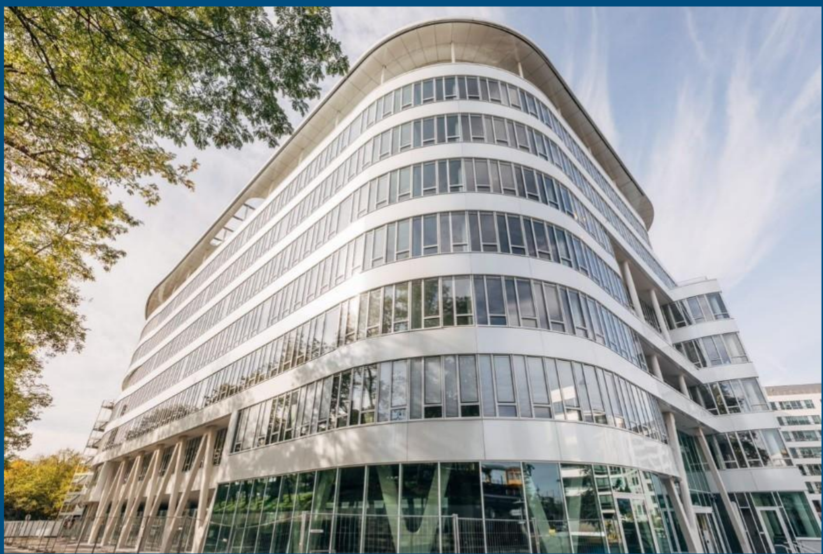
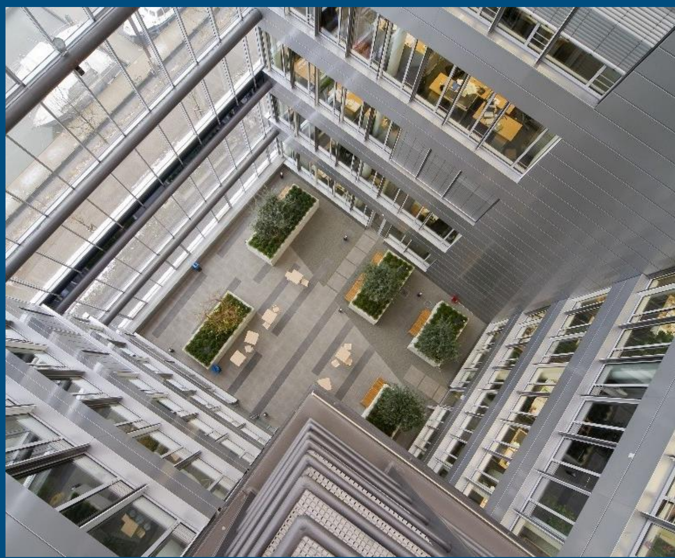
inovalis REIT

Annual Report 2022

December 31, 2022





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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 March 29, 2023.

Letter to Unitholders

Our stable and resilient office portfolio of core+ assets performed well in 2022. Inovalis REIT's Q4 2022 financial results were delivered within our internal forecast and most importantly, underscored the benefit of European office asset diversification for Canadian investors. The REIT reported FFO and AFFO of CAD$0.10/Unit and CAD$0.11/Unit in Q4 2022, consistent with the same period last year. FFO and AFFO was CAD$0.51/Unit and CAD$0.52/Unit for the year ending December 31, 2022. The REIT's AFFO payout ratio is 96%. See *"Highlights - Funds From Operations and Adjusted Funds From Operations".*

The year closed with the successful disposition of the Courbevoie property located in the La Defense area of Paris for EUR€27.2 million (CAD$39.4 million), EUR€6.4 million (CAD$9.3 million) above the Q3 2022 EUR€20.8 million (CAD $30.1million) fair market value. The process to deliver on these goals was complex and time consuming. I am very proud of the Inovalis team for executing on this aspect of the REIT's strategy. As I noted in December when the transaction closed, the EUR€17.2 million (CAD$24.9 million) net proceeds from the sale are slated for redeployment into other investment opportunities.

The increased cost of capital worldwide is changing the dynamic for acquisitions. We are solely focused on value-based assets and will continue to use our European network to identify exclusive investment opportunities.

While we explore prospects, our attention is also on the repositioning of the 335,000 square foot Arcueil property which will be vacated by its sole tenant at the end of Q2 2023. The management team has developed plans for its future use and we are in the next stages of advancing these plans. Our strength is identifying unique ways to financially structure office redevelopments and I am confident that we will successfully do so once again given the strategic location of this property just minutes away from the Paris southern ring road.

For the balance of the portfolio, management will continue to operate the REIT's properties to add value for tenants and extract value for Unitholders. With all of the economic headwinds of 2022, it was beneficial to the REIT to have indexation of office rental revenue to inflation in most of its leases.

The Board of Trustees recently re-appointed Inovalis SA as the Asset Manager of the REIT with a continued mandate to identify accretive European office assets and manage the REIT's properties, with a Management Agreement extension over three years and an optional extension of one further year. In the ten years since the initial public offering of the REIT we have grown the portfolio, successfully redeveloped and profitably recycled properties. We have not wavered from our mandate, even throughout the COVID-19 pandemic which brought short-term adversity and in the longer-term, resulted in fundamental change in the way office-based employers engage with their workforces. These transformative forces bring about opportunity and we are excited to be at the forefront of a new generation of office asset class.

Our Annual General Meeting of Unitholders will be held in person in Toronto again this year. The management team from Europe and the Board of Trustees will be present and we invite you to meet us there to engage in a discussion about our plans for the rest of 2023.

Stéphane Amine
President of Inovalis Real Estate Trust

Q4 2022

Net Rental Income	Adjusted Net Rental Income – IFRIC 21 (1)	Annual FFO	Annual AFFO
CAD$6.7 Million	**CAD$5.9 Million**	**CAD$0.51**	**CAD$0.52**

Highlights

Net Rental Income

For the portfolio that includes assets owned entirely by the REIT ("IP Portfolio"), Net Rental Income ("NOI") for the three months ended December 31, 2022 ("Q4 2022"), increased slightly to CAD$6,705 (EUR€4,894) compared to CAD$5,813 (EUR€3,921) for the three months ended December 31, 2021 ("Q4 2021"). The increase in NOI came from the contribution of the new property acquisitions, Gaia and Delgado in the amount of CAD$1,083 (EUR€790) that were completed at the end of March 2022, as well as from the lease renewals in the Metropolitain and Bad Homburg properties for CAD$417 (EUR€304). These gains were partially offset by a negative CAD$441 impact from the foreign exchange rate.

In Q4 2022, Net Rental Income, adjusted for IFRIC 21[11] for the portfolio that includes the REIT's proportionate share in joint ventures ("Total Portfolio"), was CAD$8,064 (EUR€5,886), compared to CAD$6,849 (EUR€4,620) for Q4 2021, an increase due to the same reasons described above with respect to the IP Portfolio except for a slightly larger negative foreign exchange loss of CAD$520.

The implementation of the asset recycling program, resulted in the sale of Jeuneurs (November 2021), the sale of Courbevoie (December 2022) and the redevelopment-driven lease terminations in the Baldi and Sablière properties properties throughout 2021 and 2022.

Leasing Operations

All of the REIT's lease contracts in France, Germany and Spain have rental indexation that offset the impact of inflation. Rent is increased annually to reflect the rising cost of living which protects returns to Unitholders.

In the REIT's Total Portfolio, 10,000 sq. ft. of previously vacant office space were re-leased in 2022, primarily in the Metropolitain property, now 100% occupied, and in the Delizy property. In the Courbevoie property, the last voluntary lease terminations required to facilitate the sale occurred in Q4 2022 as required for the effective closing on December 19, 2022.

Daimler Trucks has renewed its lease taking 93% of the space in the Stuttgart asset for 6.5 years with a firm period of 4.6 years increasing the appraised value of this asset by 11% compared to the June 30, 2022 valuation.

Management is negotiating the refinancing of this property (maturing in May 2023) together with other German assets.

Subsequent to the year-end, approximately 85% of the 5th floor of Duisburg has been leased to a new tenant for a ten year term effective July 2023 with an option for the tenant to take the remaining 15% within two years. The CAD$5.3 million rental income over the lease term, net of the one year of free rent and capex incentives, effectively replaces the revenue from the previous tenant. As of July 2023, the building will be 97.5% occupied (99.5% upon exercise of the option).

In early November, the REIT announced that it is advancing plans to redevelop and revitalize the 335,000 sq.ft of the Arcueil asset in the southern suburbs of Paris, as the current long term sole tenant has provided notice of its departure by mid-2023. The REIT is considering alternative plans for mixed use re-development of this asset that will offer LEED certified best-in-class operational, environmental, life-safety and health and wellness systems.

As at December 31, 2022, occupancy for the REIT's IP Portfolio was 83.6% and the Total Portfolio was 86.6%. Seven of the properties are at, or close to, 100% occupancy, and excluding two properties in the asset recycling plan (Baldi and Sablière), the occupancy rate would be 91.7%. The portfolio of assets held in joint ventures ("JV Portfolio") had 94.3% occupancy at December 31, 2022. Gaia's occupancy rate of 84% understates the effective 100% rental revenue stream due to the three-year rental guarantee on the vacant premises that the REIT received in advance at acquisition and which, for accounting purposes, was treated as a reduction in the acquisition price and not as rental income. The 16% vacancy has an impact of 1.2% on Total Portfolio occupancy.

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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)

In 2022, despite the mechanical decrease of WALT year-on-year and thanks to successful lease extensions, the REIT managed to maintains a constant weighted average lease term (“WALT”) on the Total Portfolio of 3.0 years (vs.3.1 year in 2021). In 2023, two major leases are maturing for the main tenants of the Arcueil and Neu-Isenburg properties.

Steady interest from prospective tenants throughout 2022 underscores confidence in our Parisian and German portfolio. 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 delivered returns to Unitholders 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 still low rates on 10-year government bonds;
- Lower borrowing costs in the European community compared to Canada, fueled by the European Central Bank (“ECB”) policies; and
- A Euro-currency backed hedge on distributions paid in CAD$, with a benefit of CAD$2,026 in finance income for the full year 2022, added to a CAD$1,958 realized gain on the partial sale of the forward exchange contracts.

Unitholders’ equity on December 31, 2022 was CAD$286,979 (EUR€196,478), which implies a book value per Unit at that date of CAD$8.78/Unit or CAD$8.64/Unit on a fully-diluted basis, using the Weighted Average Number of Units for the year.

Funds From Operations and Adjusted Funds From Operations

With one modification, the REIT uses non-GAAP ratios such as Funds from Operations (“FFO”) per unit and Adjusted Funds from Operations (“AFFO”) per unit as defined by the Real Estate Property Association of Canada publication on Funds From Operations & Adjusted Funds From Operations, dated January 2022. Due to the volatility of the Canadian dollar against the Euro, the REIT adjusts FFO by excluding the unrealized gain or loss on the REIT’s cash Euros which are domiciled in Canadian financial institutions.

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 2022, the REIT reported FFO and AFFO[1] per Unit of CAD$0.10 and CAD$0.11 respectively and for the year ending December 31, 2022, FFO and AFFO[1] per Unit of CAD$0.51 and CAD$0.47 respectively. Prior to the Board’s decision to reduce the distribution by half in August 2022, management had established the goal of reducing the annual AFFO payout ratio to <95% by the end of Q4 2022. For the fourth quarter of 2022, this ratio was 97% vs. 308.4% in Q4 2021.This will be a measure of continued focus for 2023.

