December 31, 2020

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 March 24, 2021.

LETTER TO UNITHOLDERS

Almost a year into the COVID-19 pandemic, the REIT remains in a strong financial position, with a real estate business model which has proved its robustness against economic and real estate cycles. 2020 definitely marked a transitional year for Inovalis REIT as we successfully completed long-term projects despite a challenging operating environment. In Q4, multi-national tenant Danone moved into its 291,607 sq. ft newly completed head office space in in Rueil-Malmaison, a Paris suburb. This four-year €241 million project (CAD$375 million), partly financed by the REIT, closed profitably and on time, a remarkable accomplishment during a long period of pandemic-related concerns, global uncertainty, curfews and lockdowns. The REIT financing of the Rueil project has generated a 20% internal return rate over the investment period.

As the economic impact of the COVID-19 pandemic began to unfold, the REIT undertook a number of defensive measures to reinforce the balance sheet. The REIT took the opportunity to unwind the Promissory Note program previously structured in 2017, to complement funding of acquisitions at the time. To offset the effect of the global downturn in capital markets and the consequent reduction of the REIT's Unit trading values to well-below the net asset value of the portfolio, a normal course issuer bid was launched in April and used to buy back nearly a million Units at an average trading price of $7.58. The balance sheet has been further strengthened by using asset-level, non-recourse financing that has an average term to maturity of 5.4 years for the portfolio that includes only buildings owned entirely by the REIT ("IP Portfolio"), and virtually no financial covenants. The average in-place interest rate on our total outstanding debt stands at 2.03%, compared to 2.06% in 2019 which reflects the very attractive European lending market advantage that benefits our investors.

We are actively working on the organic growth of our existing portfolio, executing on the planned buy-out of joint venture partners, as we did with the Bad Homburg asset located in a suburb of Frankfurt in Q4. Non-core assets will be sold. Last December, an unilateral promise to sell was signed for the disposition of the Véronèse asset in Courbevoie, a Paris suburb as the asset had reached its full potential. Subject to building permit obtention, the asset sale is expected to close within a year. We have also identified a couple of sites within our French portfolio that offer significant redevelopment potential and these plans will be further explored in the next four to eight quarters. In these projects, the REIT will have to consider the option to retain part or all of the value creation in excess of present open market valuations.

The COVID-19 pandemic is to gradually accelerate some of the trends kindled by new technologies on the way offices will be used in the future, more then ever giving a premium to well-located urban assets close to major business hubs. Our portfolio is 89.3% leased on a mid-term basis (remaining weighted average lease term of 3.1 years) to high-credit quality tenants. Our outlook for our operating results in 2021 and future years therefore remains optimistic.

Navigating a challenging European environment in 2020, Inovalis REIT successfully completed several major milestones and intends to capitalize on many opportunities in 2021 and beyond. Further to previous raising, disposals and profit accumulations, our debt-to-equity ratio is 42.3% (vs 38.2% as of end 2019), well below the 60% permitted by the Declaration of Trust. The REIT's $80.4million cash position ($83.4 million as of end 2019) is sufficient to support our distributions, fund opportunistic investment prospects and meet the financial commitments of current operations.
The REIT has renewed the management agreement with Inovalis S.A. for a two-year term effective April 1, 2021. The management team is excited about the prospect of leading the REIT at this pivotal point. Investors are attracted to the strong returns provided by redevelopment and operation of high-quality European office assets. The REIT made a decision not to pursue a number of potential opportunities during the pandemic crisis of 2020 and early 2021. However, with the new management agreement in place, the REIT is now well positioned to begin considering potential opportunities once again. Our expertise and real estate value creation acumen provide Unitholders with European investment exposure that generates high and consistent returns and long-term enduring value. In addition to the lending rate and other advantages noted above, our investors benefit from an effective hedge by being invested in Euros. The current strategic review process is expected to further strengthen and advance our platform.

On behalf of our management team and our Board of Trustees, I would like to thank you for your continued support of our business.

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 December 31, 2020 ("Q4 2020"), adjusted for IFRIC 21 – Levies ("IFRIC 21")[1], was CAD$7,110 (EUR4,580), compared to CAD$5,517 (EUR3,780) adjusted net rental income for the three months ended December 31, 2019 ("Q4 2019"). The increase is mainly due to: the net impact of CAD$600 related to the Arcueil acquisition and sale of the Vanves property; the 2-month Net Operating Income ("NOI") contribution of CAD$389 from the Bad Homburg asset following its acquisition at the end of October 2020, the indemnity of CAD$275 obtained from Jeuneurs' single tenant, as well as the positive foreign exchange impact of CAD$302.

In Q4 2020, for the portfolio that includes the REIT's proportionate share in joint ventures ("Total Portfolio"), net rental income adjusted for IFRIC 21 was CAD$9,105 (EUR5,859), compared to CAD$8,113 (EUR5,560) for Q4 2019, mainly attributable to the positive foreign exchange impact of CAD$534, as well as the indemnity of CAD$275 on the Jeuneurs property.

COVID-19 Related Business Update

The REIT did not experience a significant change in quarterly rent collection for Q4 2020 due to COVID-19. 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 the solid Q4 2020 results. However, management continues to monitor the potential impact of downward pressure on rental revenue which may transpire in the short-term in 2021 as subsequent waves of the COVID-19 pandemic occur, necessitating partial lockdown measures and consequent economic disruption.

Rent collection

Rent for the French assets is invoiced and collected on a quarterly basis and 94% of rent has been received for Q4 2020. 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 Q4 2020.

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

Leasing Operations

About 7,900 sq. ft. of incremental space was leased during Q4. Efforts continue to lease unoccupied space (127,024 sq. ft., 9.7% of total weighted areas) in the portfolio. Management will selectively complete capital expenditure improvements on vacant areas to attract tenants and maximize rent. Leasing negotiations for a number of new tenants have been pushed back to Q2 2021 until there is greater clarity about normal business operations.

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

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 Q4 2020, the REIT reported Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO)" were CAD$0.17 and CAD$0.15 per Unit respectively, versus CAD$0.22 and CAD$0.26 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. This occurred because the REIT deferred investing $55 million that had been earmarked for acquisitions of income-generating assets in the 2020 budget.

The REIT's Canadian funds held in Euros had an unrealized foreign exchange gain of CAD$1.01 million (which represents an equivalent of approximately CAD$0.03 per Unit of FFO) over the twelve months of 2020. REALPAC guidance suggests that this gain be included in the FFO calculation, however, it has been excluded due to the volatility of the Canadian dollar against the Euro.

Financing Activity

As at December 31, 2020, the weighted average interest rate across the portfolio debt was 2.03% and the debt ratio was 42.3% (35% net of cash), comfortably within the REIT's mandated threshold of 60%.

For the same period, the REIT had CAD$80.4 million of cash on its consolidated balance sheet, including CAD$26.3 million proceeds from the full repayment of the Rueil construction loan principal to the REIT and the CAD$12.4 million interim cash distribution on Rueil profit resulting from the sale of the building. This interim cash distribution, corresponding to the distributed profit on the sale, is subject to income tax payable of CAD$3.6 million (CAD$4.1 million for the total profit).

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.

In France, banks and financial lessors have been encouraged by the French Government's measures to ease the debt service conditions of their clients from the start of the pandemic. The REIT has benefited from penalty-free deferrals for principal and interest owing on Sablière, Courbevoie, Metropolitain, Baldi, and Delizy and Arcueil properties representing a CAD$6.25 million positive impact on the REIT's 2020 cash generation.

Rueil acquisition loan

On October 2nd, 2020, the REIT exercised its option and acquired a 20% stake in the company it financed to build the Rueil property. The building was delivered on October 19th, in line with budgetary assumptions related to the valuation of the REIT's profit participation component in the development loan (call option). The initial CAD$26,702 (EUR17,166) loan was fully repaid to the REIT by the borrowing entity. Since inception in December 2016, a net gain of CAD$10,422 (EUR6,813) in fair value was recognized in relation to the profit participation component of the loan.

Bad Homburg

On July 27, 2020, the REIT entered into an agreement with its joint venture partner to buy-back the 50% interest held in Bad Homburg by its joint venture partner. The transaction which closed on October 27, 2020 was a component of the REIT's strategy to buy-back joint ventures and simplify the ownership structure. The REIT bought back 50% of the shares of the company holding the Bad Homburg asset and an interest-bearing loan owned by the seller for total consideration of CAD$10,795 (EUR7,058), including transaction costs (for a total amount of CAD$1,851 (EUR1,190)) and it is now a wholly owned asset.

Stuttgart

The previously tentative sale of the Stuttgart property has been postponed to Q3 2021 from Q3 2020. Once completed, the disposition of this jointly-held asset will further simplify the REIT's asset ownership structure.

Courbevoie (Veronese)

On December 22, 2020, the REIT entered into a unilateral promise to sell with a potential buyer for the Courbevoie property. The sale is expected to be completed in 2021 at a price of EUR27,200 (CAD$42,310), contingent on the buyer obtaining a building permit and the seller vacating the asset, each acting at their own expense. Given the uncertainty related to the conditions attached to the promise to sell, the Courbevoie property did not qualify for the presentation as an asset held for sale as of December 31, 2020.

Management Agreement Renewal

Subsequent to year-end, 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 to be effective April 1, 2021. The Board of Trustees and Inovalis S.A. agree that, given the REIT's relative size, it is 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 scheduled 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 the value of the assets of the REIT managed by Inovalis S.A., as determined at the end of each fiscal year by an external valuator selected by the REIT ("**Assets Under Management**") in accordance with a scale of 0.5 % on the first $1.0 billion of Assets under Management, 0.4 % on Assets Under Management from $1 billion to $2.0 billion, and 0.3 % on Assets Under Management $2.0 billion and over. The asset management fee will be 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 any case, a disposition fee will only be payable if the net proceeds of such sale or other disposition are paid to or distributed as a special distribution to Unitholders.
- **G&A Budget:** Measures will be established that require Inovalis S.A. to reimburse the REIT for amounts in excess of the G&A budgeted amounts 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 a scale. 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.

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

Normal Course Issuer Bid

As reported in Q2 2020, the TSX approved the REIT's Normal Course Issuer Bid (NCIB) which was undertaken in response to the extreme volatility that negatively affected the trading price of the REIT. Management believes that the purchase by the REIT of a portion of its outstanding Units has been an appropriate use of available resources and has been in the best interests of the REIT and its unitholders. Between April 22 and December 31, 2020, the REIT bought back 989,275

Units at prices ranging between $6.41 and $8.50 per Unit for a total of CAD$7,500 (average Unit price of CAD$7.58). The units repurchased during the year ended December 31, 2020 resulted in a reduction of Trust Units representing the average book value of CAD$8,874 representing a discount of CAD$1,374 over the average issue price.

