INOVALIS

REAL ESTATE INVESTMENT TRUST

CONTENTS

All amounts in the MD&A are presented in thousands of Canadian dollars or Euros, except rental rates, per unit amounts or as otherwise stated. Information contained in this MD&A is based on information available to management as of May 12, 2021.

LETTER TO UNITHOLDERS

While most European countries are still under partial lockdown further to the last wave of the COVID-19 pandemic and are now actively vaccinating their population, Inovalis REIT has continued to demonstrate the resilience of its defensive business model by collecting rents and retaining its tenants throughout the global crisis. To date, 86.0% of the REIT's wholly controlled properties and 87.5% of the total portfolio are leased on a long-term basis to high-credit quality tenants. Moreover, thanks to its close relationship with tenants, Management can confirm that the weighted average lease break option of the portfolio has increased from 2.3 years to 2.7 year over the last quarter, with more leasing inquiries being made from prospective lessees every week. For the three months ended March 31, 2021, 89% of rent due was paid by French tenants and nearly 100% was paid by German tenants. Quarterly FFO was CAD$4,172 (or CAD$0.12 per unit) and AFFO was CAD$3,778 (or CAD$0.11 per unit). We believe that companies and people are actually committing to cities more than ever and that the pandemic will actually accelerate urban intensification, benefiting our assets over the long term.

The REIT is financed almost exclusively with asset-level, non-recourse financing with an average term to maturity of 5.2 years. The REIT's debt to equity ratio is currently 48.1% for the total portfolio and 42.1% only for the wholly controlled properties by the REIT (the "IP Portfolio").

The REIT has reliably maintained returns to Unitholders, continuing to pay a stable, attractive distribution. With an average trading price of CAD$9.46 in Q1 2021, Inovalis REIT provides a very attractive investment opportunity for investors who understand the long-term value of quality real estate in strategic European locations, all the more as the current Unit price still represents a significant discount of the underlying net asset value. The REIT's Unitholders' equity on March 31, 2021 was CAD$353,087, which implies a Unit price at that date of CAD$10.90/Unit or CAD$10.85/Unit on a fully diluted basis.

With its substantial cash reserve, the REIT is well positioned to opportunistically invest in new assets as the real estate sector and European economy stabilizes.
Management remains focused on operating fundamentals, managing the properties, supporting tenants, maintaining bank relationships, and delivering results to our Unitholders, being ready to deploy our capital in 2021 with the same strategic coherence and discipline we demonstrated in prior years.

I would like to acknowledge our Board of Trustees and management team for demonstrating extraordinary capabilities, resilience and commitment. I remain confident in our capacity to manage any challenges and opportunities ahead of us. The REIT is investing this same bench strength in our recently established Special Committee that is reviewing and evaluating a wide range of strategic alternatives with the intent of enhancing Unitholder value. I look forward to sharing the outcome of this process in 2021.

Stéphane Amine
President and Trustee

HIGHLIGHTS

Net Rental Income

For the portfolio that includes only buildings owned entirely by the REIT ("IP Portfolio"), net rental income for the three months ended March 31, 2021 ("Q1 2021"), adjusted for IFRIC 21 – Levies ("IFRIC 21")[1], was CAD$6,674 (EUR4,375), compared to CAD$6,324 (EUR4,268) adjusted net rental income for the three months ended March 31, 2020 ("Q1 2020"). The positive impact of the CAD$396 Bad Homburg asset's Net Operating Income ("NOI"), now included in the IP Portfolio following acquisition in Q4 2020, is offset by the CAD$173 bad debt provision on Metropolitain and the credit note granted for a new 10-year firm lease to another tenant in the building. The positive foreign exchange impact is CAD$187.

In Q1 2021, for the portfolio that includes the REIT's proportionate share in joint ventures ("Total Portfolio"), net rental income adjusted for IFRIC 21 was CAD$8,627 (EUR5,655), compared to CAD$8,690 (EUR5,865) for Q1 2020, mainly attributable to the factors described in the previous paragraph plus the CAD$71 impact of the vacancy in the Duisburg property. The positive foreign exchange impact is CAD$257 on the Total Portfolio.

COVID-19 Related Business Update

Management continuously monitors market conditions, adapting its operations to the measures taken by European governments and health officials to protect public health. Management is confident in the strength of its portfolio, as indicated by Q1 2021 results. Quarterly rent collection for Q1 2021 was strong. Management's forecast for subsequent quarters of 2021 reflects the possibility of short-term downward pressure on rental revenue as the COVID-19 pandemic may necessitate additional lockdown measures causing economic disruption.

Rent collection

Rent for the French assets is invoiced and collected on a quarterly basis and 89% of rent has been received to date for Q1 2021. This is generally in line with the timing and percentage of pre-COVID-19 rent collection levels with a few minor exceptions.

For the REIT's German properties, rents are collected on a monthly basis and nearly 100% of rent was received in Q1 2020.

Management is actively monitoring rent payment and tenant deferral requests to maintain consistent rent collection while supporting tenant needs.

Leasing Operations

In the REIT's Total Portfolio, more than 5,000 sq.ft. of vacant space was leased in Q1 2021, representing CAD$61 additional annual rental revenue. Leasing negotiations were deferred by some potential new tenants until Q2 2021 when it is expected that there will be greater clarity about normal business operations. A lease renewal for 10 firm years has been signed on the Metropolitain building on 18,686 sq.ft. representing 10% of building's weighted areas (1% of total portfolio GLA) and CAD$487 annual rental income. Efforts continue to lease unoccupied space (162,690 sq.ft., 12.5% of total weighted areas) in the portfolio. Management will selectively complete capital expenditure improvements on vacant areas to attract tenants and maximize rent.

In addition, Orange, single tenant of the Arcueil property, which represents 34% of IP Portfolio annual rental income, has waived its break option for an early departure at the end December 2021 and shall therefore remain in place thereby

[1] Net rental Income adjusted for IFRIC 21 is non-IFRS information. *(Refer to the "Non-GAAP financial measures" section for further details.)*

adding to the REIT's cashflow for another 1.9 years. Management continues engage with Orange for a further lease extension beyond 2023.

Funds from Operations ("FFO"), Adjusted Funds from Operations ("AFFO")

The REIT follows the recommendations of the Real Property Association of Canada ("REALPAC") (February 2019 white paper) with certain exceptions. Refer to the *Non-GAAP Financial Measures* section of this MD&A for a more detailed discussion on FFO and AFFO.

In Q1 2020, the REIT reported Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO)" were CAD$0.12 and CAD$0.11 per Unit respectively, versus CAD$0.16 and CAD$0.12 for the same period last year. Effective with the onset of the pandemic in March 2020, the REIT conserved cash and paused its investment plans until the economic impact of the COVID-19 pandemic on the REIT's business became more apparent. The REIT deferred investing CAD$55 million that had been earmarked for acquisitions of income-generating assets in the 2020 budget.

Financing Activity

As at March 31, 2021, the weighted average interest rate across the IP Portfolio debt was 2.02% and the debt ratio was 42.1% (35% net of cash), comfortably within the REIT's mandated threshold of 60%.

For the same period, the REIT had CAD$69.5 million of cash on its consolidated balance sheet.

Looking ahead, management is considering other refinancing opportunities to take advantage of historically low interest rates in Europe. The REIT should be able to finance assets on a less costly basis than that offered by traditional financing in Canada.

Bad Homburg

Following its acquisition end of October 2020, the contribution of the Bad Homburg property to the Q1 2020 net rental income represented CAD$396, in increase of CAD$114 compared to Q1 2020. The asset was 74% occupied over the first quarter 2021.

Courbevoie (Veronese)

The sale of the Courbevoie asset is expected to be completed by end 2021 at a price of EUR27,200 (CAD$40,082). The sale is contingent on the buyer obtaining a building permit and the seller vacating the asset (costs estimated to CAD$1.2 million) by the end of the year, each acting at their own expense. Given the uncertainty related to the conditions attached to the promise to sell, the Courbevoie property still does not qualify for the presentation as an asset held for sale as of March 31, 2021.

Extension of the Joint Venture Agreement on Duisburg

Subsequent to the quarter, on April 19, 2021, management signed a two-year extension of the Joint Venture Agreement ("JVA") with the partner in the Duisburg property, maturing on December 31, 2022. This extension together with the mortgage loan agreement maturing in June 2023, now enable management to proceed with leasing plans for the 7th floor.

Management Agreement Renewal

On March 23, 2021 the Board of Trustees approved a two-year extension of the Management Agreement with Inovalis S.A. by way of an amended and restated management agreement that became effective on April 1, 2021. The Board of Trustees and Inovalis S.A. agreed that, given the REIT's relative size, it was in the REIT's best interests to not internalize the asset and property management functions at the current time. The extended agreement contemplates internalization of the finance functions of the REIT which is expected to occur in Q2, 2022.

See "*Related Party Transactions - Extension of Management Agreement effective April 1, 2021*" in this MD&A, and a full copy of the Fourth Amended and Restated Management Agreement is available on SEDAR.com.

Normal Course Issuer Bid

The Normal Course Issuer Bid ("NCIB") expired on April 13, 2021 and was not renewed. The REIT did not repurchase or cancel any Units under the NCIB during the three months period ended March 31, 2021.

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OVERVIEW – GAAP AND NON-GAAP

The REIT has identified specific key performance indicators to measure the progress of its long-term objectives. These are set out below:

	March 31, 2021		December 31, 2020	
Operating metrics	**IP Portfolio**	**Total Portfolio**	**IP Portfolio**	**Total Portfolio**
Number of properties	8	14	8	14
Gross leasable area (sq. ft.)	1,026,940	1,453,255	1,026,940	1,453,255
Weighted Occupancy rate - end of period (1)	86.0%	87.5%	89.3%	90.3%
Weighted average lease term	3.1 years	3.6 years	3.1 years	3.6 years
Average initial yield (2)	5.2%	5.2%	4.9%	5.1%
Capital management metrics	**IP Portfolio**	**Total Portfolio**	**IP Portfolio**	**Total Portfolio**
Available liquidity (3)	$69,532	$73,541	$80,376	$84,189
Fair value of investment properties	$514,696	$666,780	$541,218	$701,458
Level of debt (debt-to-book value) (3)	42.1%	48.1%	42.3%	48.4%
Level of debt (debt-to-book value, net of cash) (3)	35.4%	42.6%	35.0%	42.3%
Weighted average term of principal repayments of debt	5.2 years	4.7 years	5.4 years	4.9 years
Weighted average interest rate (4)	2.02%	1.95%	2.03%	1.95%
Interest coverage ratio (5)	2.6 x	3.0 x	3.5 x	3.7 x

(1) Calculated on weighted areas (activity, storage and inter-company restaurant areas) being accounted for only a third of their effective areas, because of their lower rental value.
(2) Calculated on annualized net rental income (based on net rental income for the year-to-date period).
(3) See the section *"Non-GAAP Financial Measures"* on page 47 for more information on the REIT's non-GAAP financial measures and reconciliations thereof. Non-GAAP measures do not have standardized meaning under IFRS. These measures as computed by the REIT may differ from similar computations as reported by other entities and, accordingly, may not be comparable to other entities.
(4) Calculated as the weighted average interest rate on lease liabilities and mortgage financing.
(5) Calculated as net rental income plus interest income, less administrative expenses, divided by interest expenses on the lease liabilities and mortgage financing

(thousands of CAD$ except per Unit and other data)	Three months ended March 31, 2021	2020
Financial performance metrics		
Rental revenue	7,420	6,878
Rental revenue - Total Portfolio (1)	9,531	9,238
Net rental income	4,438	4,250
Net rental income - Total Portfolio (1)	6,096	6,304
Net income for the period, attributable to the Trust	4,165	32,088
Funds from Operations (FFO) (2)	4,139	5,484
Adjusted Funds from Operations (AFFO) (2)	3,745	4,143
FFO per Unit (diluted) (2) (3)	0.12	0.16
AFFO per Unit (diluted) (2) (3)	0.11	0.12
Distributions		
Declared distributions on Units and Exchangeable sec.	6,913	6,132
Declared distributions on Units and Exchangeable sec. & Promissory notes	6,913	7,005
Declared distribution per Unit	0.21	0.21
FFO payout ratio (2)	167.0%	127.7%
AFFO payout ratio (2)	184.6%	169.1%

(1) See the section "Non-GAAP Financial Measures" for more information on the REIT's non-GAAP financial measures and reconciliations thereof. Non-GAAP measures do not have standardized meaning under IFRS. These measures as computed by the REIT may differ from similar computations as reported by other entities and, accordingly, may not be comparable to other entities.
(2) The reconciliation of FFO and AFFO to earnings can be found under the section Non-GAAP Reconciliation (FFO and AFFO).
(3) Based on the diluted weighted average number of Units and exchangeable Units

BASIS OF PRESENTATION

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of Inovalis Real Estate Investment Trust (the "REIT") should be read in conjunction with the REIT's unaudited condensed interim consolidated financial statements as at March 31, 2021 and for the three-month periods ended March 31, 2021 and 2020. These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB").

Dollar amounts in this MD&A are presented in thousands of Canadian dollars and Euros, except rental rates, per Unit amounts or as otherwise stated.

Historical results, including trends which might appear in this MD&A, should not be taken as indicative of future operations or results. See *"Forward-Looking Information"* for further details.

Information contained in this MD&A, including forward-looking information, is based on information available to management as of May 12, 2021. Additional information about Inovalis REIT has been filed with applicable Canadian securities regulatory authorities and is available at sedar.com

FORWARD-LOOKING INFORMATION

Although management believes that the expectations reflected in the forward-looking information are reasonable, no assurance can be given that these expectations will prove to be correct, and since forward-looking information inherently involves risks and uncertainties, undue reliance should not be placed on such information.

Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such forward-looking statements. The estimates and assumptions, which may prove to be incorrect, include, but are not limited to, the various assumptions set forth in this document as well as the following:

(i) the ability to continue to receive financing on acceptable terms;
(ii) the future level of indebtedness and the REIT's future growth potential will remain consistent with current expectations;
(iii) there will be no changes to tax laws adversely affecting the REIT's financing capability, operations, activities, structure, or distributions;
(iv) the REIT will retain and continue to attract qualified and knowledgeable personnel as the portfolio and business grow;
(v) the impact of the current economic climate and the current global financial conditions on operations, including the REIT's financing capability and asset value, will remain consistent with current expectations;
(vi) there will be no material changes to government and environmental regulations that could adversely affect operations;
(vii) conditions in the international and, in particular, the French and German real estate markets, including competition for acquisitions, will be consistent with past conditions;
(viii) capital markets will provide the REIT with readily available access to equity and/or debt financing; and
(ix) the impact the COVID-19 pandemic will have on the REIT's operations, the demand for the REIT's properties and global supply chains and economic activity in general.

