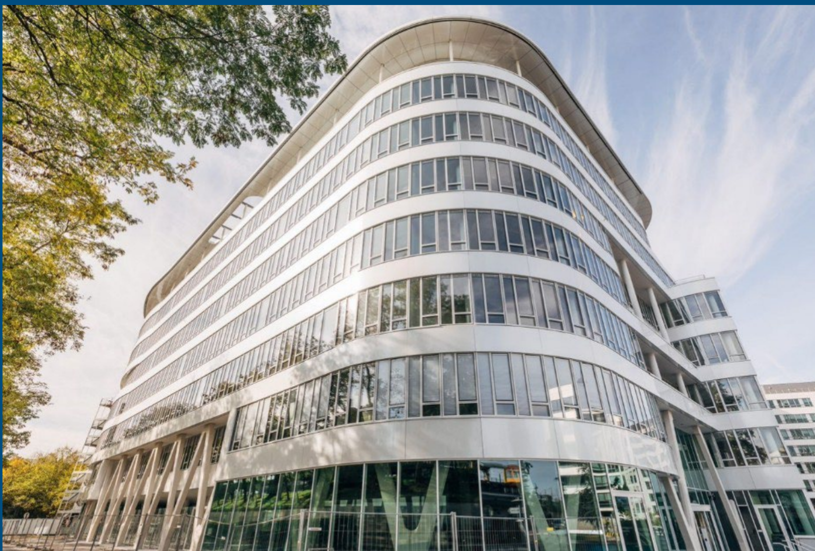
Inovalis REIT

December 31, 2021

Annual Report 2021

Restated



INOVALIS
REAL ESTATE INVESTMENT TRUST

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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 August 12th, 2022.

Notice to the reader –Restatement of the Consolidated Financial Statements

August 12, 2022

Subsequent to the issuance of the audited Consolidated Financial Statements for the years ended December 31, 2021 and 2020, the REIT identified a reclassification that required the restatement of amounts within the REIT's Consolidated Balance Sheet. Users of the REIT's financial statements should note that the adjustments do not change the REIT's total assets, liabilities or equity, and do not impact any of the REIT's other statements.

The consolidated financial statements for the year ended December 31, 2021 have been restated to recognize a change in the classification of a portion of two of the REIT's mortgage loans from non-current liabilities to current liabilities for an amount of CAD$24,437. This reclassification is necessary due to the year-end debt service covenant ratio not being met on the mortgage loans as at December 31, 2021, thus resulting in a breach of loan covenants for both mortgage loans, allowing the lenders to call the principal outstanding on demand.

The REIT has been in communication with the lenders for both mortgage loans to refinance the loans and remediate the covenants that have been breached. Through correspondence with the lenders, there has been no evidence that would indicate that either of the lenders intend to call the principal on the loans, despite the breach of covenant. The REIT has been able to meet all other obligations, covenants, and payments required as per the mortgage loan contracts.

The amendment and restatement is the result of a material weakness noted in the operation of the control over review of loan covenants at year-end, as part of the Financial Statement Close Process. This MD&A and the associated audited Consolidated Financial Statements for the years ended December 31, 2021 and 2020 have been amended and restated for this reclassification.

Full details of the numerical amendments can be found in Note 34 of the restated audited Consolidated Financial Statements and on page 33 of this MD&A, while a fulsome description of the material weakness and remediation steps can be found in the "Disclosure Controls and Procedures and Internal Controls Over Financial Reporting" section of this MD&A.

Letter to Unitholders

A gradual return to pre-pandemic activities across the European continent has taken place in recent months.Most European countries are learning to live with the latest variant of Covid-19, made possible due to the high levels of vaccination uptake, coupled with rigorous vaccine passport implementation across most countries.

Attention is shifting to inflation and interest rates trending increases, industrial and logistic bottlenecks. Inflation may absorb the impact of interest rate repricing and reduce the spread between rental yields and the cost of borrowing that makes investing in European real estate attractive. Geopolitical risk is also gaining renewed attention, with Russia's war with Ukraine and associated sanctions and disruptions to a number of global markets.

Confident in the resilience of our portfolio and the value of our assets, in Q4 2021 the REIT focused on the reset of our business and started implementing our recently adopted Core+ strategy. A significant increase in fair market value was recognized upon the November 2021 disposition of the Jeuneurs asset. Subsequent to year-end, in January 2022, we negotiated an exchange contract for the acquisition of an office asset known as “Le Gaia” in Nanterre (Paris’s direct suburb), scheduled for closing in Q1 2022. This CAD$33 million equity investment is part of the available cash earmarked for redeployment in our core markets. We are actively continuing with plans to invest in selected new European markets and to implement plans for the buyback of our remaining joint ventures.

Since the end of 2019, our strategic disposition of assets with exceptional value has underscored management’s strong track record of identifying and capitalizing on value in mature assets in Paris and Germany. As we now look at repositioning assets such as Sablière in Paris, we expect that the asset recycling program will continue to be an important source of value creation for the REIT.

Our 2022 objective is to maintain cash flow stability and deploy our capital strategically, notably for the acquisition of Le Gaia near Paris. This is to be balanced with the goal of reducing the AFFO payout ratio to <95% by the end of Q4 2022, and longer-term, achieving three-year average AFFO/unit growth of 2-3% per year. The Board of Trustees expects to maintain the $0.06875 regular monthly distribution for the foreseeable future and will evaluate the asset recycling program profit distributions over a three-year period between Q4 2021 and Q4 2024 with the goal of increasing the distributions by a minimum of 10% by the end of this period.

A portfolio-wide independent Environmental, Social and Governance (ESG) audit of our assets is currently underway and is expected to be completed in the course of 2022. This assessment will generate critical data that we can use to identify clear and measurable ESG practices and objectives to be integrated with operational and financial performance targets.

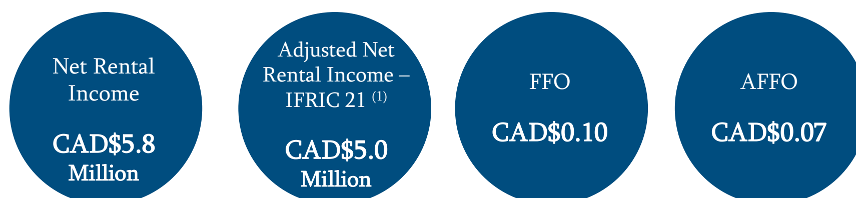
Our Board of Trustees joined management on a tour of pipeline properties in the Paris and Spanish office markets last November and the trustees agreed with our perspective that these European centres have very attractive investment opportunities. We have used our time these past two difficult years to strategize about the post-pandemic office environment and to consider how we can capitalize on emerging work trends. What we have observed is very encouraging and the prospects for a thriving office culture in key transportation hubs of Europe’s principal cities are very strong.

We are well capitalized and poised to implement our Core+ strategy. Time and again, we hear from investors that what distinguishes this office REIT from others is the ability of our team to identify assets with strong potential, finance them strategically, attract long-term, creditworthy tenants and collect rent on time. This is the essence of value creation.

We appreciate your interest in our business model and invite you to participate in this next stage of our growth.

Stéphane Amine
President of Inovalis Real Estate Trust

Q4 2021



Highlights

Net Rental Income

For the portfolio that includes only assets owned entirely by the REIT ("IP Portfolio"), Net Rental Income for the three months ended December 31, 2021 ("Q4 2021"), was CAD$5,813 (EUR€3,921) compared to CAD$7,761 (EUR€5,023) for the three months ended December 31, 2020 ("Q4 2020"). This CAD$1,948 (EUR1,102) decrease is mainly attributable to the departure of some of the main tenants in the Baldi, Sabliere and Bad Homburg properties (CAD$636; EUR429), one-month of missing income resulting from the sale of Jeuneurs at the end of November 2021 (CAD$540; EUR364)), as well as negative foreign exchange impact of CAD$239.

In Q4 2021, Net Rental Income ajusted for IFRIC 21 – Levies ("IFRIC 21")[1] for the portfolio that includes the REIT's proportionate share in joint ventures ("Total Portfolio") was CAD$6,849 (EUR€4,620), compared to CAD$9,104 (EUR€5,951) for Q4 2020, a decrease attributable to the same facts described above on the IP Portfolio and a negative foreign exchange loss of CAD$281.

On the whole, 2021 Net Rental Income thus totalled CAD$24,191 (EUR16,317) on the IP Portfolio and CAD$31,866 (EUR21,493) on the Total Portfolio.

Leasing Operations

In the REIT's Total Portfolio, over 47,000 sq. ft. of previously vacant office space have been leased over the year, principally to two tenants. At the Bad Homburg property, 37% of vacant space has been leased for seven-firm years and the tenant's occupancy began in December 2021. At the Duisburg property, the lease of the new 7th floor began in November, increasing occupancy of that property to 100% as at December 31, 2021.

As at December 31, 2021, 77.2% of the REIT's IP Portfolio and 82.6% of the Total Portfolio are leased in majority to high-credit quality tenants. The Investment Portfolio (joint-venture assets) has 94.5% occupancy at December 31, 2021. The Weighted Average Lease Term of the Total Portfolio stands at 3.1 years, with two major lease maturities in 2023 on the main tenants of Arcueil and Neu-Isenburg properties. The Total Portfolio occupancy rate of 82% is negatively impacted by the intentional lease terminations at the Courbevoie property. Excluding this asset, the REIT's occupancy rate would be 86%.

Renewed interest from prospective tenants since Q2 2021 show growing confidence in both Paris and Germany. To bolster leasing efforts, management will selectively complete capital expenditure improvements on vacant areas to attract tenants and maximize rent.

Capital Market Considerations

The REIT has reliably delivered above-average returns to unitholders, continuing to pay a stable, attractive distribution, providing a superior investment opportunity on the basis of:

- Investment diversification via exposure to selected European markets with a deeply experienced local asset manager.
- Compelling risk/return ratio for commercial real estate, given low rates on 10-year OAT government bonds.
- Lower borrowing costs in the European community compared to Canada, fueled by ECB policies; and
- Hedged distribution paid in CAD$.

The REIT's unitholders' equity on December 31, 2021, was CAD$344,786 (EUR239,768), which implies a book value per Unit at that date of CAD$10.61/Unit or CAD$10.55/Unit on a fully diluted basis, using weighted average number of units for the year.

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[1] Net rental Income adjusted for IFRIC 21 is a Non-GAAP Measure. See the "Net Rental Income" section for further discussion on the composition and usefulness of this metric and as well as a quantitative reconciliation to its most directly comparable financial measure. See the section "Non-GAAP Financial Measures and Other Measures" for more information on the REIT's non-GAAP financial measures.

Highlights (Continued)

Adjusted Funds From Operations

The REIT follows the recommendations of the Real Property Association of Canada (“REALPAC”) (February 2019 White Paper) with certain exceptions. Funds from Operations (“FFO”) per unit and Adjusted Funds from Operations (“AFFO”) per unit are Non-GAAP ratios. Non-GAAP ratios 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. Refer to the Non-GAAP Financial Measures and Other Measures section of this MD&A for a more detailed discussion on FFO and AFFO.

In Q4 2021, the REIT reported FFO and AFFO of CAD$0.10 and CAD$0.07 per Unit respectively, versus CAD$0.17 and CAD$0.15 for the same period last year[1]. The AFFO payout ratio, a non-GAAP measure of the sustainability of the REIT’s distributions, is 198.1% for the year ended 2021. Management has established the goal of reducing the AFFO payout ratio to <95% by the end of Q4 2022 by investing available cash in Accretive Assets and improving global occupancy.

Financing Activity

The REIT is financed almost exclusively with asset-level, non-recourse financing with an average term to maturity of 3.4 for the Total Portfolio (3.9 years on the IP Portfolio).

As at December 31, 2021, the weighted average interest rate across the Total Portfolio was 1.99% (2.08% for the IP Portfolio). Further to the sale of Jeuneurs and repayment of its mortgage loan as well as the over-amortization on the collateral Baldi loan, the REIT’s debt-to-book-value ratio went down to 36% (43% for the Total Portfolio).

At the same date, the REIT had CAD$76,627 (EUR53,287) of cash on its amended consolidated balance sheet. Subsequent to December 31, 2021, the REIT will deploy CAD$32,571 (EUR€22,650) on the acquisition of Le Gaia.

Although hikes of European Central Bank (“ECB”) key lending rates in 2022 are anticipated, management is confident that the REIT will still access financing opportunities taking advantage of historically low interest rates in Europe, on a less costly basis than that offered by traditional financing in Canada. This is exemplified by the competitive terms obtained for the extension of Bad Homburg financing and the refinancing of the Duisburg asset that are being negotiated and are expected to be finalized by the end Q1 2022.

Purchase committment : Le Gaia, France

Subsequent to year end, on January 21, 2022, the REIT entered in a purchase agreement for a CAD$57,473 (EUR€39,967) acquisition of Le Gaia, a 119,480 sq.ft. office building in Nanterre (Paris area). The closing of this acquisition, which aligns with the REIT’s investment criteria, is planned for the end of March 2022.

Bad Homburg, Germany

The Bad Homburg property increased occupancy of this asset by 18% to 71% in Q4, 2021 following the successful negotiation of a new long-term lease, effective Q4 2021. A one-year extension of the in-place financing is being finalized on similar terms and should be effective by end of March 2022. The key operational objective for this property

[1] FFO and AFFO are non-GAAP measures. See the section "Non-GAAP Financial Measures and Other Measures" for more information on the REIT's Non-GAAP measures. A reconciliation of FFO and AFFO to Net Income can be found under the section Non-GAAP Reconciliation (FFO and AFFO).

Highlights (Continued)

is to lease up to 85% occupancy by March 2023 and arrange longer term financing at that time.

Jeuneurs, France

On November 30, the REIT sold its Jeuneurs property located in the Paris Central Business District ("CBD") for a gross sale price of CAD$103,173 (EUR69,586) representing a CAD$68,100 (EUR45,933) increase over the 2013 acquisition price at the Initial Public Offering, and a CAD$35,360 (EUR23,850) premium over the December 2020 fair market value. This transaction confirmed once again, the REIT's ability to profitably recycle older assets in order to renew the portfolio with more modern and Accretive Assets.

Courbevoie (Veronese), France

The pending sale of the Courbevoie asset for CAD$39,114 (EUR€27,200) is contingent on the buyer obtaining a building permit and the REIT vacating the asset. In Q4 the process advanced when the prospective buyer obtained the building permit and management of the REIT advanced negotiations for the lease terminations relating to the four remaining tenants for the Courbevoie asset. Management has estimated the terminations will cost a total of CAD$3,348 (EUR2,258) to complete. Management has signed termination protocols with three of the four tenants in place, which specify terminations to take place in early to mid-2022, and expects to finalize a termination protocol for the final tenant in place in early 2022. Given the uncertainty related to the conditions attached to the commitment to sell and the final timing of closing which has been deferred from Q1 2022 to the end of 2022, the Courbevoie property does not qualify for the presentation as an asset held for sale as of December 31, 2021.

Duisburg, Germany

An extension of the Duisburg property joint venture agreement was signed in Q2 2021 to facilitate leasing arrangements; the joint venture agreement now has a maturity date of December 31, 2022. The property is 100% leased as at year end 2021. Refinancing of the in-place CAD$36,000 (EUR€24,500) bullet mortgage loan agreement is now being finalized on a five-year basis at 1.02% interest margin with a final repayment in 2027.

Environmental, Social and Governance (ESG)

Integrating ESG objectives and strategies into our business reflects the growing importance these factors play with many of our key stakeholders. Investors recognize the risks associated with changing regulatory requirements, tenants are including sustainability considerations in their leasing decisions, and employees want to work for responsible organizations. The REIT wants to improve its long-term environmental performance, and also invest in "human capital" for the implementation and monitoring of all ESG initiatives. Management is overseeing a portfolio-wide ESG independent audit of all assets, with the view to formalizing ESG priorities. The exercise will identify clear and measurable ESG practices and disclosures which we will apply and ensure are addressed by our third-party service providers.

Management's Discussions and Analysis

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 restated audited consolidated financial statements as at and for the years ended December 31, 2021, and 2020, and to 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 August 12, 2022. Additional information about Inovalis REIT has been filed with applicable Canadian securities regulatory authorities and is available at www.sedar.com.

Forward-Looking Information

Certain statements contained, or contained in documents incorporated by reference, in this MD&A constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to the REIT's future outlook and anticipated events or results and may include statements regarding the future financial position, business strategy, budgets, occupancy rates, rental rates, productivity, projected costs, capital investments, development and development opportunities, financial results, taxes, plans and objectives of or involving the REIT. Particularly, statements regarding the REIT's future results, performance, achievements, prospects, costs, opportunities, and financial outlook, including those relating to acquisition and capital investment strategies and the real estate industry generally, are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or the negative thereof, or other similar expressions concerning matters that are not historical facts. Forward-looking statements are based on certain factors and assumptions regarding expected growth, results of operations, performance, and business prospects and opportunities.