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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:

	December 31, 2020		December 31, 2019	
Operating metrics	IP Portfolio	Total Portfolio	IP Portfolio	Total Portfolio
Number of properties	8	14	7	14
Gross leasable area (sq. ft.)	1,026,940	1,453,255	917,836	1,398,704
Weighted Occupancy rate - end of period (1)	89.3%	90.3%	89.4%	92.1%
Weighted average lease term	3.1 years	3.6 years	4.2 years	4.5 years
Average capitalization rate (2)	6.6%	6.8%	5.0%	5.5%
Capital management metrics				
Available liquidity (3)	$80,376	$84,189	$83,409	$91,048
Fair value of investment properties	$541,218	$701,458	$478,700	$652,013
Level of debt (debt-to-book value) (3)	42.3%	48.3%	38.2%	45.8%
Level of debt (debt-to-book value, net of cash) (3)	35.0%	42.3%	29.9%	38.7%
Weighted average term of principal repayments of debt	5.4 years	4.9 years	6.1 years	5.3 years
Weighted average interest rate (4)	2.03%	1.95%	2.06%	2.00%
Interest coverage ratio (5)	3.5 x	3.7 x	3.2 x	3.5 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 paid on lease liabilities and the mortgage.

(5) Calculated as net rental income plus interest expenses, less administrative expenses, divided by interest expenses on the financial leases and mortgage financing

(thousands of CAD$ except per Unit and other data)	Three months ended December 31, 2020	Three months ended December 31, 2019	Twelve months ended December 31, 2020	Twelve months ended December 31, 2019
Financial performance metrics				
Rental revenue	7,706	6,261	28,858	25,524
Rental revenue - Total Portfolio (1)	9,941	9,242	38,310	38,045
Net rental income	7,761	6,379	26,600	22,989
Net rental income - Total Portfolio (1)	9,851	9,146	35,553	34,783
Net income for the period, attributable to the Trust	(8,952)	30,094	18,196	36,449
Funds from Operations (FFO) (7)	5,631	6,744	22,925	24,372
Adjusted Funds from Operations (AFFO) (7)	4,955	8,176	20,292	25,542
FFO per Unit (diluted) (7) (8)	0.17	0.22	0.68	0.83
AFFO per Unit (diluted) (7) (8)	0.15	0.26	0.60	0.87
Distributions				
Declared distributions on Units and Exchangeable sec.	6,592	5,438	24,872	20,613
Declared distributions on Units and Exchangeable sec. & Promissory notes	7,275	6,306	28,264	24,141
Declared distribution per Unit	0.21	0.21	0.83	0.83
FFO payout ratio (7)	129.2%	93.5%	123.3%	99.1%
AFFO payout ratio (7)	146.8%	77.1%	139.3%	94.5%

(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.
(7) The reconciliation of FFO and AFFO to earnings can be found under the section Non-GAAP Reconciliation (FFO and AFFO).
(8) Based on the diluted weighted average number of Units, exchangeable Units and the conversion of Private Placement promissory notes.

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 audited consolidated financial statements as at and for the years ended December 31, 2020 and 2019, and the notes thereto, prepared in accordance with International Financial Reporting Standards ("IFRS").

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 March 24, 2021. Additional information about Inovalis REIT has been filed with applicable Canadian securities regulatory authorities and is available at www.sedar.com.

FORWARD-LOOKING INFORMATION

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

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

(i) the ability to continue to receive financing on acceptable terms;
(ii) our future level of indebtedness and our future growth potential will remain consistent with our current expectations;
(iii) there will be no changes to tax laws adversely affecting our financing capability, operations, activities, structure, or distributions;
(iv) we will retain and continue to attract qualified and knowledgeable personnel as we expand our portfolio and business;
(v) the impact of the current economic climate and the current global financial conditions on our operations, including our financing capability and asset value, will remain consistent with our current expectations;
(vi) there will be no material changes to government and environmental regulations adversely affecting our operations;
(vii) conditions in the international and, in particular, the French and German real estate markets, including competition for acquisitions, will be consistent with the current climate;
(viii) capital markets will provide us with readily available access to equity and/or debt financing; and 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 year ended December 31, 2020 and 2019 was CAD$1.5298 and CAD$1.4852, respectively.

For balance sheet items as at December 31, 2020, projections, or market data, the exchange rate used is CAD$1.5555 (CAD$1.4565 as at December 31, 2019).

Over the year ended December 31, 2020, the Canadian dollar weakened by approximately 6.8% relative to the Euro.

SIGNIFICANT EVENT – COVID-19

March 2020, the outbreak of the COVID-19 pandemic resulted in governments taking extraordinary measures to combat the spread of the virus, including the closure of businesses, suspension of cross-border travel, temporary quarantine for citizens, and subsequent physical distancing, with a second wave now triggering new specific preventive measures. This crisis, the long-term effects of which are still unknown, has led to an unprecedented worldwide economic slowdown.

Management continues to monitor on a monthly basis the 2021 impact of COVID-19 on the REIT tenants' economic situation and is committed to taking necessary measures to ensure their business continuity.

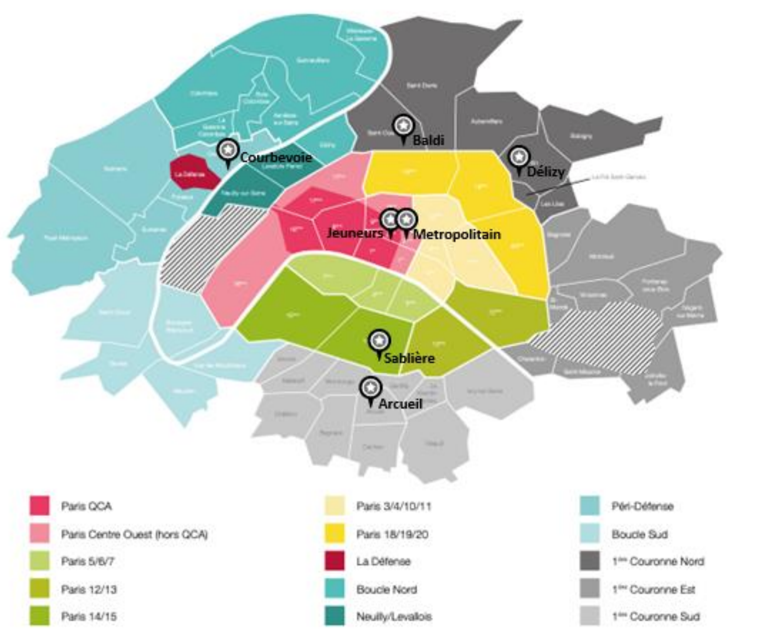
The REIT's portfolio consists almost entirely of office properties and has no exposure to hospitality and immaterial exposure to retail or other industries that have suffered the most negative impacts of COVID-19. Our typology of assets and on site activities does not seem to suffer from a durable shift to remote work.

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 December 31, 2020, 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")

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)

Investment Market France

Given the responsive measures taken by central banks, and the European Central Bank ("ECB") in particular, interest rates are expected to continue to remain low for even longer than initially anticipated. The secure real estate risk-to-yield ratio has a clear advantage over other asset categories providing a safe haven asset status. Nevertheless, lockdown and COVID-19 pandemic constraints such as travel restrictions and business closures have had an impact on investment. After a decline between Q1 and Q2 2020, investment recovered momentum in the latter part of 2020. Slightly more than CAD$42 billion (including a corporate portfolio) were invested in France across commercial real estate assets. Although this represented a 32% decrease from 2019, the year over year comparison is overstated because 2019 which was a record year for investments which then preceded a year of global uncertainty and economic downturn. 2020 investment volumes were slightly higher than the 10-year average (CAD$37 billion).

[1] Sources: JLL Investment market overview

With the banks being more selective, large single unit investments have been affected. Some investors have resorted to financing transactions with their own equity. The average size of transactions has declined in value from CAD$67 million to CAD$58 million as well as in volume. Transactions valued at greater than $150 million still represented more than half of total investment volume. Questions related to the COVID-19 pandemic and its work from home consequences have led to a certain caution on the part of the office market investors. Investors are increasingly selective, with a strong focus on the quality of tenants, remaining lease term and tenancy schedule. Despite this causing a decrease in volumes, offices have remained the preferred asset category for investors. Industrial, logistics and retail sectors have benefited from merger portfolio acquisitions, recording respectable levels of investment. Despite high prices, investors have an appetite for securing defensive assets.

Domestic investors are predominantly institutional investors, such as insurance companies, represented two thirds of investment volumes in 2020. Although the current outlook is less favourable given the lack of clarity and pandemic related travel restrictions, some foreign investors continue to invest in the French market. Travel barriers are preventing non-European investors from investing their capital. Assets requiring value creation are now subject to a new level of pandemic-related risk assessment. For some assets this leads to a repricing. Nevertheless, given the major investments made by sovereign wealth funds, pension and investment funds, insurers and SCPIs, the office market remains well positioned.

Although some sectors are experiencing price adjustments, the 2021 forecast remains optimistic. A high level of investment is expected, particularly from equity investors such as pension funds insurance companies and sovereign funds. The abundant liquidity awaiting investment and track the risk premium together constitute essential investment market drivers, despite the tightening of financing conditions.

Office Market France

An uncertain economic situation, lack of visibility and successive waves of the COVID-19 pandemic have affected businesses in the Paris region. Traditional real estate occupancy drivers such as new jobs and companies have been impaired. Some tenants are challenged in planning their real estate projects as the priority focus is on new operational complexities. Although the need to optimise space, master costs and modernise workplaces continue to drive demand, transaction volumes are being held back by the grey market (lease renegotiations, co- working, etc.). Despite two large scale transactions, leasing volume in 2020 was at an historic low, totalling 14.2 million sq.ft. of space leased (-45% year-over-year).

Large tenant moves have been put on hold as there has been a focus on conserving cash. However, the need to comprehensively redefine real estate strategies in order to optimise costs and take into account increased reliance on working from home has led to extended negotiation time frames. Only 21 transactions were recorded in 2020, versus an annual average of 70. The small and medium sized segment (<50,000 sq.ft) has proven more resilient to the crisis. 2020 leasing take-up totalled 10 million sq.ft. which represents a -39% year-over-year reduction in transactions (-35% compared with the 10-year average). Although transactions decreased across all geographic areas, a number of regional disparities are clear. Performance suffered most in Paris Centre West (-43% compared with the 10-year average), the Western Crescent (-42%) and La Défense (-40%).

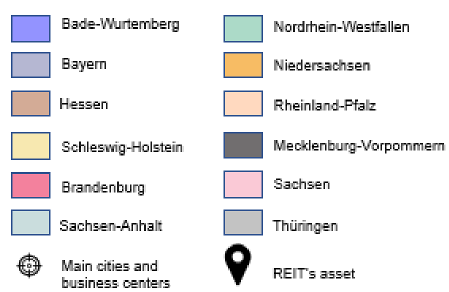
Average prime rents in the Paris region remain stable although the expectation for owner incentives continue to increase. On average, incentives in the Paris region now represent 21.3% of headline rent for transactions > 10,000 sq.ft. Incentive increases are affecting all geographic areas, across all surface areas (medium and large transactions). In the coming months, pressure to drop headline rents may intensify, particularly in business districts where incentives are already high (reaching 30%). Given the scarcity of vacant space, prime rent in highly sought-after markets should prove resilient. However, tenants' increasingly high expectations in terms of quality of space and services offered could deepen the rent divide between different assets.

The office market rebound is dependent on the deployment and efficacy of vaccinations and the French economy's return of growth. Initial signs of improvement are expected in the latter half of 2021, even if a return to normal business is further deferred to 2022. Although rent renegotiations remain a powerful alternative to relocating, office market demand is expected to continue to be driven by companies seeking to consolidate office space and reduce operating costs. Pressure to drop headline rent in some business districts with abundant high quality space (such as La Défense) could generate opportunities for tenants seeking value for money. The evolution of hybrid working-from-home modes has had an impact on the business environment but the office's role as a business' brand image and the facilitator of social interaction, belonging, innovation and creativity is enduring.