The REIT cautions that this list of assumptions is not exhaustive. Although the forward-looking statements contained in this MD&A are based upon assumptions that management believes are reasonable based on information currently available to management, there can be no assurance that actual results will be consistent with these forward-looking statements.

When relying on forward-looking statements to make decisions, the REIT cautions readers not to place undue reliance on these statements, as forward-looking statements involve significant risks and uncertainties. Forward-looking statements should not be read as guarantees of future performance or results and will not necessarily be accurate indications of whether or not, or the times at or by which, such performance or results will be achieved. A number of factors could cause actual results to differ, possibly materially, from the results discussed in the forward-looking statements, including, but not limited to:

- the REIT's ability to execute its growth strategies;
- the impact of changing conditions in the European office market;
- the marketability and value of the REIT's portfolio;
- changes in the attitudes, financial condition and demand in the REIT's demographic markets;
- fluctuation in interest rates and volatility in financial markets;
- the duration and ultimate impact of the COVID-19 pandemic and related government interventions on the REIT's business, operations and financial results;
- general economic conditions, including any continuation or intensification of the current economic downturn;
- developments and changes in applicable laws and regulations; and
- such other factors discussed under ''Risk Factors and Uncertainties'' in this MD&A.

If any risks or uncertainties with respect to the above materialize, or if the opinions, estimates or assumptions underlying the forward-looking statements prove incorrect, actual results or future events might vary materially from those anticipated in the forward-looking statements. The opinions, estimates or assumptions referred to above and described in greater detail under ‘‘Risks and Uncertainties’’ should be considered carefully by readers. Although management has attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other risk factors not presently known or that management believes are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking statements.

Forward-looking statements are provided for the purpose of providing information about management’s current expectations and plans relating to the future. Certain statements included in this MD&A may be considered a ‘‘financial outlook’’ for purposes of applicable Canadian securities laws, and as such, the financial outlook may not be appropriate for purposes other than this MD&A. All forward-looking statements are based only on information currently available to the REIT and are made as of the date of this MD&A. Except as expressly required by applicable Canadian securities law, the REIT assumes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All forward-looking statements in this MD&A are qualified by these cautionary statements.

MARKET AND INDUSTRY DATA

This MD&A includes market and industry data and forecasts that were obtained from third-party sources, industry publications and publicly available information, as well as industry data prepared by Inovalis S.A. based on its knowledge of the commercial real estate industry (including Inovalis S.A. estimates and assumptions relating to the industry based on that knowledge). Inovalis SA’s management has knowledge of the real estate industry developed through their nearly 30 years of experience and participation in the industry.

BUSINESS OVERVIEW AND STRATEGY

The REIT is an unincorporated open-ended real estate investment trust governed by the laws of the Province of Ontario. The REIT was founded and sponsored by Inovalis SA, the Asset Manager. The REIT’s Units have been listed on the Toronto Stock Exchange under the trading symbol INO.UN since April 10, 2013. The head and registered office of the REIT is located at 151 Yonge Street, 11th floor, Toronto, Ontario, M5C 2W7.

The REIT’s long-term objectives are to:

- generate predictable cash distributions on a tax-efficient basis from investments in income-producing office properties;
- grow the asset base, primarily in France and Germany, but also opportunistically in other European countries where assets meet the investment criteria;
- maintain a high level of cash available for distribution to holders of Units (“Unitholders”), through an accretive acquisition program that successfully leverages Inovalis SA’s extensive relationships and depth of commercial property and financing; and,
- maximize the long-term value of the properties and the net asset value (“NAV”) per Unit through active and efficient management.

The REIT’s investment criteria encompass office properties outside of Canada with an occupancy level above 80% (unless AFFO accretive), secured rental cash flows, a property value between EUR20 million to EUR60 million (unless AFFO accretive) and potential future upside with respect to matters including rent and area development. According to management, the target investment size falls within a very liquid segment of the real estate market in Europe, and debt financing for such acquisitions is readily available from local lenders.

Special Committee to Review Strategic Alternatives

On October 28, 2020, the REIT announced the formation of a special committee formed of all independent members of the Board of Trustees (the "Special Committee") to consider strategic alternatives available to the REIT. The Special Committee expects to review and evaluate a wide range of strategic alternatives to enhance Unitholders' value. The REIT will continue to evaluate possible acquisition or disposition of certain portfolio assets throughout this process.

FOREIGN CURRENCY ENVIRONMENT

The REIT's current asset base is located in France and Germany. 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. As such, although the REIT's main assets and liabilities are denominated in Euros, the REIT's financial results are translated into Canadian dollars for presentation purposes as follows:

- Assets and liabilities are converted to CAD$ at the closing rate at the date of the balance sheet;
- Items presented in the consolidated statement of earnings, consolidated statement of comprehensive income and consolidated statement of cash flows are translated at average exchange rates during the period (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
- All resulting exchange differences are recognized in other comprehensive income and recognized as a cumulative translation adjustment account in "Accumulated other comprehensive income" in equity.

A change in the EUR/CAD foreign exchange rate therefore may have a material impact on the REIT's financial statements and results.

The exchange rate used throughout this MD&A for statement of earnings items is the average rate during the applicable period, which for the period ended March 31, 2021 and 2020 is CAD$1.5257 and CAD$1.4818, respectively.

For balance sheet items as at March 31, 2021, projections, or market data, the exchange rate used is CAD$1.4736 (CAD$1.5555 as at December 31, 2020).

Over the quarter ended March 31, 2021, the Canadian dollar strengthened by approximately 5.3% relative to the Euro.

BUSINESS ENVIRONMENT[1]

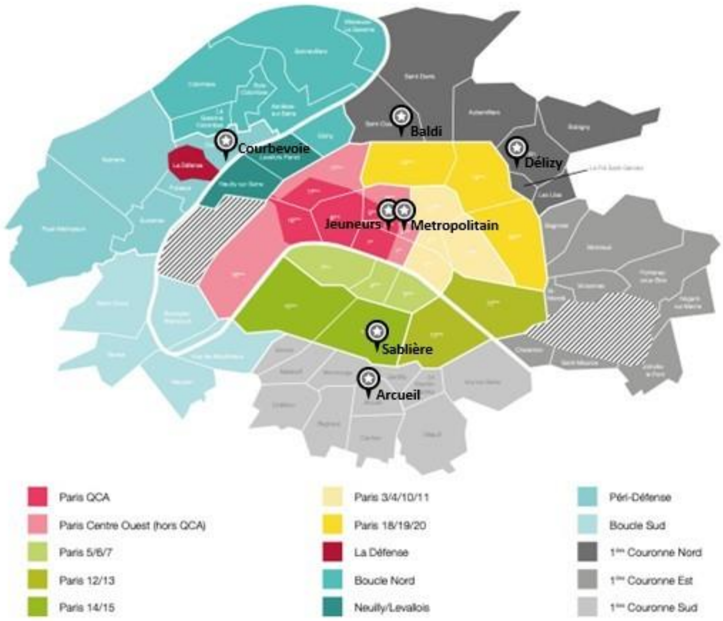
Inovalis REIT owns varying interests in real estate entities which hold investment properties. Under IFRS, some of these interests are recorded as equity-accounted joint ventures. As at March 31, 2021, the REIT's property portfolio consists of ownership interests in eight properties that are consolidated and included in "Investment properties" ("IP") on the balance sheet, and partial ownership interests in six properties that are included within "Investments in joint ventures". As such, the results of these equity-accounted investments are not included in certain of our consolidated financial and operating metrics, unless specifically indicated that such metrics are presented on a "Total Portfolio" basis in which case such results are prepared on a proportionate share basis.

Together, the REIT's share of these 14 properties (7 located in France and 7 located in Germany) is approximately 1.5 million square feet of gross leasable area ("GLA")

[1] Sources: JLL research / BNP Real Estate research

France

Investment Market France



Paris Property Locations:

Central Business District

- Jeuneurs (IP)
- Metropolitain (IP)

Paris - Montparnasse Area

- Sablière (IP)

La Defence Periphery

- Courbevoie (IP)

Northeastern Periphery

- Délizy / Pantin (joint venture)

Northern Inner Rim of Paris

- Baldi / St Ouen (IP)

Southern Inner Rim of Paris

- Arcueil (IP)

With signs of economic recovery likely to consolidate internationally and hopes of widespread vaccination programmes over the coming months, investor confidence is improving. The outlook for the rental market may still be unclear at this stage but real estate as an asset class still has sound fundamentals: an attractive spread between real estate and bond yields, no change in low interest rates, liquidity in the debt market and an upturn in savings receipts for real estate investment trusts ("SCPI/OPCI") since the end of the first lockdown. In fact, receipts for SCPIs alone amounted to CAD$8.8 billion in 2020 (vs. a record of CAD$12.6 billion set in 2019). This was the third-best performance on record with quarterly growth of +16% over Q3 2020 and +49% over Q4 2020.

Investment activity in all real estate classes over Q4 2020 and Q1 2021 continued to grow as transactions resumed following the first lockdown. A total of CAD$5.2 billion was invested in the Greater Paris Region over Q1 2021. This investment activity is 38% lower than the performance in Q1 2020, but it is consistent with the average for the last five years and is 20% higher than the 10-year average. A similar decline was seen across France with CAD$6.8 billion in investments over Q1 2021 which was 39% lower than in Q1 2020. Commercial real estate investment in particular appears to have had a K-shaped recovery. Offices were the most sought-after assets with CAD$4.4 billion in investments over Q1 2021 accounting for a record 94% share. In times of uncertainty, investors tend to focus their attention on core assets by targeting the most established areas and buildings with robust rental profiles.

The Investment market was dominated by French investors who accounted for 75% of the overall investment volume over Q1 2021; this represents a record high. This proportion rose compared with 2019 (63%) and 2020 (71%); this was largely due to the restrictions facing foreign investors in terms of travelling to France during the lockdown periods. Real estate investment trusts (SCPI/OPCI) were the main investors with an investment volume of CAD$2 billion followed by investment funds (CAD$1.1 billion) and institutional investors (CAD$0.6 billion). On the sell side, a high proportion of disposals were carried out by real estate SIFs (42%) as they sought to reduce debt or to secure added value.

Prime office yields remained stable over Q1 2021 compared with Q4 2020. In Q4 2020, the concentration of demand for prime office assets during this period of crisis while the market offered limited supply for this type of product resulted in prime office yield compression to 2.50%. However, the scale of these values has changed as investors are paying increased attention to tenant quality and to the fixed term of leases while yields rose in several less well-established areas in the Inner and Outer Suburbs.

The fundamentals that make real estate an attractive refuge asset class remain intact with low interest rates set to continue allowing a high degree of market liquidity. Management does not have significant concerns about inflation in general as current price increases for raw materials are expected to subside and savings resume and secondly, the ECB's quantitative easing policy has been shown in recent years not to drive inflation for consumer prices but more for asset prices.

Office Market France

By the end of March 2021, many European countries were still under lockdown restrictions, including Germany (until April 18) and France (until May 2). These restrictions, combined with a sluggish start to vaccination campaigns, have delayed recovery. Having risen by 12.5% over Q3, GDP posted a further dip at the end of the year (0.7% over Q4) and a further slowdown is expected to be seen over Q1 2021. Unemployment statistics increased marginally year-over-year due to support measures that were introduced to limit the impact of the COVID-19 health crisis. The unemployment rate stood at 8.3% in February.

Leasing in the Greater Paris Region stood at close to 3.5 million sq.ft. over Q1 2021; this represents a 30% year-over-year decrease and is 39% lower than the 10-year average. Excluding the effect of the completion of the long-anticipated office building known as "The Link" (~1.35 million sq.ft.) which was completed in Q1 2020, the decrease was far less substantial (-4%). Activity in the large transactions segment has been improving since the very end of last year (8 transactions over Q4). Thirteen transactions for spaces over 50,000 sq.ft. were recorded over Q1 2021 compared with 10 over the same period in 2020. This trend is even more positive as almost all these transactions were the result of decisions made during the COVID-19 crisis. These 13 transactions (+30% year-over-year) account for 1.2 million sq.ft. of take-up (-44% year-over-year). Apart from The Link asset, the large transactions segment posted an increase in volume over Q1 2021 (+47% year on year) with larger individual lot sizes. So far, the largest transaction has been the extension of the Dassault Systemes campus (~300,000 sq.ft.) in Meudon-La-Forêt, a transaction that has been expected for some time. Activity continued to fall in the other space segments with a 15% decrease in the small space segment and 98 fewer transactions (-25%) in the medium space segment with 17 fewer transactions.

The Paris office market, which remained resilient last year even when the first lockdown started, posted a decrease this year (1.4 million sq.ft., -21%) with half as many major transactions. However, increases were recorded in some central districts: Paris 5/6/7 (+86%), Paris 3/4/10/11 (+36%) and Paris Centre Ouest (excluding the CBD, +6%) although there were no transactions for spaces over 50,000 sq.ft. The current COVID situation in the country and the imposed lockdown by the government is mostly to blame for this poor performance. The Central Business District was in line with the average with a -21% slowdown in activity. Transactions in the Western Crescent rose by +35% compared with Q1 2020 with 926,000 sq.ft.. of take-up. Activity rose across all submarkets, with increases ranging from +25% to +152%, apart from Péri-Défense (-27%). Most large transactions were concentrated to the west of the Greater Paris Region over Q1 (6 vs. 1 last year). Most were recorded in the Southern Bend and the Northern Bend (2 transactions each) with ~160,000 sq.ft. over two transactions at "M Campus" by Altran Technologies and Vallourec, "Key View" by Smile in Asnières-sur-Seine and ~5,500 sq m in "Clever" in Gennevilliers for Energies France, with 60,000 sq.ft. each.

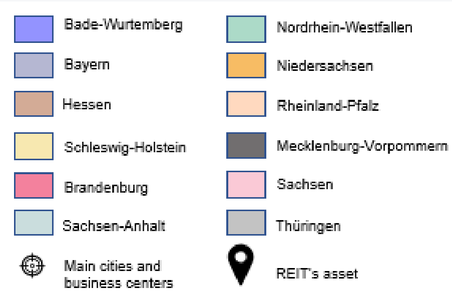
Prime rental values in Paris have remained stable throughout the first quarter 2021and are even rising in some areas. Prime rents stand at CAD$127 per sq.ft per year in the Paris Central Business District ("CBD"), and CAD$75 in La Défense. In the CBD, the Goldman Sachs transaction for 83 Avenue Marceau at pre-COVID-19 values may have made a substantial contribution to these figures, but there have also been some recent transactions along the same valuations. In La Défense, the prime rent rose to CAD$75 per sq.ft. per year. Conversely, rental values for sub-let space, which had been rising since 2014, have started to stabilize. The average rent in the Greater Paris Region therefore stands at CAD$56 per sq.ft. per year. Given the characteristics of the current climate, the gap between rents for the best space and the rest of the market is likely to widen.

