,126
Net exposure in respect of foreign currency exchange contracts (notional buy amount in CAD$)	(15,600)	(20,800)	(36,400)
Net exposure	10,957	(46,231)	(35,274)

Impact on	% change	Net income	OCI	Total
Gain or (loss) in the event of an increase in the value of the Euro/CAD$	10%	1,096	(4,623)	(3,527)
Gain or (loss) in the event of a decrease in the value of the Euro/CAD$	-10%	(1,096)	4,623	3,527

The REIT operates in France and Germany, and the functional currency for these operations is the Euro. The REIT's distributions are paid to Unitholders in Canadian dollars. Thus, the cash available for distribution to Unitholders could be adversely impacted by currency variations. In order to ensure the predictability of distributions to its Unitholders, the REIT has implemented an economic foreign exchange hedging program. As such, the exchange rate relating to 85% of the REIT's current distributions are secured by these foreign currency forward contracts until April, 2019 (2016: 87%). Refer to Note 10 for a summary of the foreign exchange contracts in place.

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The REIT is directly exposed to credit risk from its leasing activities and its financing activities, including the acquisition loans and deposits, trades and other receivables, loans in other financial current assets, loans to joint ventures, derivatives, deposits with banks and financial institutions and indirectly exposed in 2017 via its investments in units of a French euro money market mutual fund, which are accounted for as financial current assets. The REIT's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at December 31.

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

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

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

Liquidity risk

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

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

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

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

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

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

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

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

As at December 31,2017	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Mortgage loans	-	4,919	49,238	79,080	133,237
Finance leases principal and interest	-	8,939	37,234	101,171	147,344
Promissory Notes	406	24,503	-	-	24,909
Lease equalization loans	-	1,247	3,196	-	4,443
Exchangeable securities (value of securities plus interest on notes)	185	544	2,919	15,321	18,969
Tenant deposits	-	162	1,523	769	2,454
Derivative financial instruments	-	-	1,314	204	1,518
Trade and other payables	4,774	1,567	-	-	6,341
Total	5,365	41,881	95,424	196,545	339,215

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

Classification of financial instruments

The following tables summarize the classification of the REIT’s financial instruments as at December 31, 2017 and 2016.

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

As at December 31,2017

	Measured at Fair Value		Measured at amortized cost		
	Classified as Held for trading	Designated as FVTPL[1]	Loans and Receivables	Financial liabilities	Total
Financial assets					
Loans to Joint Ventures	-	-	67,640	-	67,640
Acquistion loan and deposit	-	-	27,035	-	27,035
Derivative financial instruments	59	-	-	-	59
Trade and other receivables	-	-	4,566	-	4,566
Other current assets	-	-	2,021	-	2,021
Financial current assets	-	-	1,267	-	1,267
Restricted cash	1,509	-	-	-	1,509
Cash	20,345	-	-	-	20,345
Total financial assets	21,913	-	102,529	-	124,442
Financial liabilities					
Promissory notes	-	23,789	-	-	23,789
Mortgage loans	-	-	-	116,002	116,002
Lease equalization loans	-	-	-	4,443	4,443
Tenant deposits	-	-	-	2,454	2,454
Exchangeable securities	-	16,743	-	-	16,743
Derivative financial instruments	1,966	-	-	-	1,966
Trade and other payables	-	-	-	6,341	6,341
Other current liabilities	-			431	431
Total financial liabilities	1,966	40,532	-	129,671	172,169

1 - Fair value through profit or loss

As at December 31,2016

	Measured at Fair Value		Measured at amortized cost		
	Classified as Held for trading	Designated as FVTPL[1]	Loans and Receivables	Financial liabilities	Total
Financial assets					
Loans to Joint Ventures	-	-	39,058	-	39,058
Acquistion loan and deposit	-	-	8,906	-	8,906
Derivative financial instruments	1,110	-	-	-	1,110
Restricted cash	-	-	4,067	-	4,067
Trade and other receivables	-	-	2,027	-	2,027
Financial current assets	-	26,822	-	-	26,822
Cash	11,074	-	-	-	11,074
Total financial assets	12,184	26,822	54,058	-	93,064
Financial liabilities					
Mortgage loans	-	-	-	84,539	84,539
Lease equalization loans	-	-	-	5,235	5,235
Tenant deposits	-	-	-	2,376	2,376
Exchangeable securities	-	16,598	-	-	16,598
Derivative financial instruments	2,841	-	-	-	2,841
Trade and other payables	-	-	-	7,392	7,392
Other current liabilities	-			2,710	2,710
Total financial liabilities	2,841	16,598	-	102,252	121,691

1 - Fair value through profit or loss

Fair value of assets and liabilities

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

The following table provides a comparison of the carrying amounts and fair value of the REIT's finance leases and financial assets and liabilities that are not carried at fair value in the consolidated financial statements and for which the carrying values are not reasonable approximations of their fair value.