Financing Activity

The REIT is financed almost exclusively with asset-level, non-recourse financing with an average term to maturity of 3.4 years for the Total Portfolio (3.7 years on the IP Portfolio).

As at December 31, 2022, the weighted average interest rate was 1.91% across the IP Portfolio and 1.93% on the Total Portfolio.

To refinance mortgage loans that are maturing in 2023 (Stuttgart, Neu-Isenburg, Walpur) and early 2024 (Kösching), and to mitigate risk in the properties, management is negotiating new senior debt, including a EUR11 million junior tranche that would contribute to future acquisitions, notably joint venture buy-backs.

Although hikes of the ECB key lending rates occurred at the end of 2022, management is confident that the REIT will continue to access financing opportunities through its banking networks in Europe leveraging the quality of its properties, lease terms and high caliber tenants.

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)

Stuttgart, Germany

In August 2022, at the Stuttgart property which is held in a 50% joint venture partnership, management extended the lease with the main tenant Daimler Trucks, maintaining 93% occupancy. The new lease which is on the same financial terms (CAD$3,967;EUR€2,735 annual rent), results in a WALT for the building of 6.2 years with a firm period of 4.4 years. A total of CAD$1,305 (EUR€900) is being invested in a capital expenditure subsidy that will be partially recoverable if early lease break options are exercised. This will be shared equally between the REIT and its joint venture partner.

The long-term secured cash flows on this asset provides a refinancing opportunity of the current CAD$35,682 (EUR€24,600) bullet mortgage loan maturing in May 2023. Management is considering financing alternatives including the above-mentioned portfolio senior refinancing or refinancing the property on a stand-alone basis. As at December 31, 2022 the property was externally appraised at EUR46,000 (CAD$33,362 for the REIT's 50% share), an increase of 6% compared to the December 31, 2021 valuation, representing a loan-to-value ratio of 53.5%.

Courbevoie (Veronese), France

Upon completion of a multi-stage, complex project to terminate leases and acquire building permits, the Courbevoie property was sold to a redeveloper for total proceeds of CAD$39,386 (EUR€27,200) on December 19, 2022. The REIT paid CAD$946 (EUR€652) transaction costs, including disposition and broker fees paid to Inovalis SA, a related party of the REIT. The REIT plans to invest the net proceeds in joint venture buy-backs. The Courbevoie transaction illustrates the ability of the REIT and Inovalis SA to capture value and opportunistically sell mature assets for redevelopment.

Environmental, Social and Governance (ESG)

Integrating ESG objectives and strategies into the REIT's 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 and socially-focused organizations. The REIT is working to improve its long-term environmental performance, and also investing in "human capital" for the implementation and monitoring of all ESG initiatives. A portfolio-wide ESG independent audit of all assets is ongoing with the view to formalizing ESG priorities and identify clear and measurable ESG practices and disclosures.

Rights Plan

Subsequent to December 31, 2022 on March 29, 2023, the Board of Trustees adopted a Unitholders' rights plan, subject to Unitholder ratification. The Board considered a number of factors and believes that adopting the Rights Plan will protect the REIT's Unitholders from unfair, abusive or coercive take-over strategies and to ensure that all Unitholders have an equal opportunity to participate in any future take-over bid, and to receive full and fair value for their units. See "Subsequent Events".

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 audited consolidated financial statements as at and for the years ended December 31, 2022, and 2021, 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 March 29, 2023. 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, Spanish 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 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 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 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, Germany and Spain, 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 distributions 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, Germany and Spain. 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 consolidated 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 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, 2022 and 2021 was CAD$1.3700 and CAD$1.4826, respectively (7.6% decrease).

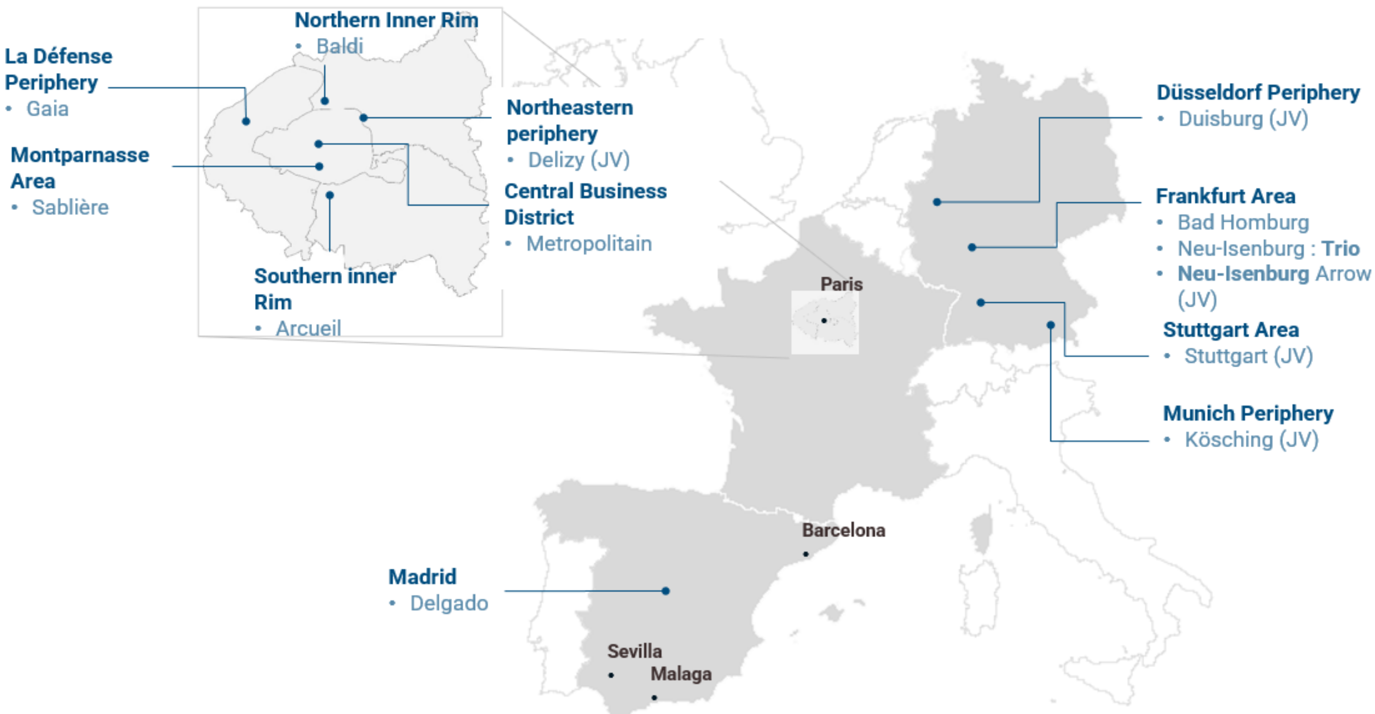
For balance sheet items as at December 31, 2022, projections, or market data, the exchange rate used is CAD$1.4505 (CAD$1.4380 as at December 31, 2021). Over the year ended December 31, 2022, the Canadian dollar weakened by approximately 1% relative to the Euro.

Business Environment

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, 2022, the REIT's property portfolio consists of ownership interest in eight properties that are consolidated and included in "Investment properties" ("IP") on the consolidated 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 13 properties (6 located in France, 6 located in Germany and 1 in Spain) is approximately 1.5 million square feet of gross leasable area ("GLA")

The assets denoted in the maps below are owned entirely by the REIT except where joint venture (JV) is noted.



France

Office Market in the Greater Paris region

After two challenging years during the COVID-19 pandemic, 2022 marks a return to normal for the office real estate sector in the Paris Region. Office leases were completed for 22.7 million sq.ft.(up 10% year-over-year and down 5% compared to the ten-year average).

Early signs of a slowdown emerged in Q4 2022, with a decline in leasing which was down 11% year-over-year and -9% compared with the long-term average). Total Q4 leasing was 6.5 million sq.ft.. The deceleration was more prevalent in the <50,000 sq.ft. segment and is due to the economic downturn.

Given the uncertain economic outlook, office space leasing in the Paris region is expected to decline a further 5% to 10% in 2023, with total leased space forecast to be 20-21 million sq.ft.

The main driver of activity in 2022 was the desire for the best locations, creating a dichotomy between the most established markets (most of which outperformed their long-term average performances) and other markets. Four areas accounted for 45% of the transaction volume: Paris Central Business District ("**CBD**") (22%), Paris Centre-Ouest (7%), La Défense (10%) and Neuilly/Levallois (6%).

Vacant space has remained relatively stable since 2021 at 43-44 million sq.ft. However, vacant office space in the Greater Paris region increased in Q4 2022 to 46 million sq.ft. The average vacancy rate in the Greater Paris region was 7.2% at the end of 2022. This marked increase in vacant space is mainly due to the markets of La Défense and the Inner Rim North and East, where several major new/refurbished/renovated projects were completed in Q4 but are still unoccupied.

Expected future supply has fallen in Q4 to 26 million sq.ft., including 20 million sq.ft. of newly built and refurbished space across 87 projects. The number of projects and building permits submitted continues to decrease. This is due to developers and property owners taking a cautious approach in the face of rising interest rates and inflation, the cost of raw materials, concerns about vacant space volume, and the market's ability to absorb this stock quickly.

Demand for the most established markets is maintaining upward pressure on rental values in the Greater Paris Region where unprecedented rental levels have been reached for prime and secondary areas.

Incentives remain high; in Q3 2022 they stood at an average of 23.8% of the headline rent across the Greater Paris Region. The range of incentives is an average of 17.4% in Parisian submarkets and 24% to 29% in suburban markets.

Investment Market in France

Despite difficult financial and geopolitical circumstances, 2022 closed out the year with a relatively strong performance: €26.1 billion was invested in commercial real estate, which represents a fairly stable year-over-year investment volume (-1% compared to 2021). However, there are signs of a slowdown, as well as widely varying levels of investment depending on asset class.

Investment in Q4 2022 totalled CAD$8.3 billion, the lowest Q4 performance since 2013 and a -49% drop compared to Q4 2021,and marked the beginning of a slowdown that is anticipated to last during the first part of 2023.

Investment varies greatly from one asset class to another. The market was driven by the retail market's renewed dynamism. It accounted for 21% of investment volume. Yields which had decompressed fairly early in the cycle remain comparatively attractive.

The office market suffered weaker performance, with CAD$20.3 billion invested in 2022. It accounted for 54% of French market investment (compared to the usual approximate 67%); annual investment fell by 14% and there were fewer large transactions.

The market was particularly affected by the greater Paris region's lacklustre performance (CAD$15.2 billion, or -21%). Yields have been very competitive in recent years, reaching unprecedented lows. This asset class has therefore been hit hard by rising interest rates and increased financing costs: as a consequence, cap rates have been rapidly decompressed, although some areas can still hope for rising rent levels (particularly in the CBD).

2022 was marked by central banks shifting towards a less accommodating monetary policy. The ECB raised key rates four times in an attempt to curb inflation, which at its peak exceeded 10% in the Euro zone. This was followed by a rise in bond rates and a rise in property yields.

Decompression affected all asset classes, but to varying degrees: +100bps for logistics; +80bps for prime CBD Paris offices; and only +35bps for high street retail.

For now, most investors have decided to wait-and-see, as they anticipate a pivot point: the stabilisation of inflation forecasts and a more readable medium-term monetary policy.

A long-term paradigm shift is taking shape: years of continuously falling interest rates had generated a significant real estate cash influx. Investors are now faced with a new situation: the sharp rise in the cost of borrowing and the erosion of the spread with the 10-year GVT bond yield are leading investors to reconsider the role of real estate relative to other asset classes, and therefore its place in their investment strategies.