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

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

(i) the ability to continue to receive financing on acceptable terms;

(ii) the future level of indebtedness and the REIT's future growth potential will remain consistent with current expectations;

(iii) there will be no changes to tax laws adversely affecting the REIT's financing capability, operations, activities, structure, or distributions;

(iv) the REIT will retain and continue to attract qualified and knowledgeable personnel as the portfolio and business grow;

(v) the impact of the current economic climate and the current global financial conditions on operations, including the REIT's financing capability and asset value, will remain consistent with current expectations;

(vi) there will be no material changes to government and environmental regulations that could adversely affect operations;

(vii) conditions in the international and, in particular, the French, German and other European real estate markets, including competition for acquisitions, will be consistent with past conditions;

(viii) capital markets will provide the REIT with readily available access to equity and/or debt financing; including any intensification thereof, and

(ix) the impact the COVID-19 pandemic will have on the REIT's operations, the demand for the REIT's properties and global supply chains and economic activity in general.

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

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

- the REIT's ability to execute its growth and capital deployment 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 as well as the geopolitical conflict in the Ukraine and Russia 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 S.A.'s management has knowledge of the real estate industry developed through its 30 plus 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 S.A, 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;
- identify and sell assets having achieved exceptional valuation growth and redeploy the capital in selected assets with long-term high potential;
- Ensure distribution to Unitholders, through an accretive acquisition program that successfully leverages Inovalis S.A.'s extensive relationships and depth of commercial property and financing; and,
- maximize the long-term value of stable income-generating 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 EUR€20,000 to EUR€60,000 (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.

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 restated consolidated 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 years ended December 31, 2021 and 2020 was CAD$1.4826 and CAD$1.5298, respectively.

For balance sheet items as at December 31, 2021, projections, or market data, the exchange rate used is CAD$1.4380 (CAD$1.5555 as at December 31, 2020).

Over the year ended December 31, 2021, the Canadian dollar strengthened by approximately 7.6% relative to the Euro.

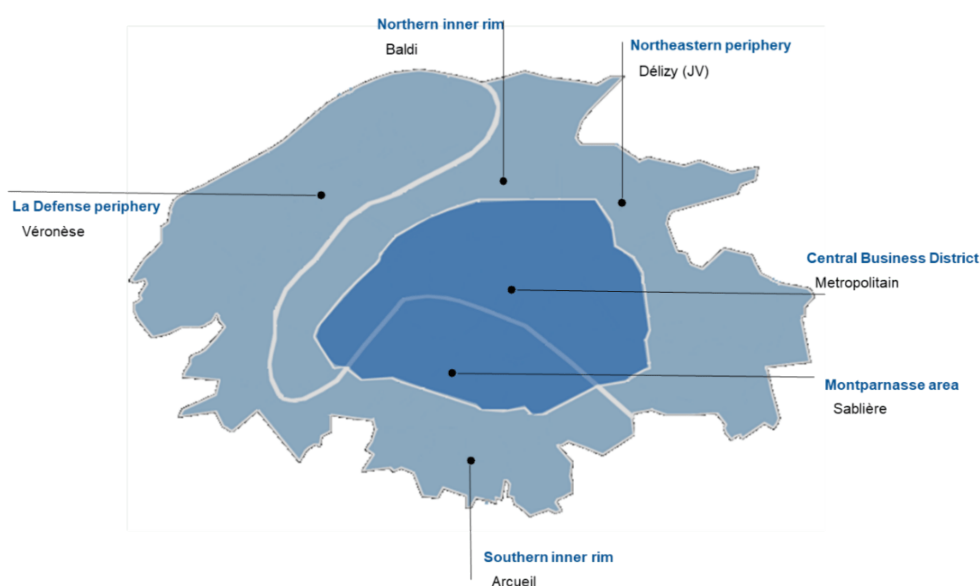
Business Environment[1]

The REIT owns varying interests in real estate entities which hold investment properties. Under IFRS, some of these interests are recorded as joint ventures in which the REIT holds equity. As at December 31, 2021, the REIT's property portfolio consists of ownership interest in seven properties that are consolidated and included in "Investment properties" ("IP") on the balance sheet, and partial ownership interests in five properties that are included within "Investments in joint ventures". As such, the results of these investments in joint ventures 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 12 properties (6 located in France and 6 located in Germany) is approximately 1.4 million square feet of gross leasable area ("GLA")

France

Assets owned entirely by the REIT except where percentage or joint venture (JV) is noted.



Investment Market in France

- Market fundamentals across France remain solid and substantial funds ready to be invested.
- Investors were more risk averse in 2021.
- Core office demand continued to dominate in 2021.
- A strong base of resilient domestic investors; foreign investors return.
- Yields remain aggressive for some secure asset categories in good locations across France.
- 2022 outlook for France investment volumes are expected to reach CAD$30 billion once again.

The commercial real estate market in France continued its recovery in Q4 2021. Just over CAD$35 billion was invested in the commercial property sector. Although there was an 11% decrease compared to 2020, the results are in line with the long-term average (CAD$35 billion). The CAD$70-140 million segment has been extremely dynamic. Investment has increased by 75% (CAD$8 billion) in one year compared to the ten-year average of CAD$5.75bn. The small transaction segment (<CAD$70m) maintains a significant 31% market share.

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[1] *Sources: CBRE research and reports / BNP Real Estate research / JLL études et recherches*.

Commercial investment decreased in the Paris region market, which recorded a year over year decline of 17% for all asset categories combined. This is principally due to the contraction in volume of major transactions and supply scarcity in certain sectors.

Despite the effect of the pandemic, the France office sector remains the number one real estate asset class for investors, as demonstrated by the clear signals of the leasing market's recovery. Although the 2021 office asset class transactions totaled nearly two-thirds of all investment, the overall result is still less than in 2020.

The decline was more significant in the Paris region, with just under CAD$19 billion invested (-22% year-over-year), mainly due to the decline in number of large transactions (>$CAD140 million). Regional markets were able to recover, with investment totaling CAD$4 billion (+12% year-over-year). As a reminder, a record CAD$5.7 billion was invested in 2019. Investors were generally more risk averse in 2021, recalibrating their strategies, prioritizing prime and/or core assets located in established sectors with a good ESG profile. Yields are becoming more aggressive for prime assets, mainly located in tight markets; secondary assets are experiencing a slight yield decompression.

Foreign capital investment by American, European and British investors in the French market totaled 43% of 2021 investment volumes, a return to 2019 volumes. Asia-Pacific investment remains very weak but is showing some signs of improvement. Domestic institutional investors (61%) and real estate companies (13%) were the most active. Institutional investment is expected to continue, and large savings collectors return to the forefront given the strong performance of SCPI/OPCI and life insurance inflows.

Prime office yields in the Paris region remain at a low point due to heightened competition among investors for core assets. Despite the mixed performance seen in 2021, the fundamentals of the Greater Paris Region real estate market remain strong, as does the appetite of investors with high levels of liquidity. Prime yields may be at lower for some asset classes, such as offices and warehouses, but their risk premium remains attractive in comparison to bond yields which posted a slight increase at the end of 2021. Despite inflationary concerns, the ECB's favorable monetary policy is set to continue due to the COVID 19 pandemic.

Renewed activity is expected in the investment market throughout 2022 as the transactions already in the pipeline are considerably larger than 12 months ago and there has been a marked increase in the number of offers since December. Volumes are expected to approach CAD$30 billion this year.

Office Market in Paris, France

- Recovery in the Greater Paris Region rental market continued into Q4 with 6.8 million sq.ft. of leasing.
- In total, 2021 office leasing in the Greater Paris Region was higher than expected at 19 million sq.ft.
- Immediate supply remained stable with 43.5 million sq.ft. of office space availability in the Greater Paris Region by the end of 2021, representing a vacancy rate of 7.4%.
- The tenant incentive ratio ranges from 18-31% among Paris districts; net rents are on a downward trend.

The recovery seen in the Greater Paris Region office rental market over 2021 continued into Q4 with 6.8 million sq.ft. of leasing; this is close to the leasing volume normally seen over this period. A higher-than-expected total of over 19 million sq.ft. of office space was transacted in the Greater Paris Region in 2021. This figure rises to around 22 million sq.ft. when the volume of flex spaces that have been leased are included (over 10,300 workstations compared with 7,700 in 2020). These encouraging results suggest a return to normalcy in the office real estate marketplace following the disruption of the previous two years.

The number of 2021 transactions were close to pre-COVID 19 pandemic level, but the size of all transactions was 18% less in total volume of square footage and the size of large transactions was 20% lower. These figures signal the move by large businesses to reduce their real-estate footprints.

Some areas of Paris have declining vacancy rates such as Paris Central Business District where the vacancy rate contracted from 3.6% to 3.1% in 2021. However, vacancy rates in other districts such as the Northern Inner Rim and La Défense are still rising. Office space supply remains tight despite the rapid increase in new supply (+26% over one year). The correlation of low office supply in Paris is a continuous rise in rents. Average prime rent in Paris is CAD$121/sq.ft., and prime rent CAD$124. Rents are also rising for renovated and even used space. In suburban areas, rent changes vary. Average annual prime rent in La Défense reached CAD$73/sq.ft excluding taxes and charges, and CAD$68/sq.ft. in the Western Crescent, a year over year increase of

+10% and +19% respectively. Although prime office space supply is scarce, both in terms of location and quality, this is not the case for non-prime markets, where an already abundant supply is increasing, leading to rents stabilizing or even falling.

The growth of incentives is closely linked to the growth of occupancy and gross rental rates. In the Paris region, incentives vary widely. The average difference between gross rent and net rent for transactions above 11,000 sq.ft. in the Paris region was 24.4% in Q4 2021. Tenant incentives range from 18.2 % to 31% depending on the district. While gross rents are increasing, net rents are experiencing a downward trend.

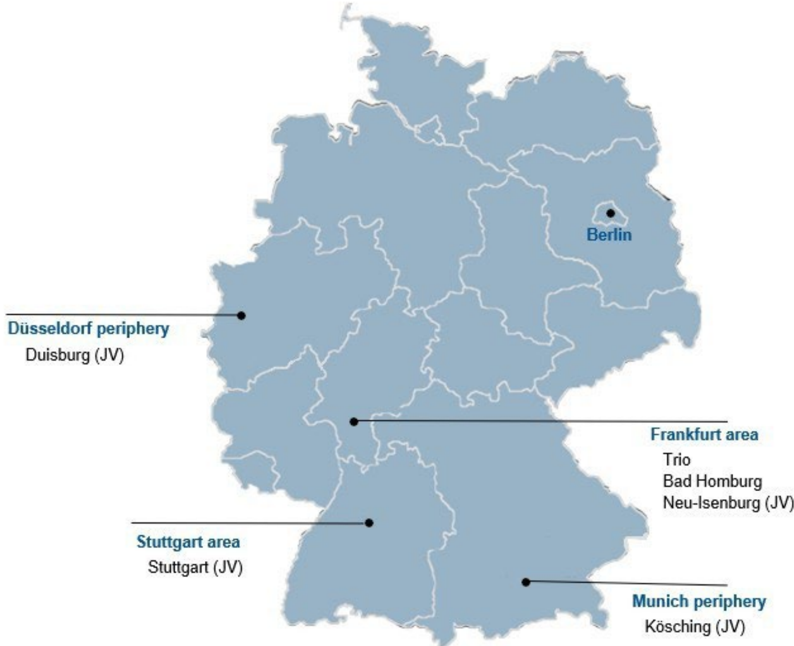
The acceleration of the leasing market's recovery at the end of the year bodes well for 2022. However, the scope of restrictions such as mandatory partial remote working linked to the evolving pandemic conditions (Omicron variant), as well as the presidential election, cloud the forecasting exercise. These two factors will impact performance in the first two quarters of 2022. Despite the widespread use of remote working, leasing is expected to increase to as much as 21.5 million sq.ft. given the needs of growing companies.

In response to new working trends, leading companies are favoring central and/or easily accessible locations more than ever before. Also, coworking, which was a strong driver of demand prior to the pandemic, is expected to regain positive momentum in 2022.

As future supply volume is down 5% since the Q4 2020 peak (setting future supply above 54,000 sq.ft.), and leasing is expected to increase, vacant space should stabilize in in Q1 and Q2 at around 44 million sq.ft., before slowly decreasing in the second half of the year.

Germany

Assets owned entirely by the REIT except where percentage or joint venture (JV) is noted.



Investment Market in Germany

- Strong 2021 performance is attributed to a better-than-expected recovery of the leasing market
- 12% increase in the investment volume for offices in 2021
- Lack of product and strong competition is pushing yields down (compression of 17 bps on office yields)
- Office and industrial / logistic properties are the main drivers of the 2022 corporate real estate market

The 2021 German office property real estate investment market carried out CAD$39.5 billion in transactions, an increase of 12% over the previous year. 2021 delivered the third best result of the past ten years; twenty-seven transactions were valued in excess of $300 million each, totaling CAD$17 billion. By comparison, in 2020 there were just 23 similar large-scale transactions with a total value of approximately CAD$11.2 billion. The strong performance of this real estate segment can be attributed to the better-than-expected recovery of the leasing markets and the confidence of investors in office properties

Real estate investors are now facing new challenges, especially with office properties. ESG and sustainability issues are influencing this market segment. The effect on non-sustainable properties will no longer be a green price-premium, but a price discount. It is expected that property owners will try to mitigate risk to their portfolios by disposing of properties that do not comply with environmental regulations. Under the circumstances, such properties may trade at a price discount. The market for non-sustainable properties is uncertain when there is such demand for properties that comply with environmental regulations.

Despite the continuing property value risks related to global political and economic developments, yields for most real estate segments continued to fall at the end of 2021. The most expensive real estate investment asset remains the premium office property. The average yield for such properties declined by 17 bps over the year and now stands at 2.64% across the “Big 7” (Berlin, Hamburg, Düsseldorf, Cologne, Munich, Frankfurt and Stuttgart). Given the controversy surrounding the future of work and the future of offices, it is interesting that the widely held view is that the office will retain its role as a central place of work after an initial consolidation period; rising new-lease figures support this perspective. The 2022 outlook is for higher rents and therefore the rent multipliers to rise due to increasing construction and investment costs. Net yields are expected to decline by a further 10 bps in 2022.

Although capital pressure, competition and prices for premium office properties are expected to continue increasing, there are no indications of a real estate bubble forming. In simple terms, there is a lack of product, especially in the office and logistics segments, which is supporting high rents. With rising rents and lower yields, this situation will remain this way until the product pipeline has caught up.

Office Market in Germany

- Q4 2021 had the strongest quarterly leasing in the office market in Germany in the last twelve quarters
- High activity in the mid-sized market segment 10000 to 50000 sq.ft.
- Rental levels are stable or slightly rising
- Vacancy rose in 2021 but at a significantly reduced pace

The major German office markets appear to be on the road to recovery overall. The Big Seven cities recorded a significant increase in leasing in the second half of the year and in many markets the final quarter was characterized by the traditional year-end rally, despite the omicron wave. Approximately 37 million sq.ft. of office space was leased in 2021, which is consistent with the 10-year average (38 million sq.ft.). Nearly 27% more space was leased in 2021 as compared to 2020. The office leasing market started 2021 with subdued tenant demand but picked up as the year progressed. Accordingly, 60% of 2021 office leasing took place in the second half of the year. Office leasing was bolstered by 41 large deals of over 100,000 sq.ft. accounting for 21% of all leasing transactions and contrasts with 25 deals of that size in 2020, For 2022, Cushman and Wakefield forecasts 31 million sq.ft.in leasing activity.

In contrast to the first COVID-19 pandemic year of 2020, the analysis of leasing data shows momentum in the small to mid-size market segment; the 10,000 to 20,000 sq.ft. and 20,000 to 50,000 sq.ft. categories increased significantly in 2021 compared to the previous year.

The continuing high level of construction activity and the subdued level of leasing for much of the year, led to an increase in vacancy to approximately 4.5%, a 17% increase over 2020. The pace of vacancy growth has slowed significantly in the Big Seven cities over the past three months. A vacancy rate of approximately 5% is forecast for 2022.

Prime rents grew by 1.6% year-over-year. This is due to rent rises in all Big Seven cities except Düsseldorf and Stuttgart, where prime rents remained constant. Rising construction costs and increasing user demands for higher quality space mean that rents are expected to continue to rise. By the end of 2022, nominal prime rents in the Big Seven are expected to grow by a further 3.2%.