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

JLL Real Estate Research has forecast a solid cash investment in real estate markets in 2021. The overall optimistic sentiment is that the general economic data will improve in the second half of the year to such an extent that companies will resume relocation and expansion plans. The economic stimulus packages on both sides of the Atlantic are expected be scaled back as the spread of infections is contained. Nevertheless, central banks are predicted to keep interest rates at the current very low levels because a sustained economic stabilization must first take hold in order to prevent setbacks.

German investment market activity, which was already evident at the end of the third quarter, continued into the last three months of the year. The total real estate transaction volume in 2020 amounted to about CAD$127 billion (including residential) and was therefore only 11% lower compared to the previous year. Although the transaction volume for the period from October to December amounted to CAD$36 billion, accounting for over 28% of the annual figure, it did not come close to the volumes achieved in the fourth quarter of 2019 or the first quarter of 2020, both of which were unaffected by the pandemic. It is noteworthy that more deals were generated in 2020 compared to 2019, with over 1,700 single-asset and portfolio transactions. The average invested volume therefore remained at a constant level of around CAD$75 million. Even though prices continue to rise, core real estate investments have had sufficient buyer demand. Redevelopment projects and core plus products have been having more difficultly attracting buyers due to pandemic-related risk assessments. Banks have been imposing higher equity requirements and demanding corresponding pre-leasing rates for projects. The pre-leasing expectations have been increasingly difficult to achieve the current circumstances.

The last three months of 2020 also brought few changes to yields, with still only isolated cases of rising returns. This mainly concerns the sectors and areas where, because of the pandemic, there is a risk of rental loss, resulting in potential value adjustments. The average office prime yield stood at 2.81% by the end of 2020 and is therefore 12 basis points lower compared to the end of 2019. In all strongholds except Berlin, the peak values fell slightly again in the past twelve months and reflect investor demand for fully let core properties. We do not see an upward trend here either for 2021. On the contrary, if demand remains high, yields could even fall by another 10 basis points. As expected, logistics properties registered the biggest jump in yields in 2020. In a 12-month comparison, the yields fell by 37 basis points to an average of 3.38% across all Big 7 regions, with a further decline expected in 2021.

Overall, the property investment market survived 2020 largely unscathed in spite of the crisis. External financing has become more challenging, and banks are forced to withhold more capital to provide for greater levels of risk. This reduces the potential to finance particularly risky commitments. With regard to investor demand, the differentiation that has already begun between asset classes, as well as within asset classes when considering the individual risk of an investment, will continue in 2021. But thanks to the high capital pressure and the low level of interest rates, investors will continue to seek investment opportunities in the German real estate market.

Office Market Germany

There is widely held confidence that Germany's office market will pick up greater momentum over the course of 2021 due to the stimulus packages, an accommodating long-term monetary policy adopted by central banks as well as successful implementation of effective vaccines.

Following the record year of 2019, the prevailing uncertainty about the development of the pandemic led to a 36% decline in new leasing (23.3 million sq.ft.) in a year-over-year comparison. The markets nevertheless remain intact, rents are stable, and the increase in vacancies only has been moderate. Many previously postponed lease negotiations are expected to be reactivated. The pre-COVID-19 period was dominated by extremely low vacancy rates and massive excess demand for premium office premises. This situation was beneficial in that vacancies did not increase dramatically during the pandemic either, and good space was in short supply. The average vacancy rate in the top 5 markets came in at a mere 3.9% at year-end 2020. The office space pipeline for 2021 includes around 21 million square feet at present.

Of the 19.4 million sq.ft to be built in 2022, 35% has already been pre-leased. It is nevertheless foreseeable that some tenants will have to relinquish space or sublet in the near future. In anticipation of greater demand for office space next year, modern office premises in established locations in Germany's office centres are expected to command rents that are stable or in in a slight higher, both in terms of prime and average rents. Tenants are willing to pay the prices asked for superior quality in good locations although it is also possible that tenant inducements will be requested on a moderate scale. In 2021, there will be significantly higher take-up in Germany's five largest office markets compared with the year-earlier level.

It has not been entirely practical for most companies to have office-workers working from home this past year. However, the collective experience of enforced remote working has massively accelerated many trends that will shape the return to the office in 2021. Employees will increasingly expect flexibility. Companies will have to solve technical as well as organizational challenges and invest in a contemporary, technology-supported office infrastructure. Physical office premises have been shown to be more practical and efficient in promoting spontaneous communication. Open plan office design is expected to remain on trend. In competition with remote working, well-being aspects may influence the decision favouring the office. Contemporary properties that promote the health and well-being of occupiers will increasingly be the preferred choice. The prestige of office space is still important in creating corporate identity externally vis-à-vis the customers and internally as well. Having a uniform design will be increasingly desirable. The location is also part of this image which will put steady pressure on these prime locations.

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. 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.

Given the persistent discount between the REIT's Unit trading price, the net book value per unit, and the Board and management's view of the REIT's intrinsic value, in October 2020, the trustees concluded that it would be in the best interests of the REIT and the unitholders to conduct a complete strategic review of its business and organization. The REIT established a Special Committee early in Q4 to review and evaluate a wide range of strategic alternatives to enhance Unitholder value.

OUTLOOK

The REIT cannot factor into its outlook the impact of the worldwide pandemic that has disrupted the global economy and trade since March 2020. Although population vaccination got underway in early 2021, it is still difficult to determine the full measure of economic and social impact on France and Germany overall.

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 Special Committee will communicate the conclusions of their review process and strategic review, whose outcome will set the course for the REIT for the near future, by mean of dedicated press releases.

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 December 31, 2020 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%	73,652	11%	50,407	11%	1	100%	100.0%	2.7
Courbevoie	100%	36,554	5%	95,903	3%	5	43%	45.0%	5.0
Sablière	100%	36,243	5%	41,043	6%	7	100%	100.0%	2.4
Baldi	100%	36,399	5%	123,657	6%	9	70%	79.5%	3.0
Metropolitain	100%	101,401	14%	78,818	10%	7	100%	100.0%	5.3
Arcueil	100%	150,106	21%	334,521	28%	1	100%	100.0%	2.2
Délizy (1)	50%	20,527	2%	71,617	3%	19	79%	80.9%	4.0
Subtotal France		**454,882**	**65%**	**795,966**	**67%**	**49**	**86.7%**	**86.7%**	**3.0**
Trio	94,9%	72,953	10%	193,487	10%	7	87%	87.0%	4.5
Bad Homburg	100%	33,910	5%	109,104	3%	6	93%	97.3%	1.7
Duisburg (1)	50%	44,177	6%	108,960	6%	1	88%	87.5%	7.0
Cologne (1)	6%	2,268	< 1%	3,930	< 1%	1	100%	100.0%	4.9
Stuttgart (1)	50%	38,518	5%	121,416	6%	4	98%	98.4%	3.5
Arrow - Neu-Isenburg (1)	50%	32,087	5%	67,334	4%	6	98%	97.8%	2.9
Kösching (1)	50%	22,663	2%	53,058	3%	1	100%	100.0%	6.9
Subtotal Germany		**246,576**	**35%**	**657,289**	**33%**	**26**	**92.4%**	**92.9%**	**4.3**
Total - France and Germany		**701,458**	**100%**	**1,453,255**	**100%**	**75**	**89.3%**	**90.3%**	**3.6**
IP Portfolio		**541,218**	**77%**	**1,026,940**	**71%**	**43**	**88.0%**	**89.3%**	**3.1**
JV Portfolio		**160,240**	**23%**	**426,315**	**29%**	**32**	**92.7%**	**93.4%**	**4.2**

(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, populated with small tenants, has had a notable impact from the closures resulting from COVID-19 and the temporary lockdown of the French economy. The effect, while challenging does not have a material effect on the REIT's results. Credit notes have been issued against lease maturity extensions, impacting 2020 rental revenue. Two new leases have been signed at Metropolitain (of which one is effective January 1, 2021) with higher rental value, securing a 100% occupancy for 5.3 years (without an early break option). Rental revenue is thus anticipated to increase in the coming years.

The Bad Homburg property, now 100% owned by the REIT is presented for its full fair value but the 2020 revenue is considered for only 50% from January to acquisition date, at the end of October 2020.

With the REIT investing its available cash in the coming months, notably in Germany through the buy-back of joint ventures, and with the potential future sale of identified assets in France (Courbevoie), the portfolio value will become more evenly allocated between France and German investments. This rebalancing 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 December 31, 2020, the REIT had 43 tenants across the IP Portfolio compared to 32 tenants as at December 31, 2019 and 75 tenants across the Total Portfolio compared to 70 tenants at December 31, 2019.

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	31.2%	2.20
The Lorenz Bahlsen Snack-World	Food and beverage	6%	86,501	81,870	9.0%	5.00
Rue Du Commerce	E-commerce	5%	51,926	51,926	5.7%	1.00
CNAM	Education & Training	11%	50,407	49,543	5.4%	2.67
Fresenius	Health care	4%	44,942	41,611	4.6%	3.08
Top 5 tenants		**60%**	**568,297**	**509,908**	**55.9%**	**2.64**
Other tenants	Diversified	40%	334,982	306,469	33.5%	3.89
Vacant			123,661	97,776	10.6%	
IP Portfolio		**100%**	**1,026,940**	**914,155**	**100.0%**	**3.11**

(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	26%	334,521	284,958	21.9%	2.20
Daimler AG	Manufacturer	5%	109,136	100,486	7.7%	3.42
The Lorenz Bahlsen Snack-World	Food and beverage	5%	86,501	81,870	6.3%	5.00
Hitachi Power	Manufacturer	5%	82,800	78,138	6.0%	7.00
Arrow Central Europe	E-commerce	4%	55,639	51,717	4.0%	2.50
Top 5 tenants		**45%**	**668,597**	**597,169**	**45.9%**	**3.44**
Other tenants	Diversified	55%	629,231	579,319	44.4%	3.80
Vacant			155,427	127,024	9.7%	
Total Portfolio		**100%**	**1,453,255**	**1,303,512**	**100.0%**	**3.62**

(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 year ended December 31, 2020 was as follows:

	Occupied space (sq. ft.)									
Asset	***January 1, 2020***	***Acquisition / Disposition***	***New leases***	***Lease Expiries***	***Other changes***	***December 31, 2020***	***Occupancy rate***	***Commited space (sq. ft)*** [(1)]	***Total space (sq. ft)***	***Committed occupancy***
France	630,527		7,874	-5,138		633,263	87.4%		633,263	87.4%
Germany	179,299	101,903	3,398	-14,148		270,442	89.2%		270,442	89.2%
Total IP Portfolio	**809,826**	**101,903**	**11,272**	**- 19,286**	**-**	**903,705**	**88.0%**	**-**	**903,705**	**88.0%**

On a proportionate share basis, including the results of our equity-accounted joint ventures at our proportionate ownership interest, our operating metrics by geography as at December 31, 2020 are as follows:

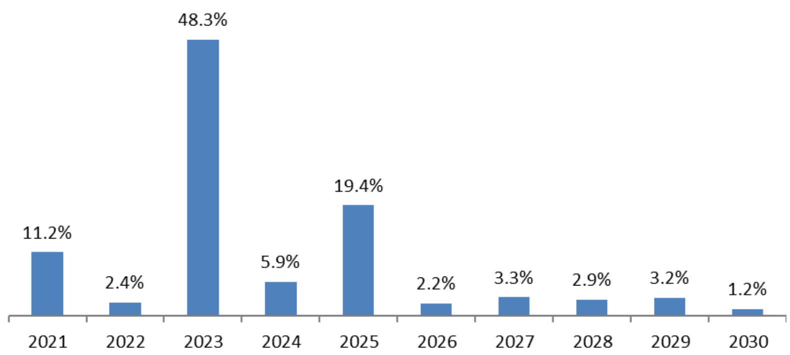
	Occupied space (sq. ft.)									
Asset	***January 1, 2020***	***Acquisition / Disposition***	***New leases***	***Lease Expiries***	***Other changes***	***December 31, 2020***	***Occupancy rate***	***Commited space (sq. ft)*** [(1)]	***Total space (sq. ft)***	***Committed occupancy***
France	684,644		10,683	-5,138		690,189	86.7%		690,189	86.7%
Germany	578,919	50,952	7,130	-29,419		607,582	92.4%		607,582	92.4%
Total Portfolio	**1,263,563**	**50,952**	**17,813**	**- 34,557**	**-**	**1,297,771**	**89.3%**	**-**	**1,297,771**	**89.3%**

New leases signed during the quarter**:**

- On the Metropolitain property, management secured the 100% occupancy rate by leasing the 6,770 sq. ft. vacant area to an existing tenant effective January 1st, 2021. The lease has been contracted for six years with additional annual rental income of CAD$87 compared to the previous lease.
- On the Baldi property, a small surface of 388 sq.ft. has been leased for nine years, with break option every 3 years.
- On the Delizy property, a non-profit local organization took 732 sq.ft. of vacant area for six years, at a rental value above market value defined by external valuators.

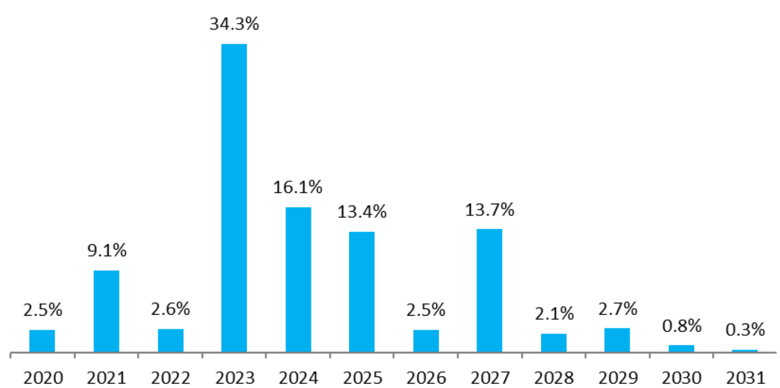
LEASE MATURITIES

Lease Maturity Profile as at December 31, 2020
IP Portfolio
(% of total GLA)



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

Lease Maturity Profile as at December 31, 2020
Total Portfolio
(% of total GLA)



Including the joint venture properties, the average remaining lease term is 3.6 years (2.9 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 2.5% of GLA expiring in 2020 represents the tenant AAM in the Bad Homburg property, which lease terminated on December 31, 2020. Leasing activity for this vacancy is underway with several ongoing negotiations.

CONSOLIDATED FINANCIAL INFORMATION

(in thousands of CAD$)	Three months ended December 31, 2020	Three months ended December 31, 2019	Twelve months ended December 31, 2020	Twelve months ended December 31, 2019
Rental revenue	7,706	6,261	28,858	25,524
Property operating cost recoveries	1,935	1,843	6,850	7,966
Property operating costs	(1,870)	(1,706)	(8,889)	(10,586)
Other revenues	39	38	59	447
Other property operating expenses	(49)	(57)	(278)	(362)
Net rental income	**7,761**	**6,379**	**26,600**	**22,989**
General and Administration expenses	(2,126)	(1,789)	(7,864)	(6,548)
Foreign exchange gain (loss)	(159)	5	2,460	-
Net change in fair value of investment properties	(6,083)	12,233	(7,431)	16,722
Loss on disposal of investment properties		-	-	(56)
Gain on acquisition of subsidiary	207	-	207	-
Acquisition costs	-	-	-	-
Share of net income (loss) from joint ventures	(4,681)	10,897	(6,524)	11,782
Operating earnings	**(5,081)**	**27,725**	**7,448**	**44,889**
Net change in fair value of Financial derivatives	768	2,358	1,166	815
Net change in fair value of Exchangeable securities	(1,521)	(174)	1,154	(871)
Net change in fair value of Promissory Notes	(1,421)	(944)	12,730	(5,438)
Finance income	885	2,105	6,620	8,848
Finance costs	(2,410)	(2,416)	(9,972)	(10,191)
Distributions on Exchangeable securities	(223)	(180)	(825)	(708)
Income before income taxes	**(9,003)**	**28,474**	**18,321**	**37,344**
Current income tax expense	(4,082)	(1,543)	(4,098)	(1,733)
Deferred income tax recovery	4,109	3,224	3,990	920
Total income tax recovery (expense)	**27**	**1,681**	**(108)**	**(813)**
Net income (loss)	**(8,976)**	**30,155**	**18,213**	**36,531**
Non-controlling interest	(24)	61	17	82
Net income (loss) attributable to the Trust	**(8,952)**	**30,094**	**18,196**	**36,449**

SELECTED THREE-YEAR ANNUAL INFORMATION

	For the year ended December 31,				
(in thousands of CAD$)	2020	2019	2018	2020 vs. 2019	2019 vs. 2018
Rental revenue	28,858	25,524	25,434	3,334	90
Finance income	6,620	8,848	7,775	(2,228)	1,073
Net income	18,213	36,531	15,605	(18,318)	20,926
Net income attributable to the Trust	18,196	36,449	15,461	(18,253)	20,988

DISCUSSION OF FINANCIAL PERFORMANCE

Net rental income

Net rental income for Q4 2020 was CAD$7,761 compared to CAD$6,379 for Q4 2019.

For the year-ended December 31, 2020, the net rental income increased by CAD$3,611, to CAD$26,600.

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$2,900. 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 Q4 2020 and Q4 2019 is set out below.

	For the three months ended December 31			Year ended December 31		
In Canadian dollars (in thousands)	**2020**	**2019**	**Variance**	**2020**	**2019**	**Variance**
Net rental income	7,761	6,379	1,382	26,600	22,989	3,611
IFRIC 21 impact	(651)	(861)	210	-	-	-
Adjusted net rental income - IFRCI 21 (1)	7,110	5,518	1,592	26,600	22,989	3,611

	For the three months ended December 31			Year ended December 31		
In Euros (in thousands)	**2020**	**2019**	**Variance**	**2020**	**2019**	**Variance**
Net rental income	5,008	4,357	651	17,388	15,478	1,910
IFRIC 21 impact	(428)	(577)	149	-	-	-
Adjusted net rental income - IFRCI 21 (1)	4,580	3,780	800	17,388	15,478	1,910

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

Adjusted net rental income for Q4 2020 increased by CAD$1,592 compared to the same period last year, mainly attributable to net impact of Arcueil acquisition and Vanves sales (CAD$600), Bad Homburg acquisition (CAD$389), indemnity of CAD$275 on the Jeuneurs property embedded in rental income, as well as the positive foreign exchange impact of CAD$302.

For the year ended December 31, 2020, the increase in net rental income adjusted for IFRIC 21 was CAD$3,611 compared to the year ended December 31, 2019. The increase related primarily to the net impact of the acquisition of Arcueil and the sale of Vanves (+CAD$2,890), the acquisition of Trio property (+CAD$828) and Bad Homburg Property (CAD$389) and the positive foreign exchange impact of CAD$690, offsetting the Courbevoie vacancy since Q3 2019 (-CAD$1,335).

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:

	Year ended December 31,		
	2020	**2019**	**Variance**
Asset management fees – Inovalis SA	(3,117)	(3,138)	21
Less: amount reinvoiced to joint ventures	1,288	1,512	(224)
	(1,829)	**(1,626)**	**(203)**
Professional fees for accounting, tax and audit	(2,985)	(2,253)	(732)
Legal expenses	(727)	(901)	174
Trustee fees	(692)	(318)	(374)
Travel expenses	(22)	(298)	276
Office rent	(71)	(63)	(8)
Governance expenses	(142)	(123)	(19)
Bank expenses	(116)	(107)	(9)
Other general and administrative expenses	(1,280)	(859)	(421)
Total G&A expenses	**(7,864)**	**(6,548)**	**(1,316)**

G&A expenses for the Q4 2020 amounted to CAD$2,126 compared to CAD$1,789 in Q4 2019. Asset Management fees remained stable with a small increase of CAD$55 while other G&A expenses increased by CAD$280.

Other G&A expenses for the year-ended December 31, 2020 amounted to CAD$7,864, a year-over-year increase of CAD$1,316, mainly attributable to the following costs related to specific projects:

- Conversion of the Luxembourg holding company into a regulated SIF structure: CAD$437
- Professional fees for the reorganization of the REIT's finance function: CAD$400
- Strategic review: CAD$290

Net change in fair value of investment properties

The loss of CAD$7,431 in the fiscal year 2020 in net change in fair value of investment properties relates principally to the decrease in portfolio value as per external valuations (CAD$3.5million) and the cumulated impacts of capex (CAD$1.9 million) and reduction of rent-free periods (CAD$0.5).

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 loss from joint ventures was (CAD$6,524) for the year ended December 31st, 2020 compared to a gain of CAD$11,782 for the same period in 2019. The variance mainly resulted from vacancy impacting both: the value of assets and rental income on the Duisburg (CAD$13 million) and Delizy assets (CAD$1.5 million).

Net change in fair value of Exchangeable securities

Exchangeable securities are a liability recorded at fair value based on the market price of the REIT's Units, thus 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$8.94 on December 31, 2020 compared to $10.66 at close of December 31, 2019, resulting in a gain of CAD$1,154 in the net change in fair value of exchangeable securities throughout fiscal-year 2020.

The REIT's Unit price continued to recover over the quarter, resulting in a loss of CAD$1,521 for Q4 2020.

Net change in fair value of Promissory Notes

Promissory notes are a liability recorded at fair value based on the market price of the REIT Units, thus a decrease of the REIT Unit price reduces the value of the liability (see above Unit price at period ends). The promissory notes are convertible into units of the trust through the Put/Call Option agreement related to the notes. In October 2020, the Investor confirmed their intent to exercise the Put Option under the put/call agreement to redeem the outstanding principal amount of the three promissory notes. On November 3, 2020, the REIT issued 2,121,008 units to the Investor. On November 5, 2020, the REIT issued another 2,368,119 units. In total, for the year ended December 2020, the REIT recorded a gain of CAD$12,730, compared to a loss of CAD$5,438 in 2019.