Germany

Office Market in Germany

2022 ended with office leasing of 37.7 million sq.ft. in the country's seven major real estate strongholds (the "**Big 7**"), exceeding the same period last year by 6.5%. Few had expected such a robust growth in the market in the face of numerous challenges. Although the office space leasing exceeds the previous year's result, there are variations evident within the Big 7 office markets: leasing in Stuttgart more than doubled to 3.3 million sq.ft. compared to 2021, the rental volume in Berlin fell by 12% to 8.2 million sq.ft. Companies from the technology sector, which were partly responsible for the boom in demand Berlin in recent years, have been less active.

The market has become more differentiated than ever before and a decoupling of prime office rents and vacancy rates was observed in the major cities. Today, it is no longer a paradox that both are rising in parallel. Whilst fierce competition for ultra-modern and ESG-compliant space is driving up rents in prime locations, it is proving increasingly difficult to find occupiers for peripheral locations with lower quality space, which is leading to a rise in availability. Both must be kept in mind when evaluating the market.

In the past year, rising demand was matched by an overall increase in supply in space available on short notice (vacancies) and completed new-build space. As a result, the vacancy rate across the Big 7 increased by just under 9% year-over-year to 50.6 million sq.ft., with the vacancy rate rising from 4.5 to 4.9%.

With tenants focusing on prime space, when a move is completed, the space released rarely meets the requirements of new tenants and becomes vacant. Such space can only be placed on the market with corresponding rent reductions or after a comprehensive refurbishment. This situation ultimately means that the volume of vacancy is no longer the sole indicator for rental trends. With companies adopting new workplace models, more space is expected to be released than additionally rented.

Across the Big 7, prime rents have moved upwards, in some cases significantly, by between just under 5% in Munich to CAD$6/sq. ft and more than 33% in Düsseldorf to CAD$5.1/sq. ft. Rental increases were to be expected, but not to this extent. The prime rent in Stuttgart also continued to rise and, with an increase of 29% to CAD$4.5/sq.ft., achieved a similar rise to that of North-Rhein-Westphalia's state capital. This was due not only to individual and small deals, but also to the letting of thousands of square meters in some cases. Düsseldorf and Stuttgart are representative of a trend that can be observed in all major cities: the early securing of high-quality space in the best locations, especially by service companies in fierce competition for skilled workers and talent. Combined with increased building and fit-out costs, such lettings lead to correspondingly high-priced deals.

The outlook for 2023 is cautiously optimistic. The German economy and also the German office markets have remarkably demonstrated their resilience in the Covid years 2020/21 as well as in the challenging year that was 2022. In the slipstream of the expected economic recovery, a significant increase in market momentum is expected in the course of the year, with rent levels continuing to rise. The pace at which the individual office markets can return to their long-term levels should already become clear by the end of the first half of the year.

Investment market in Germany

The German investment market ended 2022 with a total transaction volume of CAD$96 billion, including the "living" segment. The fourth quarter typically ends with a strong finish but failed to materialise this time. This result is around 41 per cent down compared to the record year of 202, 8% below the 10-year average. The fact that the comparison with the long-term is not so dramatic is due to the strong first half of 2022, while the second six months of the year were increasingly characterised by restraint and market observation on the part of investors. This trend is expected to initially continue into the first half of 2023, but will then gradually ease. Market players want to make sure that the interest rate rises slow down again or stall before they invest.

Without the traditional year-end rally, the fourth quarter of 2022 was roughly on a par with the second quarter, with a transaction volume of CAD$19 billion. This made it the weakest final quarter of the past ten years. The last time the market achieved a similarly low result was in the fourth quarter of 2012 with CAD$19.7 billion.

At almost CAD$32 billion, most capital was invested in office properties (33% of the total transaction volume), followed by the "living" segment with CAD$21 billion (22%). Transactions in logistics properties totalled $CAD14 billion, increasing their relative share to almost 15%. The revival of retail properties that took place at the end of the third quarter was confirmed in the year's overall result, bringing the annual total to CAD$13.6 billion (14%) and positioning this real estate segment just behind logistics properties; food-anchored retail warehouses and supermarkets in particular were able to maintain their reputation as anchors of stability.

With central banks' zero interest rate policies coming to an end, not only did alternative investment assets become more attractive again in 2022, but interest rates on borrowings also increased. A snapshot comparison between January 3 and December 30, 2022 shows an increase in 5-year swap rates of 319 basis points to a level not recorded since 2008. It was therefore only a matter of time before property yields also showed a corresponding shift. Over the year, prime yields in the individual real estate segments rose between 15 basis points for shopping centres and 90 basis points for logistics properties. Prime yields for office properties rose by an average of 67 basis points in the real estate strongholds, and retail warehouse products and high-street retail properties rose by an average of 40 and 30 basis points, respectively. For offices, an average of 3.31% means that a "3" has appeared in front of the decimal point for the first time since the second quarter of 2019; for properties of only average quality in prime locations, initial yields have even risen to 4.22%; and for older office properties in secondary locations with short unexpired lease terms, there is a "5" in front of the decimal point for the first time since 2018

The outlook for 2023 will depend on coming to terms with the new underlying conditions. The fact is that there will not be a return to the zero interest rates of previous years and the correction process cannot take place without leaving traces when lending conditions quadruple. It will be essential to find a corridor into which margins and capital market interest rates can settle and with which investors and developers can reliably calculate. The central banks have the reins in their hands. For investors, there are currently good selective entry opportunities in the wake of rising yields, before a consolidation or even a new yield compression could set in during the second half of this year.

As in previous years, the bulk of the transaction volume was attributable to domestic investors. But international players also continue to have confidence in Germany's real estate market. Six of the seven largest transactions in 2022, which together amounted to over CAD$16 billion, took place with foreign participation on the buy-side.

Spain

Office Market in Spain

A total of 5.6 million sq.ft. of office space was leased in the Madrid market in 2022, which represents an increase of 33% compared to 2021. This level of leasing is consistent with pre-COVID-19 activity.

The CBD attracted most of the demand, with 36% of the leasing throughout 2022. The distribution of leasing inside and outside the M-30 highway was similar, with 50% in CBD and City Center and 50% in Decentralized and Periphery. Tenants continue to focus on quality buildings: grade A and B+ buildings represent 70% of the total 2022 leasing, in line with recent years where close to 70% of the demand has chosen buildings of high or very high quality.

Construction activity is still very active and around 3.4 million sq.ft. are expected to come to market in 2023, and close to 30% is already committed.

The CBD area expects to receive 832,000 sq.ft. as a result of refurbishments, of which 61% are already pre-leased. The vacancy rate, after several quarters of consecutive increases, has fallen from 10.3% at the end of September to 9.9% at the end of December 2022.

During the fourth quarter of 2022, monthly prime rent trended upward slightly, reaching CAD$5/sq.ft., exceeding the pre-Covid level at the end of 2019 (CAD$4.8/sq.ft.). The clear preference of tenants for locating in high quality buildings together with the low availability of this type of surface are the main catalyst of this upward trend in prime rent.

Investment Market in Spain

2022 closed with an aggregate figure of CAD$19 billion in terms of investment deals in Spain, some 10% above the figure recorded the preceding year. Activity was primarily led by the retail (32%) and offices (20%) sectors, followed by residential (19%) and hotels (18%). The investor profile is in line with that which dominated the market prior to Covid-19: overseas buyers continue to dominate investment, although domestic investment has grown in importance over the past year. In terms of cities, Barcelona saw total investment of CAD$4.4 billion in 2022 and Madrid closed the year with total real estate investment of CAD$4.8 billion, representing changes of 24% and -35% on the 2021 figure in Madrid and Barcelona respectively.

In the office segment, demand is focused on attracting and retaining talent, adjusting to the hybrid working model and opting for high-spec buildings with flexible spaces and amenities and which address factors such as sustainability and well-being. Investment continues to be concentrated within the M-30 ring road in Madrid and, in Barcelona, within 22@ District and the City Centre. Barcelona and Madrid closed the year with an investment of CAD$1.7 billion respectively. This represents a fall of 47% in comparison with 2021's figures recorded in Barcelona and a rise of 82% in Madrid, which closed 2021 with investment of CAD$1 billion. Whereas the first half of the year in Madrid and Barcelona demonstrated that investor demand remained strong, the second half, despite continued interest, saw the failure of a number of deals to close due to the degree of volatility in financial markets.

Investment data at the close of 2022 highlights a dynamic market due to high levels of liquidity in the capital markets, primarily from deals that took place during the first half of the year. The current volatility on financial markets and the rise in interest rates have led to a degree of caution on the part of investment groups as noted in the slowdown during the closing quarter of the year. The close of 2022 reflects price volatility and, in the specific case of offices, the prime yield stood at 3.90% and 4.00% for Madrid and Barcelona respectively. In 2023 it is expected that yields will stabilise as a result of inflation being brought under control.

Outlook

The 2023 outlook is for strong operational results and steady returns to Unitholders. The current macroeconomic environment is not optimal for raising capital on the public markets or making significant acquisitions, however, as long-time investors and managers of European office real estate, the Inovalis team knows how to capably and profitably manage through fluctuating economic cycles. Management of the REIT have three principal areas of focus in 2023:

1. finalizing redevelopment plans for the Arcueil, Baldi and Sabliere properties;
2. finalizing negotiations for the buyback of the remaining 50% of the jointly held properties and deploying the CAD$28 million cash that has been retained to partially fund this undertaking; and
3. leasing vacant space and generating rental revenue increases.

Portfolio Overview

The REIT's Total Portfolio by geographic region as at December 31, 2022 is as follows:

	% 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	WALT (end of lease)
Sablière	100%	29,445	14,951	5%	41,043	3%	5	45%	1.7
Baldi	100%	27,269	5,817	5%	123,657	2%	9	31%	4.0
Metropolitain	100%	99,633	55,254	17%	78,818	13%	6	100%	5.4
Arcueil	100%	93,519	53,291	16%	334,521	28%	1	100%	0.5
Gaia	100%	59,180	30,898	10%	119,499	9%	7	84%	6.1
Délizy (1)	50%	18,096	10,004	2%	71,617	3%	19	68%	4.7
Subtotal France		**327,142**	**170,215**	**55%**	**769,155**	**58%**	**47**	**80.6%**	**2.7**
Delgado	100%	44,101	23,134	8%	117,274	6%	2	100%	4.2
Trio	95%	60,341	43,380	10%	193,914	10%	7	87%	2.9
Bad Homburg	100%	23,933	16,101	4%	109,104	5%	5	71%	3.5
Duisburg (1)	50%	41,339	23,976	7%	108,960	7%	2	100%	4.3
Stuttgart (1)	50%	34,614	17,891	6%	121,416	6%	5	99%	6.2
Neu-Isenburg (1)	50%	28,180	16,635	5%	67,337	4%	6	100%	0.9
Kösching (1)	50%	19,973	9,702	3%	53,058	3%	1	100%	4.9
Subtotal Germany & Spain		**252,481**	**150,819**	**45%**	**771,063**	**42%**	**28**	**91.2%**	**3.8**
Total Portfolio		**579,623**	**321,034**	**100%**	**1,540,218**	**100%**	**75**	**86.6%**	**3.0**
IP Portfolio		**437,422**	**242,826**	**75%**	**1,117,830**	**76%**	**42**	**83.6%**	**2.8**
JV Portfolio		**142,201**	**78,208**	**25%**	**422,388**	**24%**	**33**	**94.3%**	**4.4**

(1) Represents investments that are classified as joint ventures and subject to equity-accounting. The results included in the table above (excluding the 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.