The year 2022 is also likely to be greatly influenced by the COVID-19 pandemic. In the first few months of the year in particular, the omicron wave is expected to have an impact on the German economy and in significant aspects of social life. It remains to be seen to what extent rental activity in the first quarter will be affected by this. However, the second half of 2022 is likely to see is sustained revival and leasing results should reflect the strong years prior to 2019. There are signs of a further slowdown in the rising vacancy rates. The vacancy rates are rising but at a slower rate than what was registered previously.

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 years 2020 and 2021, which underscores the premise for investing in office assets in the French (Paris) and German markets.

During 2021, the markets in France and Germany maintained stability as investors 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 investors or opportunistic funds. Institutional investors tend to seek low risk assets. They are present mostly in big cities and participate in straightforward transactions, often requiring little to no senior bank debt. Opportunistic funds are generally looking to capitalize on categories of assets that are in difficulty or on sellers that need to dispose of assets that are not considered as institutional grade assets.

Outlook

The REIT has begun 2022 by implementing its growth strategy. The purchase commitment for Le Gaia property is the first step in the redeployment of the REIT’s cash position and the excess capital is expected to be fully invested by end Q2 2022.

The temporary drag on occupancy induced by the ongoing lease termination process at Courbevoie, preliminary to its sale, is progressively being offset by increases in occupancy on the rest of the portfolio starting with Bad Homburg and Duisburg.

The REIT’s Unit price closely reflects the REIT’s NAV/Unit and the healthy and consistent 8%+ distribution yield remains an attractive attribute for investors. Management expects to reduce the AFFO payout to <95% by end of December 2022 by investing available cash in Accretive Assets and improving occupancy.

The REIT has the asset strategy, financial strength, platform, and capabilities to execute its strategy for the ongoing benefit of its Unitholders and other stakeholders.

Portfolio Overview

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

Asset	% owned	Fair value	Bank debt	REIT's Total Portfolio Value	Gross Leaseable Area (GLA) (sq. ft.)	Contribution to Total Portfolio rental revenue	# of tenants	Occupancy rate	Weighted occupancy rate	WALT (end of lease)
Courbevoie	100%	33,074	10,544	6%	95,903	3%	4	31%	33.2%	0.5
Sablière	100%	32,643	16,017	6%	41,043	4%	6	59%	59.4%	2.9
Baldi	100%	32,211	6,854	6%	123,657	3%	9	34%	37.6%	4.2
Metropolitain	100%	93,815	56,778	16%	78,818	13%	6	91%	88.5%	5.6
Arcueil	100%	138,535	57,273	24%	334,521	32%	1	100%	100.0%	1.2
Délizy (1)	50%	18,530	10,407	2%	71,617	3%	19	70%	71.5%	4.2
Subtotal France		**348,808**	**157,873**	**60%**	**745,559**	**58%**	**45**	**74.1%**	**74.1%**	**2.3**
Trio	95%	64,854	43,342	11%	193,914	13%	7	87%	87.1%	3.5
Bad Homburg	100%	32,499	15,951	6%	109,104	5%	5	71%	76.8%	4.3
Duisburg (1)	50%	44,794	17,616	8%	108,960	8%	2	100%	100.0%	5.9
Stuttgart (1)	50%	32,445	17,662	6%	121,416	7%	5	99%	99.7%	2.7
Neu-Isenburg (1)	50%	28,800	16,487	5%	67,334	5%	5	98%	97.8%	1.9
Kösching (1)	50%	21,023	9,720	4%	53,058	4%	1	100%	100.0%	5.9
Subtotal Germany		**224,415**	**120,778**	**40%**	**653,786**	**42%**	**25**	**91.0%**	**92.2%**	**3.9**
Total Portfolio		**573,223**	**278,651**	**100%**	**1,399,345**	**100%**	**70**	**82.0%**	**82.6%**	**3.1**
IP Portfolio		**427,631**	**206,759**	**75%**	**976,960**	**73%**	**38**	**76.6%**	**77.2%**	**2.6**
JV Portfolio		**145,592**	**71,892**	**25%**	**422,385**	**27%**	**32**	**94.4%**	**94.5%**	**4.0**

(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.

- The **Courbevoie property** is in the process of being sold for redevelopment and the termination of leases is underway following negotiations in Q4 2021. All tenants must be vacated prior to the final closing which is anticipated for Q4 2022. The vacant space at the property was dragging the Total Portfolio occupancy rate down by 4% as at December 31, 2021.
- The vacant space (9%) on the **Metropolitain property** is in demand from both existing and prospective tenants and is expected to realize higher rental arrangements. The occupancy rate is expected to increase to 100% by the end of 2022.
- The lease with Orange, the sole tenant of the **Arcueil property**, matures in March 2023. Negotiations are underway with the objective of signing a new long-term lease and refinancing the property afterward, capitalizing on the expected increase of property value.
- Management is finalizing the extension of the **Bad Homburg property** senior debt (maturing on March 31, 2022) for one year on the same conditions, allowing additional time for leasing of vacant space. Management intends to increase the occupancy rate to 85% by March 2023 and thus obtain improved refinancing terms.
- The **Duisburg** financing is also expected to be finalized in March 2022, for a 5-year-bullet financing on CAD$47,454 (EUR€33,000) that would cover committed and future capex requirements as well as shareholder loan interest, and at the same time would generate approximatively CAD$4,000 (EUR€2,800) cash for redeployment.
- Negotiations are underway for a lease renewal with Daimler Truck, the main tenant in the **Stuttgart property.** The current lease is maturing in May 2024.
- For the **Neu-Isenburg property**, management is negotiating a renewal with the main tenant that occupies 80% of the square footage. The current lease expires in June 2023.

Tenant Profile

As at December 31, 2021, the REIT had 38 tenants across the IP Portfolio compared to 43 tenants, as at December 31, 2020, and 70 tenants across the Total Portfolio, compared to 75, as at December 31, 2020.

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

Investment Property Portfolio

The following table shows the five largest tenants across the Investment Property portfolio (interests that the REIT has in properties held in joint ventures).

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	44%	334,521	284,958	33.2%	1.2
The Lorenz Bahlsen Snack-World	Food and beverage	9%	86,501	81,870	9.5%	4.0
Fresenius	Health care	5%	44,942	41,611	4.8%	2.1
Time matters	Logistics	3%	34,772	33,607	3.9%	2.3
Ameropa Reisen	Travel and leisure	2%	21,105	18,531	2.2%	10.0
Top 5 tenants		**63%**	**521,841**	**460,577**	**53.6%**	**2.2**
Other tenants	Diversified	37%	226,966	203,213	23.7%	3.6
Vacant			228,153	194,718	22.7%	
IP Portfolio		**100%**	**976,960**	**858,508**	**100.0%**	**2.6**

(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.

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

Total Portfolio

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

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	32%	334,521	284,958	22.9%	1.2
Daimler Truck	Manufacturer	6%	109,136	100,486	8.1%	2.4
The Lorenz Bahlsen Snack-World	Food and beverage	7%	86,501	81,870	6.6%	4.0
Hitachi Power	Manufacturer	6%	82,800	78,138	6.3%	6.0
Arrow Central Europe	E-commerce	5%	55,639	51,717	4.2%	1.5
Top 5 tenants		**56%**	**668,597**	**597,169**	**48.1%**	**2.4**
Other tenants	Diversified	44%	479,008	430,890	34.6%	3.8
Vacant			251,740	216,038	17.3%	
Total Portfolio		**100%**	**1,399,345**	**1,244,097**	**100.0%**	**3.1**

(1) Activity, storage and shared-restaurant space are usually rented at about a third of the SF rate of office areas and thus they are being accounted for at a third of their effective areas in the weighted areas. The tenant base is well diversified by industry segment, with many national and multinational tenants.

Occupancy and Leasing Activity

The twelve-month change of the IP Portfolio occupancy and leasing activity by geography, for the year ended December 31, 2021, was as follows:

IP Portfolio	January 1. 2021	Acquisition / Disposition	New leases	Lease Expiries	December 31. 2021	Occupancy rate	Committed space (sq. ft)	Total space (sq. ft)	Committed occupancy
France	633,263	(50,407)	6,900	(87,528)	502,228	74.5%	-	502,228	74.5%
Germany	270,442		21,567	(45,432)	246,577	81.4%	-	246,577	81.4%
Total IP Portfolio	**903,705**	**(50,407)**	**28,467**	**(132,960)**	**748,805**	**76.6%**	**-**	**748,805**	**76.6%**

On a proportionate share basis, including joint ventures at our proportionate ownership interest, the operating metrics by geography as at December 31, 2021, are as follows:

Total Portfolio	*January 1. 2021*	*Acquisition / Disposition*	*New leases*	*Lease Expiries*	*December 31. 2021*	*Occupancy rate*	*Committed space (sq. ft)*	*Total space (sq. ft)*	*Committed occupancy*
France	690,189	(50,407)	6,900	(94,007)	552,675	74.1%	-	552,675	74.1%
Germany	607,582	(3,443)	40,290	(49,496)	594,933	91.0%	-	594,933	91.0%
Total Portfolio	**1,297,771**	**(53,850)**	**47,190**	**(143,503)**	**1,147,608**	**82.0%**	**-**	**1,147,608**	**82.0%**

The above table shows the positive impact of the joint venture portfolio on the Total Portfolio occupancy rate. If the REIT fully owned the five joint venture owned assets, the Total Portfolio occupancy would be 8% higher or 84% occupancy.

The Courbevoie property which is being vacated as a condition of sale was a drag on the Total Portfolio occupancy rate by 4% at December 31, 2021, and the expected disposition of this property in 2022 will lead to an adjusted Total Portfolio occupancy rate of 86% on a same property basis.

New Leases Signed During the Quarter:

- In the Bad Homburg property, a new tenant occupied its 19,633 sq.ft. premises in December, on a seven-year firm lease and CAD$713 annual rental income. With this new lease, the weighted occupancy rate is now closer to 80% and will allow management to work on the extension of the senior debt maturity, which expires at the end of Q1 2022.
- The five-firm year lease on the entire vacant top floor of Duisburg property came into effect at the beginning of November 2021, increasing the occupancy of the Duisburg asset to 100%.

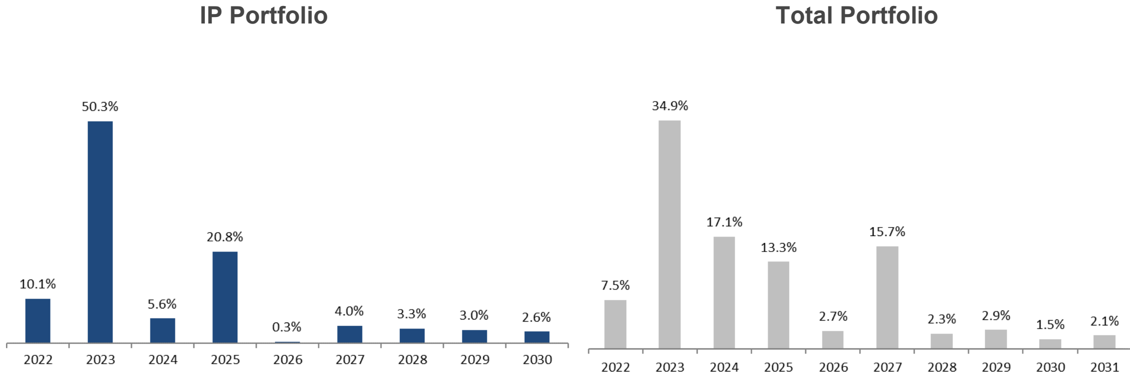
Lease Termination During the Quarter:

- In the Baldi property, the main tenant vacated its space in October 2021, as anticipated. The asset is now 34% occupied and Management is actively working on reletting or redevelopment options.

Lease Maturities

Lease Maturity Profile as at December 31, 2021

(% of total GLA)



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

The average remaining lease term in the IP Portfolio is 2.6 years (not including tenant early termination rights). Assuming all tenants leave at the earliest possible, exercising their early termination rights, which the REIT believes is unlikely, the average remaining lease term in the portfolio is 2.3 years.

The 2023 peak relates to the single-tenant Arcueil property (cf. *Portfolio overview section).*

The above graph presents the percentage of total GLA expiring in the Total Portfolio by year (excluding early lease terminations). Including the joint venture properties, the average remaining lease term is 3.1 years (2.8 years including early termination rights).

In addition to Arcueil, the 2023 maturity for the Total Portfolio also includes the Neu-Isenburg property, in which the main tenant's lease (81% occupancy) expires in June 2023. Management is in negotiations for lease renewals at all of these properties.

Discussion of Financial Performance

Non-GAAP Financial Measures and Other 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. These measures have been derived from the REIT's financial statements and applied on a consistent basis as appropriate. 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 the REIT, may differ from similar computations as reported by other entities and, accordingly, may not be comparable to other such entities. These measures should not be considered in isolation or used in substitute for other measures of performance prepared in accordance with IFRS.

"**Accretive Assets**" means that, at the time of the asset acquisition, the pro forma (post-deal) net income per Unit is forecast as higher than the REIT's (pre-deal) net income per Unit.

"**Adjusted Funds From Operations**" or "**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 unitholders after considering costs associated with sustaining operating earnings.

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

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, excluding those funded by a dedicated cash reserve or capex financing, and (vi) amortization of transaction costs on mortgage loans.

"**Adjusted Funds From Operations / Unit**" or "**AFFO / Unit**" is AFFO divided by the issued and outstanding Units, plus Exchangeable Securities (fully diluted basis).

"**AFFO Payout Ratio**" is the value of declared distributions on Units and Exchangeable Securities & promissory notes (if any), excluding any participatory distribution, divided by AFFO.

"**Average term to maturity**" refers to the average number of years remaining in the lease term

"**Book value per Unit**" refers to the REIT's total equity divided by the Weighted Average number of Units and Exchangeable Securities (on a fully diluted basis).

"**Debt-to-Gross-Book Value**" refers to the REIT's apportioned amount of indebtedness respectively in the IP Portfolio and the Total Portfolio. Indebtedness on a IP and Total Portfolio basis 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 (if any) and at the joint venture level for the contribution from the REIT and its partners.

"**Exchangeable Securities**" means the exchangeable securities issued by CanCorp Europe, in the form of interest bearing notes, non-interest bearing notes, share premium and common shares.

"**Fully diluted basis**" refers to a nominal value divided by the issued and outstanding Units, plus Exchangeable Securities.

"**Funds From Operations**" or "**FFO"** follows the definition prescribed by the Real Estate Property Association of Canada (''REALPAC'') White Paper (''White Paper'') on Funds From Operations & Adjusted Funds From Operations, dated January 2022.

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 unitholders.

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 for the years ended December 31, 2021, and 2020, have been excluded

from the FFO calculation. Finally, non-recurring administrative expenses relating to items that are not reasonably likely to occur within two years prior to, or following the disclosure, are adjusted have also been excluded from FFO.

FFO is reconciled to net income, which is the most directly comparable IFRS measure. FFO 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 income in accordance with IFRS, subject to certain adjustments including adjustments for: (i) acquisition, eviction and disposal costs, (ii) net change in fair value of investment properties, (iii) net change in fair value of derivative financial instruments at fair value through profit and loss, (iv) net changes in fair value of Exchangeable Securities and Private Placement promissory notes in 2020, (v) finance costs related to distribution on Exchangeable Securities and promissory notes in 2020, (vi) adjustment for property taxes accounted for under IFRIC 21 (if any), (vii) loss on exercise of lease option (if any), (viii) adjustment for foreign exchange gains or losses on monetary items not forming part of an investment in a foreign operation, (ix) gain or loss on disposal of investment properties or an interest in a subsidiary, (x) finance income earned from loans to joint ventures (if any), (xi) loss on extinguishment of loans, (xii) deferred taxes, (xiii) non-controlling interest, (xiv) goodwill / bargain purchase gains upon acquisition, and (xv) income taxes on sale of investment properties and provision for tax reassessment.

Exchangeable Securities and promissory notes (if any) 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.

"**Funds From Operations / Unit**" or "**FFO / Unit**" is FFO divided by the issued and outstanding Units, plus Exchangeable Securities (fully diluted basis).

"**Gross book value**" refers to the total consolidated assets for the IP Portfolio and Total Portfolio.

"**Investments in Joint Ventures**" refers to 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 REIT'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. As the loans to the joint ventures were considered equity for proportionate consolidation purposes, any impairment recorded on the loans in accordance with IFRS 9 has been reversed for MD&A purposes. As such, any impairment recorded for IFRS purposes results in a difference in equity when reconciling IFRS and proportionate consolidation reporting.