Finance income

In addition to interest on loans granted to joint ventures, in Q4 2020 and Q4 2019, finance income of CAD$885 and CAD$2,105, respectively, consisted mainly of interest earned on the Rueil acquisition loan granted to an Inovalis S.A. subsidiary for the development of the Rueil property and the gain from foreign exchange hedging contracts (CAD$162 for year-end 2020). Interest earned on the acquisition loan balance in Q4 2020 was CAD$107, compared to CAD$664 in 2019. The loan was fully repaid in November 2020.

For the year-ended December 31, 2020, finance income decreased by $2,228 from the year-ended December 31, 2019 to $6,620. The decrease mostly comes from recognizing less interest on acquisition loan (-$1,377) due to repayment of the principal throughout the year, and the gain on the foreign exchange contract (-$768).

Finance costs

The finance costs in Q4 2020 were $2,410 compared to $2,416 in Q4 2019, which included $1,178 related to interest on mortgage loans and lease liabilities, $682 related to promissory notes (converted into units of the REIT in November 2020) and $550 related to derivative interests and other financial costs.

The full year finance costs were CAD$9,972, stable compared to the same period last year, and included CAD$4,811 related to interests on mortgage loans and lease liabilities, CAD$3,392 related to promissory notes, and CAD$1,769 due to derivative interest and other financial costs.

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 Q4 2020 the distributions on exchangeable securities were CAD$223 compared CAD$180 in Q4 2020.

For the year-ended December 31, 2020, the distribution on exchangeable securities amounted to CAD$825, compared to CAD$708 in 2019.

Current and deferred income tax expense

The current income tax expense for 2020 includes the tax following the sale of SCCV Rueil property for an amount of CAD$4,069. The current income tax expense for 2019 included the withholding tax on dividend distribution following the sale of the Vanves property for an amount of CAD$1,543.

The deferred income tax recovery for 2020 amounts to CAD$3,990 and is a result of the exercise of the call option by CanCorp Europe (Luxembourg holding company) to acquire 20% of the shares in SCCV Rueil. For 2019 deferred income tax recovery was mainly driven by the sale of the Vanves property and amounted to CAD$920.

SELECTED BALANCE SHEET INFORMATION

	As at December 31,				
	2020	2019	2018	2020 vs. 2019	2019 vs. 2018
Total assets	712,089	710,206	618,241	1,883	91,965
Fair value of investment properties – IP Portfolio	541,218	478,700	421,937	62,518	56,763
Fair value of investment properties – Total Portfolio	701,458	652,013	629,689	49,445	22,324
Investments in joint ventures – carrying value	75,987	100,782	97,604	- 24,795	3,178
Total non-current liabilities	292,817	267,600	229,691	25,217	37,909
Total debt(1)	288,657	308,643	270,949	- 19,986	37,694
Number of Units outstanding	32,400,585	28,742,306	23,513,652	3,658,279	5,228,654

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

Investment Properties

The fair value of the REIT's IP Portfolio as at December 31, 2020 was CAD$541,218 (EUR 347,938) compared to CAD$478,700 (EUR 328,665) at December 31, 2019. The increase of CAD$62,518 is mainly attributable to the Bad Homburg acquisition (CAD$35,057) completed in the fourth quarter and to a foreign exchange adjustment of CAD$32,480, partly offset by the negative change in fair value of Investment properties (CAD$7,431).

Management uses the Direct Capitalization Method ("DCM") to determine the fair value of REIT's properties in France and Germany. Prior to Q2 2020, REIT used the discounted cash flows method to determine the fair values of the German investment properties. This was changed in Q2 2020 and onwards to to align the valuation methodology for the properties in both countries. The values are supported by third party appraisals, 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.

Building improvements

The REIT is committed to improve its operating performance by incurring appropriate capital expenditures to replace and maintain the productive capacity of its Total Portfolio to sustain its rental income generating potential over the portfolio's useful life. Nearly CAD$1 million of capital expenditures has been completed during Q4 2020 and almost CAD$2 million during all of 2020 (mostly on Baldi and Courbevoie buildings) compared to CAD$1,545 in the previous year.

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$75,987 as at December 31, 2020 compared to CAD$100,782 as at December 31, 2019. The decrease mainly resulted from the acquisitions of the Arcueil (CAD$14,405) and the Bad Homburg (CAD$10,176) joint ventures, partially offset by the positive foreign exchange difference of CAD$5,748.

In Q4 2020, the REIT agreed to the buy-back of 50% interest in the "Walpur 4" company owning the Bad Homburg property, from its joint venture partner. The transaction closed on October 27, 2020 and is in line with REIT strategy to buy-back joint ventures to simplify the REIT's ownership structure.

The anticipated sale of Stuttgart property, for which a top-tier international broker had been engaged for the sale in Q3 2020 and a bidder had been granted an exclusivity period, was postponed to Q3 2021. The disposition of this asset will contribute to the REIT's positioning for future opportunistic investments and further simplify its asset ownership structure.

Acquisition loan

The acquisition loan granted in Euros to an Inovalis S.A. subsidiary for the development of the Rueil property has been fully repaid in November 2020, following the hand-over of the building. During the quarter ended December 31, 2020, the REIT received the final repayment of CAD$7,775 (EUR4,998) representing the outstanding principal and interest.

Trade receivables and other financial assets

Trade receivables and other financial assets as at December 31, 2020 amounted to CAD$6,623, compared to the CAD$4,437 at December 31, 2019. The difference mainly comes from the reinvoicing of the property tax on Arcueil property (the receivable was settled in January 2021) representing CAD$742 and from deferred interest payment on the Duisburg and Delizy properties (approximately CAD$760).

The trade receivables alone amount to CAD$3,577 and include both outstanding invoices and accruals, mainly for 2019/2020 operating expense settlements.

Trade and other payables

Trade and other payables as at December 31, 2020 amounted to CAD$11,052 compared to CAD$34,336 at December 31, 2019. The 2019 amount included the balance of the purchase consideration payment to the Arcueil joint venture for the REIT's acquisition of the Arcueil property and other payables to joint venture partners (CAD$13,748) and the VAT due on the Vanves sale (CAD$10,281), which was paid in January 2020.

The trade payables amounted to CAD$4,365 as at December 31, 2020 compared to CAD$6,409 at the end of previous year. End of December 2019 on Arcueil property, suppliers' payments were deferred to finalize the buy-back of the structure, explaining the CAD$1 million trade payables.

Income tax payable

The income tax payable of CAD$4,069 as at December 31, 2020 represented the REIT's share of the income tax 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$80,376 as at December 31, 2020. Available cash is a strength in the current economic conditions and management intends to use it primarily for future investments and for the purchase of its own Units as part of the Normal Course Issuer Bid.

Management has determined that the REIT has the financial resources to sustain its operations for the 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	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Capital management metrics				
Debt-to-book value (3)	42.3%	38.2%	48.4%	45.8%
Debt-to-book value, net of cash (3)	35.0%	29.9%	42.3%	38.7%
Debt due in the next 12 months	13,597	60,693	16,156	79,116
Weighted average term to maturity (in years) (1)	5.41	6.10	4.88	5.30
Weighted average interest rate (1)	2.03%	2.06%	1.95%	2.00%
Interest coverage ratio (2) (3)	3.46	3.17	3.68	3.53

(1) Includes lease liabilities and the mortgage financing.
(2) Calculated as net rental income plus interest, less general and administrative expenses, divided by interest expense on the financial leases and mortgage financings.
(3) 2019 ratio calculations have been updated to ensure comparability with the current year presentation.

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 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	
		December 31, 2020	December 31, 2019 (1)	December 31, 2020	December 31, 2019 (1)
Lease liabilities		130,287	123,878	142,066	135,043
Mortgage loans		157,489	134,360	225,349	206,062
Other long-term liabilities		474	473	474	473
Deferred tax liabilities		13,212	12,295	20,830	20,814
Total debt outstanding	**(A)**	**301,462**	**271,006**	**388,719**	**362,392**
Less : Cash		-80,376	-83,409	-84,189	-91,048
Debt net of cash	**(B)**	**221,086**	**187,597**	**304,530**	**271,344**
Gross book value	(C)	712,089	710,206	803,905	791,632
Gross book value, net of cash	(D)	631,713	626,797	719,716	700,584
Debt to gross book value	**(A) / (C)**	**42%**	**38%**	**48%**	**46%**
Debt to gross book value, net of cash	**(B) / (D)**	**35%**	**30%**	**42%**	**39%**

(1) 2019 figures have been updated to ensure comparability with current year presentation

The increase in debt to gross book value ratio from 2019 to 2020 on the IP Portfolio comes from Bad Homburg mortgage loan, representing 50% of debt-to-book value.

Interest coverage ratio and debt ratio

Interest coverage ratio	Consolidated basis - IP Portfolio		Proportionate share basis - Total Portfolio	
	December 31, 2020	December 31, 2019 (2)	December 31, 2020	December 31, 2019 (2)
Net rental income	**26,600**	**22,989**	**35,553**	**34,783**
Administration expense	-7,864	-6,548	-9,771	-8,722
Interest income	2,665	3,982	2,657	3,982
Total income	**21,401**	**20,423**	**28,439**	**30,043**
Interest expense (1)	-6,186	-6,434	-7,726	-8,503
Interest coverage ratio	**3.5**	**3.2**	**3.7**	**3.5**

(1) Includes interest on mortgage loans, leases liabilities, swap interest and amortization of financing costs.
(2) 2019 figures have been updated to ensure comparability with current year presentation

The variance in the interest coverage ratio for the Total Portfolio is mostly due to the decrease in finance income on Rueil acquisition loan, following the payments in July and November.

Weighted-average interest rate

The weighted average interest rate across the IP portfolio debt is 2.03% and the debt ratio is 42.3% (35% 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% (42% net of cash).

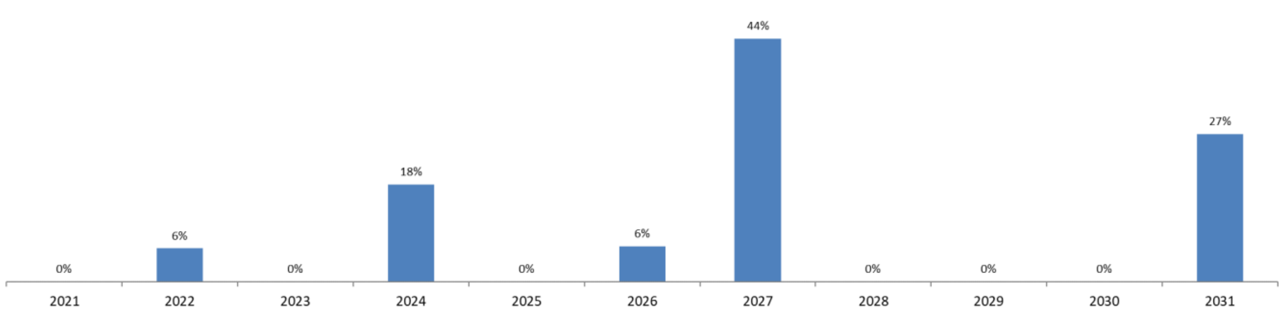
Debt Profile

	Debt profile as at December 31, 2020			
	IP Portfolio		Total Porfolio	
	Nominal Value	%	Nominal Value	%
Lease liabilities	125,556	44%	139,212	38%
Mortgage loans	158,542	56%	226,317	62%
of which : Amortized mortgage loan	*141,276*	*89%*	*153,131*	*68%*
Bullet mortgage loan	*17,266*	*11%*	*73,186*	*32%*
Total	**284,098**	**100%**	**365,529**	**100%**

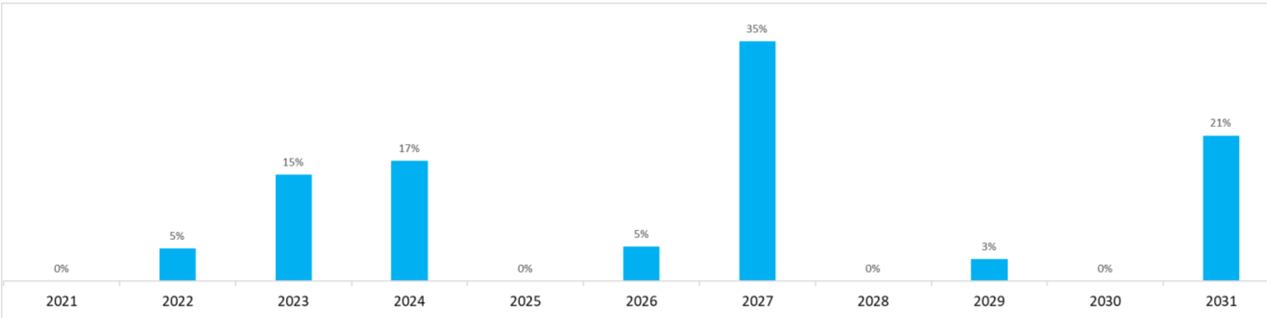
As at December 31, 2020, the REIT debt on its IP Portfolio is composed of 56% mortgage loans and 44% lease liabilities, under contracts expiring from 2022 to 2031.