Businesses are still waiting for more clarity before defining any future real estate plans. Given the latest vaccination news, significant indications of a recovery may not be evident until Q3. The backlog in the vaccination programme has resulted in delays in a return to a 'normal' operating model meaning that any upturn in activity has been pushed back towards the end of the year or into 2022. It is anticipated however, that positive news about the vaccination process and declines in COVID-19 cases could motivate the release of some projects that are currently on hold. Activity for major transactions could be higher than last year and it is estimated that around 50 projects could be concluded in the office market segment by the end of 2021.

Germany

Germany property locations

- Trio - Frankfurt (IP[1])
- Bad Homburg - Frankfurt (IP)
- Duisburg - Düsseldorf (joint venture)
- Cologne (joint venture)
- Stuttgart (joint venture)
- Arrow / Neu-Isenburg - Frankfurt (joint venture)
- Kösching - Ingolstadt (joint venture)



1. The REIT owns 94.9% of this asset.

Investment Market Germany

The major German office markets remained stable in the first quarter of 2021. Despite the ongoing lockdown restrictions, leasing in Germany's top eight office markets Berlin, Dusseldorf, Essen, Frankfurt, Hamburg, Cologne, Leipzig and Munich was approximately 7.5 million sq.ft. in the first quarter of 2021, a marginal decrease of 6% compared to Q1 2020. This is even more noteworthy because the impact of the COVID-19 pandemic was only first evident late in Q1 2020. This may be taken as a clear sign of restored confidence of corporate decision makers. Occupancy rates have risen in the first quarter and is only below 95% in Frankfurt and Dusseldorf. The prime rental rates remained constant in all locations.

Office leasing conditions vary among cities. The range extends from a 105% increase of leasing year-over-year in Cologne to a 46% decline in neighboring Dusseldorf. However, in the majority of locations leasing rose compared to the previous year. Leasing in Berlin, for example, climbed by 3% to 1.9 million sq.ft. The capital thus once again leads the ranking of the top locations in volume, followed by Hamburg (+23%), Munich (+42%) and by Frankfurt (+23%). Despite the ongoing COVID-19 pandemic, a high level of market activity has been recorded in the space segment above 50,000 sq.ft. which is in line with the long-term trend, but the previous year's level of leasing was down by 4.5%. In the more narrowly defined segment above 100,000 sq.ft., the amount of space leased was consistent with the ten-year average (1.5 million sq.ft.), slightly down 3% year-over-year. The most important leasing drivers in the first quarter were the deals between 20,000 sq.ft. and 50,000 sq.ft. Compared to the previous year, leasing in this range increased by almost 30% to around 1.1 million sq.ft.

Given the current implementation of the COVID-19 vaccination campaign as well as an expected easing of contact restrictions, leasing activity is expected to accelerate. This also applies to those markets that have so far had a below-average start to the year and where the large lease take-ups are often still missing. It may be reasonably forecast that 2021 leasing activity will surpass that of 2020. Exceeding the 32 million sq.ft. threshold is also within the range.

THE REIT'S POSITION WITHIN THE FRENCH AND GERMAN BUSINESS ENVIRONMENTS

The value of the REIT's real estate assets and the strength of the office rental market in France and Germany remained consistent through the fiscal year 2020 and Q1 2021. While this underscores the premise for investing in office assets in the French (Paris) and German markets, it does not address the significant gap between the REIT's market price and the net asset value of the real estate together with cash holdings. Much of the REIT sector has experienced similar compression on Unit price since the onset of the pandemic and volatility in the capital markets.

During the first quarter of 2021, the markets in France and Germany maintained stability as investors have viewed real estate as secure and a source of strong yields. These sentiments have been reinforced by the very low interest rate environment.

Real estate investors in the French and German markets may be generally categorized as either institutional secured investors or opportunistic funds. Institutional investors tend to seek low risk assets. They are present mostly in big cities and buy straightforward deals, requiring often little to no senior bank debt. Opportunistic funds are generally looking to capitalize on categories of assets that are in difficulty or on sellers that need to dispose of assets that are not considered as institutional grade assets.

OUTLOOK

The COVID-19 pandemic related government measures to combat the spread of the virus, including the closure of businesses, suspension of cross-border travel, temporary quarantine for citizens, and physical distancing, is expected to continue until at least Q2 2021 while vaccination of the population is implemented.

Management remains focused on fundamentals, such as actively managing properties and conservatively assessing potential acquisitions in target markets with a focus on the ones offering value and stability. The REIT's long-term credit worthy tenants, low cost of debt with staggered maturities, and the foreign exchange rate contracts for distributions in place and renewed until Q4 2022, provide predictable cash flows and serve as a basis for future growth.

The REIT's distributions to Unitholders have remained reliable and stable throughout the COVID-19 crisis and management will continue to monitor the potential effect of the economic crisis on the rate of distributions.

PORTFOLIO OVERVIEW

The REIT's portfolio by geography as at March 31, 2021 is as follows:

Asset	% owned	Fair value	REIT's Total Portfolio Value	Gross Leaseable Area (GLA)	Contribution to Total Portfolio rental revenue	# of tenants	Occupancy rate	Weighted occupancy rate	WALT (end of lease)
		(CAD)	%	sq. ft.	%		%	%	Years
Jeuneurs	100%	69,882	10%	50,407	11%	1	100%	100.0%	2.4
Courbevoie	100%	33,789	5%	95,903	3%	5	33%	34.0%	5.3
Sablière	100%	34,503	6%	41,043	6%	7	100%	100.0%	2.2
Baldi	100%	34,870	5%	123,657	6%	9	70%	79.5%	2.7
Metropolitain	100%	97,315	15%	78,818	9%	7	100%	100.0%	6.4
Arcueil	100%	143,100	21%	334,521	28%	1	100%	100.0%	1.9
Délizy (1)	50%	19,727	2%	71,617	3%	19	70%	71.5%	4.3
Subtotal France		**433,186**	**64%**	**795,966**	**66%**	**49**	**84.7%**	**84.7%**	**3.0**
Trio	94,9%	69,112	10%	193,487	10%	7	87%	87.0%	4.3
Bad Homburg	100%	32,124	5%	109,104	5%	5	70%	74.2%	2.0
Duisburg (1)	50%	41,852	6%	108,960	6%	1	88%	87.5%	6.8
Cologne (1)	6%	2,149	< 1%	3,930	< 1%	1	100%	100.0%	4.6
Stuttgart (1)	50%	36,490	5%	121,416	5%	5	99%	99.7%	3.5
Arrow - Neu-Isenburg (1)	50%	30,397	5%	67,334	5%	6	98%	97.8%	2.6
Kösching (1)	50%	21,470	3%	53,058	3%	1	100%	100.0%	6.7
Subtotal Germany		**233,594**	**36%**	**657,289**	**34%**	**26**	**88.7%**	**89.6%**	**4.2**
Total - France and Germany		**666,780**	**100%**	**1,453,255**	**100%**	**75**	**86.5%**	**87.5%**	**3.6**
IP Portfolio		**514,696**	**77%**	**1,026,940**	**71%**	**42**	**84.5%**	**86.0%**	**3.1**
JV Portfolio		**152,084**	**23%**	**426,315**	**29%**	**33**	**86.9%**	**88.0%**	**4.3**

(1) Represents investments that are classified as joint ventures and subject to equity-accounting. The results included in the table above (excluding number of tenants, occupancy metrics, and weighted average lease term) are presented on a proportionate share basis at the REIT's ownership percentage of the related investment.

Of all of the REIT's assets, only the Metropolitain asset, leased by small tenants, has had a notable impact from the business closures resulting from COVID-19. The effect, while challenging, does not have a material effect on the REIT's results. Credit notes have been issued as an incentive against lease maturity extensions, and an impairment of receivables have impacted Q1 2021 net rental income. The two leases signed end of 2020 with higher rental value should increase the rental revenue in the coming years.

With the REIT investing its available cash in the coming months, notably in Germany through the expected buy-back of joint venture-held assets, and with the potential future sale of Courbevoie in France, the portfolio value will become more evenly allocated between France and German investments. This rebalancing, if achieved, will have the effect of reducing the net asset value of the Arcueil asset below 20% of the Total Portfolio value.

TENANT PROFILE

As at March 31, 2021, the REIT had 42 tenants across the IP Portfolio compared to 43 tenants as at December 31, 2020 and 75 tenants across the Total Portfolio, stable compared to December 31, 2020.

All lease contracts have rental indexation based on the Construction Costs Index (Indice du Coût de la Construction – ICC), the average Tertiary Activities Rent Index (Indice des Loyers des Activités Tertiaires "ILAT") and the Consumer Price Index – CPI), or the German Consumer Price Index, as applicable.

IP Portfolio

The following table shows the five largest tenants relating to properties owned by the REIT, sorted by contribution to rental revenue in the IP Portfolio.

Tenant	Tenant Sector	% of annual contractual rental revenue	Occupied space (sq. ft.)	Weighted Areas (sq. ft.) (1)	% of Weighted Areas	Average remaining lease term (years)
Orange (Formerly France Telecom)	Telecommunications	34%	334,521	284,958	31.4%	1.95
The Lorenz Bahlsen Snack-World	Food and beverage	6%	86,501	81,870	9.0%	4.75
Rue Du Commerce	E-commerce	5%	51,926	51,926	5.7%	0.75
CNAM	Education & Training	12%	50,407	49,543	5.5%	2.42
Fresenius	Health care	4%	44,942	41,611	4.6%	2.83
Top 5 tenants		**61%**	**568,297**	**509,908**	**56.2%**	**2.39**
Other tenants	Diversified	39%	299,386	269,133	29.7%	4.32
Vacant			159,257	128,342	14.1%	
IP Portfolio		**100%**	**1,026,940**	**907,383**	**100.0%**	**3.06**

(1) Activity, storage and shared-restaurant space, being usually rented at about a third of office areas, they are being accounted for a third of their effective areas in the weighted areas.

Total Portfolio

The REIT's five largest tenants across the Total Portfolio, including interests that the REIT has in properties held in joint ventures, are presented in the table below.

Tenant	Tenant Sector	% of annual contractual rental revenue	Occupied space (sq. ft.)	Weighted Areas (sq. ft.) (1)	% of Weighted Areas	Average remaining lease term (years)
Orange	Telecommunications	27%	334,521	284,958	22.0%	1.95
Daimler AG	Manufacturer	5%	109,136	100,486	7.7%	3.17
The Lorenz Bahlsen Snack-World	Food and beverage	5%	86,501	81,870	6.3%	4.75
Hitachi Power	Manufacturer	5%	82,800	78,138	6.0%	6.75
Arrow Central Europe	E-commerce	4%	55,639	51,717	4.0%	2.25
Top 5 tenants		**46%**	**668,597**	**597,169**	**46.0%**	**3.19**
Other tenants	Diversified	54%	588,535	536,881	41.5%	5.49
Vacant			196,123	162,690	12.5%	
Total Portfolio		**100%**	**1,453,255**	**1,296,740**	**100.0%**	**3.57**

(1) Activity, storage and inter-company restaurant areas are weighted by being accounted for a third of their effective areas.

The tenant base is well diversified by industry segment, with many national and multinational tenants.

OCCUPANCY AND LEASING ACTIVITY

The portfolio occupancy and leasing activity by geography for the period ended March 31, 2021 was as follows:

	Occupied space (sq. ft.)								
Asset	***January 1, 2021***	***New leases***	***Lease Expiries***	***Other changes***	***March 31, 2021***	***Occupancy rate***	***Commited space (sq. ft)*** (1)	***Total space (sq. ft)***	***Committed occupancy***
France	633,263		-9,795		623,468	86.1%		623,468	86.1%
Germany	270,442		-25,802		244,640	80.7%		244,640	80.7%
Total IP Portfolio	**903,705**	**-**	**- 35,597**	**-**	**868,108**	**84.5%**	**-**	**868,108**	**84.5%**

On a proportionate share basis, including the results of our equity-accounted joint ventures at our proportionate ownership interest, the operating metrics by geography as at March 31, 2021 are as follows:

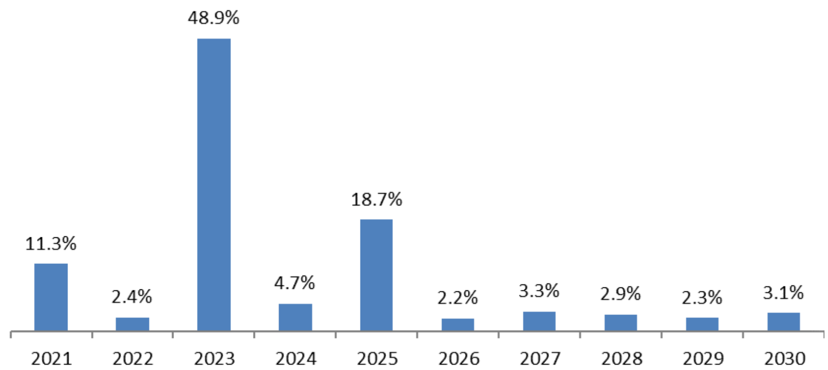
	Occupied space (sq. ft.)								
Asset	***January 1, 2021***	***New leases***	***Lease Expiries***	***Other changes***	***March 31, 2021***	***Occupancy rate***	***Commited space (sq. ft)*** (1)	***Total space (sq. ft)***	***Committed occupancy***
France	690,189		-16,275		673,914	84.7%		673,914	84.7%
Germany	607,582	5,443	-29,865		583,160	88.7%		583,160	88.7%
Total Portfolio	**1,297,771**	**5,443**	**- 46,140**	**-**	**1,257,074**	**86.5%**	**-**	**1,257,074**	**86.5%**

New leases signed during the quarter**:**

- On the Metropolitain property, management renewed a 18,686 sq.ft. retail lease representing 10% of building's weighted GLA on a ten firm years basis.
- On the Stuttgart property, 2,760 sq.ft were leased for three years firm and 8,126 sq.ft. of storage area was leased to a new tenant in February, following the departure of the previous tenant.