- Following the departure of their main tenants, the **Baldi and Sablière properties** are now included in the REIT's asset recycling plan and the total vacancies set these up for redevelopment plans currently in review. A broker agreement was signed in December 2022 to market the Baldi property and advanced negotiations are underway with a redeveloper for the Sabliere property that may conclude in Q2 2023.
- The vacant space (9%) on the **Metropolitain property,** located in the Paris CBD**,** was leased in Q1 2022 to an existing tenant on higher rental terms over a firm period of 9 years. The occupancy rate was 100% as at the end of December 31, 2022 with a long-term WALT of 5.4 years.
- The lease with Orange, the sole tenant of the **Arcueil property**, matures in mid-2023 giving the REIT the opportunity to redevelop this 335,000 sq.ft. asset located only 5 minutes away from the Paris southern ring road. The appraised value of the property was reduced by 33% (excluding the foreign exchange impact). Alternative redevelopment strategies for this property are under consideration.
- Upon acquisition of **the Gaia property**, management obtained CAD$3,342 cash in advance as a rental guarantee that covers both a three-year vacancy, and the cost of rent-free periods. The occupancy rate is 84%, however the effective occupancy rate is 100% until the beginning of 2025 due to the rental guarantee. Management is already actively working on leasing the vacant area. When the effect of this rental guarantee is taken into account, the Total Portfolio occupancy rate is 1.2% higher.
- On the **Trio property,** marketing of the 13% vacant area is underway with a prospective tenant. A 5-year lease extension has been signed on 6% of the building area.
- The **Delgado property** in Spain, acquired in March 2022, is fully leased to two blue-chip tenants on long term leases maturing at the end of 2024 and in June 2029.
- In May 2022, **on the Duisburg property**, the renegotiation of a five-year-bullet mortgage loan of CAD$47,866 (EUR€33,000), was completed, the proceeds of which provides financing for committed and future capital expenditure requirements, the payment

of deferred interest on the joint venture loan, and generated approximatively CAD$6,165 (EUR€4,250) for capital reimbursement on the joint venture loan. The main tenant vacated one floor in January 2023 but a new 10-year firm lease for this vacant space, was agreed upon subsequent to year end. Upon formalization of this lease, it is expected to become effective in July 2023.

- In August 2022, Management signed a lease renewal with Daimler Trucks, the main tenant in the **Stuttgart property.** The lease now has a firm period until May 2027 and two additional optional years, securing cash flow on 93% of this property. See *Highlights* section.
- For the **Neu-Isenburg property**, the current main lease with Arrow expires in June 2023. A 5-year lease extension on 75% of the current office space has been signed subsequent to year end, increasing the WALT on this property from 0.9 to 5 years.
- Alongside its leasing efforts, and despite the announced departure of its main tenant in January 2024, management is studying various opportunities to refinance the **Bad Homburg property,** on which the financing is maturing in March 2023. Options include a collateralization with other German financing in the portfolio, notably Stuttgart and Neu-Isenburg or a partial (or full) repayment of the senior loan with the REIT's available cash.

Tenant Profile

As at December 31, 2022, the REIT had 42 tenants across the IP Portfolio compared to 38 tenants, as at December 31, 2021, and 75 tenants across the Total Portfolio, compared to 70, as at December 31, 2021.

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 or Spanish 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 through joint ventures). The tenant base is well diversified by industry segment, with many national and multinational tenants.

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 (2)	Telecommunications	36%	334,521	284,958	26.7%	0.5
The Lorenz Bahlsen Snack-World	Food and beverage	7%	86,501	81,870	7.7%	3.0
ITP Aero	Aeronautics	4%	59,159	59,159	5.5%	2.0
Indra	IT systems	4%	58,115	58,115	5.4%	6.4
Fresenius	Health care	4%	44,942	41,611	3.9%	1.1
Top 5 tenants		**55%**	**583,238**	**525,713**	**49.3%**	**1.8**
Other tenants	Diversified	45%	265,887	306,668	28.7%	4.6
Vacant			268,705	234,826	21.9%	
IP Portfolio		**100%**	**1,117,830**	**1,067,207**	**100.0%**	**2.8**

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

(2) Orange is leaving the premises at the end of June 2023.

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 (2)	Telecommunications	28%	334,521	284,958	19.7%	0.5
Daimler Truck	Manufacturer	6%	109,136	100,485	6.9%	6.4
The Lorenz Bahlsen Snack-World	Food and beverage	5%	86,501	81,870	5.6%	3.0
Hitachi Power	Manufacturer	5%	82,800	78,138	5.4%	5.0
ITP Aero	Aeronautics	5%	59,159	59,159	4.1%	2.0
Top 5 tenants		**50%**	**672,116**	**604,611**	**41.8%**	**2.6**
Other tenants	Diversified	50%	575,525	588,612	40.6%	3.5
Vacant			292,577	256,268	17.6%	
Total Portfolio		**100%**	**1,540,218**	**1,449,490**	**100.0%**	**3.0**

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

(2) Orange is leaving the premises at the end of June 2023.

Occupancy and Leasing Activity

The change in occupancy and leasing activity in the IP Portfolio by geographic region for year ended December 31, 2022 was as follows:

IP Portfolio	January 1, 2022	Acquisition / Disposition	New leases	Lease Expiries	Other changes	December 31, 2022	Occupancy rate	Committed space (sq. ft) (1)	Total space (sq. ft)	Committed occupancy
France	502,228	89,812	10,060	(12,486)	(18,761)	570,853	81.8%	-	570,853	81.8%
Germany	246,577	-	-	-	-	246,577	81.4%	4,855	251,432	83.0%
Spain	-	117,274	-	-	-	117,274	100.0%	-	117,274	100.0%
Total IP Portfolio	**748,805**	**207,086**	**10,060**	**(12,486)**	**(18,761)**	**934,704**	**83.6%**	**4,855**	**939,559**	**84.1%**

1) The committed space relates mostly to a new lease on the Trio property

The column "Other changes" in the above and below tables refers to the vacant areas of the newly acquired Gaia property, covered by the rental guarantee until March 2025.

The change in occupancy and leasing activity in the Total Portfolio, including joint ventures at our proportionate ownership interest, by geographic region as at December 31, 2022, are as follows:

Total Portfolio	January 1, 2022	Acquisition / Disposition	New leases	Lease Expiries	Other changes	December 31, 2022	Occupancy rate	Committed space (sq. ft) (1)	Total space (sq. ft)	Committed occupancy
France	552,675	89,812	14,896	(18,974)	(18,761)	619,648	80.6%	-	619,648	80.6%
Germany	594,935	-	1,367	-	-	596,302	91.2%	2,254	598,556	91.6%
Spain	-	117,274	-	-	-	117,274	100.0%	-	117,274	100.0%
Total Portfolio	**1,147,610**	**207,086**	**16,263**	**(18,974)**	**(18,761)**	**1,333,224**	**86.6%**	**2,254**	**1,335,478**	**86.7%**

1) In addition to the new lease commitment on the Trio property, committed space relates mostly to the departure on the 5th floor on the Duisburg property, partly offset by the new signed lease on 85% of the floor, effective July 2023.

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 1% higher or 87.6%.

New Leases Signed During the Quarter:

- A new lease effective October 2022 has been signed on 1,900 sq.ft. of office space in the Delizy property, held in joint venture. The lease has a maturity of nine years with two break options, each for three years.
- At the jointly-held Neu-Isenburg property, a new lease effective October 2022 was signed for a 1,400 sq.ft. vacant area, bringing the occupancy for the property closer to the 100% occupancy.
- Subsequent to year end:
  - At the Duisburg property, a ten-year lease for 85% of the recently vacated 5th floor space was signed. The new tenant will occupy the space in July 2023, bringing the occupancy rate on this property from 78% to an expected 97.5%. The tenant has a two-year option to lease the 15% remaining area on the 5th floor.
  - A lease for 6,570 sq.ft. (7%) was extended for a two-year term at the Bad Homburg property. Prior to the extension, the lease had been scheduled to end in May 2023.
  - A new lease was signed for 4,855 sq.ft. (2%) in the Trio property effective May 2023 for a seven-year term with a break option after five years.

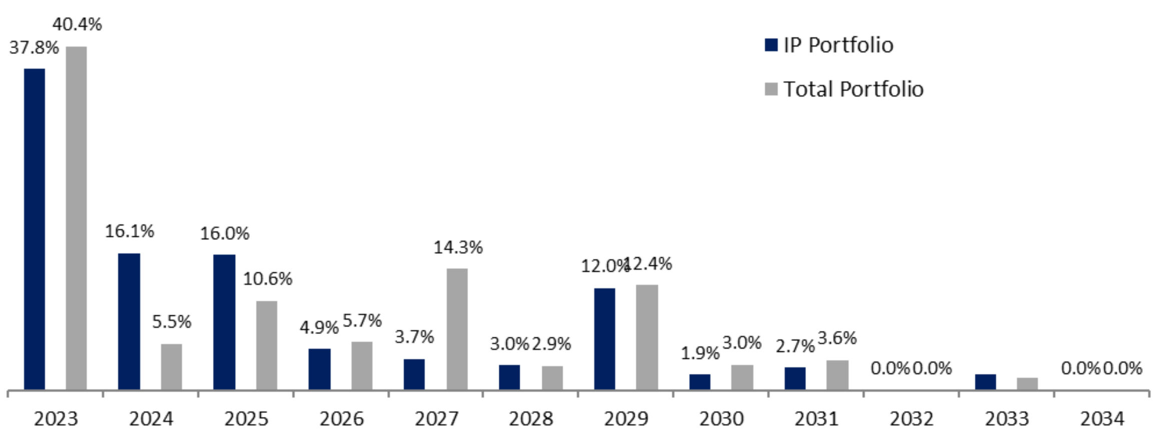
Lease Terminations During the Quarter:

- In December 2022, the REIT received the termination notice from the main tenant in the Bad Homburg property. The tenant will vacate the premises, at the end of January 2024. Management is reevaluating the strategy for this asset and the necessary measures to attract tenants and maximize asset value. If the space is not leased, occupancy is expected to be 46% at this property in January 2024.

Lease Maturities

Lease Maturity Profile

(in % of total GLA as at December 31, 2022)



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

The average remaining lease term, not including tenant early termination rights, in the IP Portfolio is 2.8 years (3.0 years for the Total Portfolio). Assuming all tenants exercise their early termination rights and leave at the earliest possible date, which the REIT believes is unlikely, the average remaining lease term in the portfolio is 2.2 years (Total Portfolio 2.5 years).

The 2023 peak relates to the single-tenant Arcueil property and Neu-Isenburg property, in which the main tenants' leases are both maturing in June 2023. (See *Portfolio overview* section).

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 rental guarantee received, (iii) the cash effect of the lease equalization loans, (iv) amortization of fair value adjustment on assumed debt, (v) the non-cash portion of the asset management fees paid in Exchangeable Securities, (vi) capital expenditures, excluding those funded by a dedicated cash reserve or capex financing, and (vii) 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 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 at the joint venture level for the contribution from the REIT and its partners.

"Effective occupancy" means the occupancy including the vacant spaces covered by the rental guarantee.

"**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 publication on Funds From Operations & Adjusted Funds From Operations, dated January 2022 with one exception.