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 December 31, 2020)



Leasehold and Mortgage Financing Maturity Profile
Total Portfolio
(% of amount outstanding as at December 31, 2020)



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

In France, banks and financial lessors have been encouraged by the French Government's measures to ease the debt service conditions of their clients from the start of the pandemic. The REIT has benefited from debt deferrals on Sablière, Courbevoie, Metropolitain, Baldi, Delizy and Arcueil properties, related to Q2 and Q3 instalments, representing a CAD$6.15 million (EUR4 million) positive impact on the 2020 available cash on the Total Portfolio.

As there were no penalties for these deferrals, it was in the best interests of the REIT to conserve this cash to provide flexibility for future investments.

Equity

Beginning November 2020, following the exercise of its put option, the REIT entirely repaid the three Promissory Notes, delivering a total of 4,489,127 Units.
The fair value of the Promissory Notes (including the Put Option and Call Option) was CAD$35,034 as at the date of issuance of the Units, which was based on the Unit price as at the dates of issuance. The principal outstanding was CAD$45,370 as at the date of issuance. The promissory notes, including the put/call options, were measured at their fair value immediately prior to exercise, meaning that no gain/loss resulted from the issuance of the Units as consideration to repay the Notes. The total gain on the promissory notes, including the put/call option for 2020 was CAD$12,730.

In the consolidated financial statements, the exchangeable securities are classified as a current liabilities under GAAP because of the conversion feature that can be exercised by the holder of those securities.

As at December 31, 2020 the REIT has 32,400,585 Units issued and outstanding, including the ones issued in the above Promissory Notes conversion.

For the quarter and year-ended December 31, 2020, respectively, 258,300 and 989,275 Units were cancelled pursuant to the broker agreement related to the NCIB.

	Three months period ended Dec 31, 2020	Twelve months period ended Dec 31, 2020
Units		
Number at beginning of period	27,995,168	28,742,306
Decrease in number during the period	(83,710)	(989,275)
Increase in number during the period	4,489,127	4,501,938
Units issued pursuant to the DRIP	-	145,616
Number at end of period	32,400,585	32,400,585
Weighted average number during the period	30,755,058	29,176,434
Exchangeable securities		
Number at beginning of period	1,066,925	897,082
Increase in number during the period	46,738	216,581
Number at end of period	1,113,663	1,113,663
Weighted average number during the period	1,066,925	986,565
Promissory notes		
Number at beginning of period	4,492,319	4,494,301
Number at end of period	-	-
Weighted average number during the period	1,710,680	3,794,067
Units, Exchangeable securities and Promissory notes		
Number at beginning of period	33,554,412	34,133,689
Decrease in number during the period	(36,972)	(627,078)
Number at end of period	33,514,248	33,514,248
Weighted average number during the period	33,532,663	33,957,066

Normal course issuer bid

On April 17, 2020 the Toronto Stock Exchange (the "TSX") approved the REIT's intention to make a normal course issuer bid ("NCIB") to acquire up to a maximum of 2,622,412 of its Units, or approximately 10% of its public float as of April 15, 2020 over the next 12 months for cancellation.

The number of Units that can be purchased pursuant to the NCIB is subject to a current daily maximum of 20,890 Units, subject to the REIT's ability to make one block purchase of Units per calendar week that exceeds such limits.

During the twelve months ended December 31, 2020, the REIT repurchased 989,725 Units for CAD$7,500 at a weighted average price of CAD$7.58. For the twelve months ended December 31, 2020, all of the 989,275 Units were cancelled.

The Units repurchased during the twelve months ended December 31, 2020 resulted in a reduction of Units representing the average book value of $8,874 and an increase in retained earnings of $1,374.

Distribution Reinvestment Plan

Until May 2020, the REIT had a Distribution Reinvestment Plan (“DRIP”). Previously, by participating in the DRIP, Unitholders could have cash distributions from Inovalis REIT reinvested in additional Units as and when cash distributions were made with a “bonus” distribution of Units equal to 3% of the amount of the cash distribution reinvested pursuant to the DRIP. In response to the market disruption caused by the COVID-19 pandemic, the REIT suspended its DRIP effective as of the distribution payable on May 15, 2020 to unitholders of record as at April 30, 2020.

Unit-based compensation plan

Effective May 15, 2019, the REIT’s Unitholders approved a Deferred Share Unit (“DSU”) Plan to grant DSUs to its trustees and senior officers and a maximum reserve of 200,000 Units for issuance under the DSU 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 DUs 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 equally one third over each anniversary date from date of grant over three years.

In addition, whenever cash distributions are paid on the REIT’s Trust Units, Additional Deferred Units (“ADU”) shall be granted based on the aggregate number of vested DSUs as at the same date.

As of December 31, 2020, 48,850 DSUs are outstanding and 151,150 DSUs are available for grant under the DSU Plan.

For the year ended December 31, 2020, the REIT recorded an expense of $260 and an increase to the liability for the same amount. The total liability related to the DSU plan as of December 31, 2020 was $307 and was included in Trade and other payables.

Cash Flows

	Three months ended December 31,			Year ended December 31,		
	2020	**2019**	**Variance**	**2020**	**2019**	**Variance**
Cash provided by (used in):						
Operating activities	6,847	12,482	(5,635)	(2,665)	23,494	(26,159)
Investing activities	11,601	77,638	(66,037)	32,996	66,668	(33,672)
Financing activities	(9,923)	(18,546)	8,623	(37,175)	(25,749)	(11,426)
Net change during the period	**8,525**	**71,574**	**(63,049)**	**(6,844)**	**64,413**	**(71,257)**

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 December 31		For the twelve months ended December 31	
	2020	2019	2020	2019
Net cash flows related to operating activities (A)	16,359	12,482	6,847	23,494
Income (loss) before income taxes (B)	(9,003)	28,474	18,321	37,344
Declared distribution on Units (C)	6,369	5,258	24,047	19,905
Excess (shortfall) of cash flows from operating activities over cash distributions paid (A-C)	9,990	7,224	(17,200)	3,589
Excess (shortfall) of profit over cash distributions paid (B - C)	(15,372)	23,216	(5,726)	17,439

As quantified in the FFO and AFFO calculations, the funds required to make the distributions on Units, for the three months ended December 31, 2020, i.e. CAD$6,396, were slightly above the FFO (CAD$5,631) for the quarter.

		Note	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Total YTD Q4 2020
Weighted average number of units (diluted)		*(1)*	34,165,136	34,306,016	33,830,501	33,532,663	33,957,066
Theoretical distribution per unit (in CAD)		*(2)*	0.21	0.21	0.21	0.21	0.83
Theoretical distribution (in '000 CAD)	(1) x (2)	*(3)*	7,047	7,076	6,978	6,916	28,017
Actual FFO per units (in CAD)		*(4)*	0.16	0.16	0.19	0.17	0.68
Distribution funded by AFFO (in '000 CAD)	**(1) x (4)**	*(5)*	**5,466**	**5,489**	**6,393**	**5,701**	**23,049**
Shortfall over distribution	**(3) - (5)**		**(1,581)**	**(1,587)**	**(585)**	**(1,215)**	**(4,968)**

For the year 2020, the shortfall of CAD$4,968 over the annual FFO was funded out of the CAD$20,001 profit resulting from the disposition of the Vanves asset in December 2019.

Contractual Obligations

		Twelve months ending December 31,					
	Contractual Cash Flows (1)	2021	2022	2023	2024	2025	Thereafter
Interest-bearing loan	510	36			474		
Lease equalization loans	371	371					
Mortgages – principal payments	39,183	4,355	4,641	4,523	4,945	4,417	16,303
Mortgages -maturities	119,359		17,266		46,105		55,987
Lease liabilities	125,556	6,881	6,933	6,511	6,923	6,987	91,321
Exchangeable securities	9,945	9,945					
Accounts payable	11,052	11,052					
Income tax payable	4,069	4,069					
Total	**310,045**	**36,709**	**28,840**	**11,034**	**58,447**	**11,404**	**163,611**

(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 December 31, 2020:

	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 year ended December 31, 2020.

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:

	December 31, 2020		December 31, 2019	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial assets				
Loans to Joint Ventures	40,531	40,531	45,489	45,489
Acquisition Loan	-	-	24,744	24,744
Financial liabilities				
Mortgage loan	159,462	157,489	150,823	134,360
Lease equalization loans	371	371	2,019	2,019
Tenant deposits	2,499	2,499	2,504	2,507

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

- The fair value of the acquisition loan is estimated using the nominal amounts expected to be received at maturity and a discount rate based on prevailing market interest rates adjusted by an internally determined credit spread.
- The fair value 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 Promissory Notes were based on the quoted price of the REIT's Units, on the basis that they were convertible to Units at the request of the Note holders, and upon maturity of the underlying notes.

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. On December 31, 2020, 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 (2019 – 83 %, added to 17% of fixed interest rate).

As at December 31, 2020, a 50 basis point increase in interest rates would decrease the REIT's annualized profit by CAD$321 (2019 – a decrease of $223). Please refer to Note 27 of the Financial Statements.

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. Refer to Note 27 of the consolidated financial statements for a summary of the foreign exchange contracts in place.

Contracts Maturing by Quarter	Hedge Value ('000 EUR)	Weighted average hedging rate
Q1 2021	3,612	1.495
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
	26,151	

As at December 31, 2020, under the new forward currency exchange contract, the REIT was committed to sell EUR1,206 at rate of 1.4929 and to receive CAD$1,800 for January 2021. This two-year hedging program will secure the REIT to receive CAD$1,800 on a monthly basis at an average rate of 1.5144 until October 2022. Volumes and agreed-upon exchange rates are listed in the above table.