LEASE MATURITIES

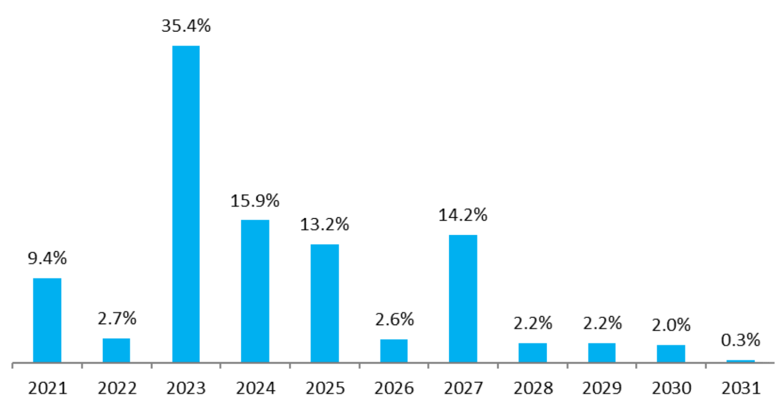
Lease Maturity Profile as at March 31, 2021
IP Portfolio
(% of total GLA)



The above graph sets out the percentage of total GLA of the IP Portfolio subject to leases expiring by year (excluding early lease terminations).

The average remaining lease term in the IP Portfolio is 3.1 years (not including tenant early termination rights). Assuming all tenants leave at the earliest possible early termination rights, which the REIT believes is unlikely, the average remaining lease term in the portfolio is 2.7 years. With Orange's lease continuation for 1.9 years due to the waiver of the December 2021 break option, the earliest possible termination rights have been positively impacted by 0.5 years over the IP Portfolio.

Lease Maturity Profile as at March 31, 2021
Total Portfolio
(% of total GLA)



Including the joint venture properties, the average remaining lease term is 3.6 years (3.7 years including early termination rights). The above graph presents the percentage of total GLA expiring in the Total Portfolio by year (excluding lease early terminations). The positive impact of Orange waiver of break option is 0.3 years over the earliest termination rights of the Total Portfolio.

CONSOLIDATED FINANCIAL INFORMATION

(in thousands of CAD$)	Three months ended March 31, 2021	2020
Rental revenue	7,420	6,878
Property operating cost recoveries	2,041	1,571
Property operating costs	(4,882)	(4,171)
Other revenues	67	5
Other property operating expenses	(208)	(33)
Net rental income	**4,438**	**4,250**
General and Administration expenses	(2,461)	(2,242)
Foreign exchange gain (loss)	(886)	2,647
Net change in fair value of investment properties	1,710	1,702
Share of net income (loss) from joint ventures	429	183
Operating earnings	**3,230**	**6,540**
Net change in fair value of Financial derivatives	2,834	122
Net change in fair value of Exchangeable securities	(679)	4,307
Net change in fair value of Promissory Notes	-	21,752
Finance income	880	2,265
Finance costs	(1,705)	(2,468)
Distributions on Exchangeable securities	(230)	(190)
Income before income taxes	**4,330**	**32,328**
Current income tax expense	(177)	(9)
Deferred income tax recovery (expenses)	55	(219)
Total income tax expense	**(122)**	**(228)**
Net income	**4,208**	**32,100**
Non-controlling interest	43	12
Net income attributable to the Trust	**4,165**	**32,088**

SELECTED THREE-YEAR QUARTERLY INFORMATION

(in thousands of CAD$)	For the three months ended March 31, 2021	2020	2019	2020 vs. 2019	2019 vs. 2018
Rental revenue	7,420	6,878	6,043	542	835
Finance income	880	2,265	2,017	(1,385)	248
Net income	4,208	32,100	(2,077)	(27,892)	34,177
Net income attributable to the Trust	4,165	32,088	(2,045)	(27,923)	34,133

DISCUSSION OF FINANCIAL PERFORMANCE

Net rental income

Net rental income for Q1 2021 was CAD$4,438 compared to CAD$4,250 for Q1 2020, the increase being mostly attributed to the positive foreign exchange impact of CAD$187.

Bad Homburg contribution in the IP Portfolio NOI represented CAD$396 and was offset by the decrease in the Metropolitain NOI, following the impairment of receivables (CAD$173) and the CAD$121 credit note issued for the signature of a 10-year lease extension with a other tenant in this building.

In accordance with IFRIC 21, the annual property taxes for the REIT's properties located in France are expensed in full in the first quarter of the fiscal year. Realty tax expenses for the year are approximatively CAD$2,950. These taxes are paid in the fourth quarter. This results in a reduction to net rental income in the first quarter of each year with relatively higher net rental income in the subsequent three quarters. The impact of IFRIC 21 on net rental income for Q1 2021 and Q1 2020 is set out below.

	Three months ended March 31		
In Canadian dollars (in thousands)	**2021**	**2020**	**Variance**
Net rental income	4,438	4,250	188
IFRIC 21 impact	2,236	2,074	162
Adjusted net rental income - IFRIC 21 (1)	6,674	6,324	350

	Three months ended March 31		
In Euros (in thousands)	**2021**	**2020**	**Variance**
Net rental income	2,909	2,868	41
IFRIC 21 impact	1,466	1,400	65
Adjusted net rental income - IFRIC 21 (1)	4,375	4,268	107

(1) Represents a non-GAAP financial measure that has no standardized meaning with IFRS and is not comparable to other companies.

General and Administrative expenses

General and administration expenses ("G&A expenses") are comprised of Inovalis SA's asset management fees and other G&A expenses such as trustee fees, directors' and officers' liability insurance, professional fees (including accounting fees), legal fees, filing fees, and Unitholder related expenses.

The following table outlines the major categories of G&A expenses:

	For the three months ended March 31,		
	2021	**2020**	**Variance**
Asset management fees – Inovalis SA	(739)	(749)	10
Less: amount reinvoiced to joint ventures	304	318	(14)
	(435)	**(431)**	**(4)**
Professional fees for accounting, tax and audit	(981)	(991)	10
Legal expenses	(610)	(484)	(126)
Trustee fees	(227)	(137)	(90)
Travel expenses	(3)	(47)	44
Bank expenses	(22)	(54)	32
Other general and administrative expenses	(183)	(98)	(85)
Total G&A expenses	**(2,461)**	**(2,242)**	**(219)**

G&A expenses, excluding CAD$568 of non-recurring costs related to Strategic Review process and the aborted Konecta transaction, are in line with the budget approved and attached to the Management Agreement extension. The increase of $CAD219 is mainly due to these non-recurring costs.

Asset Management fees, representing CAD$435 for the three months period ended March 31, 2021, remained stable year on year.

Net change in fair value of investment properties

The net change in fair value of CAD$1,710 in investment properties for Q1 2021 (compared to CAD$1,702 for Q1 2020) is related to the impact of IFRIC 21 on property taxes for both Q1 2021 and Q1 2020.

Refer to the *"Investment Properties"* section in this document for further details on our valuation methodology.

Share of net income (loss) from joint ventures

The performance of the investments in joint ventures includes the share of net income from joint ventures and the interest on loans granted to joint ventures (presented in the finance income line).

The share of net income from joint ventures was CAD$429 for the three months period ended March 31, 2021 compared to CAD$183 for the same period in 2020. The variance mainly resulted from the increased occupancy in the Arrow-Neu Isenburg building, from 91% in Q1 2020 to 98% in Q1 2021.

Net change in fair value of Exchangeable securities

Exchangeable securities are recorded at fair value based on the market price of the REIT's Units. They are reflected as a liability on the REIT's statement of financial position, and therefore a decrease of the REIT's Unit price reduces the value of the liability. The closing price of a REIT Unit on the Toronto Stock Exchange was CAD$9.54 on March 31, 2021 compared to $8.94 at close of December 31, 2020, resulting in a loss of CAD$679 in the net change in fair value of exchangeable securities throughout the first three months of 2021.

Net change in fair value of Promissory Notes

Pursuant to the exercise of the Put Option in October 2020, the Promissory notes have been fully converted into Units.

In Q1 2020, the REIT recorded a significant gain of CAD$21,752 following the drop in REIT's Unit price.

Finance income

In Q1 2021, finance income of CAD$880 (compared to CAD$2,265 in Q1 2020) consisted essentially of interest on loans granted to joint ventures. In Q1 2020, in addition to interest on loans to joint ventures of CAD$984, the REIT also recorded the interest earned on the Rueil acquisition loan for CAD$802, which was reimbursed to the REIT in the latter part of 2020, CAD$373 related to the foreign exchange hedge contract and CAD$106 of interest on swaps.

Finance costs

The finance costs in Q1 2021 were CAD$1,705 (compared to CAD$2,468 in Q1 2020), which included CAD$1,420 related to interest on mortgage loans and lease liabilities and CAD$250 related to derivative interest and other financial costs. The variance with Q1 2020 consisted mainly in the interest recognized on Promissory Notes for CAD$873, which were fully converted in Units in October 2020.

Distributions on Exchangeable Securities

Distributions to the holders of exchangeable securities are calculated in a manner to provide a return that is economically equivalent to the distributions received by the Unitholders. In Q1 2021 the distributions on exchangeable securities were CAD$230 compared CAD$190 in Q1 2020.

Current and deferred income tax expense

The current income tax expense of CAD$177 for Q1 2021 is mainly related to the the 2021 provision for Luxembourg income tax, mainly for CancorpEurope ("CCE") holding.

The deferred income tax liability for the first quarter 2021 resulted in a recovery of CAD$55 compared to an expense of CAD$219 for the quarter ended March 31, 2020.

SELECTED BALANCE SHEET INFORMATION

	For the period ended				
(in thousands of CAD$)	**March 31, 2021**	**Dec 31, 2020**	**Dec 31, 2019**	**2021 vs. 2020**	**2020 vs. 2019**
Total assets	672,232	712,089	710,206	(39,857)	1,883
Fair value of investment properties - IP Portfolio	514,696	541,218	478,700	(26,522)	62,518
Fair value of investment properties - Total Portfolio	666,780	701,458	652,013	(34,678)	49,445
Investment in joint ventures - carrying value	72,003	75,987	100,782	(3,984)	(24,795)
Total non-current liabilities	257,842	292,817	267,600	(34,975)	25,217
Total debt (1)	270,851	288,657	308,643	(17,806)	(19,986)
Number of outstanding Units	32,400,585	32,400,585	28,742,306	0	3,658,279

(1) Includes the current and non-current portion of interest-bearing loan, mortgage loans, lease liabilities, promissory notes (2019 only), and lease equalization loans.

Investment Properties

The fair value of the REIT's IP Portfolio as at March 31, 2021 was CAD$514,696 (EUR 349,278) compared to CAD$541,218 (EUR 347,938) as at December 31, 2020. The decrease of CAD$26,522 is attributable to the foreign exchange adjustment (CAD$28,565).

Management uses the Direct Capitalization Method ("DCM") to determine the fair value of REIT's properties in France and Germany. The values are supported by third party appraisals as at December 31, 2020 performed in conformity with the requirements of the *Royal Institution of Chartered Surveyors Standards*, and for the French properties, in conformity with the *Charte de l'expertise immobilière, as well as European Valuation Standards of TEGoVA (the European Group of Valuers' Association)* and IFRS 13. As at March 31, 2021, these appraisals have been reviewed by management to include changes that occurred during the quarter and that could have a significant impact on valuation of the properties.

Investments in joint ventures

The investment in joint ventures encompasses the interest of the REIT (through six subsidiaries) in:

- the Duisburg property (CCD) (50%),
- the Stuttgart property (50%),
- the Delizy (Pantin) property (50%),
- the Arrow (Neu-Isenburg) property (50%),
- the Kösching property (50%), and
- the Cologne property (6%).

The REIT's investment in joint ventures was CAD$72,003 as at March 31, 2021 compared to CAD$75,987 as at December 31, 2020. The decrease was mainly due to the negative foreign exchange difference of CAD$4,002.

Trade receivables and other financial assets

Trade receivables and other financial assets as at March 31, 2021 amounted to CAD$8,003, compared to the CAD$6,623 at December 31, 2020. The difference mainly comes from Q1 2021 rent of CAD$1,010 on Jeuneurs, which has been received subsequent to quarter end.

Trade and other payables

Trade and other payables as at March 31, 2021 amounted to CAD$13,342 compared to CAD$11,052 as at December 31, 2020, mostly due to the CAD$2.2 million of property taxes accounted for the whole year, pursuant to IFRIC 21.

Income tax payable

The income tax payable of CAD$4,219 as at March 31, 2021 for the most part represented the REIT's share of income tax of CAD$4,069 due on the profit of the sale of the building in the SCCV Rueil, following the acquisition of 20% of the SCCV Rueil by CanCorp Europe in October 2020, through the exercise of the Call Option. The tax is payable in May 2021 to the French tax administration.

CAPITAL MANAGEMENT

Sources of Capital

The REIT's primary sources of capital are cash generated from operations, credit facilities, sharing the ownership of actual assets owned entirely, and equity issuances. The primary uses of capital include property acquisitions, payment of distributions, costs for attracting and retaining tenants, recurring property maintenance, major property improvements, and debt interest payments. The REIT expects to meet ongoing obligations through current cash, cash flows from operations, debt refinancing and, as growth requires and when appropriate, new equity or debt issues. Assets could be sold to access capital, but this action would be considered in the overall strategy of diversification of the portfolio.

Available Liquidity

The REIT's cash available was CAD$69,532 as at March 31, 2021. Available cash is a strength in the current economic conditions and management intends to use it primarily for future investments.

Management has determined that the REIT has the financial resources to sustain its operations for 12 months following the date of the balance sheet.

Capital Management Metrics

Key performance indicators in the management of debt are summarized in the following table:

	Consolidated basis - IP Portfolio		Proportionate share basis - Total Portfolio	
	March 31, 2021	December 31, 2020	March 31, 2021	December 31, 2020
Capital management metrics				
Debt-to-book value	42.1%	42.3%	48.1%	48.4%
Debt-to-book value, net of cash	35.4%	35.0%	42.6%	42.3%
Debt due in the next 12 months	28,599	13,597	29,386	16,156
Weighted average term to maturity (in years) (1)	5.21	5.41	4.67	4.88
Weighted average interest rate (1)	2.02%	2.03%	1.95%	1.95%
Interest coverage ratio (2)	2.63	3.46	2.99	3.68

(1) Includes lease liabilities and the mortgage financing.
(2) Calculated as net rental income plus interest income, less general and administrative expenses, divided by interest expense on lease liabilities and mortgage financing.

The Bad Homburg financing, representing CAD$16.3 million, has a maturity date in March 2022 and has been classified as a current liability in the balance sheet as at March 31, 2021.

Debt-to-book value

The debt-to-book value ratio is calculated on a look-through basis and considers the REIT's apportioned amount of indebtedness at the joint venture level. Indebtedness at the REIT level, as well as at the different partnership levels is calculated as the sum of (i) lease liabilities, (ii) mortgage loans, (iii) lease equalization loans, (iv) other long-term liabilities, and (v) deferred tax liabilities. Indebtedness does not include certain liabilities as is the case for the exchangeable securities and promissory notes (2020 only) and at the joint venture level for the contribution from the REIT and its partners.