As at December 31, 2017	Fair value hierarchy level	Carrying amount	Fair value
Financial assets			
Acquisition loan and deposit	3	27,035	27,035
Financial liabilities			
Mortgage loans	2	116,002	115,920
Finance leases	2	128,749	128,749
Lease equalization loans	3	4,443	4,443
Tenant deposits	3	2,454	2,372

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

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

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

- The fair value of floating rate finance lease liabilities is estimated by discounting future cash flows using rates currently available for debt with similar terms and remaining maturities. The fair value approximates their carrying values gross of unamortized transaction costs only if the credit spread has not changed significantly.

- The fair values of mortgage loans, finance leases, lease equalization loans and tenant deposits are estimated using the nominal amounts expected to be repaid at maturity and a discount rate based on prevailing market interest rates adjusted by an internally determined credit spread. The fair value approximates its carrying amount as there were no material changes during the period in the assumptions used for fair value determination at inception.

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

Fair value hierarchy

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

	As at December 31, 2017			
	Level 1	Level 2	Level 3	Total
Investment properties	-	-	441,130	441,130
Derivative financial instruments - assets	-	59	-	59
Derivative financial instruments - liabilities	-	(1,966)	-	(1,966)
Exchangeable securities	-	(16,743)	-	(16,743)
Promissory notes		(23,789)		(23,789)

	As at December 31, 2016			
	Level 1	Level 2	Level 3	Total
Investment properties	-	-	412,232	412,232
Derivative financial instruments - assets	-	1,110	-	1,110
Financial current assets	26,822	-	-	26,822
Derivative financial instruments - liabilities	-	(2,841)	-	(2,841)
Exchangeable securities	-	(16,598)	-	(16,598)

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 - use of a model with inputs (other than quoted prices included in Level 1) that are directly or indirectly observable market data.
- Level 3 - use of a model with inputs that are not based on observable market data.

There were no transfers between Level 1 and Level 2 during the year ended December 31, 2017 (none in 2016).

The REIT’s management is responsible for determining fair value measurements included in the consolidated financial statements, including Level 3 fair values. The inputs, processes and results for recurring measurements, including those valuations calculated by an independent consultant, are reviewed each quarter by senior management to ensure conformity with IFRS.

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

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

- The fair value of the units held in a French euro money market mutual fund which are accounted for as financial current assets, is determined based on its quoted price at December 31, 2017.

- The fair value of derivative financial instruments is determined based on discounted cash flows using interest rate yield curves and volatilities that are observable on an active market, as at the balance sheet date.

- The fair value of the Exchangeable securities is based on the quoted price of the REIT’s own units, on the basis that they are exchangeable on a one for one basis throughout their life at the request of the unit holders, and upon maturity of the underlying notes, at the request of the REIT. Other features of the Exchangeable securities have no significant impact on their fair value.

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

Note 28 – Transactions with related parties

Inovalis – Asset manager

Pursuant to the Management Agreement, Inovalis is the Asset manager of the REIT and provides the strategic, advisory, asset management, project management, construction management, property management and administrative services necessary to manage the operations of the REIT and its subsidiaries.
Unless otherwise stated, none of these transactions incorporated special terms and conditions. Outstanding balances are usually settled in cash except for asset management fees to Inovalis which are paid in Exchangeable shares (refer to Note 15, Exchangeable securities). No guarantees were given.

Inovalis and its subsidiaries	Financial statement line item	Note	2017	2016
Revenues				
Rental income	Rental income		-	249
Service charge income	Service charge income		10	(132)
Recharge of costs	Other revenue		735	170
Other services	Other revenue		58	-
Interest income from acquisition loan	Finance income	23	1,884	1,200
			2,687	1,487
Expenses				
Asset management fees	Administration expenses	A	(3,715)	(3,380)
less portion reinvoiced to joint-ventures	Administration expenses		796	589
Facilities management fees (1)	Service charge expenses	B	(468)	(417)
Property management fees	Service charge expenses	C	(1,446)	(1,234)
Letting fees invoiced	Service charge expenses		(191)	(196)
less portion accounted for over the lease term	Service charge expenses		120	77
Reimbursement of travel expenses	Acquisition costs		(71)	(575)
Interest on lease equalization loan	Finance costs	17	(232)	(273)
Other finance costs	Finance costs		-	(2)
Reimbursement of travel expenses	Administration expenses		(133)	(165)
Reimbursement of travel expenses	Issue costs	20	-	(277)
Trustee fees	Administration expenses		(289)	(249)
			(5,629)	(6,102)
Unitholders' Equity				
Conversion of Exchangeable securities into units of the REIT	Issuance of Units	18	4,426	8,606