As at December 31, 2020 and 2019, a 10% change in the value of the Euro relative to the Canadian dollar would have the following impact on financial results:

December 31, 2020	**% change**	**Net income**	**OCI**	**Total**
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
December 31, 2019				
Impact in the event of an increase in the value of the Euro/CAD$	10%	4,906	(13,792)	(8,886)
Impact in the event of an increase in the value of the Euro/CAD$	-10%	(4,906)	13,792	8,886

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 December 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 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.

Most European locations, including cities regions where the REIT's assets are located, implemented 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, some of which measures 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.
- 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 nearly 56% 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 2021 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 has now been published and will be applicable as of January 1, 2020. Dividend distributions made by OPCI to Luxco and Arcueil SI will be 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. The restructuring is expected to be completed in the first quarter of 2020. 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 and INOPCI2 which are OPCI (collective undertaking for real estate investment) to CCE and Arcueil SI Sarl, respectively.

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) that is tax transparent for Luxembourg corporate income tax purposes, i.e. all the income and expenses are deemed to be realized directly by the partners. Although CCE holds 25% of the partnership interest, the income and expenses will be allocated to CCE from a Luxembourg tax perspective pursuant the terms of the joint venture agreement.

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 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

In preparing the REIT's Consolidated Financial Statements, management is required to make subjective estimates and assumptions that affect the reported amount of assets, liabilities, net income and related disclosures. Uncertainty about these estimates could result in outcomes that require a material adjustment to the carrying amount of asset or liability affected in future periods.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are presented below:

Business combination

The REIT performs an assessment of each acquisition of investment property to determine whether the acquisition is to be accounted for as an asset acquisition or business combination.

Accounting for business combinations under IFRS 3, *Business Combinations* ("IFRS 3") only applies if it is considered that a business has been acquired. Under IFRS 3, a business is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues.

For each transaction, the REIT may elect to apply the concentration test under IFRS 3 to determine if the fair value of gross assets acquired is substantially concentrated in a single asset (or a group of similar assets). If this concentration test is met, the acquisition is qualified as an acquisition of a group of assets and liabilities and not of a business.

If the concentration test is not met, or if the REIT elects not to apply the test, the REIT then performs the detailed assessment whether the transaction is an acquisition of a business or of assets. The purchase of investment properties is classified as a business acquisition on the basis that it involves the acquisition of leasable space (inputs), management processes to lease that space to tenants and leasing arrangements with tenants that generated rental income (processes). In the absence of such criteria, a group of assets is deemed to have been acquired. When the acquisition does not represent a business combination, it is accounted for as an acquisition of a group of assets and liabilities.

Joint arrangements

The joint arrangements are separately incorporated. The REIT has, after considering the structure and form of the arrangement, the terms agreed by the parties in the contractual arrangement and the REIT's rights and obligations arising from the arrangement, classified its interests as joint ventures under IFRS 11, *Joint Arrangements* ("IFRS 11"). As a consequence, it accounts for its investments using the equity method. The classification of joint arrangements in accordance with IFRS 11 may require the judgment of management, particularly if there are several agreements related to the joint arrangements.

Valuation of investment property

The fair value of investment properties is determined by real estate valuation experts using recognized valuation techniques and the principles of IFRS 13 *Fair Value Measurement.*

Investment properties are measured based on estimates prepared by independent real estate valuation experts, except where such values cannot be reliably determined. The significant methods and assumptions used by valuators in estimating the fair value of investment properties is set out in Note 7.

Deferred tax liabilities

The deferred tax liabilities correspond to the deferred tax expense relating to the origination of temporary differences arising from the unrealized gains on investment properties located in France and Germany.

The Double Taxation Treaty between France and Luxembourg was ratified on July 2, 2019. As the instruments of ratification have been exchanged between the two countries, the new Double Taxation Treaty ("DTT") came into effect on January 1, 2020.

The increase in tax rates may have a significant impact on the REIT. Management is in the process of restructuring the Luxembourg holding company into a regulated entity that would be subject to the reduced rate of 15% under the DTT (instead of 28% in 2020, 26.5% in 2021, and 25% as from January 1, 2022). Deferred income tax liabilities are based on the rate of 25% and the assumption of the distribution of 50% of the INOPCI 1's net profits arising from capital gains upon the disposition (which results in an effective rate of 12.5%). The REIT will be using 25% rate until the Luxembourg holding company conversion is completed. Regulatory approval is required to convert into a SIF and there is no guarantee that such approval will be obtained.

Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

COVID-19

The outbreak of COVID-19, which the World Health Organization has declared to constitute a pandemic, has impacted global commercial activity and contributed to significant volatility in certain equity and debt markets. The extent and duration of the impact of COVID-19 on communities and the economy remains unclear. In the preparation of these consolidated financial statements, the REIT has incorporated the potential impact of COVID-19 into its estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amount of earnings for the reporting period using the best available information as of December 31, 2020. Actual results could differ from those estimates. The estimates and assumptions that the REIT considers critical and/or could be impacted by COVID-19 include those underlying the valuation of investment properties, the valuation of its investments in joint ventures, the estimate of any expected credit losses on amounts receivable including loans to joint ventures, and determining the fair values of derivative financial instruments.

New accounting standards adopted

The REIT applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020.

i) Amendments to IFRS 16, Leases – Covid-19 Related Rent Concessions:

On May 28, 2020, the IASB amended IFRS 16 to provide lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at May 28, 2020. The REIT decided to early adopt this amendment beginning June 30, 2020 and has applied the practical expedient provided by this amendment to all rent concessions that meet its conditions.

ii) Amendments to IAS 1, Presentation of Financial Statements ("IAS 1") and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") – Definition of Material:

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the REIT.

iii) Amendments to IFRS 7, *Financial Instruments: Disclosures* ("IFRS 7"), IFRS 9, *Financial Instruments* ("IFRS 9") and IAS 39*, Financial Instruments: Recognition and Measurement* ("IAS 39") – Interbank Offered Rate (IBOR) Reform:

The IASB published Phase 1 of its amendments to IFRS 7, IFRS 9, and IAS 39 in September 2019 to provide relief from the potential effects of the uncertainty arising from Interbank Offered Rate (IBOR) reform, focusing in particular on the period prior to replacement of interbank offered rates. These amendments modify hedge accounting requirements, allowing the REIT to assume that the interest rate benchmark on which the cash flows of the hedged item and the hedging instrument are based are not altered as a result of IBOR reform, thereby allowing hedge accounting to continue. Mandatory application of the amendments ends at the earlier of when the uncertainty regarding the timing and amount of interest rate benchmark-based cash flows is no longer present and the discontinuation of the hedging relationship. These amendments have no impact on the consolidated financial statements of the REIT.

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

Subsequent to year-end, on March 23, 2021, The Board of Trustees approved a two-year extension of the current Management Agreement between the REIT and Inovalis S.A. by way of an amended and restated management agreement to be 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 continues to review and evaluate a wide range of strategic alternatives to enhance Unitholder value however 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.

Reasons for Modifications to Agreement

The extension provides the Special Committee, Board of Trustees and Inovalis S.A. with flexibility to continue to assess strategic options for the REIT while ensuring continuity of a professional and aligned manager. The Special Committee also believes that the revisions to the Management Agreement will better align Inovalis S.A. with the best interests of the REIT and Unitholders and will facilitate the cooperation of Inovalis S.A. in the strategic review process.

A description of related party transactions is provided in Note 29 of the consolidated financial statements as at and for the year ended December 31, 2020.

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 December 31, 2020.

Internal Controls over Financial Reporting ("ICFR")

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 disclosure controls and procedures was conducted under the supervision of management, including the CEO and CFO, as at December 31, 2020.

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 the system of disclosure controls and procedures was complete as at December 31, 2020. These disclosure controls and procedures, although implemented, were not fully assessed for operating effectiveness at December 31, 2020.

Remediation Plans and Actions Undertaken

As previously described in our Annual MD&A for the year ended December 31, 2020, 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.

With the support of the consulting arm of a "Big 4" national accounting firm, management has redesigned the finance operating model, including internal controls over financial reporting, finance processes, policies and a close calendar, a transformation which addresses the DCP and ICFR material weaknesses from prior periods.

As at December 31, 2020, the revised accounting processes, close calendar, and policies have been developed and implemented. As well, the design of business process-level controls and entity-level controls is complete; implementation is nearly 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							
	Dec. 31 2020	**Sep. 30 2020**	**Jun. 30 2020**	**Mar. 31 2020**	**Dec. 31 2019**	**Sep. 30 2019**	**Jun. 30 2019**	**Mar. 31 2019**
Rental revenue	7,706	7,154	7,119	6,878	6,261	6,627	6,593	6,043
Rental revenue - Total Portfolio(1)	9,941	9,606	9,525	9,238	9,242	9,750	9,794	9,259
Net rental income	7,761	7,260	7,399	4,250	6,379	6,980	6,726	2,904
Net rental income - Total Portfolio(1)	9,851	9,610	9,786	6,304	9,146	10,173	9,937	5,527
Net income attributable to Unitholders	(8,952)	4,445	(9,385)	32,088	30,094	5,373	3,027	(2,045)
FFO (1)	5,631	6,393	5,418	5,484	6,744	6,758	5,940	4,929
AFFO (1)	4,955	5,984	5,210	4,143	8,176	6,112	5,824	5,428
FFO per Unit (diluted) (1) (2)	0.17	0.19	0.16	0.16	0.22	0.23	0.21	0.17
AFFO per Unit (diluted) (1) (2)	0.15	0.18	0.15	0.12	0.26	0.21	0.20	0.19
Declared distribution per Unit	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21
FFO payout ratio(2)	129.2%	108.6%	130.0%	127.7%	93.5%	88.0%	100.2%	120.4%
AFFO payout ratio(2)	146.8%	116.0%	135.2%	169.1%	77.1%	97.3%	102.2%	109.3%

(1) 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.