Debt-to-book value		Consolidated basis - IP Portfolio		Proportionate share basis - Total Portfolio	
		March 31, 2021	December 31, 2020	March 31, 2021	December 31, 2020
Lease liabilities		121,592	130,287	132,627	142,066
Mortgage loans		148,655	157,489	212,977	225,349
Other long-term liabilities		395	474	395	474
Deferred tax liabilities		12,462	13,212	19,513	20,830
Total debt outstanding	**(A)**	**283,104**	**301,462**	**365,512**	**388,719**
Less : Cash		-69,532	-80,376	-73,541	-84,189
Debt net of cash	**(B)**	**213,572**	**221,086**	**291,971**	**304,530**
Gross book value	(C)	672,232	712,089	759,382	803,905
Gross book value, net of cash	(D)	602,700	631,713	685,841	719,716
Debt to gross book value	**(A) / (C)**	**42%**	**42%**	**48%**	**48%**
Debt to gross book value, net of cash	**(B) / (D)**	**35%**	**35%**	**43%**	**42%**

Interest coverage ratio and debt ratio

Interest coverage ratio	Consolidated basis - IP Portfolio		Proportionate share basis - Total Portfolio	
	March 31, 2021	December 31, 2020	March 31, 2021	December 31, 2020
Net rental income	4,438	26,600	6,096	35,553
IFRIC 21 adjustment	2,236	-	2,531	-
Net rental income adjusted	**6,674**	**26,600**	**8,627**	**35,553**
Administration expense	(2,461)	(7,864)	(2,873)	(9,771)
Interest income	-	2,665	-	2,657
Total income	**4,213**	**21,401**	**5,754**	**28,439**
Interest expense (1)	(1,602)	(6,186)	(1,922)	(7,726)
Interest coverage ratio	**2.6**	**3.5**	**3.0**	**3.7**

(1) Includes interest on mortgage loans, leases liabilities, swap interest and amortization of financing costs.

The variance in the interest coverage ratio is mostly due to the decrease in finance income on Rueil acquisition loan, following the full repayments in July and November 2020.

Weighted-average interest rate

The weighted average interest rate across the IP portfolio debt is 2.02% and the debt ratio is 42.1% (35.4% net of cash), comfortably within the REITs mandated threshold of 60%. The REIT is considering other refinancing opportunities to take advantage of historically low interest rates in Europe. The REIT anticipates being able to finance assets on a less costly basis than that offered by traditional financing in Canada.

For the Total Portfolio, the weighted average interest rate is 1.95% and the debt ratio is 48.1% (42.6% net of cash).

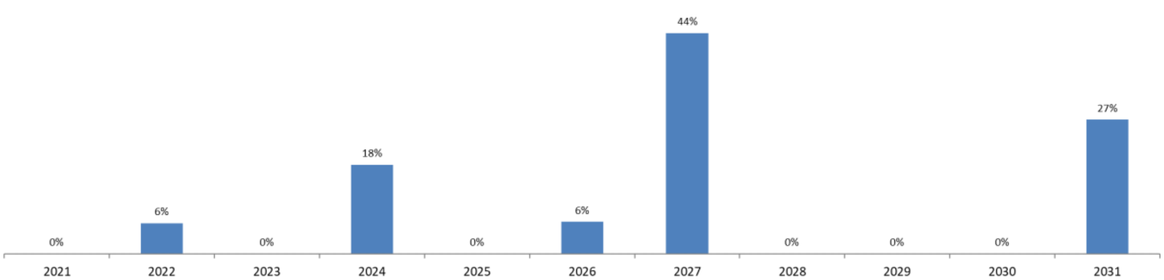
Debt Profile

	Debt profile as at March 31, 2021			
	IP Portfolio		Total Porfolio	
	Nominal Value	**%**	**Nominal Value**	**%**
Lease liabilities	117,467	44%	128,419	38%
Mortgage loans	149,112	56%	213,285	62%
of which : Amortized mortgage loan	*132,755*	*89%*	*143,952*	*67%*
Bullet mortgage loan	*16,357*	*11%*	*69,333*	*33%*
Total	**266,579**	**100%**	**341,704**	**100%**

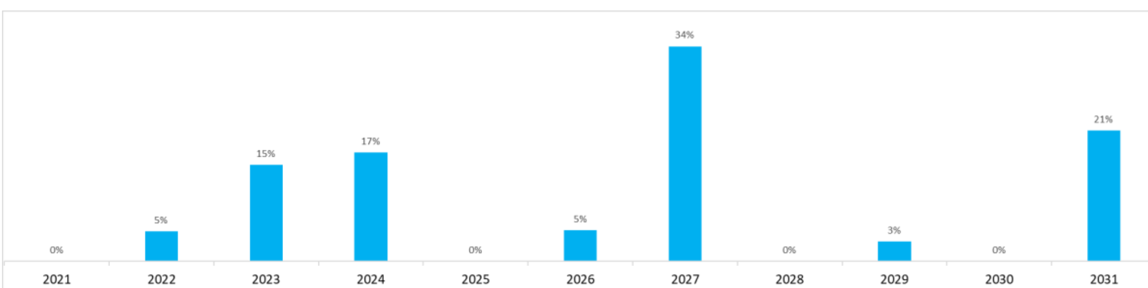
As at March 31, 2021, the REIT debt on its IP Portfolio is composed of 56% mortgage loans and 44% lease liabilities, under contracts expiring from 2022 to 2031.

Amortized loans, most frequent on French assets (Jeuneurs, Baldi, Courbevoie, Sablière), represents 42% of the total financing in our Total Portfolio.

Leasehold and Mortgage Financing Maturity Profile
IP Portfolio
(% of amount outstanding as at March 31, 2021)



Leasehold and Mortgage Financing Maturity Profile
Total Portfolio
(% of amount outstanding as at March 31, 2021)



The graphs above do not include the impact of the annual amortization of outstanding debt.

Equity

Management's discussion about equity is inclusive of exchangeable securities. In the interim consolidated financial statements, the exchangeable securities are classified as current liabilities under IFRS because of the conversion feature that can be exercised by the holder of those securities.

As at March 31, 2021 the REIT has 32,400,585 Units issued and outstanding.

	Three months period ended March 31, 2021
Units	
Number at beginning of period	32,400,585
Decrease in number during the period	-
Increase in number during the period	-
Number at end of period	32,400,585
Weighted average number during the period	32,400,585
Exchangeable securities	
Number at beginning of period	1,113,663
Increase in number during the period	-
Number at end of period	1,113,663
Weighted average number during the period	1,113,663
Units and Exchangeable securities	
Number at beginning of period	33,514,248
Decrease in number during the period	-
Number at end of period	33,514,248
Weighted average number during the period	33,514,248

Normal course issuer bid

The REIT's normal course issuer bid ("NCIB") expired on April 13, 2021 and has not been renewed. The REIT did not repurchase or cancel any units subsequent to December 31, 2020 until the expiry of the NCIB.

Unit-based compensation plan

The REIT through its Deferred Share Unit ("DSU") Plan, grants DSU's to its trustees and senior officers as non-cash compensation. These DSU's are measured at fair value at the grant date and compensation expense is recognized consistent with the vesting features of the plan. The DSU plan is accounted for as a cash-settled award as the underlying REIT units are redeemable at the sole discretion of the unitholders for cash at market value of the units. For cash-settled awards, the REIT recognizes a liability measured at its fair value. At each reporting date until the liability is settled, the fair value of the liability is remeasured, with any changes in fair value recognised as compensation expense for the same period. Upon settlement of a DSU, the liability balance is reduced and the resulting Trust Unit is recorded in equity.

Effective May 15, 2019, the REIT's unitholders approved a DSU Plan to grant DSUs to its trustees and senior officers and reserved a maximum of 200,000 units for issuance under the plan. A DSU is a unit equivalent in value to one trust unit of the REIT. The DSU Plan permits the REIT's trustees to defer receipt of all or a portion of their trustee fees until termination of the trustee service and to receive such fees in the form of trust units at that time ("Elected DU"). Elected DU will vest immediately upon grant.

The DSU Plan allows the Board of Trustees to grant DSUs to its senior officers at the Board's discretion ("Granted DU"). The Granted DU will vest 1/3 over each anniversary date from date of grant over three years. The cost of Granted DU is recognized in the interim consolidated statement of earnings consistent with the vesting feature of each grant.

In addition, whenever cash distributions are paid on the REIT's Trust Units, additional deferred units ("ADU") shall be granted based on aggregate number of vested DSUs as at the same date.

As of March 31, 2021, 42,684 DSUs are outstanding and 157,316 DSUs are available for grant under the DSU Plan.

For the three months ended March 31, 2021, the REIT recorded a recovery of $3 and a decrease to the liability for the same amount. The total liability related to the DSU plan as of March 31, 2021 was $304 and was included in Trade and other payables.

Cash Flows

	Three months ended March 31,		
	2021	2020	Variance
Cash provided by (used in):			
Operating activities	2,519	(12,236)	14,755
Investing activities	251	2,547	(2,296)
Financing activities	(9,643)	(8,514)	(1,129)
Net change during the period	**(6,873)**	**(18,203)**	**11,330**

Analysis of Distributed Cash

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. Pursuant to 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.

Pursuant to the requirement of National Policy 41-201, Income Trusts and Other Indirect Offerings, the table below outlines the differences between cash flow from operating activities and cash distributions as well as the differences between income (loss) before income taxes and cash distributions, in accordance with the policy guidelines.

Distributions Funding Sources

	For the three months ended March 31	
	2021	**2020**
Net cash flows related to operating activities (A)	2,519	(12,236)
Income before income taxes (B)	4,330	32,328
Declared distribution on Units (C)	6,683	5,942
Shortfall of cash flows from operating activities over cash distributions paid (A-C)	(4,164)	(18,178)
Excess (shortfall) of profit over cash distributions paid (B - C) funded by the sale of the Vanves property in December 2019	(2,353)	26,386

The shortfall was funded from the sale of the Vanves property in December 2019. No material contract was amended to fund the shortfall and there are no risks or implications over the sustainability of future distributions.

As quantified in the FFO and AFFO calculations, the funds required to make the distributions on Units, for the three months ended March 31, 2021, i.e. CAD$6,683, were above the FFO (CAD$4,139) for the quarter.

		Note	**Year 2020**	**Q1 2021**
Weighted average number of units (diluted)		*(1)*	33,957,066	33,514,248
Theoretical distribution per unit (in CAD)		*(2)*	0.83	0.21
Theoretical distribution (in '000 CAD)	(1) x (2)	*(3)*	28,017	6,912
Actual FFO per units (in CAD)		*(4)*	0.68	0.12
Distribution funded by FFO (in '000 CAD)	**(1) x (4)**	*(5)*	**23,049**	**4,172**
Shortfall over distribution	**(3) - (5)**		**(4,968)**	**(2,740)**

For the first three months of 2021, the shortfall of CAD$2,740 over the quarterly FFO, as well as the shortfall of CAD$4,968 for the year 2020, was funded out of the CAD$20,001 profit resulting from the disposition of the Vanves asset in December 2019.

Contractual Obligations

		Three months ending March 31,					
	Contractual Cash Flows (1)	**2021**	**2022**	**2023**	**2024**	**2025**	**Thereafter**
Interest-bearing loan	431	36			395		
Lease equalization loans	173	173					
Mortgages – principal payments	36,037	3,496	4,959	5,195	5,091	5,222	12,074
Mortgages -maturities	113,074		16,357		43,678		53,040
Lease liabilities	117,467	6,388	6,438	6,038	6,428	6,489	85,685
Exchangeable securities	10,624	10,624					
Accounts payable	13,342	13,342					
Income tax payable	4,219	4,219					
Total	**295,368**	**38,279**	**27,754**	**11,233**	**55,591**	**11,711**	**150,799**

(1) Contractual cash flows do not include interest and do not account for any extension options.

FINANCIAL INSTRUMENTS

The REIT has the following financial assets and liabilities as at March 31, 2021:

	Classification
Financial assets	
Loans to Joint Ventures	Amortized cost
Derivative financial instruments	FVTPL
Trade receivables and other Financial assets	Amortized cost
Restricted cash	Amortized cost
Cash	Amortized cost
Financial liabilities	
Promissory notes	FVTPL
Mortgage loan	Amortized cost
Lease equalization loans	Amortized cost
Tenant deposits	Amortized cost
Exchangeable securities	FVTPL
Derivative financial instruments	FVTPL
Trade and other payables	Amortized cost

The REIT uses the following hierarchy for the fair value determination of financial instruments:

- Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 unobservable inputs for the asset or liability.

There were no transfers between levels of the fair value hierarchy during the three months period ended March 31, 2021.

Due to their short-term nature, the carrying value of the following financial instruments measured at amortized cost approximates their fair value at the balance sheet date:

- Trade receivables and other financial assets
- Cash and restricted cash
- Trade and other payables

The following table summarizes the estimated fair value of other financial instruments which have a fair value different from their carrying value:

	March 31, 2021		December 31, 2020	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial assets				
Loans to Joint Ventures	37,872	37,872	40,531	40,531
Financial liabilities				
Mortgage loan	158,887	148,655	159,462	157,489
Lease equalization loans	173	173	371	371
Tenant deposits	1,794	1,794	2,499	2,499

The following methods and assumptions were used to estimate the fair values of financial instruments:

- The fair value of the call option is determined based mainly on (i) the expected gain on the sale of the property and (ii) the probability of realization of that gain.
- The fair values of mortgage loans, 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 of derivative financial instruments is determined based on discounted cash flows using interest rate yield curves and volatility 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 Units, on the basis that they are exchangeable on a one-to-one basis.

The REIT is exposed to a number of financial risks, including those associated with financial instruments, which have the potential to affect its operating and financial performance. These risks include interest rate risk, currency risk, credit risk and liquidity 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 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 lease liabilities. As at March 31, 2021, after taking into consideration the effect of interest rate swap (35%) and interest rate cap (26%) as well as fixed interest rates (17%), 78% of the REIT's long-term debt obligation has no exposure to interest rate risk (2020– 78%), added to 17% of fixed interest rate).

As at March 31, 2021, a 50-basis point increase in interest rates would decrease the REIT's annualized profit by CAD$306 (2020 – a decrease of CAD$321).

Currency risk

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. To mitigate the risk of foreign exchange fluctuations on the distributions to our Unitholders, management has established an active foreign exchange hedging program. As such, the exchange rate relating to 100% of the REIT's current distributions are secured by these foreign currency forward contracts until October 2022.