"**Investment Properties Portfolio**" or "**IP Portfolio**" refers to the six wholly owned properties of the REIT.

"**Net Rental Income Adjusted for IFRIC 21**" refers to Net Rental Income excluding property taxes recorded under IFRIC 21 rules.

"**Net Rental Income**" refers to the rental income plus operating cost recoveries income plus other property revenue, less property operating costs and other costs.

"**Participatory Distribution**" means a special distribution paid to Unitholders based on 50% of the cash attributable to the excess of the sale price of assets over IFRS fair market value, in addition to the regular monthly distribution to Unitholders.

"**Total Portfolio**" refers to the six properties referred to as the IP Portfolio and the six properties of the REIT held in joint-ownership with other parties.

"**Weighted average lease term**" or "**WALT**" is a metric used to measure a property portfolio's risk of vacancy and refers to the average period in which all leases in a property or portfolio will expire. It is calculated as the sum of the percentages of rentable area multiplied by the number of years in each remaining lease term.

"**Weighted Average number of Units**" refers to the mean of periodic values in the number of issued and outstanding Units over a specific reporting period.

FFO and AFFO Calculation

The reconciliation of FFO and AFFO for the three- and twelve-month periods ended December 31, 2021 and 2020, based on proportionate consolidation figures including REIT's interest in joint ventures (please see section *Consolidated statement of earnings - Reconciliation to consolidated financial statements* on pages 45 and 46), is as follows:

	Three months ended December 31		**Twelve months ended December 31**	
(in thousands of CAD$)	**2021**	**2020**	**2021**	**2020**
Net income attributable to the Trust **(including share of net earnings from investments in joint ventures)**	(12,490)	(8,952)	33,071	18,196
Add/(Deduct):				
Acquisition, eviction and disposal costs	3,348	318	3,348	318
Loss on disposal on investment properties	3,988	-	3,988	-
Gain on acquisition of a subsidiary	-	(207)	-	(207)
Net change in fair value of investment properties	7,694	11,414	(28,492)	15,970
Net change in fair value of financial derivatives	(907)	281	(2,276)	178
Net change in fair value of derivative on acquisition loan	-	(524)	33	(676)
Loss on sale of investment in joint venture	146	-	254	-
Adjustment for property taxes accounted for under IFRIC 21	(832)	(747)	-	-
Interest on promissory notes	-	682	-	3,392
Distributions on Exchangeable securities	206	223	1,238	825
Net change in fair value of Exchangeable securities	278	1,521	735	(1,154)
Net change in fair value of Promissory Notes	-	1,421	-	(12,730)
Foreign exchange loss (gain) (3)	151	875	1,188	(1,010)
Loss on extinguishment of mortgage loans (4)	1,012	-	1,012	-
Income tax adjustment on sale of investment properties	5,876	4,069	7,932	4,069
Deferred income tax recovery (expense)	(5,517)	(4,803)	(7,717)	(4,884)
Other adjustments (2)	357	85	1,536	621
Non-controlling interest	(85)	(25)	(34)	17
FFO	**3,225**	**5,631**	**15,816**	**22,925**
Add/(Deduct):				
Non-cash effect of straight line rents	141	80	176	(1,211)
Cash effect of the lease equalization loans	3	(100)	(354)	(1,756)
Amortization of transaction costs on mortgage loans	11	(82)	84	141
Non-cash part of asset management fees paid in Exchangeable securities (1)	-	404	-	1,559
Capex (5)	(1,138)	(978)	(1,591)	(1,366)
AFFO	**2,242**	**4,955**	**14,131**	**20,292**
FFO / Units (diluted) *(in CAD$)*	**0.10**	**0.17**	**0.47**	**0.68**
AFFO / Units (diluted) *(in CAD$)*	**0.07**	**0.15**	**0.42**	**0.60**

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

(2) Other adjustments line refers to administrative expenses related to the strategic review, including aborted asset acquisition costs and SIF conversion. Due to their nature, management has decided to exclude these expenses from the FFO calculation, although REALPAC does not expressively provide guidance on such exclusions.

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

(4) Loss on extinguishment of loans related to Jeuneurs sale.

(5) Excluding capex on properties that have a dedicated cash reserve or financing for capex (Trio, Duisburg, Stuttgart)

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, 2021, as restated		December 31, 2020	
Operating metrics	**IP Portfolio**	**Total Portfolio**	**IP Portfolio**	**Total Portfolio**
Number of properties	7	12	8	14
Gross leasable area (sq. ft.)	976,960	1,399,345	1,026,940	1,453,255
Weighted occupancy rate - end of period [1]	77.2%	82.6%	89.3%	90.3%
Weighted average lease term	2.6 years	3.1 years	3.1 years	3.6 years
Average initial yield [2]	4.9%	5.0%	4.9%	5.1%
Capital management metrics	**IP Portfolio**	**Total Portfolio**	**IP Portfolio**	**Total Portfolio**
Available liquidity [3] [4]	$76,627	$79,728	$80,376	$84,189
Fair value of investment properties	$427,631	$573,223	$541,218	$701,458
Debt-to-gross book value [3]	36.1%	43.3%	42.3%	48.3%
Debt-to-gross book value, net of cash) [3]	26.5%	35.7%	35.0%	42.3%
Weighted average term of principal repayments of debt	3.9 years	3.4 years	5.4 years	4.9 years
Weighted average interest rate [3]	2.08%	1.99%	2.03%	1.95%
Interest coverage ratio [3]	2.6 x	3.0 x	3.5 x	3.7 x

(1) Calculated on weighted areas (activity, storage and inter-company restaurant areas) being accounted for only a third of their effective areas, because of their lower rental value.
(2) Calculated on annualized Net Rental Income (based on Net Rental Income for the year-to-date period).
(3) As defined in the section “Non-GAAP Financial Measures and Other Financial Measures”.
(4) See the section “Capital Management” for further discussion on the composition and usefulness of this metric.

	Three months ended December 31.		Twelve months ended December 31.	
(thousands of CAD$ except per Unit and other data)	**2021**	**2020**	**2021**	**2020**
Financial performance metrics				
Rental revenue	6,253	7,706	28,194	28,858
Rental revenue - Total Portfolio [1]	8,225	9,941	36,495	38,310
Net rental income	5,813	7,761	24,191	26,600
Net rental income - Total Portfolio [1]	7,681	9,851	31,866	35,553
Net income for the period. attributable to the Trust	(15,228)	(8,952)	30,333	18,196
Funds from Operations (FFO) [1] [2]	3,225	5,631	15,816	22,925
Adjusted Funds from Operations (AFFO) [1] [2]	2,242	4,955	14,131	20,292
FFO per Unit (diluted) [1] [2]	0.10	0.17	0.47	0.68
AFFO per Unit (diluted) [1] [2]	0.07	0.15	0.42	0.60
Distributions				
Declared distributions on Units and Exchangeable sec. & Promissory notes	6,914	7,275	37,942	28,264
Declared distributions on Units and Exchangeable sec. & Promissory notes. excluding Participatory Distribution	6,914	7,275	27,995	28,264
Declared distribution per Unit. including Participatory Distribution	0.21	0.21	1.13	0.83
Declared distribution per Unit. excluding Participatory Distribution	0.21	0.21	0.83	0.83
FFO payout ratio [1] [2]	214.4%	129.2%	177.0%	123.3%
AFFO payout ratio [1] [2]	308.4%	146.8%	198.1%	139.3%

(1) See the section “Non-GAAP Financial Measures” for more information on the REIT’s non-GAAP financial measures and reconciliations thereof.
(2) Excluding the Participatory Distribution. The reconciliation of FFO and AFFO to Net Income can be found under the section Non-GAAP Reconciliation (FFO and AFFO).

Restatement of the 2021 consolidated financial statements

The consolidated financial statements for the year ended December 31, 2021 have been restated to correct the classification of the REIT's mortgage loans within SCI Sabliere and SCI Veronese. The portion of the mortgage loans within SCI Sabliere and SCI Veronese that had previously been classified as non-current liabilities have been reclassified as current liabilities for a total amount of CAD$24,437. This reclassification is necessary due to the year-end debt service covenant ratio not being met on the mortgage loans as at December 31, 2021 (see "Financing covenants" section on page 33 of this MD&A and Note 34 to the restated audited financial statements for further information) allowing the lenders to call the principal outstanding on demand.

Nevertheless, the REIT has been in regular communication throughout 2021 with the lenders for both mortgage loans to inform them that the strategy for these assets should result in a short-term reimbursement. Through correspondence with the said lenders, there has been no evidence that would indicate that either of the lenders intends to call the principal of the loans. The REIT intends to formally obtain from the financing institutions the waiver of these covenants or a modification of the financing terms before the year ended December 31, 2022. The REIT has been able to meet all other obligations, covenants, and payments required as per the mortgage loan contracts.

The effect of this restatement resulted in the reclassification of CAD$24,437 in mortgage loans from non-current liabilities to current liabilities as at December 31, 2021. The adjustment had no effect on the previously reported amounts of earnings, comprehensive income, or cash flows from operating activities, investing activities or financing activities. The restated consolidated balance sheet is as follows for December 31, 2021:

Balance Sheet Reconciliation to Consolidated Financial Statements – Restated

Assets	As at December 31. 2021, as restated			As at December 31. 2021, as previously reported			Restatement		
	As per REIT's financial statements [(1)]	Share from investments in joint-ventures [(2)]	Proportionate Consolidation	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	427,631	145,592	**573,223**	427,631	145,592	**573,223**	-	-	-
Investments in joint ventures	64,327	(64,327)	-	64,327	(64,327)	-	-	-	-
Restricted cash	4,964	-	**4,964**	4,964	-	**4,964**	-	-	-
Total non-current assets	**496,922**	**81,265**	**578,187**	**496,922**	**81,265**	**578,187**	-	-	-
Current assets									
Trade receivables and other financial assets	9,368	(1,303)	**8,065**	9,368	(1,303)	**8,065**	-	-	-
Derivative financial instruments	845	-	**845**	845	-	**845**	-	-	-
Other current assets	3,431	1,210	**4,641**	3,431	1,210	**4,641**	-	-	-
Restricted cash	52	-	**52**	52	-	**52**	-	-	-
Cash	76,627	3,101	**79,728**	76,627	3,101	**79,728**	-	-	-
Total current assets	**90,323**	**3,008**	**93,331**	**90,323**	**3,008**	**93,331**	-	-	-
Assets classified as held for sale	-	-	-	-	-	-	-	-	-
Total assets	**587,245**	**84,273**	**671,518**	**587,245**	**84,273**	**671,518**	-	-	-
Liabilities and Unitholders' equity									
Liabilities									
Non-current liabilities									
Interest-bearing loan	334	-	**334**	334	-	**334**	-	-	-
Mortgage loans	48,662	61,258	**109,920**	73,099	61,258	**134,357**	(24,437)	-	**(24,437)**
Lease liabilities	106,351	9,918	**116,269**	106,351	9,918	**116,269**	-	-	-
Tenant deposits	1,172	129	**1,301**	1,172	129	**1,301**	-	-	-
Derivative financial instruments	366	-	**366**	366	-	**366**	-	-	-
Deferred tax liabilities	4,941	6,832	**11,773**	4,941	6,832	**11,773**	-	-	-
Total non-current liabilities	**161,826**	**78,137**	**239,963**	**186,263**	**78,137**	**264,400**	**(24,437)**	-	**(24,437)**
Current liabilities									
Interest-bearing loan	24	-	**24**	24	-	**24**	-	-	-
Mortgage loans	44,046	226	**44,272**	19,609	226	**19,835**	24,437	-	**24,437**
Lease liabilities	7,700	489	**8,189**	7,700	489	**8,189**	-	-	-
Lease equalization loans	-	-	-	-	-	-	-	-	-
Tenant deposits	277	32	**309**	277	32	**309**	-	-	-
Exchangeable securities	9,015	-	**9,015**	9,015	-	**9,015**	-	-	-
Derivative financial instruments	853	-	**853**	853	-	**853**	-	-	-
Trade and other payables	11,248	2,286	**13,534**	11,248	2,286	**13,534**	-	-	-
Income tax payable	2,167	-	**2,167**	2,167	-	**2,167**	-	-	-
Deferred income	4,004	365	**4,369**	4,004	365	**4,369**	-	-	-
Total current liabilities	**79,334**	**3,398**	**82,732**	**54,897**	**3,398**	**58,295**	**24,437**	-	**24,437**
Total liabilities	**241,160**	**81,535**	**322,695**	**241,160**	**81,535**	**322,695**	-	-	-
Equity									
Trust units	288,752	-	**288,752**	288,752	-	**288,752**	-	-	-
Retained earnings (2)	46,979	2,738	**49,717**	46,979	2,738	**49,717**	-	-	-
Accumulated other comprehensive income	9,055	-	**9,055**	9,055	-	**9,055**	-	-	-
	344,786	**2,738**	**347,524**	**344,786**	**2,738**	**347,524**	-	-	-
Non-controlling interest	1,299	-	**1,299**	1,299	-	**1,299**	-	-	-
Total liabilities and equity	**587,245**	**84,273**	**671,518**	**587,245**	**84,273**	**671,518**	-	-	-

Consolidated Financial Information

(in thousands of CAD$)	Three months ended December 31. 2021	2020	Twelve months ended December 31. 2021	2020
Rental revenue	6,253	7,706	28,194	28,858
Property operating cost recoveries	840	1,935	5,974	6,850
Property operating costs	(1,459)	(1,870)	(9,585)	(8,889)
Other revenues	122	39	290	59
Other property operating recoveries (expenses)	57	(49)	(682)	(278)
Net rental income	**5,813**	**7,761**	**24,191**	**26,600**
General and Administration expenses	(2,132)	(2,126)	(8,392)	(7,864)
Eviction and disposal costs	(3,348)	-	(3,348)	-
Foreign exchange gain (loss)	(140)	(159)	(1,129)	2,460
Loss on disposal of investment properties	(3,988)	-	(3,988)	-
Loss on sale of investment in joint venture	(146)	-	(254)	-
Gain on acquisition of subsidiary	-	207	-	207
Share of net income (loss) from joint ventures	(4,648)	(4,681)	(2,062)	(6,524)
Operating earnings	**(8,589)**	**1,002**	**5,018**	**14,879**
Net change in fair value of investment properties	(5,038)	(6,083)	29,419	(7,431)
Net change in fair value of financial derivatives	904	768	2,215	1,166
Net change in fair value of Exchangeable securities	(278)	(1,521)	(735)	1,154
Net change in fair value of Promissory Notes	-	(1,421)	-	12,730
Finance income	1,127	885	3,702	6,620
Finance costs	(2,529)	(2,410)	(7,492)	(9,972)
Distributions on Exchangeable securities	(206)	(223)	(1,238)	(825)
Income before income taxes	**(14,609)**	**(9,003)**	**30,889**	**18,321**
Current income tax expense	(5,875)	(4,082)	(8,088)	(4,098)
Deferred income tax recovery	5,171	4,109	7,498	3,990
Total income tax expense	**(704)**	**27**	**(590)**	**(108)**
Net income (loss)	**(15,313)**	**(8,976)**	**30,299**	**18,213**
Non-controlling interest	(85)	(24)	(34)	17
Net income (loss) attributable to the Trust	**(15,228)**	**(8,952)**	**30,333**	**18,196**

Net Rental Income

Net rental income for Q4 2021 was CAD$5,813, compared to CAD$7,761 for Q4 2020, mostly as a result of the negative impact of tenant departures in the Sablière and Baldi properties (CAD$484), the forfeited December rent from the Jeuneurs property due to the sale closing at the end of November (CAD$540) and a foreign exchange loss of CAD$240.

For the year ended December 2021, Net Rental Income was CAD$24,191, compared to CAD$26,600 for the year 2020. The decrease is mainly attributable to the departures of the main tenants in the Sablière and Baldi properties (CAD$720), added to a negative foreign exchange impact of CAD$821 and the forfeited December rent of Jeuneurs (CAD$540) as described above.

In accordance with IFRIC 21, the annual property taxes for the REIT's properties located in France are expensed in full in the first quarter of the fiscal year. Realty tax expenses for the year are approximatively CAD$2,950. These taxes are paid in the fourth quarter. This results in a reduction to Net Rental Income in the first quarter of each year with relatively higher Net Rental Income in the subsequent three quarters. The impact of IFRIC 21 on Net Rental Income for the three and twelve months ended December 31, 2021 and 2020 is set out below.