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 three and twelve months ended December 31, 2022, and 2021, 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 (if any), (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, (v) finance costs related to distribution on Exchangeable Securities, (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 (if any), (ix) gain or loss on disposal of investment properties or an interest in a subsidiary (if any), (x) finance income earned from loans to joint ventures (if any), (xi) loss on extinguishment of loans (if any), (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 are recorded as liabilities. Exchangeable Securities 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 eight 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 eight properties referred to as the IP Portfolio and the five 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, 2022 and 2021, based on proportionate consolidation figures including REIT's interest in joint ventures (see section *Consolidated statement of earnings - Reconciliation to consolidated financial statements*), is as follows:

	Three months ended December 31,		Year ended ended December 31,	
(in thousands of CAD$)	**2022**	**2021**	**2022**	**2021**
Net (loss) income attributable to the Trust **(including share of net earnings from investments in joint ventures)**	(40,680)	(12,490)	(36,270)	33,071
Add/(Deduct):				
Acquisition, eviction and disposal costs	362	3,348	362	3,348
Loss on disposal on investment properties	934	3,988	946	3,988
Net change in fair value of investment properties	44,919	7,694	63,202	(28,492)
Net change in fair value of financial derivatives	2,537	(907)	(2,851)	(2,276)
Net change in fair value of derivative on acquisition loan	-	-	-	33
Loss on sale of investment in joint venture	-	146	-	254
Adjustment for property taxes accounted for under IFRIC 21	(865)	(832)	-	-
Distributions on Exchangeable securities	97	206	645	1,238
Net change in fair value of Exchangeable securities	(442)	278	(5,479)	735
Net change in fair value of Promissory Notes	-	-	-	-
Foreign exchange loss (gain) (2)	(1,146)	151	(252)	1,188
Loss on extinguishment of mortgage loans (3)	-	1,012	54	1,012
Income tax adjustment on sale of investment properties	-	5,876	-	7,932
Deferred income tax recoveries	(2,139)	(5,517)	(3,222)	(7,717)
Other adjustments (1)	-	357	-	1,536
Non-controlling interest	(216)	(85)	(123)	(34)
FFO	**3,361**	**3,225**	**17,012**	**15,816**
Add/(Deduct):				
Non-cash effect of straight line rents	(25)	141	(43)	176
Cash effect of the rental guarantee	246	-	1,145	-
Cash effect of the lease equalization loans	-	3	-	(354)
Amortization of transaction costs on mortgage loans	222	11	293	84
Capex	(195)	(1,138)	(821)	(1,591)
AFFO	**3,609**	**2,242**	**17,586**	**14,131**
FFO / Units (diluted) *(in CAD$)*	**0.10**	**0.10**	**0.51**	**0.47**
AFFO / Units (diluted) *(in CAD$)*	**0.11**	**0.07**	**0.52**	**0.42**

(1) In 2021, Other adjustments refers to administrative expenses related to the strategic review, including aborted asset acquisition costs and the SIF conversion. Due to their nature, management has decided to exclude these expenses from the FFO calculation, although REALPAC does not provide guidance on such exclusions.

(2) REALPAC guidance suggest that the foreign exchange 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 REIT's cash Euros which are domiciled in Canadian financial institutions.

(3) The 2022 loss on the Bad Homburg refinancing and in 2021, the loss on the Jeuneurs mortgage loan early termination, pursuant to the sale of the property.

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, 2022		December 31, 2021	
Operating metrics	**IP Portfolio**	**Total Portfolio**	**IP Portfolio**	**Total Portfolio**
Number of properties	8	13	7	12
Gross leasable area (sq. ft.)	1,117,830	1,540,218	976,960	1,399,345
Occupancy rate - end of period [1]	83.6%	86.6%	77.2%	82.6%
Weighted average lease term	2.8 years	3.0 years	2.6 years	3.1 years
Average initial yield [2]	6.0%	5.5%	4.9%	5.0%
Capital management metrics	**IP Portfolio**	**Total Portfolio**	**IP Portfolio**	**Total Portfolio**
Available cash [4]	$45,176	$49,913	$76,627	$79,728
Fair value of investment properties	$437,422	$579,623	$427,631	$573,223
Debt-to-gross book value [3]	43.6%	50.5%	36.1%	43.3%
Debt-to-gross book value, net of cash) [3]	38.7%	46.4%	26.5%	35.7%
Weighted average loan term to maturity	3.7 years	3.4 years	3.9 years	3.4 years
Weighted average interest rate [3]	1.91%	1.93%	2.08%	1.99%
Interest coverage ratio [3]	3.4 x	3.5 x	2.6 x	3.0 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" further discussion on the composition and usefulness of this metric.

	Three months ended December 31,		Year ended December 31,	
(thousands of CAD$ except per Unit and other data)	**2022**	**2021**	**2022**	**2021**
Financial performance metrics				
Rental revenue	6,796	6,253	25,377	28,194
Rental revenue - Total Portfolio [1]	8,869	8,225	33,470	36,495
Net rental income	6,705	5,813	21,633	24,191
Net rental income - Total Portfolio [1]	8,929	7,681	29,204	31,866
Net income, attributable to the Trust	(41,042)	(15,228)	(36,854)	30,333
Funds from Operations (FFO) [1] [2]	3,361	3,225	17,012	15,816
Adjusted Funds from Operations (AFFO) [1] [2]	3,609	2,242	17,586	14,131
FFO per Unit (diluted) [1] [2]	0.10	0.10	0.51	0.47
AFFO per Unit (diluted) [1] [2]	0.11	0.07	0.52	0.42
Distributions				
Declared distributions on Units and Exchangeable securities	3,466	6,914	23,097	37,942
Declared distributions on Units and Exchangeable sec., excluding Participatory Distribution	3,466	6,914	23,097	27,995
Declared distribution per Unit. including Participatory Distribution	0.10	0.51	0.58	0.93
Declared distribution per Unit	0.10	0.21	0.58	0.62
FFO payout ratio [1] [2]	103.1%	214.4%	135.8%	177.0%
AFFO payout ratio [1] [2]	96.0%	308.4%	131.3%	198.1%

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

Consolidated Financial Information

	Three months ended December 31,		Year ended December 31,	
(in thousands of CAD$)	2022	2021	2022	2021
Rental revenue	6,796	6,253	25,377	28,194
Property operating cost recoveries	1,353	840	5,525	5,974
Property operating costs	(1,613)	(1,459)	(9,415)	(9,585)
Other revenues (costs)	143	122	241	290
Other property operating revenue (expenses)	26	57	(95)	(682)
Net rental income	**6,705**	**5,813**	**21,633**	**24,191**
General and Administration expenses	(2,198)	(2,132)	(6,974)	(8,392)
Eviction and disposal costs	(362)	(3,348)	(362)	(3,348)
Foreign exchange gain (loss)	1,145	(140)	250	(1,129)
Loss on disposal of investment properties	(946)	(3,988)	(946)	(3,988)
Loss on sale of investment in joint venture	-	-	-	(254)
Share of net loss from joint ventures	(5,422)	(4,648)	(3,585)	(2,062)
Operating earnings	**(1,078)**	**(4,601)**	**10,016**	**5,018**
Net change in fair value of investment properties	(38,301)	(5,038)	(58,393)	29,419
Net change in fair value of financial derivatives	(2,542)	904	2,847	2,215
Net change in fair value of Exchangeable securities	442	(278)	5,479	(735)
Finance income	916	1,127	6,705	3,702
Finance costs	(1,833)	(2,529)	(5,766)	(7,492)
Distributions on Exchangeable securities	(97)	(206)	(645)	(1,238)
Income (loss) before income taxes	**(42,493)**	**(10,621)**	**(39,757)**	**30,889**
Current income tax expense	(65)	(5,875)	(191)	(8,088)
Deferred income tax recovery (expenses)	1,300	5,171	2,971	7,498
Total income tax recovery (expense)	**1,235**	**(704)**	**2,780**	**(590)**
Net (loss) income	**(41,258)**	**(11,325)**	**(36,977)**	**30,299**
Non-controlling interest	(216)	(85)	(123)	(34)
Net (loss) income attributable to the Trust	**(41,042)**	**(11,240)**	**(36,854)**	**30,333**

Net Rental Income

For the IP Portfolio, NOI for the three months ended December 31, 2022, increased to CAD$6,705 (EUR€4,894) compared to CAD$5,813 (EUR€3,921) for the three months ended December 31, 2021. The increase in NOI came from the contribution of the new property acquisitions, Gaia and Delgado in the amount of CAD$1,083 (EUR€790) that were completed at the end of March 2022, as well as from the lease renewals in the Metropolitain and Bad Homburg properties for CAD$417 (EUR€304). These gains were partially offset by a negative CAD$441 impact from the foreign exchange rate.

For the year ended December 31, 2022, net rental income was CAD$21,633, compared to CAD$24,191 for the same period last year. The decrease is mainly attributable to the same factors described above, with a stronger foreign exchange rate impact of CAD$1,837.

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$3,188. 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, 2022, and 2021 is set out below.

	Three months ended December 31,			Year ended December 31,		
In Canadian dollars (in thousands)	**2022**	**2021**	**Variance**	**2022**	**2021**	**Variance**
Net rental income	6,705	5,813	892	21,633	24,191	(2,558)
IFRIC 21 impact	(777)	(735)	(41)	-	-	-
Adjusted net rental income - IFRIC 21 [(1)]	5,928	5,078	851	21,633	24,191	(2,558)

	Three months ended December 31,			Year ended December 31,		
In Euros (in thousands)	**2022**	**2021**	**Variance**	**2022**	**2021**	**Variance**
Net rental income	4,894	3,921	973	15,791	16,317	(526)
IFRIC 21 impact	(567)	(496)	(71)	-	-	-
Adjusted net rental income - IFRIC 21 [(1)]	4,327	3,425	901	15,791	16,317	(526)

(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,			Year ended December 31,		
In Canadian dollars (in thousands)	**2022**	**2021**	**Variance**	**2022**	**2021**	**Variance**
Net rental income	6,705	5,813	892	21,633	24,191	(2,558)
Net rental income - proportionate share of JVs	2,224	1,868	356	7,571	7,675	(104)
IFRIC 21 impact	(865)	(832)	(33)	-	-	-
Adjusted net rental income - IFRIC 21 - including proportionate share of JVs [(1)]	8,064	6,849	1,215	29,204	31,866	(2,662)

General and Administrative Expenses

General and administrative 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.

G&A expenses for the Q4 2022 remained stable and amounted to CAD$2,198 compared to CAD$2,132 in Q4 2021.

For the year ended December 31, 2022, the G&A expenses decreased by CAD$1,418. The 2022 G&A included CAD$202 non-recurring costs, primarily legal expenses, related to the transactions (acquisitions, sale and integration) and the current tax audit. The 2021 G&A expenses were higher than 2022 due to CAD$1,533 in non-recurring expenses related to the SIF conversion and the Strategic Review process.

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

	For the year ended December 31,		
	2022	2021	Variance
Asset management fees – Inovalis SA	(2,306)	(2,760)	454
Less: amount reinvoiced to joint ventures	1,089	1,179	(90)
	(1,217)	**(1,581)**	**364**
Professional fees for accounting. tax and audit	(2,449)	(2,573)	124
Legal expenses	(727)	(618)	(109)
Other legal expenses related to strategic review anc	-	(1,359)	1,359
Trustee fees	(189)	(792)	603
Travel expenses	(512)	(63)	(449)
Governance expenses	(349)	(400)	51
Bank and depositary expenses	(338)	(141)	(197)
Listing and transfert agent fees	(81)	(86)	5
Other general and administrative expenses	(1,112)	(779)	(333)
Total G&A expenses	**(6,974)**	**(8,392)**	**1,418**

Lease termination and disposal costs

In line with the sale of the Courbevoie property that took place December 2022, most of the costs incurred for the required termination of leases were anticipated in 2021 financial statements for CAD$3,348. The CAD$362 expenses incurred in 2022 represented adjustment of eviction costs following final agreement with the last 2 tenants.

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, the interest on loans granted to joint ventures (presented in the finance income line).