Contracts Maturing by Quarter	Hedge Value ('000 EUR)	Weighted average hedging rate
Q2 2021	3,599	1.500
Q3 2021	3,583	1.507
Q4 2021	3,566	1.514
Q1 2022	3,553	1.520
Q2 2022	3,542	1.525
Q3 2022	3,526	1.531
Q4 2022	1,170	1.539
	22,540	

As at March 31, 2021, under the new forward currency exchange contract, the REIT was committed to sell EUR1,201 at rate of 1.4990 and to receive CAD$1,800 for April 2021. This two-year hedging program will secure the REIT to receive

CAD$1,800 on a monthly basis at an average rate of 1.5200 until October 2022. Volumes and agreed-upon exchange rates are listed in the above table.

As at March 31, 2021 and December 31, 2020, a 10% change in the value of the Euro relative to the Canadian dollar would have the following impact on financial results:

March 31, 2021	% change	Net income	OCI	Total
Impact in the event of an increase in the value of the Euro/CAD$	10%	1,582	(20,904)	(19,323)
Impact in the event of an increase in the value of the Euro/CAD$	-10%	1,582	(20,904)	(19,323)
December 31, 2020				
Impact in the event of an increase in the value of the Euro/CAD$	10%	1,852	(21,263)	(19,411)
Impact in the event of an increase in the value of the Euro/CAD$	-10%	1,852	(21,263)	(19,411)

Credit risk

Credit risk is the risk that counterpart 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 investing activities, including the acquisition loans, trades and other receivables, loans in other current financial assets, derivatives, deposits with banks and financial institutions. The REIT's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized on March 31.

Loan to joint ventures: Credit risk relating to loan to joint ventures is mitigated through recourse against such parties and/or the underlying real estate. These financial instruments are considered to have low credit risk. The REIT monitors the debt service ability of the properties underlying the loans to assess for changes in credit risk.

Accounts Receivable: Credit risk is managed by requiring tenants to pay rentals in advance. Also, in certain cases, deposits are obtained from tenants. Accounts receivable are presented on the consolidated balance sheet, net of allowance for credit losses determined using the simplified method as allowed per IFRS 9. 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 reviews accounts receivable and monitors past due balances.

Cash deposit and derivatives: The credit risk for cash and derivative financial instruments is considered negligible since the counterparts 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 using 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, follow-up of availability of funding through an adequate amount of committed credit facilities, as well as the status of the maturity of financial assets and liabilities. Refer to *"Contractual Obligations"* section above for further details.

RISKS AND UNCERTAINTIES

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

RISKS RELATING TO THE REIT AND ITS BUSINESS

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

The REIT is subject to risks involving the economy in general, including inflation, deflation or stagflation, unemployment, geopolitical issues and a local, regional, national or international outbreak of a contagious disease, including COVID-19. Poor economic conditions could adversely affect the REIT's ability to generate revenues, thereby reducing its operating income and earnings. It could also have an adverse impact on the ability of the REIT to maintain occupancy rates which could harm the REIT's financial condition. In weak economic environments, the REIT's tenants may be unable to meet their rental payments and other obligations due to the REIT, which could have a material and adverse effect on the REIT.

In addition, fluctuation in interest rates or other financial market volatility may adversely affect the REIT's ability to refinance existing Indebtedness on its maturity or on terms that are as favourable as the terms of the existing Indebtedness, which may impact negatively on AFFO, may restrict the availability of financing for future prospective purchasers of the REIT's investments and could potentially reduce the value of such investments, or may adversely affect the ability of the REIT to complete acquisitions on financially desirable terms.

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

Public Health Crises / COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of COVID 19 a global pandemic, which has resulted in European governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, "shelter in place" rules, self imposed quarantine periods and social distancing, have caused material disruptions to businesses globally resulting in an economic slowdown. Global equity and capital markets have also experienced significant volatility and weakness. Governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The duration and full extent of the impact of the COVID 19 pandemic on the REIT is unknown at this time, as is the efficacy of the various government interventions. Vaccination programmes are underway in all European locations, including cities regions where the REIT's assets are located. Other measures to combat COVID 19, including quarantines, "shelter in place" rules, and restrictions on travel and the types of business that may continue to operate, remain in place. The REIT has proactively taken actions in response to or in furtherance of these measures and currently has in place, in response to such measures and local conditions, where applicable, measures such as: protocols for social distancing, hand sanitization and the wearing of facemasks; closure of certain non essential indoor common areas; and conducting tours for prospective tenants on an appointment only basis, which actions the REIT may continue to take.

Notwithstanding the COVID 19 pandemic, such measures have not had a material impact on the REIT, and management believes that the REIT's performance will continue to be stable or strengthen in the foreseeable future and over the longer term. Nonetheless, given the unpredictable nature of the COVID-19 pandemic, any continuation or intensification of such pandemic or related government measures, and any changes in levels of government financial support to individuals affected by the COVID-19 pandemic and economic downturn, could in the future have an adverse effect (which effect could be material) on the REIT's financial condition, results of operations and cash flows due to the following factors, or others:

- Weaknesses in national, regional or local economies may prevent tenants from paying rent in full or on a timely basis.

- A reduction in tenant demand for space due to a general decline in business activity and discretionary spending could adversely affect the value of the REIT's assets. This could lead to an impairment of the REIT's real estate investments. In addition, the REIT may be unable to complete planned development of land for expansion or other capital improvement projects on a timely basis or at all due to government mandated shutdowns or the inability of third party contractors to continue to work on construction projects.
- A general decline in business activity or demand for real estate transactions could adversely affect the REIT's ability or desire to acquire additional assets.
- The financial impact of the COVID-19 pandemic could negatively impact the REIT's ability to comply with financial covenants in its credit arrangements and result in a default and potentially an acceleration of indebtedness. Such noncompliance could negatively impact the REIT's financial position and its ability to make additional borrowings under its credit facilities.
- A severe disruption and instability in the global financial markets or deteriorations in credit and financing conditions may affect the REIT's ability to access capital necessary to fund business operations, including the acquisition or expansion of investment assets, or replace or renew maturing liabilities on a timely basis, on attractive terms, or at all, and may adversely affect the valuation of financial assets and liabilities.
- An outbreak of COVID-19 or other contagious illness in an asset or the market in which an asset operates could negatively impact its occupancy, reputation or attractiveness.
- Delays or supply issues related to COVID-19 vaccination programs could prolong the regulatory limitations on the operation of businesses and affect economic recovery.
- The COVID-19 pandemic could negatively affect the health, availability and productivity of Inovalis S.A.'s personnel. It could also affect Inovalis S.A.'s ability to recruit and attract new employees or retain current employees. An outbreak that directly affects, or threatens to directly affect, any of the assets could also deter or prevent Inovalis S.A.'s on site personnel from reporting to work. The effects of shelter in place orders could strain the REIT's business continuity plans, introduce operational risk, including but not limited to cybersecurity risks, and impair the REIT's ability to manage its business.
- Governmental agencies that permit and approve the REIT's projects, suppliers, builders, and other business partners and third parties may be prevented from conducting business activities in the ordinary course for an indefinite period of time, which could in turn negatively affect the REIT's business.
- Disruptions caused by COVID-19 may negatively impact the market price for the equity securities of the REIT and may, in the short or long term, materially adversely impact the REIT's tenants and/or the debt and equity markets, both of which could materially adversely affect the REIT's operations and financial performance and ability to pay distributions.

Other risks, including those described elsewhere in this MD&A related to changes to applicable laws and regulations, economic downturn in markets, debt financing, financing renewal, access to capital and the REIT's reliance on information technology infrastructure, and the effects of these risks on the REIT's financial condition, results of operations, cash flows, ability to make cash distributions, operations and the market price of its securities, could be exacerbated by the effects of the COVID-19 pandemic and government measures to control it, any intensification of such pandemic or measures, or any other outbreak of contagious disease.

The extent to which the COVID-19 pandemic impacts the REIT's operations, financial condition and financial results will depend on future developments, which are highly uncertain and cannot be predicted with confidence. Such future developments include the severity and duration of the pandemic, any intensification of the pandemic, the actions by governments and others taken to contain the pandemic or mitigate its impact, changes in the preferences of tenants and prospective tenants, and the direct and indirect economic effects of the pandemic and containment measures, among others. The rapid development and fluidity of this situation impedes the REIT's ability to predict the ultimate adverse impact of the COVID-19 pandemic. Nevertheless, the COVID-19 pandemic and the current financial, economic and capital markets environment, and future developments in these and other areas, present material uncertainty and risk with respect to the REIT's performance, consolidated financial condition, results of operations and cash flows.

Concentration of tenants may result in significant vacancies on the Properties

Five of the REIT's largest tenants, by percentage of total GLA, occupy 46% of the total weighted areas. Although all five tenants are committed to multi-year leases, which are set to expire gradually between 2023 and 2027, there is no assurance that such tenants will continue to occupy such premises for the remainder of their lease terms. Some of them have break options before the end of their leases, and the earliest dates on which those five largest tenants may effectively move range between 2023 and 2027. To minimize this risk of vacancy, Inovalis REIT will continue to closely monitor all leases and ensure that they work with the current tenants to determine their future leasing plans, which would allow Inovalis REIT to source tenants in advance of the current tenants vacating the property.

Lease renewals, rental increases, lease termination rights and other lease matters

Leases for tenants of the REIT properties will mature or expire from time to time. There can be no assurance that tenants will renew leases upon the expiration or that rental rate increases will be achieved upon such renewal. The failure to renew leases or achieve rental rate increases may adversely impact our financial condition and results of operations and decrease the amount of cash available for distribution.

Despite management's objective to maintain continuous occupancy of leased premises, tenants may fall into financial difficulty from time to time and there can be no guarantee that tenants will continue to occupy such premises nor be able to fully pay rent. In addition, certain leases contain a provision which gives tenants the right to terminate their leases upon payment of a penalty.

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

The properties may contain ground contamination, hazardous substances, wartime relics (including potentially unexploded ordnance) and/or other residual pollution and environmental risks. Buildings and their fixtures might contain asbestos or other hazardous substances above the allowable or recommended thresholds, or the buildings could bear other environmental risks. Prior to acquiring the interests in the properties (including the leasehold interests), we undertook environmental studies on each property. No sign of pollution was evidenced on any of the properties.

The REIT is subject to various federal, state and municipal laws relating to environmental matters. Such environmental laws impose actual and contingent liabilities on the REIT to undertake remedial action on contaminated sites and in contaminated buildings. The costs of any removal, investigation or remediation of any residual pollution on such sites or in such buildings as well as costs related to legal proceedings, including potential damages, regarding such matters may be substantial.

The REIT has insurance in place to protect against certain environmental liabilities in respect of certain of the properties, with limits, which are customary and available for portfolios like ours.

Necessary capital and operating expenditures are made to ensure compliance with environmental laws and regulations. Although there can be no assurance, management does not believe that costs relating to environmental matters will have a material adverse effect on our investments, financial condition, results of operations or distributions or cash interest payments.

The REIT may incur significant capital expenditures

Certain significant expenditures must be made throughout the period of ownership of real property, regardless of whether the property is producing sufficient income to pay such expenses. To retain desirable rentable space and to generate adequate revenue over the long term, we must maintain or, in some cases, improve each property's condition to meet market demand, which can entail significant costs we may not be able to pass on to our tenants.

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

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

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

As indebtedness increases there is risk that the REIT may default on its debt obligations. The ability to make scheduled payments on the principal of, or interest on, and to otherwise satisfy the REIT's debt obligations depends on future performance, which is subject to the financial performance of the properties, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond the REIT's control.

Changes in government regulations may affect our investment in our properties

The REIT is subject to laws and regulations governing the ownership, leasing or operations of real property, employment standards, environmental and energy efficiency matters, taxes and other matters. It is possible that future changes in applicable federal, state, local or common laws or regulations or changes in their enforcement or regulatory interpretation could result in changes in the legal requirements affecting us (including with retroactive effect). This may include sudden regulatory changes required for the safe occupancy of buildings during the COVID-19 pandemic. In addition, the political conditions in the jurisdictions in which the REIT operates are also subject to change. Any changes in investment policies or shifts in political attitudes may adversely affect our investments. Any changes in the laws to which the REIT is subject in the jurisdictions in which it operates could materially affect the rights and title to the properties. All the properties are in France and Germany. Although the governments in France and Germany are stable and friendly to foreign investments, there are still political risks. It is not possible to predict whether there will be any further changes in the regulatory regime(s) to which the REIT is subject or the effect of any such change on investments.

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

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

Changes in currency exchange rates could adversely affect our business

Substantially, all of the REIT's investments and operations are conducted in currencies other than Canadian dollars; however, distributions to Unitholders are paid in Canadian dollars. The REIT also raises funds primarily in Canada from the sale of securities in Canadian dollars and invests such funds indirectly through its subsidiaries in currencies other than Canadian dollars. As a result, fluctuations in such foreign currencies against the Canadian dollar could have a material adverse effect on financial results, which are denominated and reported in Canadian dollars, and on the ability to pay cash distributions to Unitholders. Active hedging programs have been implemented to offset the risk of revenue losses and to provide more certainty regarding the payment of distributions to Unitholders if the Canadian dollar increases in value compared to foreign currencies.

Changes in interest rates could adversely affect cash flows and the REIT's ability to pay distributions and make interest payments

When concluding financing agreements or extending such agreements, the management's objective is to agree on terms for interest payments that will not impair desired profit and on amortization schedules and that do not restrict the ability to pay distributions. In addition to the variable rate portion of the leaseholds in respect of the properties, management may enter into financing agreements with variable interest rates if the current historical low level of interest rates continues. There is a risk that interest rates will increase, which would result in a significant increase in the amount paid by the REIT and its subsidiaries to service debt, resulting in a decrease in distributions to Unitholders, and could impact the market price of the Units.

Dependence on Inovalis S.A. for management services

The REIT is dependent on Inovalis S.A. with respect to the asset management of properties and the property management of the properties. Consequently, the REIT's ability to achieve our investment objectives depends in large part on Inovalis S.A. and its ability to provide advice. This means that the REIT's investments are dependent upon Inovalis SA's business contacts, its ability to successfully hire, train, supervise and manage its personnel and its ability to maintain its operating systems. If the REIT were to lose the services provided by Inovalis S.A. or its key personnel, our investments and growth prospects may decline.

While the Trustees have similar oversight responsibility with respect to the services provided by Inovalis S.A. pursuant to the management agreement, the services provided by Inovalis S.A. are not performed by employees of the REIT, but by Inovalis S.A. directly and through entities to which it may subcontract. The Fourth Amended and Restated Management Agreement has an initial term of two years expiring on March 31, 2023 but may be extended for an additional one-year term based on mutual agreement of Inovalis S.A. and the REIT.