	Three months ended December 31			Twelve months ended December 31		
In Canadian dollars (in thousands)	**2021**	**2020**	**Variance**	**2021**	**2020**	**Variance**
Net rental income	5,813	7,761	(1,948)	24,191	26,600	(2,409)
IFRIC 21 impact	(735)	(651)	(84)	-	-	-
Adjusted net rental income - IFRIC 21 [1]	5,078	7,110	(2,032)	24,191	26,600	(2,409)

	Three months ended December 31			Twelve months ended December 31		
In Euros (in thousands)	**2021**	**2020**	**Variance**	**2021**	**2020**	**Variance**
Net rental income	3,921	5,073	(1,152)	16,317	17,388	(1,071)
IFRIC 21 impact	(496)	(426)	(70)	-	-	-
Adjusted net rental income - IFRIC 21 [1]	3,425	4,647	(1,222)	16,317	17,388	(1,071)

(1) Represents a non-GAAP financial measure that has no standardized meaning with IFRS and is not comparable to other companies. See the section "Non-GAAP Measures and Other Measures".

The Net Rental Income including the REIT's share in joint ventures is set out below

	Three months ended December 31			Twelve months ended December 31		
In Canadian dollars (in thousands)	**2021**	**2020**	**Variance**	**2021**	**2020**	**Variance**
Net rental income	5,813	7,761	(1,948)	24,191	26,600	(2,409)
Net rental income - proportionate share of JVs	1,868	2,090	(222)	7,675	8,953	(1,278)
IFRIC 21 impact	(832)	(747)	(85)	-	-	-
Adjusted net rental income - IFRIC 21 - including proportionate share of JVs [1]	6,849	9,104	(2,255)	31,866	35,553	(3,687)

General and Administrative Expenses

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

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

	For the twelve months ended December 31		
	2021	2020	Variance
Asset management fees – Inovalis SA	(2,760)	(3,117)	357
Less: amount reinvoiced to joint ventures	1,179	1,288	(109)
	(1,581)	**(1,829)**	**248**
Professional fees for accounting. tax and audit	(2,573)	(2,448)	(125)
Legal expenses	(618)	(537)	(81)
Other expenses related to strategic review & SIF conversion	(1,359)	(727)	(632)
Trustee fees	(792)	(692)	(100)
Governance expenses	(400)	(337)	(63)
Bank expenses	(141)	(116)	(25)
Listing & transfer agent fees	(86)	(106)	20
Other general and administrative expenses	(842)	(1,072)	230
Total G&A expenses	**(8,392)**	**(7,864)**	**(528)**

G&A expenses for the Q4 2021 remain stable and amounted to CAD$2,132 compared to CAD$2,126 in Q4 2020.

For the year ended December 31, 2021, G&A expenses, excluding CAD$1,533 of costs related to strategic review process and the terminated transactions in recent quarters, are in line with the budget approved and attached to the Management Agreement extension. The increase of CAD$528 is mainly due to these non-recurring strategic review related costs, while 2020 G&A already embedded CAD$727 SIF conversion fees.

Asset management fees, representing CAD$384 for the three months period of Q4 2021 decreased by CAD$114 compared to Q4 2020, in line with the new Management Agreement, effective January 1, 2021.

Lease termination and disposal costs

In line with the sale commitment of the Courbevoie property, the REIT has negotiated agreements to terminate leases prior to term dates. Out of the total CAD$3,348, CAD$2,815 was already committed and the difference is the forecast to finalize the lease terminations.

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$4,648 for the three-month period ended December 31, 2021, compared to a loss of CAD$4,681 for the same period in 2020. The fair value decrease of the Stuttgart property as indicated in the external appraiser's report led to CAD$1,471 negative contribution of Stuttgart to the REIT's share of net income from joint ventures over the quarter. In addition, the loan to Delizy joint venture was impaired for CAD$2,738 over the quarter due to the agreement to defer monthly interest payment signed in December 2021.

For the year ended December 31, 2021, the share of net result from joint ventures was a loss of CAD$2,062 compared to a loss of CAD$6,524 for the year 2020. The variance is mainly attributable to the increase of Duisburg property valuation, following the signature of a significant new lease in Q3 2021, and to Delizy loan impairment described above. In 2020, the decrease in the Duisburg property negatively impacted the share of net result from joint venture by approximatively CAD$5,817.

Net Change in Fair Value of IP Portfolio

The net change in fair value of CAD$29,419 in IP Portfolio for the year end December 31, 2021 (compared to CAD$(7,431) for 2020, is mainly related to the positive impact of the Jeuneurs property, the value of which has been increased by CAD$34 million previously to the sale. The property sale closed on November 30, 2021.

Refer to the *"IP Portfolio"* section in this document for further details on the valuation methodology.

Net Change in Fair Value of Exchangeable Securities

Exchangeable Securities are recorded at fair value based on the market price of the REIT's units. They are reflected as a liability on the REIT's restated consolidated balance sheets, and therefore a decrease of the REIT's unit price reduces the value of the liability. The closing price of a REIT unit on the Toronto Stock Exchange was CAD$9.60 on December 31, 2021, compared to $8.94 at close of December 31, 2020, resulting in a loss of CAD$735 in the net change in fair value of Exchangeable Securities throughout the year 2021.

Over the fourth quarter, the REIT unit price slightly increased, leading to a negative net change in fair value of Exchangeable Securities of CAD$278.

Finance Income

In Q4 2021, finance income of CAD$1,127 (compared to CAD$885 in Q4 2020) consisted essentially of interest on loans granted to joint ventures. The variance of CAD$242 mainly corresponds to gain on foreign hedging contract (CAD$481), partially offset by fewer interest on joint-venture loans (CAD$139) following the buy-back of the Bad-Homburg 50% interest in October 2020, and progressive repayments of shareholder loans on the joint venture portfolio.

For the year ended December 31, 2021, finance income was CAD$3,702 compared to CAD$6,620 for the same period in 2020. The decrease is mainly attributable to the interest on Rueil acquisition loan (CAD$1,726), which was fully repaid in Q4 2020, and to the buy-back of a joint-venture (Bad Homburg) and the progressive repayment of shareholder loans on the joint venture portfolio, generating less interest on joint venture loans (CAD$601).

Finance Costs

The finance costs in Q4 2021 were CAD$2,529 (compared to CAD$2,410 in Q4 2020), which included CAD$1,112 related to interest on mortgage loans and lease liabilities, and CAD$289 related to derivative interest and other financial costs. The sale of Jeuneurs in Q4 2021 also triggered CAD$1,012 finance costs related to the breakage of derivatives (CAD$613), the early repayment of the mortgage loan (CAD$199), as well as remaining issuance costs (CAD$200).

For the year ended December 31, 2021, finance costs were CAD$7,492, a decrease of CAD$2,480 over the same period last year, resulting mostly from the conversion of Promissory Notes in November 2020 (CAD$3,392 interest in 2020), offset by finance costs related to Jeuneurs as described above.

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 2021, the distributions on exchangeable securities were CAD$206, compared CAD$223 in Q4 2020.

For the year 2021, distributions on exchangeable securities were CAD$1,238, compared to CAD$825, following the allocation of the participatory distribution of CAD$0.307 per unit in July 2021.

Current and Deferred Income Tax Recovery (Expense)

The current income tax expense of CAD$8,088 for the year ended December 31, 2021, included the CAD$5,980 (EUR€3,975) paid withholding tax on the dividend distribution following the sale of Jeuneurs, as well as a provision of CAD$2,081, an estimate for the amount payable following a tax reassessment that is being disputed with the French tax authorities.

The REIT recorded a deferred income tax recovery of CAD$5,171 in Q4 2021, compared to a recovery of CAD$4,109 for Q4 2020.

	For the twelve months period	
(in thousands of CAD$)	**2021**	**2020**
Income taxes computed at the Canadian statutory rate of Nil applicable to the Trust	-	-
Deferred tax recovery relating to the origination and reversal of temporary differences	2,350	3,990
Deferred tax recovery related to change in tax rates	4,827	-
Deferred tax recovery related to the previously tax losses and temporary differences of a prior period	321	-
Current tax expense on distribution of profit from sale of properties	(5,980)	(4,098)
Current tax expense on tax reassessment	(2,081)	-
Other current tax expenses	(27)	-
		-
Total income tax expenses	**(590)**	**(108)**

Selected Three-Year Information

The below table is the summary of 2021 key operating metrics for the IP Portfolio.

	For the year ended December 31.				
(in thousands of CAD$)	**2021**	**2020**	**2019**	**2021 vs. 2020**	**2020 vs. 2019**
Rental revenue	28,194	28,858	25,524	(664)	3,334
Net change in fair value of investment properties	29,419	(7,431)	16,722	36,850	(24,153)
Finance income	3,702	6,620	8,848	(2,918)	(2,228)
Net income	30,299	18,213	36,531	12,086	(18,318)
Net income attributable to the Trust	30,333	18,196	36,449	12,137	(18,253)

In 2021 the contribution of the sale of the Jeuneurs property increased net income was CAD$32,100. The 2020 net income was primarily higher due to the net change in fair value of promissory notes (CAD$12,730) following the full conversion into Units in Q4 2020. The sale of the Vanves asset in 2019 increased net income by CAD$36,200.

Restated Consolidated Balance Sheet

Assets	As at Dec. 31, 2021 as restated	As at Dec. 31, 2020	Variance
Non-current assets			
Investment properties	427,631	541,218	(113,587)
Investments in joint ventures	64,327	75,987	(11,660)
Restricted cash	4,964	4,874	90
Total non-current assets	**496,922**	**622,079**	**(125,157)**
Current assets			
Trade receivables and other financial assets	9,368	6,623	2,745
Derivative financial instruments	845	15	830
Other current assets	3,431	2,444	987
Restricted cash	52	552	(500)
Cash	76,627	80,376	(3,749)
Total current assets	**90,323**	**90,010**	**313**
Total assets	**587,245**	**712,089**	**(124,844)**

Liabilities and Unitholders' equity	As at Dec. 31, 2021 as restated	As at Dec. 31, 2020	Variance
Liabilities			
Non-current liabilities			
Interest-bearing loan	334	474	(140)
Mortgage loans	48,662	152,737	(104,075)
Lease liabilities	106,351	121,813	(15,462)
Tenant deposits	1,172	1,490	(318)
Derivative financial instruments	366	3,091	(2,725)
Deferred tax liabilities	4,941	13,212	(8,271)
Total non-current liabilities	**161,826**	**292,817**	**(130,991)**
Current liabilities			
Interest-bearing loan	24	36	(12)
Mortgage loans	44,046	4,752	39,294
Lease liabilities	7,700	8,474	(774)
Lease equalization loans	-	371	(371)
Tenant deposits	277	1,009	(732)
Exchangeable securities	9,015	9,945	(930)
Derivative financial instruments	853	2,382	(1,529)
Trade and other payables	11,248	11,052	196
Income tax payable	2,167	4,069	(1,902)
Deferred income	4,004	521	3,483
Total current liabilities	**79,334**	**42,611**	**36,723**
Total liabilities	**241,160**	**335,428**	**(94,268)**
Equity			
Trust units	288,752	286,975	1,777
Retained earnings	46,979	53,350	(6,371)
Accumulated other comprehensive income	9,055	34,913	(25,858)
Total Equity	**344,786**	**375,238**	**(30,452)**
Non-controlling interest	1,299	1,423	(124)
Total liabilities and equity	**587,245**	**712,089**	**(124,844)**

Selected Restated Consolidated Balance Sheet Information

(in thousands of CAD$)	2021, as restated	2020	2019	2021 vs. 2020	2020 vs. 2019
	As at December 31,				
Fair value of investment properties - IP Portfolio	427,631	541,218	478,700	(113,587)	62,518
Fair value of investment properties - Total Portfolio	573,223	701,458	652,013	(128,235)	49,445
Investment in joint ventures - carrying value	64,327	75,987	100,782	(11,660)	(24,795)
Total assets	587,245	712,089	710,206	(124,844)	1,883
Total debt [1]	207,117	288,657	308,643	(81,540)	(19,986)
Total non-current liabilities	161,826	292,817	267,600	(130,991)	25,217
Unitholders' equity	344,786	375,238	331,944	(30,452)	43,294
Number of outstanding Units	32,587,809	32,400,585	28,742,306	187,224	3,658,279

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

IP Portfolio

The fair value of the REIT's IP Portfolio as at December 31, 2021 was CAD$427,631 (EUR€288,355), compared to CAD$541,218 (EUR€347,938) as at December 31, 2020. The decrease of CAD$113,587 is mainly attributable to the sale of Jeuneurs property for CAD$103,173, and to the foreign exchange adjustment (CAD$40,784), partially offset by the increase in fair value of the IP Portfolio (of which CAD$35,499 is related to the Jeuneurs property before its sale).

Management uses the Direct Capitalization Method ("DCM") to determine the fair value of REIT's properties in France and Germany. The values are supported by external appraisals of the total portfolio as at end Q4 2021, 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 *Fair Value Measurement*.

Investments in Joint Ventures

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

- the Duisburg property (CCD) (50%), through a joint venture agreement maturing in December 2022.
- the Stuttgart property (50%), through a joint venture agreement maturing in May 2023
- the Delizy property (50%), through a joint venture agreement maturing in 2029, correlated with the lease liability contract with the senior bank
- the Neu-Isenburg property (50%), through a joint venture agreement maturing in December 2023
- the Kösching property (50%). through a joint venture agreement maturing in December 2023

The REIT's investment in joint ventures was CAD$64,327 as at December 31, 2021, compared to CAD$75,987 as at December 31, 2020. The decrease was mainly due to the foreign exchange difference of CAD$5,642, added to an impairment charge on Delizy loan of CAD$2,738, the disposition of the 6% interest in the Cologne property, for an amount of CAD$1,017, and the declared distribution of the remaining profit from SCCV Rueil (CAD$1,715), partially offset by an increase in the REIT's share of income from Duisburg property of CAD$3,065 mostly related to the increase in appraised value.

Trade Receivables and Other Financial Assets

Trade receivables and other financial assets as at December 31, 2021 amounted to CAD$9,368, compared to the CAD$6,623 at December 31, 2020. The increase in mainly due to the cash guarantee of CAD$1,294 for the Veronese sale and Bad Homburg cash reserve related to the financing covenant (CAD$863) that are presented in other financial assets.

Trade and Other Payables

Trade and other payables as at December 2021 amounted to CAD$11,248, stable compared to CAD$11,052 as at December 31, 2020.

Income Tax Payable

The income tax payable as at December 31, 2021, amounted to CAD$2,167, compared to CAD$4,069 as at December 31, 2020, which mostly represents management's best estimate for the amount payable following a CAD$1,976 tax reassessment that is being disputed with the French tax authorities. As at December 2020, the CAD$4,069 was reflecting the tax payable on the sale of SCCV Rueil property, which has been fully paid in May 2021.

Deferred income

The deferred income amounted to CAD$4,004 as at December 31, 2021 (CAD$521 in 2020) and was mostly composed of the early payment of the quarterly Q1 2022 rent in December 2021 from Arcueil property main tenant for CAD$3,168.

Capital Management

Sources of Capital

The REIT's primary sources of capital are cash generated from operations, disposition of assets, 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.

Capital Management Metrics

To measure REIT's debt performance, management uses the non-GAAP key indicators below:

	Consolidated basis - IP Portfolio		Proportionate share basis - Total Portfolio	
	December 31. 2021, as restated	December 31. 2020	December 31. 2021, as restated	December 31. 2020
Capital management metrics				
Debt-to-gross book value	36.1%	42.3%	43.3%	48.4%
Debt-to-gross book value, net of cash	26.5%	35.0%	35.7%	42.3%
Debt due in the next 12 months [1]	51,746	13,597	52,461	16,156
Weighted average term to maturity	3.9 years	5.4 years	3.4 years	4.9 years
Weighted average interest rate [1]	2.08%	2.03%	1.99%	1.95%
Interest coverage ratio [2]	2.6	3.5	3.0	3.7

(1) Includes lease liabilities, mortgage financings and lease equalization loans (in 2020 only).
(2) As defined in the section "Non-GAAP Financial Measures and Other Financial Measures".

The Bad Homburg mortgage loan representing CAD$15,951, has a maturity date in March 2022 and has been classified as a current liability in the balance sheet as at December 31, 2021. Now that part of the leasing of vacant space has been achieved with a weighted occupancy rate close to 80%, management is working on a one-year extension over the same terms.

Financing covenants

As at December 31, 2021, further to ongoing redevelopment scenarios or arbitrages anticipated on the Sablière and Courbevoie properties, the Debt Service Coverage Ratio ("DSCR") covenant criteria have not been met, allowing the lenders to call the principal outstanding on demand. Thus, the two loans have been reclassified as current liabilities as of balance sheet date for CAD$26,924.

According to the mortgage loan agreements, the calculations at as December 31, 2021 of relevant loan covenants, including the DSCR ratio, for the Sabliere and Courbevoie properties were due to be communicated to the lenders respectively by May 31, 2022 and December 31, 2022.