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

In performing its obligations under the Management Agreement, Inovalis is entitled to receive the following fees from the relevant subsidiary of the REIT:

A. An annual asset management fee (the “Annual Asset Management Fee”) in the amount of 0.75% of the Historical Gross Purchase Price of the REIT’s properties;
B. A facility management fee related to the management of service charges that are rebilled directly to tenants;
C. An annual property management fee (the “Property Management Fee”) in an amount equal to 3.5% of the gross paid revenue from the REIT’s properties, payable quarterly in arrears, approximately 90% of which is rebilled to tenants;
D. Certain service charge expenses and other costs are paid to third parties by Inovalis and its subsidiaries on behalf of the REIT and are reimbursed from time to time. To facilitate the initial start-up of the REIT, certain acquisition costs and offering costs have been paid by Inovalis and have been recharged to the REIT’s subsidiaries.

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

	Due (to) from Inovalis	
Inovalis and its subsidiaries	As at December 31, 2017	As at December 31, 2016
Trade and other receivables	588	176
Trade and other payables	(1,366)	(1,615)
Acquisition loan	25,903	7,651
Distributions payable	(262)	(982)
Lease equalization loans	(4,443)	(5,235)
	20,420	(5)

Joint ventures

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

Joint ventures	Financial statement line item	2017	2016
Management fees reinvoiced to joint ventures	Administration expenses	796	589
Finance income	Finance income	4,446	3,093
		5,242	3,682

		Due from joint ventures	
		As at December 31, 2017	As at December 31, 2016
Loan receivable	Investment accounted for using the equity method	67,640	39,058
Interest payables	Other current assets	626	
Accounts receivable	Trade and other receivables	61	189
		68,327	39,247

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

Remuneration of key management personnel

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

	2017	2016
Wages, fees and other benefits	289	249
	289	249

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

Note 29 – Capital management

The REIT's objectives when managing capital are to safeguard the REIT's ability to continue as a going concern in order to provide returns for Unitholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The REIT considers its capital to include its Unitholders' equity, its mortgage loan, its Finance lease liabilities, and the Exchangeable securities. The REIT's Unitholders' equity consists of units in which the carrying value is impacted by earnings and Unitholders' distributions.

The terms of the REIT's Declaration of Trust as amended at the special meeting of Unitholders held January 20th, 2016 stipulates that the REIT shall not incur or assume any indebtedness if, after giving effect to the incurrence or assumption of the indebtedness, the total indebtedness of the REIT would be more than 60% of the REIT's Gross Book Value (GBV). These stipulated limits are taken into consideration principally when planning the financing of acquisitions and when preparing corporate plans and budgets.

As outlined below, the REIT is meeting this objective in that its total indebtedness was 45.5 % of its GBV as at December 31, 2017 (2016 – 50.5 %).

Total indebtedness as a % of Gross Book Value	As at December 31, 2017	As at December 31, 2016
Investment properties	441,130	412,232
Investments accounted for using the equity method	79,068	43,887
Acquisition loan	27,035	8,906
Gross book value	547,233	465,025
Mortgage loans - non-current	113,342	83,998
Finance lease liabilities - non-current	122,735	120,891
Lease equalization loan - non-current	3,196	4,051
Mortgage loans - current	2,660	541
Finance lease liabilities - current	6,014	24,179
Lease equalization loan - current	1,247	1,184
Total indebtedness	249,194	234,844
Total indebtedness as a % of Gross Book Value	45.5%	50.5%

Note 30 – Commitments and guarantees

Guarantees provided by the REIT with respect to its long term debts include a preferential claim held by mortgage lenders on the Veronese and Sablière properties in the amount of EUR 21,935 (CAD 33,100).

The REIT also has a share pledge on the shares of a company owned by Inovalis that holds certain properties to guarantee the acquisition loan. The REIT has various commitment (see note 9).