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

The REIT carries general liability, umbrella liability and excess liability insurance with limits that are typically obtained for similar real estate portfolios in France and Germany and otherwise acceptable to the Trustees. For the property risks the REIT intends to carry "Multi-Risk" property insurance including but not limited to, natural catastrophic events and loss of rental income insurance (with at least a 12 to 18-month indemnity period). The REIT also carries boiler and machinery insurance covering all boilers, pressure vessels, HVAC systems and equipment breakdown. There are, however, certain types of risks (of a catastrophic nature such as from pandemics war or nuclear accident) that are uninsurable under any insurance policy. Furthermore, there are other risks that are not economically viable to insure currently. The REIT partially self-insures against terrorism risk for the entire portfolio. The REIT has insurance for earthquake risks, subject to certain policy limits, deductibles and self-insurance arrangements. Should an uninsured or underinsured loss occur, the REIT could lose the investment in, and anticipated profits and cash flows from, one or more of its properties, but it would continue to be obligated to repay any recourse mortgage indebtedness on such properties. The REIT does not carry title insurance on the properties. If a loss occurs resulting from a title defect with respect to a property where there is no title insurance the REIT could lose all or part of its investment in, and anticipated profits and cash flows from, such property. The REIT does not carry pandemic insurance on the properties. If a loss occurs resulting from the inability of a tenant to pay rent or a restriction on the operation of a property due to government regulation related to the COVID-19 pandemic, the REIT could lose all or part of its investment in, and anticipated profits and cash flows from, such property.

IFRS reporting may result in our consolidated statement of financial position and consolidated statement of earnings being subject to volatility as the fair value of portfolio changes.

The fair value of the REIT's properties is dependent upon, among other things, rental income from current leases, assumptions about rental income from future leases reflecting market conditions, expected future cash outflow in respect of such leases, the demand for properties such as the properties, the availability and cost of financing and general economic conditions. A change in one or a combination of these factors, many of which are not controlled by the REIT, may have a material impact to the fair value of its properties. The REIT's chosen accounting policy under IFRS requires that real estate assets be recorded at "fair value" with changes in fair value being recorded in earnings in the period of change. Accordingly, the statement of financial position and the statement of earnings are subject to volatility as the fair value of its real estate portfolio changes and these changes may be material.

Reliance on partnerships

The REIT has a material non-controlling interest in partnerships with several institutional investors. These arrangements create a risk as the business objectives or economic interests of the partner, as in any joint business arrangement, may not be aligned with those of the REIT. The partner may want to make decisions that negatively affect the value of its real estate assets or income of the REIT. Such investments may involve risks that are not present in investments where a third party is not involved, including the possibility that a partner may have financial difficulties resulting in a negative impact on the investment or be liable for the actions of its third-party partner. Although the REIT may not have control over these investments and therefore, may have a limited ability to protect its position, such partnership arrangements contain terms and conditions which, in the opinion of the independent trustees, are commercially reasonable, including without limitation such terms and conditions relating to restrictions on the transfer, acquisition and sale of the REIT's and any joint venture partner's interest in the joint venture arrangement, provisions to provide liquidity to the REIT, provisions to limit the liability of the REIT and its Unitholders to third parties and provisions to provide for the participation of the REIT in the management of the joint venture arrangements. The REIT's investment in properties through joint arrangements is subject to the investment guidelines set out in the Declaration of Trust.

Income taxes

Taxation of Trusts

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

Application of the SIFT Rules

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

FAPI

The REIT's "participating percentage" (as defined in the Tax Act) of "foreign accrual property income" ("FAPI") earned by any controlled foreign affiliate ("CFA") of the REIT must be included in computing the income of the REIT for the fiscal year of the REIT in which the taxation year of such CFA ends, subject to a deduction for grossed-up "foreign accrual tax" as computed in accordance with the Tax Act. The deduction for grossed-up "foreign accrual tax" may not fully offset the FAPI realized by the REIT, thereby increasing the allocation of income to the REIT and, therefore, the allocation of income by the REIT to Unitholders.

In addition, as FAPI generally must be computed in accordance with Part I of the Tax Act as though the CFA were a resident of Canada and in Canadian currency (subject to the detailed rules contained in the Tax Act), income or transactions may be taxed differently under foreign tax rules as compared to the FAPI rules and, accordingly, may result in additional income being allocated to Unitholders.

Foreign Currency

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

Change of Tax Law

There can be no assurance that Canadian or foreign income tax laws, the judicial interpretation thereof, the terms of any income tax treaty applicable to the REIT or its affiliates or the administrative policies and assessing practices and policies of the CRA, the Department of Finance (Canada) and any foreign tax authority or tax policy agency will not be changed in a manner that adversely affects the REIT, its affiliates or Unitholders.

Non-Residents of Canada

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

Taxation of the REIT and the REIT's Subsidiaries

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

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

Qualified Investments

Management of the REIT will endeavour to ensure that the Units continue to be qualified investments for trusts governed by a registered retirement savings plan, a registered education savings plan, a registered retirement income fund, a deferred profit sharing plan, a registered disability savings plan and a tax-free savings account, each as defined in the Tax Act (collectively, "Plans"); however, there can be no assurance in this regard. In addition, Redemption Notes or other property received on an in specie redemption of Units may not be qualified investments for Plans. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments.

German Taxes

The Luxembourg SPV, Walpur-Four and Cologne SCI would be subject to municipal trade tax ("TT") if acting through a German permanent establishment. Management of the REIT have assumed that the Luxembourg SPV, Walpur-Four and Cologne SCI will not be subject to TT based on the REIT's current understanding of the structure. However, no assurances can be given that the Luxembourg SPV, Walpur-Four and Cologne SCI will not be subject to TT.

Luxco Restructuring

In 2018, the French and Luxembourg governments signed a double taxation treaty ("Double Taxation Treaty"), which replaces the existing treaty that currently applies to Luxco. The Double Taxation Treaty is applicable since January 1, 2020. Dividend distributions made by OPCI to Luxco are subject to a tax at a rate of 28% in 2020 (reduced to 26.5% in 2021 and 25% as of January 1, 2022).

The REIT is in the process of restructuring Luxco into a Special Investment Fund within the meaning of the Luxembourg law of 13 February 2007 ("SIF"), with multiple compartments and variable capital ("Société d'Investissement à Capital Variable") subject to a tax of 0.01% (so called "taxe d'abonnement") per annum of its Net Asset Value, so that it will be eligible for dividend withholding tax at a reduced rate of 15%, as opposed to the rate of 28% which would otherwise apply under domestic law. Eligibility for the reduced 15% dividend withholding tax is conditional upon the completion of certain formalities with the Commission de Surveillance du Secteur Financier, the Luxembourg Financial Regulatory Authority. Failure to complete the restructuring of Luxco will result in a 28% withholding tax on dividend distributions made to Luxco until SIF status is obtained. The restructuring is not expected to result in material Canadian or foreign tax consequences, however, no assurance can be given that the CRA or a foreign tax authority will not challenge certain positions taken by the REIT and the REIT's subsidiaries in connection with the restructuring of Luxco.

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 OPCI (collective undertaking for real estate investment) to CCE.

TFI CanCorp Isenburg, TFI CanCorp Kosching, TFI CanCorp Stuttgart ("TFI CC"), CanCorp Cologne and Trio 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 distributions 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 CanCorp Duisburg, Trio, CanCorp Cologne, TFI CC and Arcueil SCS.

Arcueil SCS is a Luxembourg partnership (société en commmandite simple), fully owned by CCE, 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 sole partner.

CanCorp Duisburg ("CCD"), Trio and TFI CC are Luxembourg limited liability companies that are managed in Luxembourg and, therefore, should not be considered tax resident of Germany for German tax purposes. Similarly, Cologne is an SCI and should not be considered tax resident of Germany for German tax purposes (CCD, TFI CC, Trio, and Cancorp Cologne are collectively called the ("German Co"). However, the German Co would be subject to corporate income tax ("CIT") in Germany on their German source of 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the REIT's consolidated financial statements in conformity with GAAP requires management to make judgments, estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities. Management bases its judgements, estimates and assumptions on experience and other factors that it believes to be reasonable under the circumstances. However, uncertainty about these judgements, estimates and assumptions could result in outcomes requiring a material adjustment to the carrying amount of the asset or liability affected in future periods. Critical accounting judgements estimates and assumptions in applying accounting policies are described in Note 4 to the annual audited consolidated financial statements of the REIT for the year ended December 31, 2020.

A description of significant accounting policies is provided in Note 3 of the annual audited consolidated financial statements of the REIT for the year ended December 31, 2020. On January 1, 2021, the REIT adopted Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, which addresses the accounting issues that arise upon the replacement of an Interbank Offered Rate ("IBOR") with a Risk-Free Rate ("RFR"). The amendments had no impact on the REIT's Condensed Interim Consolidated Financial Statements for the three months ended March 31, 2021.

The REIT has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

RELATED PARTY TRANSACTIONS

Pursuant to the Management Agreement, Inovalis S.A. 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.

Inovalis S.A. is considered as a related party of the REIT as they share the same management. The founder and Chairman of Inovalis S.A. is President of the REIT, the Chief Executive Officer ("CEO") of Inovalis S.A. is also CEO of the REIT, and the Deputy Chief Executive Officer of Inovalis S.A. is Chief Investment Officer ("CIO") and Chief Financial Officer ("CFO") of the REIT.

Extension of Management Agreement effective April 1, 2021

The Management Agreement between the REIT and Inovalis S.A. was extended for two years effective April 1, 2021.

A special committee comprised of independent trustees of the Board (the "**Special Committee**") was formed in October 2020 to review and consider strategic alternatives available to the REIT including the extension of the Management Agreement. The Special Committee concluded early in 2021 that it is currently in the best interests of the Unitholders to extend the expiring Management Agreement for a period of two years. The amended and restated management agreement provides for the internalization of the finance functions of the REIT (the "**REIT Finance Function Internalization**"), which is targeted to occur on or before April 1, 2022.

The following modifications were approved in the amended and restated management agreement:

- **Term:** The extension is for two (2) years ending on March 31, 2023. The agreement may be renewed upon mutual agreement of the parties for an additional term of one (1) year.
- **Asset Management Fees:** Will be calculated as a percentage of Assets Under Management in accordance with the following scale:

Assets Under Management	Annual Asset Management Fee
On the first $1.0 billion	0.5%
From $1.0 billion to $2.0 billion	0.4%
On $2.0 billion and over	0.3%

  The asset management fee will be further reduced by $500,000 once the REIT Finance Function Internalization is completed.

- **Disposition Fees:** Inovalis S.A. will receive a cash fee equal to (a) 1.0% of the gross proceeds resulting from any disposition of a property completed by Inovalis S.A or (b) 0.5% of Assets Under Management in the event of (i) a change of control of the REIT which results in a termination of the management agreement, (ii) a sale of all or substantially all of the assets of the REIT, or (iii) a sale or other disposition of CanCorpEurope S.A. (referred to as Luxco). In all cases, a disposition fee will only be payable to the extent that the net proceeds of any sale or disposition are paid to or distributed as a special distribution to Unitholders of the REIT. Furthermore, only one disposition fee shall be payable for each individual asset disposed of, and no disposition fee shall be payable on a change of control of the REIT to the extent that Inovalis S.A. takes any action to oppose the change of control.
- **G&A Budget:** The REIT and Inovalis S.A. will agree to a budget for general and administrative expenses on an annual basis (the "G&A Budgeted Amount"), with any additional proposed expenditures to be approved by the Audit Committee of the REIT. Inovalis S.A. will be obligated to reimburse the REIT for amounts in excess of the G&A Budgeted Amount based on a scale. In the event that the actual G&A expenses of the REIT are significantly less than the G&A Budgeted Amount, the REIT shall pay to Inovalis S.A. an additional fee based on the percentage of the savings in accordance with the following scale:

Percentage of Excess under G&A Budgeted Amount	Percentage of Saved G&A to be paid by the REIT to Inovalis SA
0% - 10%	Nil
10% - 15%	20%
15% - 20%	30%
20% - 25%	50%
25%+	100%

- **Manager Reimbursement**: The Manager will reimburse the REIT for any general and administrative expenses in excess of the Annual G&A Budgeted Amount in accordance with the following scale:

Percentage of Excess over G&A Budgeted Amount	Percentage of Excess G&A to be reimbursed by Inovalis S.A. to the REIT
0% - 10%	Nil
10% - 15%	20%
15% - 20%	30%
20% - 25%	50%
25%+	100%

  Also, from January 1, 2021 until the completion of the REIT Finance Function Internalization, Inovalis S.A. will reimburse the REIT for 50% of all costs related to the REIT Finance Functions.

- **Change of Control**: Upon the occurrence of a change of control of the REIT, the Board of Trustees has the option to terminate the Management Agreement, exercisable within 90 days.

A description of related party transactions is provided in Note 20 of the interim consolidated financial statements as at and for the three months ended March 31, 2021.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures ("DCP")

The CEO and CFO of the REIT have designed or caused to be designed under their direct supervision the REIT's DCP to provide reasonable assurance that: i) material information relating to the REIT is made known to management by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the REIT in its annual and interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. The CEO and CFO are assisted in this responsibility by Management.

The CEO and CFO concluded that such disclosure controls and procedures were effective as at March 31, 2021.

Internal Controls over Financial Reporting ("ICFR")

During the quarter ended March 31, 2021, no changes were made to the REIT's system of disclosure controls and procedures and internal controls over financial reporting.

Management is responsible for establishing and maintaining adequate ICFR to provide reasonable assurance regarding the reliability of the REIT's financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

An evaluation of the adequacy of the design and effective operation of the REIT's ICFR was conducted under the supervision of management, including the CEO and CFO, as at March 31, 2021.

The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate. Based on that evaluation, the CEO and the CFO have concluded that the design of ICFR was complete as at March 31, 2021. These controls, although implemented, were not fully assessed for operating effectiveness at March 31, 2021.

Remediation Plans and Actions Undertaken

As previously described in our Annual MD&A for the year ended December 31, 2019, a remediation plan was undertaken in 2019 and 2020 to resolve DCP & ICFR material weaknesses identified in prior years. The Board of Trustees, with oversight by the Audit Committee, reviewed progress on the remediation activities on a regular basis.

As at March 31, 2021, the implementation of business process-level controls and entity-level controls is complete. In order to ensure the sustainable operating effectiveness of the REIT's ICFR, the REIT intends to develop a testing program for fiscal 2021. This plan will be executed by personnel independent of management and the operation of the controls being tested.

Inherent Limitations

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Given the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of any undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.