The REIT has been in communication with the lenders for both mortgage loans to refinance the loans and remediate the covenants that have been breached. Through correspondence with the lenders, there has been no evidence that would indicate that either of the lenders intend to call the principal on the loans, despite the breach of covenant. The financing bank on Courbevoie accepted the terms of the promise to sell signed in December 2020 for a sale by December 2022 that would allow the full repayment of the mortgage loan. The REIT has been able to meet all other obligations, covenants, and payments required as per the mortgage loan contracts

Management already started the process to obtain from the financing institutions the formal waiver of these covenants for a period of at least 12 months or a modification of the financing terms before the end of the year 2022.

Debt-to-Gross Book Value

The debt-to-gross book value ratio is a non-GAAP measure that considers the REIT's apportioned amount of indebtedness respectively in the IP Portfolio and the Total Portfolio. Indebtedness on a IP and Total Portfolio basis is calculated as the sum of (i) lease liabilities, (ii) mortgage loans, (iii) lease equalization loans, (iv) other long-term liabilities, and (v) deferred tax liabilities. Indebtedness does not include certain liabilities as is the case for the Exchangeable Securities and promissory notes (2020 only) and at the joint venture level for the contribution from the REIT and its partners. Gross book value is defined as the total consolidated assets for the IP Portfolio and Total Portfolio.

Debt-to-gross book value	**Consolidated basis - IP Portfolio**		**Proportionate share basis - Total Portfolio**	
	December 31. 2021	**December 31. 2020**	**December 31. 2021**	**December 31. 2020**
Lease liabilities	114,051	130,287	124,458	142,066
Mortgage loans	92,708	157,489	154,192	225,349
Interest-bearing loans	334	474	334	474
Deferred tax liabilities	4,941	13,212	11,773	20,830
Total debt outstanding	**212,034**	**301,462**	**290,757**	**388,719**
Less : Cash	(76,627)	(80,376)	(79,728)	(84,189)
Debt net of cash	**135,407**	**221,086**	**211,029**	**304,530**
Gross book value	587,245	712,089	671,518	803,905
Gross book value. net of cash	510,618	631,713	591,790	719,716
Debt-to-gross book value	**36.1%**	**42.3%**	**43.3%**	**48.4%**
Debt-to-gross book value. net of cash	**26.5%**	**35.0%**	**35.7%**	**42.3%**

The debt-to-gross book value ratio is 36.1% for the IP Portfolio (26.5% net of cash), is within the REITs mandated threshold of 60%. The decrease year-over-year is attributable to the repayment of 30% of Baldi senior debt, as a collateral to Jeuneurs financing and to the amortization of in-place mortgage loans and lease liabilities. For the Total Portfolio, the debt-to-gross book value ratio is 43.3% (35.7% net of cash).

Interest Coverage Ratio

Interest coverage ratio	Consolidated basis - IP Portfolio		Proportionate share basis - Total Portfolio	
	December 31. 2021	December 31. 2020	December 31. 2021	December 31. 2020
Net rental income	24,191	26,600	31,866	35,553
General and Administrative expenses	(8,392)	(7,864)	(10,006)	(9,771)
Interest income [(2)]	348	2,665	520	2,657
Total income	**16,147**	**21,401**	**22,380**	**28,439**
Interest expense [(1)]	(6,312)	(6,186)	(7,530)	(7,726)
Interest coverage ratio	**2.6**	**3.5**	**3.0**	**3.7**

(1) Includes interest on mortgage loans, leases liabilities, swap interest and amortization of financing costs.
(2) Excluding interest income on joint venture loans.

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

Weighted-Average Interest Rate

The weighted average interest rate across the IP Portfolio debt is 2.08% and 1.99% for the Total Portfolio. Management is considering other refinancing opportunities to take advantage of historically low interest rates in Europe and anticipates being able to finance assets on a less costly basis than that offered by traditional financing in Canada.

Debt Profile

Debt profile as at December 31, 2021

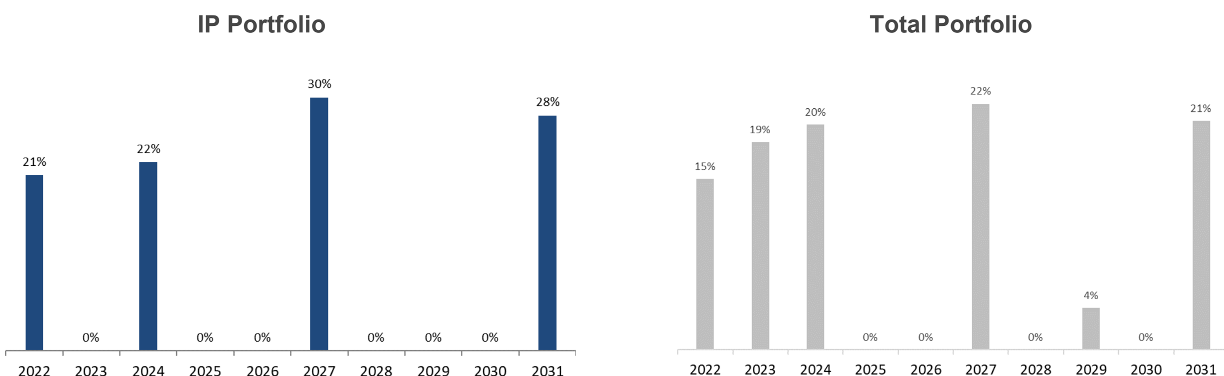
		IP Portfolio		Total Portfolio	
		Carrying value	**%**	**Carrying value**	**%**
Lease liabilities		**114,051**	55%	**124,458**	45%
Mortgage loans		**92,708**		**154,192**	
of which :	*Amortized mortgage loan*	*51,757*	*25%*	*86,505*	*31%*
	Bullet mortgage loan	*40,951*	*20%*	*67,687*	*24%*
Total		**206,759**	**100%**	**278,650**	**100%**

As at December 31, 2021, the debt on the IP Portfolio is composed of 45% mortgage loans and 55% lease liabilities, under contracts expiring from 2022 to 2031.

The REIT quarterly repays principal amount on both mortgage and lease liabilities. This represents 92% of the REIT’s IP Portfolio financing, excluding bullet mortgage loans (76% for the Total Portfolio).

Leasehold and Mortgage Financing Maturity Profile

(% of amount outstanding as at December 31, 2021, as restated)



The 2022 financing maturity relates to the Bad Homburg mortgage loan, on which management has obtained a non-binding term sheet for a one-year extension with a 1.45% rate (vs.1.43% in the previous agreement) and a EUR€300 capex and tenant improvement reserve to finance the leasing of vacant space. In addition, due to the lenders' right to repayment upon breach of the covenant on the Courbevoie and Sablieres properties, these two loans have been classified as current liabilities for a total amount of CAD$26,561.

Management is in regular communication with the senior lenders, including those of the Courbevoie and Sablière properties, to update them on leasing and redevelopment strategies and renegotiate financing terms for the in-place loans (particularly amortization schedules) to avoid or remediate any breach in covenant policies.

For the Total Portfolio, the in-place financing on the Duisburg property, maturing in June 2023, is being renegotiated by management and should lead to a new bullet mortgage over 5 years at 1.02% interest margin. A binding term sheet was executed subsequent to December 31, 2021 and the final signing is anticipated for mid-March 2022.

The 2027 maturity relates mostly to the lease liability contract on Arcueil property with the bank. Management is negotiating a lease extension with the single tenant in place and, upon completion, will arrange a refinancing to leverage the corresponding gain in the property value.

Contractual Obligations

	Contractual Cash Flows [(1)]	2022	2023	2024	2025	2026	Thereafter
Interest-bearing loan	358	24	-	-	334	-	-
Mortgages – principal payments	7,770	2,873	1,305	1,006	932	972	683
Mortgages -maturities	84,938	40,951	-	42,622	-	-	1,365
Lease liabilities	114,051	6,283	5,892	6,273	6,332	6,393	82,877
Exchangeable securities	9,015	9,015	-	-	-	-	-
Accounts payable	11,248	11,248	-	-	-	-	-
Income tax payable	2,167	2,167	-	-	-	-	-
Total	**229,547**	**72,561**	**7,197**	**49,901**	**7,597**	**7,366**	**84,925**

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

Equity

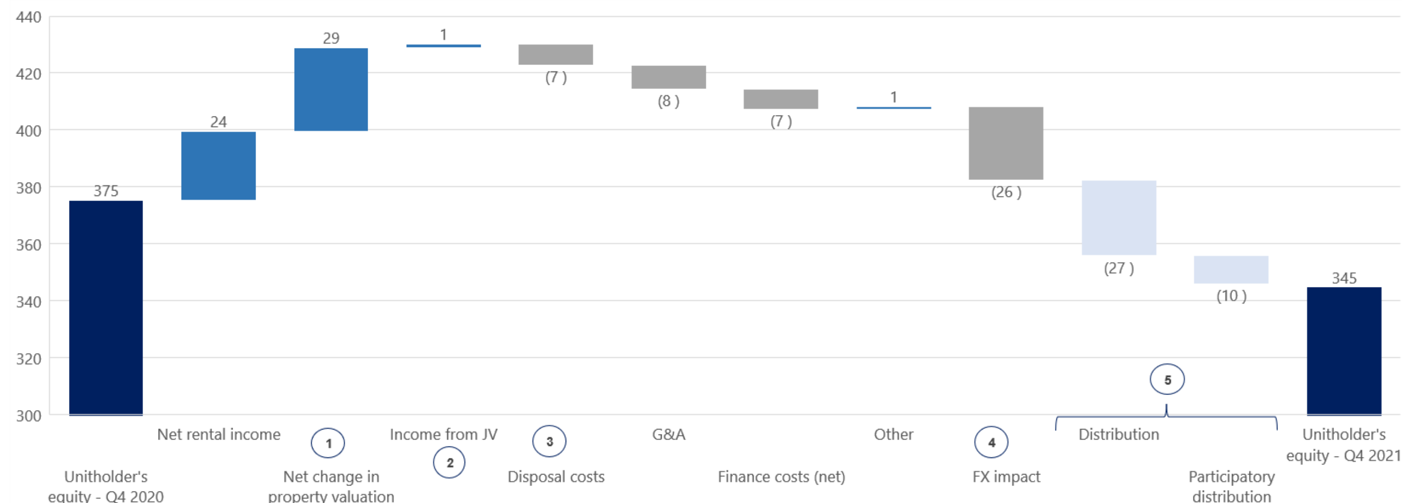
Management's discussion about equity is inclusive of exchangeable securities. In the restated audited consolidated financial statements, the exchangeable securities are classified as current liabilities under IFRS because of the conversion feature that can be exercised by the holder of those securities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

As at December 31, 2021, the REIT has 32,587,809 Units issued and outstanding, plus 938,036 Exchangeable Securities.

	Three months period ended December 31. 2021	Twelve months period ended December 31. 2021
Units		
Number at beginning of period	32,400,585	32,400,585
Increase in number during the period	187,224	187,224
Number at end of period	32,587,809	32,587,809
Weighted average number during the period	32,510,333	32,428,247
Exchangeable securities		
Number at beginning of period	1,113,663	1,113,663
Decrease in number during the period	(175,627)	(175,627)
Number at end of period	938,036	938,036
Weighted average number during the period	1,014,396	1,088,642
Units and Exchangeable securities		
Number at beginning of period	33,514,248	33,514,248
Decrease in number during the period	11,597	11,597
Number at end of period	33,525,845	33,525,845
Weighted average number during the period	33,524,729	33,516,889

Unitholders' equity

The Unitholders' equity breakdown throughout the year 2021 is presented below (in CAD$ million):



Notes to the above chart:

1- The net change in property valuation is entirely attributable to Jeuneurs property, crystalizing – upon its disposal in November 2021 - a CAD$35,360 gain in excess of December 31, 2020 appraised value.

2- The income from joint ventures includes both the share of net loss (CAD$2,062), and the finance income from interests on joint venture loans for CAD$3,354.

3- Disposal costs: Exceptional costs related to the lease terminations in the Courbevoie property (CAD$3,348), in preparation of the asset disposal, and transaction costs on the sale of Jeuneurs property (CAD$3,988).

4- FX impact: The closing foreign exchange rate was 1.4380 as at December 31, 2021, compared to 1.5555 as at December 31, 2020, negatively impacting the REIT's restated consolidated balance sheet and unitholders' equity.

5- In the context of the Strategic review completed in June 2021 and a lasting Covid-19 pandemic, the REIT maintained its usual distribution and paid a CAD$9,947 participatory distribution in July, while keeping a cash hoard in excess of CAD$76,627 unused as at year-end. This equity will be redeployed in 2022.

Available Liquidity

The REIT's cash available was CAD$76,627 as at December 31, 2021 following the sale of Jeuneurs property. Subsequent to December 31, 2021, the REIT deployed CAD$32,571 and CAD$27,487 respectively for the acquisition and transaction expenses of Le Gaia and Delgado properties.

Management has determined that the REIT has the financial resources to sustain its operations for 12 months following the date of the balance sheet. In assessing whether the going concern assumption is appropriate and whether there are material uncertainties that may cast significant doubt about the REIT's ability to continue as a going concern, management must estimate future cash flows for a period of at least twelve months following the end of the reporting period by considering relevant available information about the future. In their assessment, management has considered a wide range of factors relating to expected cash inflows such as completion of the Courbevoie sale by the end of 2022, tenant turnover, vacancy rates, and anticipated variations in rental rates. Management has also considered the potential for additional debt financing that the entire REIT portfolio could offer, given the indebtedness to Gross Book Value ratio of 42.0% as at December 31, 2021. Management has also estimated expected cash outflows as they relate to planned strategic acquisitions and transactions with its joint venture partners, operating and capital expenditures and debt repayment schedules including the likelihood of the REIT obtaining waivers of the debt service covenants from its banks on those

mortgage loans with breaches. Cash flow estimates are subject to uncertainty. Management has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt upon the REIT's ability to continue as a going concern for at least the next twelve months.

Cash Flows

The below table is showing the cash utilization throughout years 2020 and 2021 for the IP Portfolio, not including the REIT's share of cash in the joint venture-owned properties.

	Twelve months ended December 31.		
	2021	2020	Variance
Cash at the beginning of the year	**80,376**	**83,409**	**(3,033)**
Cash provided by (used in):			
Operating activities	(7,915)	(2,665)	(5,250)
Investing activities	106,614	32,996	73,618
Financing activities	(97,541)	(37,175)	(60,366)
Net change during the period	**1,158**	**(6,844)**	**8,002**
Impacts of FX adjustment on cash	(4,907)	3,811	(8,718)
Cash at year-end	**76,627**	**80,376**	**(3,749)**

The cash flow provided by the operating activities decreased over the year 2021, dragged by the partially unoccupied Sablière, Baldi and Courbevoie properties.

The investing activities were comprised of the sale of Jeuneurs property in Q4 2021 for CAD$103,173 out of CAD$106,614. In 2020, the REIT benefited from the repayment of both the nominal amount and the profit-sharing component on the Rueil acquisition loan for CAD$26,261 and CAD$12,430 respectively, while deploying CAD$4,906 for the acquisition of the remaining 50% interest in Bad Homburg property.

On the financing activities, in 2021, the REIT has distributed CAD$36,691 to its Unitholders (CAD$22,585 in 2020), the increase being mainly attributable to the participatory distribution paid in July 2021 for CAD$9,947. This item also included the repayment mortgage loans related to the Jeuneurs property for CAD$50,000, including CAD$11,500 on the Baldi collateral senior debt.

Including the negative impact of FX on cash at December 31, 2021, the negative net variation of available cash from 2020 to 2021 is CAD$(3,749).

Analysis of Distributed Cash

The REIT 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 9, 2020, the trustees shall make payable to unitholders a distribution of sufficient net realized capital gains and income that the REIT 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

	Note	For the three months ended December 31 2021	For the three months ended December 31 2020	For the twelve months ended December 31 2021	For the twelve months ended December 31 2020
Net cash flows related to operating activities	A	(6,999)	6,847	(7,915)	(2,665)
Income before income taxes	B	(14,609)	(9,003)	30,889	18,321
Declared distribution on Units (1)	C	6,708	6,369	36,704	24,047
Shortfall of cash flows from operating activities over cash distributions paid	A-C	(13,707)	478	(44,619)	(26,712)
Excess (shortfall) of profit over distributions	B-C	(21,317)	(15,372)	(5,815)	(5,726)

(1) Including the July 2021 Participatory Distribution to Unitholders of CAD$9,947.