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

Note 31 – Geographical information

Total revenue by geographic region	Rental Income	Service Charge Income	2017	2016
France	22,862	6,783	29,645	28,776
Germany	2,084	125	2,209	2,174
	24,946	6,908	31,854	30,950

Investment properties, investments in joint ventures by geographic region	As at December 31, 2017	As at December 31, 2016
France	424,353	391,233
Germany	95,554	64,886
	519,907	456,119

Note 32 – Cash flow information

CASH FLOW INFORMATION

	Note	December 31, 2017	December 31, 2016
Adjustments for non-cash items and other reconciling items:			
Rent free period	*7*	893	(84)
Management fees paid in Exchangeable securities	*26*	3,715	3,380
less portion reinvoiced to joint-ventures	*26*	(796)	(589)
Net change in fair value of investment properties	*7*	(892)	(3,632)
Net change in fair value of financial instruments at fair value through profit or loss		(1,065)	1,269
Loss on refinancing of a debt		-	605
Distributions recognized on Exchangeable securities	*18*	1,618	1,890
Net change in fair value of Exchangeable securities	*18*	904	(589)
Net change in fair value of Promissory notes	*15*	513	-
Finance income	*23*	(6,601)	(4,344)
Finance costs	*23*	7,123	6,488
Loss recognized on exercise of early payment option on finance leases	*16,6*	122	1,242
Gain on partial disposal of investment in joint venture	*8*	(843)	-
Gain resulting from exercice of the purchase option	*6*	-	(9,213)
Share of net earnings from investments accounted for using the equity method	*5*	(2,638)	(1,107)
Net unrealized exchange loss (gain)		179	(640)
Acquisition costs classified in investing activities		210	575
Cash items classified as operating activities			
Income tax paid		(185)	(336)
Interest received		11,407	3,669
Interest paid		(5,618)	(3,851)
		8,046	(5,267)
Working capital adjustments			
Increase in trade and other receivables		433	(4,805)
Increase in tenant deposits		16	33
(Decrease) Increase in trade and other payables		(1,154)	3,123
		(705)	(1,649)

Note 33 – Subsequent events

Acquisition of the Kösching asset

On February 28, 2018, the REIT completed the acquisition of the Kösching asset, for approximately €24.4 million (CAD$38.1 million). The property is strategically located less than 10km from the global headquarters of Audi AG in Ingolstadt, Germany. The recently constructed modern office building and R&D facility, with a gross leasable area of approximately 9,900m2 (106,563 sq.ft), is fully occupied with a weighted average lease term of 10.0 years. The REIT's 50% interest in the property was principally funded with cash on had raised through the private placements completed in Q4 2017. The acquisition will be immediately accretive to the REIT's FFO/unit and AFFO/unit.

Extension of the Management Agreement and Modification

In Q1 2018, in anticipation of the April 2018 expiry date, the Board of Trustees of the REIT approved the extension of the management agreement between the REIT and Inovalis S.A. The Board of Trustees and the Manager agree that, given the REIT's relative size, it is in the REIT's best interest to not internalize the asset and property management function at the current time. As part of the terms of the extension of the agreement, the following modifications were approved:

- Term: The initial term will be for three (3) years, not to exceed April 1, 2021. The Agreement shall be automatically renewed for an additional two (2) years if the REIT's AFFO per unit for the year ended December 31, 2020 is greater than 115% of the AFFO per unit of the REIT as at December 31, 2017. The AFFO calculation shall be consistently applied and approved by the audit committee. Internalization can occur at any time at the discretion of the Board of Trustees.
- Asset Management Fees: Will be reduced from 0.75% to 0.50% and calculated based on the book value of assets. Fees will be payable in cash and/or exchangeable securities, the exact composition of which will be determined by the Board annually based on the REIT's cash resources.

Acquisition Fees: 1.00% of the purchase price of properties acquired that are not currently owned or managed by the Manager and paid 100% in cash.

Note 34 – Comparative information

Some of the prior year's data been reclassified to conform to the presentation adopted in the current year.

Corporate information

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Stock exchange listing

The Toronto Stock Exchange
Listing symbol: INO.UN

Distribution Reinvestment Plan

Inovalis has implemented a Distribution Reinvestment Plan ("**DRIP**"). By participating in the Plan, Unitholders have cash distributions from Inovalis REIT reinvested in additional Units as and when cash distributions are made with a "bonus" distribution of Units equal to 3% of the amount of the cash distribution reinvested pursuant to the Plan.

INOVALIS

REAL ESTATE INVESTMENT TRUST

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