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

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					
	As at December 31, 2020			As at December 31, 2019		
(in thousands of CAD$)	**Amounts per REIT's financial statements**	**Share of net earnings from investments in joint ventures**	**Total**	**Amounts per REIT's financial statements**	**Share of earnings from investments in joint ventures**	**Total**
Rental income	7,706	2,235	**9,941**	6,261	2,981	**9,242**
Property operating cost recoveries	1,935	739	**2,674**	1,843	508	**2,351**
Property operating costs	(1,870)	(883)	**(2,753)**	(1,706)	(776)	**(2,482)**
Other revenues	39	-	**39**	38	60	**98**
Other property operating expenses	(49)	(1)	**(50)**	(57)	(6)	**(63)**
Net rental income	**7,761**	**2,090**	**9,851**	**6,379**	**2,767**	**9,146**
General and administrative expenses	(2,126)	(368)	**(2,494)**	(1,789)	(636)	**(2,425)**
Foreign exchange gain (loss)	(159)	-	**(159)**	5	-	**5**
Net change in fair value of investment properties	(6,083)	(5,331)	**(11,414)**	12,233	15,333	**27,566**
Gain on acquisition of subsidiary	207	10	**217**	-	-	**-**
Loss on disposal of investment properties	-	-	-	-	(2,606)	**(2,606)**
Acquisition costs	-	(318)	**(318)**	-	-	**-**
Share of net income (loss) from joint ventures	(4,681)	4,681	-	10,897	(10,897)	-
Operating income	**(5,081)**	**764**	**(4,317)**	**27,725**	**3,961**	**31,686**
Net change in fair value of Financial derivatives	768	-	**768**	2,358	21	**2,379**
Net change in fair value of Exchangeable securities	(1,521)	-	**(1,521)**	(174)	-	**(174)**
Net change in fair value of Promissory notes	(1,421)	-	**(1,421)**	(944)	-	**(944)**
Finance income	885	(885)	**-**	2,105	(1,034)	**1,071**
Finance costs	(2,410)	(499)	**(2,909)**	(2,416)	(167)	**(2,583)**
Additionnal loss from Arcueil's JV	-	-	**-**	-	(1,379)	**(1,379)**
Distributions on Exchangeable securities	(223)	-	**(223)**	(180)	-	**(180)**
Income (loss) before income taxes	**(9,003)**	**(620)**	**(9,623)**	**28,474**	**1,402**	**29,876**
Current income tax expense	(4,082)	(74)	**(4,156)**	(1,543)	(102)	**(1,645)**
Deferred income tax recovery	4,109	694	**4,803**	3,224	(1,300)	**1,924**
Total income tax recovery (expense)	**27**	**620 -**	**647 -**	**1,681 -**	**(1,402) -**	**279**
Net income (loss)	**(8,976)**	**-**	**(8,976)**	**30,155**	**-**	**30,155**
Non-controlling interest	(24)	-	(24)	61	-	61
Net income (loss) attributable to the Trust	**(8,952)**	**-**	**(8,952)**	**30,094**	**-**	**30,094**

(in thousands of CAD$)	Twelve months ended December 31, 2020 — Amounts per REIT's financial statements (1)	December 31, 2020 — Share of net earnings from investments in joint ventures	December 31, 2020 — Total	December 31, 2019 — Amounts per REIT's financial statements (1)	December 31, 2019 — Share of earnings from investments in joint ventures	December 31, 2019 — Total
Rental revenue	28,858	9,452	**38,310**	25,524	12,521	**38,045**
Property operating cost recoveries	6,850	2,917	**9,767**	7,966	2,942	**10,908**
Property operating costs	(8,889)	(3,530)	**(12,419)**	(10,586)	(3,684)	**(14,270)**
Other revenues	59	123	**182**	447	86	**533**
Other property operating expenses	(278)	(9)	**(287)**	(362)	(71)	**(433)**
Net rental income	**26,600**	**8,953**	**35,553**	**22,989**	**11,794**	**34,783**
General and administrative expenses	(7,864)	(1,907)	**(9,771)**	(6,548)	(2,174)	**(8,722)**
Foreign exchange gain	2,460	-	**2,460**	-	-	-
Net change in fair value of investment properties	(7,431)	(8,539)	**(15,970)**	16,722	14,601	**31,323**
Gain on acquisition of subsidiary	207	-	**207**	-	-	-
Loss on disposal of investment properties	-	-	-	(56)	(2,607)	**(2,663)**
Gain resulting from exercise of the purchase option	-	10	**10**	-	-	-
Acquisition costs	-	(318)	**(318)**	-	-	-
Share of net income (loss) from joint ventures	(6,524)	6,524	-	11,782	(11,782)	-
Operating income	**7,448**	**4,723**	**12,171**	**44,889**	**9,832**	**54,721**
Net change in fair value of Financial derivatives	1,166	8	**1,174**	815	19	**834**
Net change in fair value of Exchangeable securities	1,154	-	**1,154**	(871)	-	**(871)**
Net change in fair value of Promissory notes	12,730	-	**12,730**	(5,438)	-	**(5,438)**
Finance income	6,620	(4,007)	**2,613**	8,848	(4,945)	**3,903**
Finance costs	(9,972)	(1,578)	**(11,550)**	(10,191)	(2,002)	**(12,193)**
Additionnal income from Arcueil's JV	-	-	-	-	(1,365)	**(1,365)**
Distributions on Exchangeable securities	(825)	-	**(825)**	(708)	-	**(708)**
Income before income taxes	**18,321**	**(854)**	**17,467**	**37,344**	**1,539**	**38,883**
Current income tax expense	(4,098)	(40)	**(4,138)**	(1,733)	(118)	**(1,851)**
Deferred income tax recovery (expense)	3,990	894	**4,884**	920	(1,421)	**(501)**
Total income tax recovery (expense)	**(108)**	**854**	**746**	**(813)**	**(1,539)**	**(2,352)**
Net income	**18,213**	**-**	**18,213**	**36,531**	**0**	**36,531**
Non-controlling interest	17	-	17	82	-	82
Net income attributable to the Trust	**18,196**	**-**	**18,196**	**36,449**	**0**	**36,449**

(1) Consolidated statement of earnings amounts presented for the REIT were taken respectively from audited consolidated financial statements as at December 31, 2020 and December 31, 2019

Balance sheet reconciliation to consolidated financial statements

Assets	As at December 31, 2020			As at December 31, 2019		
	As per REIT's financial statements (1)	Share from investments in joint-ventures	Proportionate Consolidation	As per REIT's financial statements (1)	Share from investments in joint-ventures	Proportionate Consolidation
Non-current assets						
Investment properties	541,218	160,240	**701,458**	478,700	173,313	**652,013**
Investments in joint ventures	75,987	(75,987)	**-**	100,782	(100,782)	**-**
Derivative financial instruments	-	-	**-**	10	-	**10**
Restricted cash	4,874	-	**4,874**	4,705	-	**4,705**
Total non-current assets	622,079	84,253	**706,332**	584,197	72,531	**656,728**
Current assets						
Trade receivables and other financial assets	6,623	2,756	**9,379**	4,437	269	**4,706**
Derivative financial instruments	15	19	**34**	1,704	19	**1,723**
Call option related to the acquisition loan	-	-	**-**	9,124		**9,124**
Acquisition loan	-	-	**-**	24,744	-	**24,744**
Other current assets	2,444	975	**3,419**	2,093	968	**3,061**
Restricted cash	552		**552**	498	-	**498**
Cash	80,376	3,813	**84,189**	83,409	7,639	**91,048**
Total current assets	90,010	7,563	**97,573**	126,009	8,895	**134,904**
Assets classified as held for sale (2)	-	-	**-**	-	-	**-**
Total assets	712,089	91,816	**803,905**	710,206	81,426	**791,632**
Liabilities and Unitholders' equity						
Liabilities						
Non-current liabilities						
Interest-bearing loan	474	-	**474**	473	-	**473**
Mortgage loans	152,737	67,620	**220,357**	130,162	53,714	**183,876**
Lease liabilities	121,813	9,460	**131,273**	116,968	10,730	**127,698**
Lease equalization loans	-	-	**-**	343	-	**343**
Tenant deposits	1,490	162	**1,652**	1,930	142	**2,072**
Exchangeable securities	-	-	**-**	2,695	-	**2,695**
Derivative financial instruments	3,091	-	**3,091**	2,734	-	**2,734**
Deferred tax liabilities	13,212	7,618	**20,830**	12,295	8,519	**20,814**
Total non-current liabilities	292,817	84,860	**377,677**	267,600	73,105	**340,705**
Current liabilities						
Interest-bearing loan	36	-	**36**	4	-	**4**
Promissory Notes	-	-	**-**	47,909	-	**47,909**
Mortgage loans	4,752	240	**4,992**	4,198	17,988	**22,186**
Lease liabilities	8,474	2,319	**10,793**	6,910	435	**7,345**
Lease equalization loans	371	-	**371**	1,676	-	**1,676**
Tenant deposits	1,009	35	**1,044**	577	22	**599**
Exchangeable securities	9,945	-	**9,945**	6,867	-	**6,867**
Derivative financial instruments	2,382	-	**2,382**	1,494	1	**1,495**
Trade and other payables	11,052	3,755	**14,807**	34,336	(10,338)	**23,998**
Income tax payable	4,069	-	**4,069**	-	-	**-**
Deferred income	521	599	**1,120**	5,491	213	**5,704**
Total current liabilities	42,611	6,948	49,559	109,462	8,321	**117,783**
Total liabilities	335,428	91,808	**427,236**	377,062	81,426	**458,488**
Equity						
Trust units	286,975	-	**286,975**	259,526	-	**259,526**
Retained earnings	53,350	1	**53,351**	57,827	-	**57,827**
Accumulated other comprehensive income	34,913	7	**34,920**	14,591	-	**14,591**
	375,238	8	**375,246**	331,944	-	**331,944**
Non-controlling interest	1,423	-	**1,423**	1,200	-	**1,200**
Total liabilities and equity	712,089	91,816	**803,905**	710,206	81,426	**791,632**

(1) Balance sheet amounts presented for the REIT were taken respectively from audited consolidated financial statements as at December 31, 2020 and December 31, 2019

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 2020, Q2 2020, Q3 2020 and Q4 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, (v) finance costs related to distribution on exchangeable securities and promissory notes, (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 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 and year ended December 31, 2020 and 2019, based on proportionate consolidation figures, is as follows:

	Three months ended December 31,		Twelve months ended December 31,	
(in thousands of CAD$)	**2020**	**2019**	**2020**	**2019**
Net income attributable to the Trust	(8,952)	30,094	18,196	36,449
Add/(Deduct):				
Acquisition costs	318	-	318	-
Net change in fair value of investment properties	11,414	(27,566)	15,970	(31,323)
Net change in fair value of financial derivatives	281	773	178	4,950
Net change in fair value of derivative on acquisition loan	(524)	(1,576)	(676)	(2,892)
Gain (loss) on disposal of investment properties	(207)	2,606	(207)	2,663
Adjustment for property taxes accounted for under IFRIC 21	(747)	(1,033)	-	-
Additional income (loss from Arcueil's JV)	-	1,379	-	1,365
Interest on promissory notes	682	868	3,392	3,528
Distributions on Exchangeable securities	223	180	825	708
Net change in fair value of Exchangeable securities	1,521	174	(1,154)	871
Net change in fair value of Promissory Notes	1,421	944	(12,730)	5,438
Foreign exchange loss (gain)	875	(5)	(1,010)	-
Other non-recurring finance income (costs)	-	(155)	-	108
Tax on gains on disposals of properties	4,069	1,773	4,069	1,773
Deferred income tax recovery (expense)	(4,803)	(1,924)	(4,884)	501
Other adjustments (2)	85	151	621	151
Minority interest	(25)	61	17	82
FFO	**5,631**	**6,744**	**22,925**	**24,372**
Add/(Deduct):				
Non-cash effect of straight line rents	80	1,696	(1,211)	2,186
Cash effect of the lease equalization loans	(100)	(246)	(1,756)	(1,090)
Amortization of transaction costs on mortgage loans	(82)	78	141	305
Non-cash part of asset management fees paid in Exchangeable securities (1)	404	404	1,559	1,569
Capex net of cash subsidy	(978)	(500)	(1,366)	(1,800)
AFFO	**4,955**	**8,176**	**20,292**	**25,542**
FFO / Units (diluted) *(in CAD$)*	**0.17**	**0.22**	**0.68**	**0.83**
AFFO / Units (diluted) *(in CAD$)*	**0.15**	**0.26**	**0.60**	**0.87**

(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

(2) Other adjustments line refers non-recurring administrative expenses.