The shortfall of income for distribution was funded from the sale of the Vanves property in December 2019, the cash generated on Rueil transaction in 2020 and the sale of the Jeuneurs property at the end of 2021. No material contract was amended to fund the shortfall and there are no risks or implications over the sustainability of future distributions.

As quantified in the FFO and AFFO calculations, the CAD$6,708 required to make the distributions on Units, for the three months ended December 31, 2021 was above the FFO (CAD$3,225) for the quarter.

		Note	Year 2021	Year 2020
Weighted average number of units (diluted)		*(1)*	33,516,889	33,957,066
Theoretical distribution per unit (in CAD)		*(2)*	0.825	0.825
Theoretical distribution (in '000 CAD)	(1) x (2)	*(3)*	27,651	28,017
Actual FFO per units (in CAD)		*(4)*	0.47	0.68
Distribution funded by FFO (in '000 CAD)	**(1) x (4)**	***(5)***	**15,816**	**23,049**
Shortfall over distribution	**(3) – (5)**		**(11,835)**	**(4,968)**
Participatory distribution paid in July			(9,947)	
Excess cash generated by sale of Vanves (2019) / profit on Rueil transaction (2020) and sale of Jeuneurs (2021)			30,267	21,987
Distribution funded by excess cash (in '000 CAD)			**8,485**	**4,969**
Cumulative remaining Vanves, Rueil and Jeuneurs excess cash			**25,503**	**17,018**

For the year ended December 31, 2021, the shortfall of CAD$11,767 over the annual FFO, as well as the shortfall of CAD$4,968 for the year 2020, were partly funded out of the CAD$21,987 excess cash corresponding to the price portion in excess of the fair market value on Vanves and Jeuneurs sales in December 2019 and November 2021, respectively, and by the profit-sharing component on the Rueil acquisition loan in 2020.

Unit-Based Compensation Plan

The REIT, through its Deferred Share Unit (“DSU”) Plan, grants DSUs to its trustees and senior officers as non-cash compensation. These DSUs are measured at fair value at the grant date and compensation expense is recognized, consistent with the vesting features of the plan. The DSU plan is accounted for as a cash-settled award as the underlying REIT units are redeemable at the sole discretion of the unitholders for cash at market value of the units. For cash-settled awards, the REIT recognizes a liability measured at its fair value. At each reporting date until the liability is settled, the fair value of the liability is

remeasured, with any changes in fair value recognized as compensation expense for the same period. Upon settlement of a DSU, the liability balance is reduced, and the resulting Trust Unit is recorded in equity.

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

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

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

As of December 31, 2021, 20,250 DSUs are outstanding and 179,750 DSUs are available for grant under the DSU Plan. There were 33,900 DSUs exercised during the twelve months ended December 31, 2021 which resulted in a decreased in the DSU plan liability.

For the year ended December 31, 2021, the REIT recorded an expense of $248 and an increase to the liability for the same amount. The total liability related to the DSU plan as of December 31, 2021 was CAD$230 and was included in Trade and other payables.

Financial Instruments

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

	Classification
Financial assets	
Loans to joint ventures	Amortized cost
Derivative financial instruments	FVTPL
Trade receivables and other financial assets	Amortized cost
Restricted cash	Amortized cost
Cash	Amortized cost
Financial liabilities	
Mortgage loan	Amortized cost
Lease equalization loans	Amortized cost
Tenant deposits	Amortized cost
Exchangeable Securities	FVTPL
Derivative financial instruments	FVTPL
Trade and other payables	Amortized cost

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

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

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

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

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

	December 31. 2021, as restated		December 31. 2020	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial assets				
Loans to joint ventures	34,083	34,083	40,531	40,531
Financial liabilities				
Mortgage loan	94,834	92,708	159,462	157,489
Lease equalization loans	-	-	371	371
Tenant deposits	1,449	1,449	2,499	2,499

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

- The fair values of mortgage loans, lease equalization loans and tenant deposits, are estimated using the nominal amounts expected to be repaid at maturity, and a discount rate based on prevailing market interest rates, adjusted by an internally determined credit spread.
- The fair value of derivative financial instruments is determined based on discounted cash flows using interest rate yield curves and volatility that are observable on an active market, as at the balance sheet date.
- The fair value of the Exchangeable Securities is based on the quoted price of the REIT's Units, on the basis that they are exchangeable on a one-to-one basis.

The REIT is exposed to a number of financial risks, including those associated with financial instruments, which have the potential to affect its operating and financial performance. These risks include interest rate risk, currency risk, credit risk and liquidity risk.

Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The REIT's exposure to the risk of changes in market interest rates relates to the long-term debt obligations with floating interest rates related to leases and mortgage loans. The interest rate risk is mitigated by the REIT's strategy using derivative financial instruments on mortgage loans and on the lease liabilities. As at December 31, 2021, after taking into consideration the effect of interest rate swap (44%) and interest rate cap (8%), as well as fixed interest rates (21%), 73% of the REIT's long-term debt obligation has no exposure to interest rate risk (2020 – 78%).

As at December 31, 2021, a 50-basis point increase in interest rates would decrease the REIT's annualized profit by CAD$296 (2020 – a decrease of CAD$321).

Currency Risk

The REIT operates in France and Germany, and the functional currency for these operations is the Euro. The REIT's distributions are paid to unitholders in Canadian dollars. Thus, the cash available for distribution to unitholders could be adversely impacted by currency variations. To mitigate the risk of foreign exchange fluctuations on the distributions to our unitholders, management has established an active foreign exchange hedging program.

To take advantage of improved exchange rates, a new two-year hedging program was put in place in Q3 2021 with Banque Palatine, which will take over the existing contract starting October 2022. As such, the exchange rates relating to 100% of the REIT's current distributions are secured by these foreign currency forward contracts, until October 2024.

Financial institution	Contracts maturity	Hedge Value ('000 EUR)	Weighted average hedging rate
CADIFF	Q1 2022	3,553	1.520
	Q2 2022	3,542	1.525
	Q3 2022	3,526	1.531
	Q4 2022	1,170	1.539
BANQUE PALATINE	Q1 2023	4,359	1.514
	Q2 2023	4,346	1.518
	Q3 2023	4,332	1.523
	Q4 2023	4,319	1.528
	Q1 2024	4,306	1.533
	Q2 2024	4,293	1.537
	Q3 2024	4,283	1.541
		42,029	

This two-year hedging program in place will secure the REIT to sell EUR at an average rate of 1.5267 and receive CAD$1,800, on a monthly basis, until October 2022.

The new hedging contracts with Banque Palatine will secure, starting November 2022, a CAD$2,200 monthly conversion at an average rate of 1.5263 for a two-year period, ending October 2024.

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

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The REIT is directly exposed to credit risk from its leasing activities and its 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, 2021.

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 restated 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 counterparties are reputable banks with high quality external credit ratings.

Liquidity Risk

The REIT's objective is to maintain a balance between continuity of funding and flexibility using bank deposits and loans. Liquidity risk inherent to the financial structure of the business is mainly managed through quarterly updates of short-term cash flow forecasts, follow-up of availability of funding through an adequate amount of committed credit facilities, as well as the status of the maturity of financial assets and liabilities. Refer to "*Contractual Obligations*" section above for further details.

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

Quarterly Information – Last Eight Quarters

	As at and for the three months ended							
	Dec. 31 2021	Sept. 30 2021	June 30 2021	March 31 2021	Dec. 31 2020	Sept. 30 2020	Jun. 30 2020	Mar. 31 2020
Rental revenue	6,253	7,650	6,871	7,420	7,706	7,154	7,119	6,878
Rental revenue - Total Portfolio (1)	8,225	9,773	8,967	9,531	9,941	9,606	9,525	9,238
Net rental income	5,813	7,022	6,918	4,438	7,761	7,260	7,399	4,250
Net rental income - Total Portfolio (1)	7,681	9,112	8,976	6,096	9,851	9,610	9,786	6,304
Net income attributable to Unitholders	(15,228)	32,151	9,247	4,166	(8,952)	4,445	(9,385)	32,088
FFO (1)	3,225	4,157	4,295	4,265	5,631	6,393	5,418	5,484
AFFO (1)	2,242	3,816	4,327	2,986	4,955	5,984	5,210	4,143
FFO per Unit (diluted) (1) (2)	0.10	0.12	0.13	0.13	0.17	0.19	0.16	0.16
AFFO per Unit (diluted) (1) (2)	0.07	0.11	0.13	0.09	0.15	0.18	0.15	0.12
Declared distribution per Unit	0.21	0.21	0.51	0.21	0.21	0.21	0.21	0.21
FFO payout ratio (2)	214.4%	174.7%	160.7%	167.0%	129.2%	108.6%	130.0%	127.7%
AFFO payout ratio (2)	308.4%	190.3%	159.5%	184.6%	146.8%	116.0%	135.2%	169.1%

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

(2) Excluding the Participatory Distribution. Based on the diluted weighted average number of Units, Exchangeable Securities and the conversion of prmissory notes in 2020.

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

On March 24, 2021, the Management Agreement between the REIT and Inovalis S.A. was extended for two years, effective April 1, 2021. The Fourth Amended and Restated Management Agreement is available on SEDAR.com.

Investment in Joint Ventures, Reconciliation

Consolidated Statement of Earnings - Reconciliation to Consolidated Financial Statements

	Three months ended					
	December 31. 2021			December 31. 2020		
(in thousands of CAD$)	**Amounts per REIT's financial statements**	**Share of net earnings from investments in joint ventures (1)**	**Total**	**Amounts per REIT's financial statements**	**Share of earnings from investments in joint ventures**	**Total**
Rental income	6,253	1,972	**8,225**	7,706	2,235	**9,941**
Property operating cost recoveries	840	515	**1,355**	1,935	739	**2,674**
Property operating costs	(1,459)	(614)	**(2,073)**	(1,870)	(883)	**(2,753)**
Other revenues	122	-	**122**	39	-	**39**
Other property operating recoveries (expenses)	57	(5)	**52**	(49)	(1)	**(50)**
					-	-
Net rental income	**5,813**	**1,868**	**7,681**	**7,761**	**2,090**	**9,851**
General and administrative expenses	(2,132)	(414)	**(2,546)**	(2,126)	(368)	**(2,494)**
Eviction and disposal costs	(3,348)	-	**(3,348)**	-	-	**-**
Foreign exchange gain (loss)	(140)	-	**(140)**	(159)	-	**(159)**
Gain on acquisition of subsidiary	-	-	**-**	207	10	**217**
Loss on sale of investment in joint venture	(146)	-	**(146)**	-	-	**-**
Loss on disposal of investment properties	(3,988)	-	**(3,988)**	-	-	**-**
Acquisition costs	-	-	**-**	-	(318)	**(318)**
Share of net income (loss) from joint ventures	(4,648)	4,648	**-**	(4,681)	4,681	**-**
Operating income	**(8,589)**	**6,102**	**(2,487)**	**1,002**	**6,095**	**7,097**
Net change in fair value of investment properties	(5,038)	(2,656)	**(7,694)**	(6,083)	(5,331)	**(11,414)**
Net change in fair value of financial derivatives	904	3	**907**	768	-	**768**
Net change in fair value of Exchangeable securities	(278)	-	**(278)**	(1,521)	-	**(1,521)**
Net change in fair value of Promissory notes	-	-	**-**	(1,421)	-	**(1,421)**
Finance income	1,127	(696)	**431**	885	(885)	**-**
Finance costs	(2,529)	(390)	**(2,919)**	(2,410)	(499)	**(2,909)**
Distributions on Exchangeable securities	(206)	-	**(206)**	(223)	-	**(223)**
Income (loss) before income taxes	**(14,609)**	**2,363**	**(12,246)**	**(9,003)**	**(620)**	**(9,623)**
Current income tax recovery (expense)	(5,875)	29	**(5,846)**	(4,082)	(74)	**(4,156)**
Deferred income tax recovery (expense)	5,171	346	**5,517**	4,109	694	**4,803**
Total income tax recovery (expense)	**(704)**	**375**	**(329)**	**27**	**620**	**647**
Net income (loss) (1)	**(15,313)**	**2,738**	**(12,575)**	**(8,976)**	**-**	**(8,976)**
Non-controlling interest	(85)	-	(85)	(24)	-	(24)
Net income (loss) attributable to the Trust	**(15,228)**	**2,738**	**(12,490)**	**(8,952)**	**-**	**(8,952)**

(1) The difference in net income when comparing the REIT's financial statements for IFRS purposes and the REIT's financial statements for proportionate consolidation (Non-GAAP) purposes relates entirely to the impairment charge recorded on the REIT's loan to Delizy in accordance with IFRS 9. As the loan to Delizy has been considered equity for proportionate consolidation purposes, no impairment under IFRS 9 has been recorded, resulting in a reconciliation difference.

Consolidated Statement of Earnings - Reconciliation to Consolidated Financial Statements (Cont'd)

	Twelve months ended					
	December 31. 2021			December 31. 2020		
(in thousands of CAD$)	**Amounts per REIT's financial statements [1]**	**Share of net earnings from investments in joint ventures [2]**	**Total**	**Amounts per REIT's financial statements [1]**	**Share of earnings from investments in joint ventures**	**Total**
Rental revenue	28,194	8,301	**36,495**	28,858	9,452	**38,310**
Property operating cost recoveries	5,974	2,625	**8,599**	6,850	2,917	**9,767**
Property operating costs	(9,585)	(3,251)	**(12,836)**	(8,889)	(3,530)	**(12,419)**
Other revenues	290	-	**290**	59	123	**182**
Other property operating expenses	(682)	-	**(682)**	(278)	(9)	**(287)**
Net rental income	**24,191**	**7,675**	**31,866**	**26,600**	**8,953**	**35,553**
General and administrative expenses	(8,392)	(1,614)	**(10,006)**	(7,864)	(1,907)	**(9,771)**
Eviction and disposal costs	(3,348)	-	**(3,348)**	-	-	**-**
Foreign exchange gain (loss)	(1,129)	-	**(1,129)**	2,460	-	**2,460**
Loss on sale of investment in joint venture	(254)	-	**(254)**	-	-	**-**
Loss on disposal of investment properties	(3,988)	-	**(3,988)**	-	-	**-**
Gain on acquisition of subsidiary	-	-	**-**	207	10	**217**
Acquisition costs	-	-	**-**	-	(318)	**(318)**
Share of net income (loss) from joint ventures	(2,062)	2,062	**-**	(6,524)	6,524	**-**
Operating income	**5,018**	**8,123**	**13,141**	**14,879**	**13,262**	**28,141**
Net change in fair value of investment properties	29,419	(927)	**28,492**	(7,431)	(8,539)	**(15,970)**
Net change in fair value of financial derivatives	2,215	(6)	**2,209**	1,166	8	**1,174**
Net change in fair value of Exchangeable securities	(735)	-	**(735)**	1,154	-	**1,154**
Net change in fair value of Promissory notes	-	-	**-**	12,730	-	**12,730**
Finance income	3,702	(3,221)	**481**	6,620	(4,007)	**2,613**
Finance costs	(7,492)	(1,421)	**(8,913)**	(9,972)	(1,578)	**(11,550)**
Distributions on Exchangeable securities	(1,238)	-	**(1,238)**	(825)	-	**(825)**
Income before income taxes	**30,889**	**2,548**	**33,437**	**18,321**	**(854)**	**17,467**
Current income tax expense	(8,088)	(29)	**(8,117)**	(4,098)	(40)	**(4,138)**
Deferred income tax recovery	7,498	219	**7,717**	3,990	894	**4,884**
Total income tax recovery (expense)	**(590)**	**190**	**(400)**	**(108)**	**854**	**746**
Net income (2)	**30,299**	**2,738**	**33,037**	**18,213**	**-**	**18,213**
Non-controlling interest	(34)	-	(34)	17	-	17
Net income attributable to the Trust	**30,333**	**2,738**	**33,071**	**18,196**	**-**	**18,196**

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

(2) The difference in net income when comparing the REIT's financial statements for IFRS purposes and the REIT's financial statements for proportionate consolidation (Non-GAAP) purposes relates entirely to the impairment charge recorded on the REIT's loan to Delizy in accordance with IFRS 9. As the loan to Delizy has been considered equity for proportionate consolidation purposes, no impairment under IFRS 9 has been recorded, resulting in a reconciliation difference.