The share of net loss from joint ventures was CAD$5,422 for the three-month period ended December 31, 2022, compared to CAD$4,648 for the same period in 2021. The capitalization rate decompression in the real estate markets led to a negative change in fair value of properties held in joint ventures. In addition, the loan to the Delizy joint venture was impaired for $585 over the quarter, as the result of the decrease of the fair value of the related property.

Net Change in Fair Value of IP Portfolio

The net change in fair value in IP Portfolio for the three-month periods ended December 31, 2022 was CAD$(38,301), compared to CAD$(5,038) at December 31, 2021. The decrease is mostly attributable to the Arcueil property where, due to the impending vacancy in June 2023, the cap rate has been increased by 50bps and higher vacancy costs resulted in a 23% decrease in fair value compared to September 30, 2022.

For the year ended December 31, 2022, the net change in fair value of the IP Portfolio was CAD$(58,393) compared to CAD$29,419 for the same period in 2021. While the 2021 fair values reflected the increase of the Jeuneurs property to record it at its sale price, the 2022 period has been negatively impacted by the CAD$44 million (-33%) decrease of the Arcueil property value, due to the pending vacancy to be created upon the departure of the single tenant in June 2023. The fair value adjustment up to the disposition price of the Courbevoie property allowed the recognition of a positive CAD$6.1 million impact.

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 consolidated balance sheet, 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$3.77 on December 31, 2022, compared to CAD$9.60 at close of December 31, 2021, resulting in a gain of CAD$5,479 in the net change in fair value of Exchangeable Securities throughout the year 2022.

Finance Income

In Q4 2022, finance income of CAD$916 (compared to CAD$1,127 in Q4 2021) included CAD$289 interest on loans granted to joint ventures, CAD$627 gain on current foreign exchange forward contracts.

For the twelve months ended December 31, 2022, finance income was CAD$6,705 compared to CAD$3,702 for the same period last year. The CAD$3,003 variance is mainly attributable to the realized gain on the partial sale of forward exchange contracts with Banque Palatine. These contracts, signed in September 2021 before the relative increase of the CAD compared to the EUR, were partially sold in September 2022 to adjust to the future distribution needs of the REIT, generating a significant gain of CAD$1,958.

Finance Costs

The finance costs in Q4 2022 were CAD$1,833 (compared to CAD$2,529 in Q4 2021), which included CAD$1,708 related to interest on mortgage loans and lease liabilities. The sale of Jeuneurs property in Q4 2021 triggered CAD$1,012 finance costs mostly related to the early repayment of the mortgage loan.

For the year ended December 31, 2022, finance costs were CAD$5,766 compared to CAD$7,462, a decrease of CAD$1,726 mostly attributable to the above-mentioned costs related to Jeuneurs sale, added to the foreign exchange impact of CAD$235. The decrease of mortgage interest following the sale of Jeuneurs and the partial repayment of its collateral Baldi loan (CAD$846) is offset by the two new mortgage loans financing Gaia and Delgado acquisitions (CAD$840).

Distributions on Exchangeable Securities

Distributions to the holders of Exchangeable Securities are calculated in a manner that provides a return that is economically equivalent to the distributions received by the Unitholders. In Q4 2022, the distributions on Exchangeable Securities were CAD$(97) compared to CAD$206 for the three months period ended December 31, 2021.

For the year 2022, distributions on exchangeable securities were CAD$645, compared to CAD$1,238 for the year 2021, the decrease being mostly related to 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 for the year ended December 31, 2022 was CAD$191 compared to CAD$8,088 for the year 2021, the decrease being mostly attributable to the CAD$5,980 paid withholding tax on dividend distribution following Jeuneurs sale in November 2021, as well as the recording of a CAD$2,081 provision for the tax reassessment disputed with the French authorities. In 2022, the provision has been maintained and only adjusted for late payment interest for CAD$44.

The REIT recorded a deferred income tax recovery of CAD$2,971 for the year 2022, while the 2021 amount of CAD$7,498 was mainly attributable to Jeuneurs sale, transferring deferred income tax expenses onto the current income tax expenses line.

	For the twelve months period	
(in thousands of CAD$)	**2022**	**2021**
Income taxes computed at the Canadian statutory rate of Nil applicable to the Trust	-	-
Deferred income tax recovery applicable to corporate subsidiaries	4,357	2,350
Deferred tax recovery related to prior year adjustments	215	
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
Deferred tax recovery related to unrecognized tax benefit	(1,601)	
Current tax expense on distribution of profit from sale of properties	(112)	(5,980)
Current tax expense on tax reassessment	(44)	(2,081)
Other current tax expenses	(35)	(27)
		-
Total income tax expenses	**2,780**	**(590)**

Selected Three-Year Information

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

	For the year ended December 31,				
(in thousands of CAD$)	**2022**	**2021**	**2020**	**2022 vs. 2021**	**2021 vs. 2020**
Rental revenue	25,377	28,194	28,858	(2,817)	(664)
Net change in fair value of investment properties	(58,393)	29,419	(7,431)	(87,812)	36,850
Finance income	6,705	3,702	6,620	3,003	(2,918)
Net income	(36,977)	30,299	18,213	(67,276)	12,086
Net income attributable to the Trust	(36,854)	30,333	18,196	(67,187)	12,137

Despite the additional contribution of one net new asset compared to 2021, 2022 rental revenue has been impacted by a lower occupancy rate on the IP Portfolio, notably on the Sablière, Baldi and Courbevoie properties.

The 2022 fair value portfolio valuation decreased by approximately one-third due to the pending departure of the sole tenant of the Arcueil property.

The active hedging policy allowed to generate significant finance income on hedging contracts.

Consolidated balance sheet

Assets	As at December 31, 2022	As at Dec. 31, 2021,	Variance
Non-current assets			
Investment properties	437,422	427,631	9,791
Investments in joint ventures	55,693	64,327	(8,634)
Derivative financial instruments	807	-	807
Other financial assets	330	-	330
Restricted cash	4,436	4,964	(528)
Total non-current assets	**498,688**	**496,922**	**1,766**
Current assets			
Trade receivables and other financial assets	8,227	9,368	(1,141)
Derivative financial instruments	3,002	845	2,157
Other current assets	3,132	3,431	(299)
Restricted cash	2,882	52	2,830
Cash	45,176	76,627	(31,451)
Total current assets	**62,419**	**90,323**	**(27,904)**
Total assets	**561,107**	**587,245**	**(26,138)**

Liabilities and Unitholders' equity	As at December 31, 2022	As at Dec. 31, 2021,	Variance
Liabilities			
Non-current liabilities			
Interest-bearing loan	245	334	(89)
Mortgage loans	96,254	73,099	23,155
Lease liabilities	102,121	106,351	(4,230)
Tenant deposits	2,068	1,172	896
Derivative financial instruments	299	366	(67)
Deferred tax liabilities	1,839	4,941	(3,102)
Total non-current liabilities	**202,826**	**186,263**	**16,563**
Current liabilities			
Interest-bearing loan	22	24	(2)
Mortgage loans	38,027	19,609	18,418
Lease liabilities	6,424	7,700	(1,276)
Tenant deposits	303	277	26
Exchangeable securities	3,536	9,015	(5,479)
Derivative financial instruments	-	853	(853)
Trade and other payables	18,960	11,248	7,712
Income tax payable	2,039	2,167	(128)
Deferred income	793	4,004	(3,211)
Total current liabilities	**70,104**	**54,897**	**15,207**
Total liabilities	**272,930**	**241,160**	**31,770**
Equity			
Trust units	289,940	288,752	1,188
Retained earnings	(12,327)	46,979	(59,306)
Accumulated other comprehensive income	9,366	9,055	311
Total Equity	**286,979**	**344,786**	**(57,807)**
Non-controlling interest	1,198	1,299	(101)
Total liabilities and equity	**561,107**	**587,245**	**(26,138)**

Selected Consolidated Balance Sheet Information

	For the period ended				
(in thousands of CAD$)	Dec 31. 2022	Dec. 31, 2021,	Dec. 31, 2020	2022 vs. 2021	2021 vs. 2020
Fair value of investment properties - IP Portfolio	437,422	427,631	541,218	9,791	(113,587)
Fair value of investment properties - Total Portfolio	579,623	573,223	701,458	6,400	(128,235)
Investment in joint ventures - carrying value	55,693	64,327	75,987	(8,634)	(11,660)
Total assets	561,107	587,245	712,089	(26,138)	(124,844)
Total debt (1)	243,093	207,117	288,657	35,976	(81,540)
Total non-current liabilities	202,826	161,826	292,817	41,000	(130,991)
Unitholders' equity	286,979	344,786	375,238	(57,807)	(30,452)
Number of outstanding Units	32,778,699	32,587,809	32,400,585	190,890	187,224

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

IP Portfolio

The fair value of the REIT's IP Portfolio as at December 31, 2022 was CAD$437,422 (EUR€301,566) compared to CAD$427,631 (EUR€297,379) as at December 31, 2021. The slight increase of CAD$9,791 (EUR€4,187) reflects two significant and offsetting effects i) a change in portfolio with the acquisition of two assets Gaia (CAD$56,678 ; EUR€41,211) and Delgado (CAD$43,154; EUR€31,175) and the sale of the Courbevoie property (CAD$39,386; EUR€27,200) and ii) the decrease in fair value measurement of investment property for CAD$58,198, mostly related to Arcueil and the global economic decompression of cap rates in line with current market conditions. The foreign exchange rate positively impacted the balance sheet by CAD$5,611.

Management uses the Direct Capitalization Method ("DCM") to determine the fair value of REIT's properties in France, Germany and the DCF method for the Spanish asset. The values are supported by external appraisals of the total portfolio as at December 31, 2022, 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 (50%), through a joint venture agreement that matured in December 2022. The side letter to the joint venture agreement, dated in May 2022, provides that the maturity is automatically extended to June 30, 2023 in the case that no sale has happened or buy-out strategy has not been defined. A one-year extension is under discussion between both joint venture partners,
- 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, and
- the Kösching property (50%), through a joint venture agreement maturing in December 2023.

The REIT's investment in joint ventures was CAD$55,693 as at December 31, 2022, compared to CAD$64,327 as at December 31, 2021. The CAD$8,634 decrease was mainly due to the CAD$5,302 repayment on joint venture loans (notably on the Duisburg loan following the refinancing completed in May), and a negative CAD$3,000 share of the net income, dragged by the decrease in valuation of investment properties. The Duisburg property's fair value decreased by 9% due to the exercise of the break option on the 5th floor lease. This is partly offset by the 6% valuation increase on the Stuttgart property, following a five-year lease extension with the main tenant.

Trade Receivables and Other Financial Assets

Trade receivables and other financial assets as at December 31, 2022 amounted to CAD$8,227, compared to the CAD$9,368 at December 31, 2021. The decrease is mainly due to a CAD$870 cash reserve related to the financing covenant on the Bad Homburg property, considered as restricted cash in 2022.

Trade and Other Payables

Trade and other payables as at December 31, 2022 amounted to CAD$18,960 compared to CAD$11,248 as at December 31, 2021. The variance is mostly attributable to the $CAD7,398 VAT due on the sale of Courbevoie property.

Income Tax Payable

The income tax payable as at December 31, 2022, amounted to CAD$2,039, stable compared to December 31, 2021, which mostly represents management's best estimate for the amount payable following a tax reassessment that is being disputed with the French tax authorities.

Deferred Income

The deferred income amounted to CAD$793 as at December 31, 2022 compared to CAD$4,004 in December 31, 2021. The variance is mostly attributable to the early payment of the quarterly Q1 2022 rent in December 2021 by the main tenant in the Arcueil property of CAD$3,168. The Q4 2022 rent for the same tenant was paid early in January 2023 and no deferred income had to be accounted for.