QUARTERLY INFORMATION – LAST EIGHT QUARTERS

	As at and for the three months ended							
	March 31 2021	Dec. 31 2020	Sep. 30 2020	Jun. 30 2020	Mar. 31 2020	Dec. 31 2019	Sep. 30 2019	Jun. 30 2019
Rental revenue	7,420	7,706	7,154	7,119	6,878	6,261	6,627	6,593
Rental revenue - Total Portfolio(1)	9,531	9,941	9,606	9,525	9,238	9,242	9,750	9,794
Net rental income	4,438	7,761	7,260	7,399	4,250	6,379	6,980	6,726
Net rental income - Total Portfolio(1)	6,096	9,851	9,610	9,786	6,304	9,146	10,173	9,937
Net income attributable to Unitholders	4,165	(8,952)	4,445	(9,385)	32,088	30,094	5,373	3,027
FFO (1)	4,172	5,631	6,393	5,418	5,484	6,744	6,758	5,940
AFFO (1)	3,778	4,955	5,984	5,210	4,143	8,176	6,112	5,824
FFO per Unit (diluted) (1) (2)	0.12	0.17	0.19	0.16	0.16	0.22	0.23	0.21
AFFO per Unit (diluted) (1) (2)	0.11	0.15	0.18	0.15	0.12	0.26	0.21	0.20
Declared distribution per Unit	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21
FFO payout ratio(2)	165.7%	129.2%	108.6%	130.0%	127.7%	93.5%	88.0%	100.2%
AFFO payout ratio(2)	183.0%	146.8%	116.0%	135.2%	169.1%	77.1%	97.3%	102.2%

(1) See the section *"Non-GAAP Financial Measures"* on page 48 for more information on the REIT's non-GAAP financial measures and reconciliations thereof. Non-GAAP measures do not have standardized meaning under IFRS. These measures as computed by the REIT may differ from similar computations as reported by other entities and, accordingly, may not be comparable to other entities.

(2) Based on the diluted weighted average number of Units, exchangeable Units and the conversion of promissory notes in 2020.

NON-GAAP FINANCIAL MEASURES

There are financial measures included in this MD&A that do not have a standardized meaning under IFRS. These measures include funds from operations, adjusted funds from operations, and other measures presented on a proportionate share basis. Management includes these measures as they represent key performance indicators to management, and it believes certain investors use these measures as a means of assessing relative financial performance. These measures as computed by Inovalis REIT may differ from similar computations as reported by other entities and, accordingly, may not be comparable to other such entities.

Investments in joint ventures

The REIT's proportionate share of the financial position and results of operation of its investment in joint ventures, which are accounted for using the equity method under IFRS in the consolidated financial statements, are presented below using the proportionate consolidation method at the REIT's ownership percentage of the related investment. Management views this method as relevant in demonstrating the Trust's ability to manage the underlying economics of the related investments, including the financial performance and the extent to which the underlying assets are leveraged, which is an important component of risk management.

For the purpose of the proportionate consolidation, the initial investment of both partners in the joint ventures were considered as being equity investments as opposed to a combination of equity and loans and accordingly, the related proportionate consolidation balance sheet items were eliminated as well as the associated finance income and finance costs.

Consolidated statement of earnings reconciliation to consolidated financial statements

	Three months ended					
	March 31, 2021			March 31, 2020		
(in thousands of CAD$)	**Amounts per REIT's financial statements (1)**	**Share of net earnings from investments in joint ventures**	**Total**	**Amounts per REIT's financial statements (1)**	**Share of earnings from investments in joint ventures**	**Total**
Rental revenue	7,420	2,111	**9,531**	6,878	2,360	**9,238**
Property operating cost recoveries	2,041	789	**2,830**	1,571	728	**2,299**
Property operating costs	(4,882)	(1,242)	**(6,124)**	(4,171)	(1,153)	**(5,324)**
Other revenues	67	-	**67**	5	122	**127**
Other property operating expenses	(208)	-	**(208)**	(33)	(3)	**(36)**
Net rental income	**4,438**	**1,658**	**6,096**	**4,250**	**2,054**	**6,304**
General and administrative expenses	(2,461)	(412)	**(2,873)**	(2,242)	(552)	**(2,794)**
Foreign exchange gain	(886)	-	**(886)**	2,647	-	**2,647**
Net change in fair value of investment properties	1,710	232	**1,942**	1,702	96	**1,798**
Loss resulting from exercise of the purchase option	-	-	-	-	-	-
Share of net income (loss) from joint ventures	429	(429)	-	183	(183)	-
Operating income	**3,230**	**1,049**	**4,279**	**6,540**	**1,415**	**7,955**
Net change in fair value of Financial derivatives	2,834	(33)	**2,801**	122	9	**131**
Net change in fair value of Exchangeable securities	(679)	-	**(679)**	4,307	-	**4,307**
Net change in fair value of Promissory notes	-	-	-	21,752	-	**21,752**
Finance income	880	(880)	-	2,265	(1,005)	**1,260**
Finance costs	(1,705)	(336)	**(2,041)**	(2,468)	(370)	**(2,838)**
Distributions on Exchangeable securities	(230)	-	**(230)**	(190)	-	**(190)**
Income before income taxes	**4,330**	**(200)**	**4,130**	**32,328**	**49**	**32,377**
Current income tax expense	(177)	27	**(150)**	(9)	(15)	**(24)**
Deferred income tax recovery (expense)	55	173	**228**	(219)	(34)	**(253)**
Total income tax recovery (expense)	**(122)**	**200**	**78**	**(228)**	**(49)**	**(277)**
Net income	**4,208**	**-**	**4,208**	**32,100**	**0**	**32,100**
Non-controlling interest	43	-	43	12	-	12
Net income attributable to the Trust	**4,165**	**-**	**4,165**	**32,088**	**0**	**32,088**

(1) Consolidated statement of earnings amounts presented for the REIT were taken respectively from interim consolidated financial statements as at March 31, 2021 and 2020.

Balance sheet reconciliation to consolidated financial statements

Assets	As at March 31, 2021 As per REIT's financial statements (1)	Share from investments in joint-ventures	Proportionate Consolidation	As at December 31, 2020 As per REIT's financial statements (1)	Share from investments in joint-ventures	Proportionate Consolidation
Non-current assets						
Investment properties	514,696	152,084	**666,780**	541,218	160,240	**701,458**
Investments in joint ventures	72,003	(72,003)	-	75,987	(75,987)	-
Derivative financial instruments	282	-	**282**	-	-	-
Restricted cash	5,088	-	**5,088**	4,874	-	**4,874**
Total non-current assets	592,069	80,081	**672,150**	622,079	84,253	**706,332**
Current assets						
Trade receivables and other financial assets	8,003	1,335	**9,338**	6,623	2,756	**9,379**
Derivative financial instruments	377	17	**394**	(9,109)	19	**(9,090)**
Call option related to the acquisition loan	-	-	-	9,124		**9,124**
Other current assets	2,198	1,708	**3,906**	2,444	975	**3,419**
Restricted cash	53		**53**	552	-	**552**
Cash	69,532	4,009	**73,541**	80,376	3,813	**84,189**
Total current assets	80,163	7,069	**87,232**	90,010	7,563	**97,573**
Total assets	672,232	87,150	**759,382**	712,089	91,816	**803,905**
Liabilities and Unitholders' equity						
Liabilities						
Non-current liabilities						
Interest-bearing loan	395	-	**395**	474	-	**474**
Mortgage loans	127,532	64,031	**191,563**	152,737	67,620	**220,357**
Lease liabilities	114,289	10,539	**124,828**	121,813	9,460	**131,273**
Lease equalization loans	-	-	-	-	-	-
Tenant deposits	1,231	154	**1,385**	1,490	162	**1,652**
Exchangeable securities	-	-	-	-	-	-
Derivative financial instruments	1,933	-	**1,933**	3,091	-	**3,091**
Deferred tax liabilities	12,462	7,051	**19,513**	13,212	7,618	**20,830**
Total non-current liabilities	257,842	81,775	**339,617**	292,817	84,860	**377,677**
Current liabilities						
Interest-bearing loan	36	-	**36**	36	-	**36**
Promissory Notes	-	-	-	-	-	-
Mortgage loans	21,123	291	**21,414**	4,752	240	**4,992**
Lease liabilities	7,303	496	**7,799**	8,474	2,319	**10,793**
Lease equalization loans	173	-	**173**	371	-	**371**
Tenant deposits	563	33	**596**	1,009	35	**1,044**
Exchangeable securities	10,624	-	**10,624**	9,945	-	**9,945**
Derivative financial instruments	1,320	-	**1,320**	2,382	-	**2,382**
Trade and other payables	13,342	4,060	**17,402**	11,052	3,755	**14,807**
Income tax payable	4,219	-	**4,219**	4,069	-	**4,069**
Deferred income	1,210	490	**1,700**	521	599	**1,120**
Total current liabilities	59,913	5,370	65,283	42,611	6,948	**49,559**
Total liabilities	317,755	87,145	**404,900**	335,428	91,808	**427,236**
Equity						
Trust units	286,975	-	**286,975**	286,975	-	**286,975**
Retained earnings	50,832	-	**50,832**	53,350	1	**53,351**
Accumulated other comprehensive income	15,280	-	**15,280**	34,913	7	**34,920**
	353,087	-	**353,087**	375,238	8	**375,246**
Non-controlling interest	1,390	5	**1,395**	1,423	-	**1,423**
Total liabilities and equity	672,232	87,150	**759,382**	712,089	91,816	**803,905**

(1) Balance sheet amounts presented for the REIT were taken respectively from interim consolidated financial statements as at March 31, 2021 and audited consolidated financial statements as at December 31, 2020.

Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO")

FFO and AFFO are non-GAAP performance measures that are widely used by the real estate industry in evaluating the operating performance of real estate entities. The REIT's determination of FFO and AFFO follows the definition prescribed by the Real Estate Property Association of Canada (''REALPAC'') White Paper on Funds From Operations & Adjusted Funds From Operations dated February 2019 and as subsequently amended (''White Paper''). As an exception, considering the significant amount of cash held in Euros in Canada and the volatility of the Canadian dollar against the Euro, the unrealized gain (loss) recognized in Q1 2021 and for all four quarters of 2020 have been excluded from the FFO calculation.

Management considers FFO to be a meaningful supplemental measure that can be used to determine the REIT's ability to service debt, fund capital expenditures and provide distributions to stapled Unitholders. AFFO is a meaningful supplemental measure that can be used to determine the REIT's ability to service debt, fund expansion capital expenditures, fund property development, and provide distributions to stapled Unitholders after considering costs associated with sustaining operating earnings.

FFO and AFFO calculations are reconciled to net income, which is the most directly comparable IFRS measure. FFO and AFFO should not be construed as an alternative to net income or cash flow generated from operating activities determined in accordance with IFRS.

FFO for the REIT is defined as net earnings in accordance with IFRS, subject to certain adjustments including adjustments for: (i) acquisition costs, (ii) net change in fair value of investment properties, (iii) net change in fair value of derivative financial instruments at fair value through profit and loss, (iv) net changes in fair value of exchangeable securities and Private Placement promissory notes in 2020, (v) finance costs related to distribution on exchangeable securities and promissory notes in 2020, (vi) adjustment for property taxes accounted for under IFRIC 21 (if any), (vii) loss on exercise of lease option (if any), (viii) adjustment for foreign exchange gains or losses on monetary items not forming part of an investment in a foreign operation, (ix) gain on disposal of an interest in a subsidiary and the non-cash portion of earnings from investments accounted for using the equity method, (x) finance income earned from loans to joint ventures (if any), (xi) loss on refinancing of debts and other non-recurring finance costs, (xii) deferred taxes, (xiii) gains or losses from non-recurring items, (xiv) additional non-recurring income (loss) from JVs, (xv) minority interest, and (xvi) goodwill / bargain purchase gains upon acquisition. These distributions are recognized in profit and loss consistent with the classification of the exchangeable securities as a liability. However, they are not to be considered when determining distributions for the Unitholders as indeed they are subordinated to the distributions to the Unitholders.

Exchangeable securities and private placement promissory notes (2020 only) are recorded as liabilities. Exchangeable securities and promissory notes are recorded at fair value through profit and loss in accordance with IFRS. However, both are considered as equity for the purposes of calculating FFO and AFFO as they are economically equivalent to the REIT's Units, with the same features and distribution rights that are economically equivalent to the distribution received by Unitholders.

AFFO is defined as FFO subject to certain adjustments, including adjustments for: (i) the non-cash effect of straight-line rents, (ii) the cash effect of the lease equalization loans, (iii) amortization of fair value adjustment on assumed debt, (iv) the non-cash portion of the asset management fees paid in exchangeable securities, (v) capital expenditures, and (vi) amortization of transaction costs on mortgage loans.

The REIT's method of calculating FFO and AFFO may differ from other issuers' methods and accordingly may not be comparable to measures used by them.

The reconciliation of FFO and AFFO for the three months ended March 31, 2021 and 2020, based on proportionate consolidation figures, is as follows:

	Three months ended March 31,	
(in thousands of CAD$)	**2021**	**2020**
Net income attributable to the Trust	4,165	32,088
Add/(Deduct):		
Net change in fair value of investment properties	(1,942)	(1,798)
Net change in fair value of financial derivatives	(2,867)	(131)
Net change in fair value of derivative on acquisition loan	33	-
Adjustment for property taxes accounted for under IFRIC 21	2,531	2,386
Interest on promissory notes	-	873
Distributions on Exchangeable securities	230	190
Net change in fair value of Exchangeable securities	679	(4,307)
Net change in fair value of Promissory Notes	-	(21,752)
Foreign exchange loss (gain) [(3)]	926	(2,647)
Deferred income tax recovery (expense)	(228)	253
Other adjustments [(2)]	569	317
Minority interest	43	12
FFO	**4,139**	**5,484**
Add/(Deduct):		
Non-cash effect of straight line rents	(122)	(140)
Cash effect of the lease equalization loans	(185)	(1,397)
Amortization of transaction costs on mortgage loans	25	78
Non-cash part of asset management fees paid in Exchangeable securities [(1)]	-	374
Capex net of cash subsidy	(112)	(256)
AFFO	**3,745**	**4,143**
FFO / Units (diluted) *(in CAD$)*	**0.12**	**0.16**
AFFO / Units (diluted) *(in CAD$)*	**0.11**	**0.12**

(1) For purposes of this presentation, 50% of the asset management fee is included in the AFFO reconciliation. 50% of the asset management fees were paid in exchangeable securities in 2020. For Q1 2021, asset management fees have been fully paid in cash.

(2) Other adjustments line refers non-recurring administrative expenses related to Strategic review, Konecta aborted transaction and SIF conversion. Due to their specific nature, Management has decided to exclude these expenses from the FFO calculation, although REALPAC does not expressively provide guidance on such exclusion.

(3) REALPAC guidance suggest that the FX gain or loss be included in the FFO calculation. However, due to the volatility of the Canadian dollar against the Euro, the REIT has elected to exclude from the FFO calculation the unrealized gain or loss on the cash held in Canada in Euro.