Restated Balance Sheet Reconciliation to Restated Consolidated Financial Statements

Assets	As at December 31. 2021, as restated			As at December 31. 2020		
	As per REIT's financial statements [(1)]	Share from investments in joint-ventures [(2)]	Proportionate Consolidation	As per REIT's financial statements [(1)]	Share from investments in joint-ventures	Proportionate Consolidation
Non-current assets						
Investment properties	427,631	145,592	**573,223**	541,218	160,240	**701,458**
Investments in joint ventures	64,327	(64,327)	**-**	75,987	(75,987)	**-**
Restricted cash	4,964	-	**4,964**	4,874	-	**4,874**
Total non-current assets	**496,922**	**81,265**	**578,187**	**622,079**	**84,253**	**706,332**
Current assets						
Trade receivables and other financial assets	9,368	(1,303)	**8,065**	6,623	2,756	**9,379**
Derivative financial instruments	845	-	**845**	15	19	**34**
Other current assets	3,431	1,210	**4,641**	2,444	975	**3,419**
Restricted cash	52	-	**52**	552	-	**552**
Cash	76,627	3,101	**79,728**	80,376	3,813	**84,189**
Total current assets	**90,323**	**3,008**	**93,331**	**90,010**	**7,563**	**97,573**
Assets classified as held for sale	-	-	**-**	-	-	**-**
Total assets	**587,245**	**84,273**	**671,518**	**712,089**	**91,816**	**803,905**
Liabilities and Unitholders' equity						
Liabilities						
Non-current liabilities						
Interest-bearing loan	334	-	**334**	474	-	**474**
Mortgage loans	48,662	61,258	**109,920**	152,737	67,620	**220,357**
Lease liabilities	106,351	9,918	**116,269**	121,813	9,460	**131,273**
Tenant deposits	1,172	129	**1,301**	1,490	162	**1,652**
Derivative financial instruments	366	-	**366**	3,091	-	**3,091**
Deferred tax liabilities	4,941	6,832	**11,773**	13,212	7,618	**20,830**
Total non-current liabilities	**161,826**	**78,137**	**239,963**	**292,817**	**84,860**	**377,677**
Current liabilities						
Interest-bearing loan	24	-	**24**	36	-	**36**
Mortgage loans	44,046	226	**44,272**	4,752	240	**4,992**
Lease liabilities	7,700	489	**8,189**	8,474	2,319	**10,793**
Lease equalization loans	-	-	**-**	371	-	**371**
Tenant deposits	277	32	**309**	1,009	35	**1,044**
Exchangeable securities	9,015	-	**9,015**	9,945	-	**9,945**
Derivative financial instruments	853	-	**853**	2,382	-	**2,382**
Trade and other payables	11,248	2,286	**13,534**	11,052	3,755	**14,807**
Income tax payable	2,167	-	**2,167**	4,069	-	**4,069**
Deferred income	4,004	365	**4,369**	521	599	**1,120**
Total current liabilities	**79,334**	**3,398**	**82,732**	**42,611**	**6,948**	**49,559**
Total liabilities	**241,160**	**81,535**	**322,695**	**335,428**	**91,808**	**427,236**
Equity						
Trust units	288,752	-	**288,752**	286,975	-	**286,975**
Retained earnings (2)	46,979	2,738	**49,717**	53,350	1	**53,351**
Accumulated other comprehensive income	9,055	-	**9,055**	34,913	7	**34,920**
	344,786	**2,738**	**347,524**	**375,238**	**8**	**375,246**
	-	-	**-**	-	-	**-**
Non-controlling interest	1,299	-	**1,299**	1,423	-	**1,423**
Total liabilities and equity	**587,245**	**84,273**	**671,518**	**712,089**	**91,816**	**803,905**

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

(2) The difference in retained earnings when comparing the REIT’s consolidated financial statements for IFRS purposes and the REIT’s financial statements for proportionate consolidation (Non-GAAP) purposes relates entirely to the impairment charge recorded on the REIT’s loan to Delizy in accordance with IFRS 9. As the loan to Delizy has been considered equity for proportionate consolidation purposes, no impairment under IFRS 9 has been recorded, resulting in a reconciliation difference.

Subsequent events

Bad Homburg – Loan extension

On March 16, 2022, the REIT signed an amendment relating to the mortgage loan on the Bad Homburg property within the Walpur Four entity. The new amendment extends the mortgage loan for one year, with a new maturity date of March 31, 2023.

Purchase of the Gaia property

On March 28, 2022, the REIT entered into a deed of sale to purchase the office building ("the Gaia Property"). The REIT obtained a 100% ownership interest in the Gaia Property and any related working capital items for total consideration of EUR€40,683 (CAD$55,951), which includes transaction costs of EUR€3,720 (CAD$5,118). Deducted from the total consideration is a rental guarantee received from the seller of EUR€2,476 (CAD$3,406) equal to the fair value of the vacancies and below-market lease contracts in place for the Gaia Property. The transaction was financed using a bank loan of EUR€22,000 (CAD$30,265) as well as excess cash reserves of the REIT.

Purchase of the Delgado property

On March 31, 2022, the REIT entered into a deed of sale to purchase the office building ("the Delgado Property"). The REIT obtained ownership of the Delgado Property and any related working capital items for total consideration of €31,207 ($43,198), which includes transaction costs of €1,781 ($2,467). The transaction was financed using a bank loan of €16,225 ($22,474) as well as excess cash from the sale of the Jeuneurs property.

Refinancing of the Duisburg property

On May 13, 2022, CCD entered into a new loan agreement with a third-party lender and repaid the loan with its existing lender. Any excess proceeds received as part of the refinancing were used to repay its outstanding shareholder loans. CCD repaid EUR€2,940 (CAD$4,086) on its shareholder loan to CCEU as a result of the refinancing. CCEU is an 88.15% owned subsidiary of the REIT.

Loan Covenant Breach on SCI Baldi

On June 30, 2022, the REIT breached the debt service coverage ratio covenant (DSCR) on its mortgage loan within SCI Baldi. The covenant requirement of 115% was breached as a result of planned tenant vacancies within this entity for the purpose of a redevelopment strategy. The REIT is in communication with the lender to obtain a waiver and remediate the breach.

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. In addition to the risks described herein, reference is made to the risks and uncertainties section in the REIT's latest Annual Information Form.

Risks Relating to the REIT and its Business

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.

As a result of the REIT's asset recycling plan and the resulting lease terminations, the REIT is currently in breach of certain restrictive covenants contained in certain of its debt obligations relating to the debt service coverage ratio. See the section "*Capital Management - Financing Covenants*". If these breaches were to be enforced by the relevant lenders, a portion of the REIT's indebtedness may then become immediately due and payable. If the debt under these obligations or other debt instruments is accelerated, the REIT may not have sufficient liquid assets to repay amounts due thereunder. The REIT has been in communication with the lenders for both mortgage loans to refinance the loans and remediate the covenants that have been breached.

Following a comprehensive analysis by management that considered a wide range of factors related to the REIT's future cash flow, management has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt upon the REIT's ability to continue as a going concern for at least the next twelve months.

Management has requested and expects to receive, formal waivers of these covenants by the lenders for a period of at least 12 months or a modification of the financing terms before the end of the year 2022.

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, among other things, inflation, deflation or stagflation, unemployment, geopolitical events such as the conflict between Russia and Ukraine and a local, regional, national or international outbreak of a contagious disease, including COVID-19 and its potential intensification. 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 favorable 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.

Concentration of Tenants May Result in Significant Vacancies on the Properties

Five of the REIT's largest tenants, by percentage of total GLA, occupy 46% of the total weighted areas. Although all five tenants are committed to multi-year leases, which are set to expire gradually between 2023 and 2027, there is no assurance that such tenants will continue to occupy such premises for the remainder of their lease terms. Some of them have break options before the end of their leases, and the earliest dates on which those five largest tenants may effectively move range between 2023 and 2027. To minimize this risk of vacancy, the 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 the 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), management 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 REIT's.

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.

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 held, directly or indirectly, by the REIT are located in France and Germany. Although the governments in France and Germany are generally 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 and Luxembourg 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, 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. In France, and assuming that interest rates on group loans are arm's length, tax laws restricting the deductibility of interest expenses for corporate income tax purposes should have no impact since INOPCI 1 is exempt from corporate income tax provided it complies with its distribution obligations.

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. However, to the extent that the REIT fails to adequately manage these risks, including if any such hedging arrangements do not effectively or completely hedge changes in foreign currency rates, the REIT's financial results, and its ability to pay cash distributions to Unitholders may be negatively impacted.

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, management's objective is to agree on terms for interest payments that will not impair desired profit, and on amortization schedules that do not restrict the ability to pay distributions to Unitholders. In addition to the variable rate portion of the leaseholds in respect of the REIT's properties, management may enter into future financing agreements with variable interest rates if the current historical low level of interest rates continues. Given the current historical low level of interest rates, 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. Hedging transactions involve the risk that counterparties, which are generally financial institutions, may be unable to satisfy their obligations. If any counterparties default on their obligations under the hedging contracts or seek bankruptcy protection, it could have an adverse effect on the REIT's ability to fund planned activities and could result in a larger percentage of future revenue being subject to currency changes.

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 its 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 S.A.'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. The REIT may be unable to duplicate the quality and depth of management available to it by becoming a self-managed company or by hiring another asset manager.

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 accidents) 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 endeavor 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.

EIFEL Rules

The Department of Finance (Canada) released proposed amendments to the Tax Act on February 4, 2022 (the “EIFEL Rules”) that are intended to limit the deduction of interest and other financing expenses to protect the Canadian tax base from erosion due to excessive debt and related expenses. If enacted as proposed, the EIFEL Rules generally are effective for taxation years ending on or after January 1, 2023. Management is currently considering the impact of the EIFEL Rules on the REIT. If the EIFEL Rules apply to limit the REIT’s (or any subsidiary’s) deduction of interest or other financing expenses in its computation of income or loss for the purposes of the Tax Act, the amount of taxable income allocated by the REIT to Unitholders may increase. Unitholders are advised to consult their personal tax advisors.

German Taxes

The Luxembourg SPV and Walpur-Four 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 and Walpur-Four 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 and Walpur-Four will not be subject to TT.

Luxco taxation

The REIT has restructured CanCorpEurope S.A., a public limited liability company (or “société anonyme”) and a subsidiary of the REIT ("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 26.5% which would otherwise apply in 2021 under domestic law. The restructuring is not expected to result in material Canadian or foreign tax consequences; however, no assurance can be given that a tax authority will not challenge certain positions taken by the REIT and the REIT’s subsidiaries in connection with the restructuring of Luxco.

Foreign Income Taxes

The REIT’s subsidiaries are subject to tax either on their taxable income or on a withholding basis under applicable legislation in France, Germany, Luxembourg and the United States. These subsidiaries account for their current or recovered taxes at the current enacted and substantively enacted tax rates and use the liability method to account for deferred taxes. The tax expense related to taxable subsidiaries for the period comprises current and deferred taxes.

The REIT’s subsidiaries that hold the leasehold rights on the properties located in France are established in France and should therefore be considered as tax residents in France. Under current French tax legislation, income derived from the French REIT’s subsidiaries, incorporated under the form of Société Civile Immobilière subject to article 8 of the French Tax Code, and allocated to INOPCI 1, should be corporate income tax exempt in the hands of INOPCI 1 on the basis that INOPCI 1 complies with its distribution obligations. A withholding tax should be levied in France on dividend distributions made by INOPCI 1 which is OPCI (collective undertaking for real estate investment) to CCE.

TFI CanCorp Isenburg, TFI CanCorp Kosching, TFI CanCorp Stuttgart (“TFI CC”), CanCorp Cologne and Trio are established in Luxembourg as fully taxable companies, subject to annual corporate income, municipal business and net wealth taxes. There is a minimum net wealth tax in Luxembourg. CCE is a Specialized Investment Fund according to the Luxembourg Specialized Investment Fund Law dated 13 February 2007 and as such is exempt from corporate income tax, municipal business tax and net wealth tax. CCE is subject to an annual subscription tax (“taxe d’abonnement”) charged at an annual rate of 0.01% based on its net asset value, valued at the end of each calendar year.

Arcueil SCS is a Luxembourg partnership (société en commmandite simple), fully owned by CCE, that is tax transparent for Luxembourg corporate income tax purposes, i.e., all the income and expenses are deemed to be realized directly by the sole partner.

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

German source of income (or in case German Co is a partnership and therefore transparent for CIT purposes its partners). As the German Co’s rental revenues belong to German source income, such (net) income is 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 taxpayer 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.

Public Health Crises / COVID-19

COVID-19 is a global pandemic that has necessitated restrictive measures to combat the spread of the virus. These measures, which include the implementation of travel restrictions, 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. Governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

Vaccination programs and other measures to combat COVID-19 are in place across European countries, including in the cities and regions where the REIT’s assets are located. 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 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, 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.

Critical Accounting Policies and Estimates

The preparation of the REIT's consolidated financial statements in conformity with GAAP requires management to make judgments, estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities. Management bases its judgements, estimates and assumptions on experience and other factors that it believes to be reasonable under the circumstances. However, uncertainty about these judgements, estimates and assumptions could result in outcomes requiring a material adjustment to the carrying amount of the asset or liability affected in future periods. Critical accounting judgements estimates and assumptions in applying accounting policies are described in Note 4 to the restated annual audited consolidated financial statements of the REIT for the year ended December 31, 2021.

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

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

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 not fully effective, as at December 31, 2021 due to a material weakness as described below.

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.

Based on management’s review, the CEO and CFO have concluded that the REIT’s ICFR were not effective as of December 31, 2021 and have identified a material weakness related to management’s control over the review of loan covenants.

A material weakness is a deficiency, or combination of deficiencies, in ICFR, such that there is a reasonable possibility that a material misstatement of the REIT’s annual or interim financial statements will not be prevented or detected on a timely basis.

Management identified a material weakness in the design and operation of the control over the assessment of accounting implications of loan covenant breaches as part of the financial statement close process at quarter-end and at year-end. Specifically, our review control was not sufficiently designed to adequately assess the accounting impact of the covenant breaches on the financial statement presentation of the loans. This led to the restatement of the REIT’s audited Consolidated Financial Statements for the years ended December 31, 2021. Following the issuance of the consolidated financial statements of the REIT as of and for the year ended December 31, 2021, management became aware of the breaches of certain restrictive covenants related to debt service coverage ratios contained in certain of its debt obligations and the relevant lenders were made aware of these breaches which resulted from the termination of leases as part of the asset recycling process. To date, these lenders have co-operated with the REIT and have not declared any default as a result of such breaches and have not requested the early repayment of the relevant mortgage loans.

Due to this material weakness, the presentation of certain mortgage balances in the financial statements were incorrectly classified as long term liabilities, when, as a result of the breach of the debt service coverage ratios, such liabilities should have been classified as current liabilities as at December 31, 2021. The REIT’s Restated Consolidated Balance Sheet and related disclosures have now been adjusted for this misclassification. The reclassification of such liabilities did not result in any change to the financial results of the REIT for the relevant periods.

The REIT has taken and will continue to take a number of actions to remediate this material weakness. During Q2 2022, the REIT developed and implemented a remediation plan to address this material weakness that identifies areas where enhanced precision will help detect and prevent material misstatements. This remediation plan includes, but is not limited to:

- The implementation of a documented process for management to adequately assess the accounting implications of loan covenant breaches on the financial statement presentation of the loans;
- The implementation of a process for management to raise loan covenant breaches with lenders before they occur and immediately start discussing remedial actions and obtain advance waivers that endure for a term of at least twelve months beyond the immediate quarterly reporting period.
- The refinement of the Internal Audit Plan to increase the Internal Auditor’s scrutiny over management’s review of loan covenants.

The material weakness cannot be considered remediated until the applicable relevant controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. Although the REIT can give no assurance that these actions will remediate this material weakness in internal controls or that additional material weaknesses in our ICFR will not be identified in the future, management believes the foregoing efforts will effectively remediate the identified material weakness. Management will take additional remedial actions as necessary as they continue to evaluate and work to improve the REIT’s ICFR environment.

Outside of the material weakness noted above, there have been no significant changes in the design of the REIT’s ICFR during the year ended December 31, 2021, that would materially affect, or is reasonably likely to materially affect, the REIT’s ICFR.

As defined by National Instrument 52-109 of the Canadian Securities Administration, a material weakness means a deficiency, or a combination of deficiencies, in ICFR such that there is a reasonable possibility that a material misstatement of the reporting issuer’s annual or interim financial statements will not be prevented or detected on a timely basis.

Accordingly, a reasonable possibility exists that material misstatements in the REIT’s financial statements will not be prevented or detected on a timely basis.

Notwithstanding the material weakness identified, the REIT has concluded that the financial statements, as at December 31, 2021, are fairly represented in all material respects, in accordance with IFRS.

Actions undertaken in 2021

In line with the remediation plan outlined in the December 31, 2020 MD&A, Inovalis SA, the asset manager of the REIT, was successful in having an internal audit specialist independent of management, to assess the operating effectiveness of the REIT's ICFR. The testing program has been developed and will be acted against in fiscal year 2022.

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.