Capital Management

Sources of Capital

The REIT's primary sources of capital are cash generated from operations, disposition of assets, credit facilities, refinancing mortgages, 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 the REIT's debt performance, management uses the non-GAAP key indicators below:

	Consolidated basis - IP Portfolio		**Proportionate share basis - Total Portfolio**	
	December 31, 2022	**December 31, 2021**	**December 31, 2022**	**December 31, 2021**
Capital management metrics				
Debt-to-gross book value	43.6%	36.1%	50.5%	43.3%
Debt-to-gross book value, net of cash	38.7%	26.5%	46.4%	35.7%
Debt due in the next 12 months (1)	44,451	51,746	79,758	52,461
Weighted average loan term to maturity	3.7 years	3.9 years	3.4 years	3.4 years
Weighted average interest rate (1)	1.91%	2.08%	1.93%	1.99%
Interest coverage ratio (2)	3.4	2.6	3.5	3.0

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

The Bad Homburg mortgage loan representing CAD$16,101 has a maturity date in March 2023, following its one-year extension in March 2022, and has been classified as a current liability in the balance sheet as at December, 2022, together with the Baldi and Sabliere loans following the covenant breachs (see *Financing covenants* section below).

In the Total portfolio, the mortgage loans on the Stuttgart and Isenburg property, maturing respectively in May 2023 and December 2023, have also been classified as a current liability for CAD$17,842 and CAD$16,536 respectively. Management is working on the refinancing of these loans, possibily collateralized with other German financing on the portfolio.

Financing covenants

As at December 31, 2022, further to ongoing redevelopment scenarios or arbitrages anticipated on the Baldi and Sabliere properties, the Debt Service Coverage Ratio covenant criteria has not been met. This arises because the REIT cannot simultaneously maintain minimum occupancy requirements of the covenants and vacate the building to fulfill redevelopment plans. Consequently, both mortgage loans have been classified as current liabilities as of balance sheet date for CAD$5,817 and CAD$14,951 respectively.

Throughout the periods in which the occupancy covenants have been breached, the REIT has been in communication with the lenders to refinance the loans and mitigate the breached covenants. 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 covenants. In 2022, a CAD$891 cash reserve was transferred on Sabliere to partly remediate the covenant breach and subsequent to year end, management completed this reserve with an additional contribution of CAD$72 to comply with the covenant requirement.

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 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, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Lease liabilities	108,545	114,051	118,548	124,458
Mortgage loans	134,281	92,708	202,486	154,192
Interest-bearing loans	245	334	245	334
Deferred tax liabilities	1,839	4,941	8,465	11,773
Total debt outstanding	**244,910**	**212,034**	**329,744**	**290,757**
Less : Cash	(45,176)	(76,627)	(49,913)	(79,728)
Debt net of cash	**199,734**	**135,407**	**279,831**	**211,029**
Gross book value	561,107	587,245	653,097	671,518
Gross book value. net of cash	515,931	510,618	603,184	591,790
Debt-to-gross book value	**43.6%**	**36.1%**	**50.5%**	**43.3%**
Debt-to-gross book value, net of cash	**38.7%**	**26.5%**	**46.4%**	**35.7%**

The debt-to-gross book value ratio is 43.6% for the IP Portfolio (38.7% net of cash) and is within the REIT's mandated threshold of maximum 60% debt to the gross book value of assets. The increase compared to the December 31, 2021 ratio is attributable to the two new properties that have slightly higher indebtedness ratios than the previous IP Portfolio average, and to the decrease in portfolio value. For the Total Portfolio, the debt-to-gross book value ratio is 50.5% (46.4% net of cash).

Interest Coverage Ratio

Interest coverage ratio	Consolidated basis - IP Portfolio		Proportionate share basis - Total Portfolio	
	December 31, 2022	December 31. 2021	December 31, 2022	December 31. 2021
Net rental income	21,633	24,191	29,204	31,866
IFRIC 21 adjustment	-	-	-	-
Net rental income adjusted	**21,633**	**24,191**	**29,204**	**31,866**
General and Administrative expenses	(6,974)	(8,392)	(8,403)	(10,006)
Interest income (2)	3,960	348	3,960	520
Total income	**18,619**	**16,147**	**24,761**	**22,380**
Interest expense (1)	(5,522)	(6,312)	(7,151)	(7,530)
Interest coverage ratio	**3.4**	**2.6**	**3.5**	**3.0**

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

The interest coverage ratio increased over the year 2022, due to higher finance income on foreign exchange forward contracts (CAD$3,960) and lower G&A expenses.

Weighted-Average Interest Rate

The weighted average interest rate across the IP Portfolio debt is 1.91% and 1.93% for the Total Portfolio. The two new acquisitions in March 2022 were financed at 1.91% and 1.99% fixed interest rates respectively, while the Duisburg five-year refinancing was set at a 2.47% fixed interest rate in May 2022. Despite recent interest rates hikes, management is still capable of financing assets on a less costly basis than that offered by traditional financing in Canada.

Debt Profile

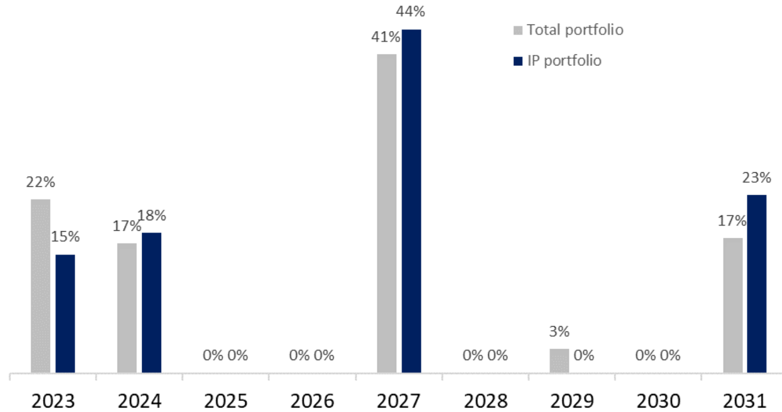
Debt profile as at December 31, 2022	IP Portfolio		Total Portfolio	
	Carrying value	%	Carrying value	%
Lease liabilities	**108,545**	45%	**118,548**	37%
Mortgage loans	**134,281**		**202,486**	
of which : Amortized mortgage loan	*87,282*	*36%*	*96,985*	*30%*
Bullet mortgage loan	*46,999*	*19%*	*105,501*	*33%*
Total	**242,826**	**100%**	**321,034**	**100%**

As at December 31, 2022, the debt on the IP Portfolio is composed of 55% mortgage loans and 45% lease liabilities, under contracts expiring from 2023 to 2031.

The REIT repays principal amounts quarterly on both mortgage and lease liabilities. This represents 81% of the REIT’s IP Portfolio financing, excluding bullet mortgage loans (67% for the Total Portfolio).

Leasehold and Mortgage Financing Maturity Profile

(in % of amount outstanding as at December 31, 2022)



As at December 31, 2022, due to the lender's right to repayment upon breach of the covenant on the Baldi and Sabliere properties, these loans have been classified as current liabilities for a total amount of CAD$20,768.

The Bad Homburg mortgage loan, on which a one-year extension was obtained in March 2022 with a 1.45% rate (vs.1.43% in the previous agreement), is maturing in March 2023. Management is analyzing various opportunities to refinance this property, including a collateral financing with other German properties of the portfolio, notably Stuttgart and Neu-Isenburg.

In all instances, the REIT could use part of its CAD$45 million available cash to repay partly or in full the mortgage loans that are maturing or in breach in 2023.

For the Total Portfolio, the in-place financing on the Duisburg property, initially maturing in June 2023, was renegotiated by management in March 2022 and led to a new bullet mortgage for a term of five years at 2.47% fixed total interest.

The 2027 maturity relates mostly to the lease liability contract on Arcueil property with the bank. With the sole tenant leaving the premises in mid-2023, management is actively considering redevelopment opportunities and will continue to keep its senior lenders informed on next steps. Arcueil financing is a finance lease, and consequently no covenant is defined as long as the debt instalments are regularly paid.

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

Contractual Obligations

	Contractual Cash Flows (1)	2023	2024	2025	2026	2027	Thereafter
Interest-bearing loan	267	22	-	-	245	-	-
Mortgages – principal payments	7,204	2,751	1,869	1,854	730	-	0
Mortgages -maturities	127,077	21,280	42,993	-	10,183	52,621	-
Lease liabilities	108,545	5,943	6,327	6,388	6,449	37,343	46,096
Exchangeable securities	3,536	3,536	-	-	-	-	-
Accounts payable	18,960	18,960	-	-	-	-	-
Income tax payable	2,039	2,039	-	-	-	-	-
Total	**267,628**	**54,531**	**51,189**	**8,242**	**17,607**	**89,964**	**46,096**

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

Equity

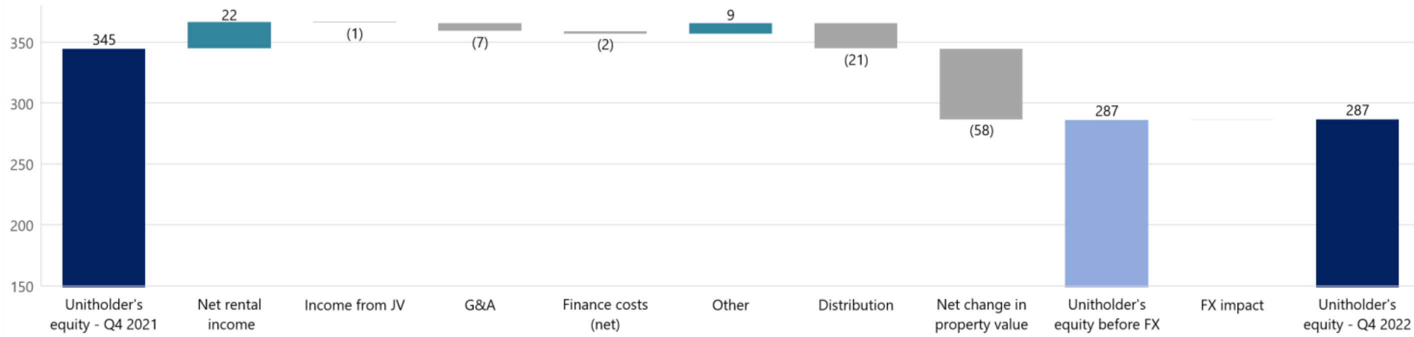
Management's discussion about equity is inclusive of Exchangeable Securities. In the consolidated financial statements, the Exchangeable Securities are classified as current liabilities under IFRS because of the conversion feature that can be exercised by the holder of those securities at any time.

As at December 31, 2022, the REIT has 32,778,699 Units issued and outstanding, plus 938,036 Exchangeable Securities.

	Three months period ended December 31, 2022	Year ended December 31, 2022
Units		
Number at beginning of period	32,778,699	32,587,809
Increase in number during the period	-	190,890
Number at end of period	32,778,699	32,778,699
Weighted average number during the period	32,778,699	32,672,428
Exchangeable securities		
Number at beginning of period	938,036	938,036
Decrease in number during the period	-	-
Number at end of period	938,036	938,036
Weighted average number during the period	938,036	938,036
Units and Exchangeable securities		
Number at beginning of period	33,716,735	33,525,845
Decrease in number during the period	-	190,890
Number at end of period	33,716,735	33,716,735
Weighted average number during the period	33,716,735	33,610,464

Unitholders' equity

The Unitholders' equity breakdown throughout year of 2022 is presented below (in CAD$ million):



Notes to the Unitholder's Equity chart:

- The income from joint ventures includes both the share of net loss for CAD$3,585 and the finance income from interests on joint venture loans for CAD$2,746.
- FX impact: The closing foreign exchange rate was 1.4505 as at December 31, 2022, slightly above the 1.4380 as at December 31, 2021. This 0.9% variance marginally impacted the REIT's consolidated balance sheet and Unitholders' equity (CAD$0.3 million).
- Finance costs (CAD$5,766) are presented net of the finance income (CAD$4,322), mostly attributable to the profit on FX hedging programs.
- Other impacts are mainly comprised net change in fair value of both financial derivatives and Exchangeable securities for CAD$2,847 and CAD$5,479 respectively.

Available and Restricted Cash

The REIT's available cash was CAD$45,176 as at December 31, 2022 (compared to CAD$76,627 as at December 31, 2021) following the acquisitions of Gaia and Delgado at the end of March 2022 and the sale of the Courbevoie property in December 2022. Available funds are intended to be used for reinvestment in the buyback of most of the jointly held assets in 2023.

Despite the breach in covenant (see *Capital Management* paragraph above) and the related classification as current liabilities, the REIT has sufficient cash as of December 31, 2022 to offset the short-term working capital shortfall given available cash from the sale of Courbevoie property. 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 addition to this available cash, the REIT has a total of CAD$7,318 of restricted cash, including CAD$2,882 recoverable in the short term (CA$1,450 were released in 2023 following the sale of Courbevoie asset in December 2022).

Cash Flows

The below table is showing the cash utilization throughout the years 2022 and 2021 for the IP Portfolio, not including the REIT's share of cash in the joint venture-owned properties.

	Year ended December 31,		
	2022	**2021**	**Variance**
Cash at the beginning of the period	**76 627**	**80 376**	**(3 749)**
Cash provided by (used in):			
Operating activities	21 427	(7 915)	29 342
Investing activities	(60 471)	106 614	(167 085)
Financing activities	9 704	(97 541)	107 245
Net change during the period	**(29 340)**	**1 158**	**(30 498)**
Impacts of FX adjustment on cash	(2 111)	(4 907)	2 796
Cash at period-end	**45 176**	**76 627**	**(31 451)**

The cash flow provided by the investing activities decreased over the year 2022, comprising both the two acquisitions (Gaia and Delgado) and the sale of Courbevoie property, while 2021 figure related to the sale of Jeuneurs.

Including the negative impact of FX on cash as at December 31, 2022, the reduction in available cash compared to the year 2021 is CAD$(31,451).

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

		For the three months period ended December 31,		For the year ended December 31,	
	Note	**2022**	**2021**	**2022**	**2021**
Net cash flows related to operating activities	A	8,787	(6,999)	21,427	(7,915)
Income (loss) before income taxes	B	(42,493)	(10,621)	(39,757)	30,889
Declared distribution on Units	C	3,369	6,708	22,452	36,704
Excess (shortfall) of cash flows from operating activities over cash distributions paid	A-C	5,418	(13,707)	(1,025)	(44,619)
Shortfall of profit over distributions	B-C	(45,862)	(17,329)	(62,209)	(5,815)

As quantified in the FFO and AFFO calculations, the CAD$3,369 required to make the distributions on Units, for the three months ended December 31, 2022 was mostly in line with the FFO for the quarter (CAD$3,361), while Q4 2022 was impacted in full by the cut in distribution decided by the Board of Trustees.

		Note	**Year 2022**	**Year 2021**	**Year 2020**
Weighted average number of units (diluted)		*(1)*	33,610,464	33,516,889	33,957,066
Theoretical distribution per unit (in CAD$)		*(2)*	0.68748	0.82500	0.82500
Theoretical distribution (in '000 CAD$)	(1) x (2)	*(3)*	23,107	27,651	28,015
Actual FFO per units (in CAD$)		*(4)*	0.51	0.47	0.68
Distribution funded by FFO (in '000 CAD)	**(1) x (4)**	***(5)***	**17,141**	**15,753**	**23,091**
Shortfall over distribution	**(3) – (5)**		**(5,966)**	**(11,898)**	**(4,924)**
Participatory distribution paid in July				(9,947)	
Distribution funded by excess cash (in '000 CAD)			**(5,966)**	**(21,845)**	**(4,924)**
Excess cash generated by sale of Vanves (2019) / profit on Rueil transaction (2020) / sale of Jeuneurs (2021) and sale of Courbevoie (2022)			4,613	30,267	21,987
Cumulative Vanves, Rueil, Jeuneurs and Courbevoie excess cash after distribution			**24,131**	**25,484**	**17,062**

For the year 2022, the shortfall of CAD$5,966 over the FFO, as well as the shortfalls of CAD$11,898 and CAD$4,924 for the years 2021 and 2020 respectively, were partly funded out of the excess cash corresponding to the price portion in excess of the fair market value on Vanves, Jeuneurs and Courbevoie sales (in December 2019, November 2021 and December 202 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 9, 2022, 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 and to receive such fees in the form of trust units upon exercising the DSUs ("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 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, 2022, 39,398 DSUs are outstanding and 160,602 DSUs are available for grant under the DSU Plan.

There were 4,726 DSUs exercised during the year ended December 31, 2022 which resulted in a decrease in the DSU plan liability by CAD$17 (December 31, 2021 – CAD$325). For the year ended December 31, 2022, the REIT recorded a recovery of CAD$31 and a decrease to the liability for the same amount. The total liability related to the DSU plan as of December 31, 2022 was CAD$62 and was included in Trade and other payables.

For the year ended December 31, 2021, the REIT recorded an expense of CAD$128 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$110 and was included in Trade and Other Payables.

Distribution Reinvestment Plan

The REIT suspended its Distribution Reinvestment and Unit Purchase Plan (the "DRIP") effective as of the September, 2022 Distribution and remains suspended until further notice. As commenced with the September 2022 Distribution, distributions of the REIT are paid only in cash. If the REIT reinstates the DRIP, plan participants enrolled in the DRIP at the time of its suspension who remain enrolled at the time of its reinstatement will automatically resume participation in the DRIP. The decision to suspend the DRIP was taken by the Board of Trustees in August 2022 given that the current trading price of the REIT is currently below the REIT's net asset value and therefore the Trustees do not believe it is in the best interests of the REIT or its Unitholders to issue Units at current prices.

Financial Instruments

The REIT has the following financial assets and liabilities as at December 31, 2022

	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, 2022.

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, 2022		December 31, 2021	
	Fair Value	**Carrying Value**	**Fair Value**	**Carrying Value**
Financial assets				
Loans to joint ventures	28,366	28,366	34,083	34,083
Financial liabilities				
Mortgage loans	133,425	134,281	94,834	92,708
Tenant deposits	2,371	2,371	1,449	1,449

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

- The fair value of the loans to joint venture is estimated using the nominal amounts expected to be received at maturity and a discount rate based on prevailing market interest rates adjusted by an internally determined credit spread.

- Mortgage loans are carried at amortized cost using the effective interest method of amortization. The estimated fair values of long-term borrowings are based on market information, where available, or by discounting future payments of interest and principal at estimated interest rates expected to be available to the REIT as at December 31, 2022 and 2021.

The fair value of the mortgage loans has been determined by discounting the cash flows of these financial obligations using December 31, 2022, market rates for debts of similar terms (Level 2). Based on these assumptions, the fair value as at December 31, 2022, of the mortgage loans has been estimated at CAD$133,425 (December 31, 2021 – CAD$94,834) compared with the carrying value before deferred financing costs of CAD$134,281 (December 31, 2021 – CAD$92,708). The fair value of the mortgages payable varies from the carrying value due to fluctuations in interest rates since their issue.

- The fair value of tenant deposits is 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 throughout their life at the request of Unitholders. Other features of the Exchangeable securities have no significant impact on their fair value.

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 of using derivative financial instruments on mortgage loans and on the lease liabilities. As at December 31, 2022, after taking into consideration the effect of the interest rate swap (23%) and the interest rate cap (2%), as well as fixed interest rates (48%), 73% of the REIT's long-term debt obligation has no exposure to interest rate risk (2021 – 73%).

Currency Risk

The REIT operates in France, Germany and Spain, 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.

At the end of September 2022, the REIT initiated a relationship with the Canadian branch of Alpha Group (formerly AlphaFX) and signed three new monthly hedging contracts starting in Q4 2024. As such, the exchange rates relating to 100% of the REIT's current distribution are secured by these foreign currency forward contracts until end of 2024.

Financial institution	Contracts maturity	Hedge Value ('000 EUR)	Weighted average hedging rate
BANQUE PALATINE	Q1 2023	2,774	1.514
	Q2 2023	2,766	1.518
	Q3 2023	2,757	1.523
	Q4 2023	2,749	1.528
	Q1 2024	2,740	1.533
	Q2 2024	2,732	1.537
	Q3 2024	2,726	1.541
ALPHA GROUP	Q4 2024	3,112	1.349
		22,356	

The foreign currency forward contracts with Banque Palatine that came into effect in November 2022, secure a CAD$1,400 monthly conversion at an average rate of 1.5278 until October 2024.

In September 2022, the REIT sold roughly 36% of its initial CAD$2,200 monthly forward contracts dated September 2021, to align with the reduced monthly distribution levels announced in August 2022. The sale generated a realized and cashed-in profit of CAD$1,958.

The table below presents the stress test of a 10% change in the value of the Euro relative to the Canadian dollar on financial results:

December 31, 2022	%change	Net income	OCI	Total
Impact in the event of an increase in the value of the Euro/CAD$	10%	57	(20,680)	(20,623)
Impact in the event of a decrease in the value of the Euro/CAD$	(10%)	(57)	20,680	20,623
December 31, 2021				
Impact in the event of an increase in the value of the Euro/CAD$	10%	66	(13,397)	(13,331)
Impact in the event of a decrease in the value of the Euro/CAD$	(10%)	(66)	13,397	13,331

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, 2022.

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

Accounts receivable: Credit risk is managed by requiring tenants to pay rentals in advance. Also, in certain cases, deposits are obtained from tenants. Accounts receivable are presented on the consolidated balance sheet, net of allowance for credit losses determined using the simplified method as allowed per IFRS 9. This provision is based on the expected recovery percentage of amounts receivable from each tenant and various other indicators, such as a deterioration of the credit situation of a given tenant. Management regularly reviews accounts receivable and monitors past due balances.

Cash deposit and derivatives: Credit risk on cash and derivative financial instruments is managed through selecting appropriate financial institutions. The REIT holds its cash deposits in bank accounts with a diversified group of large public financial institutions in France, Germany and Spain. Financial institutions are selected based on their quality of credit rating and their level of financial transparency. The REIT enters into its derivative financial contracts by utilizing large, public financial services firms or mid-sized, public financial services firms at which balances are backed by large, public financial services firms. In light of the recent economic developments in the banking industry on a global scale, management continues to assess its exposure to credit risk and is actively monitoring the situation to limit the impact on the REIT.

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 2022	Sept. 30 2022	June 30 2022	March 31 2022	Dec. 31 2021	Sept. 30 2021	June 30 2021	March 31 2021
Rental revenue	6,796	6,503	6,877	5,201	6,253	7,650	6,871	7,420
Rental revenue - Total Portfolio (1)	8,869	8,452	8,897	7,253	8,225	9,773	8,967	9,531
Net rental income	6,705	6,337	6,718	1,873	5,813	7,022	6,918	4,438
Net rental income - Total Portfolio (1)	8,929	8,078	8,691	3,506	7,681	9,112	8,976	6,096
Net income attributable to Unitholders	(41,042)	14,855	(12,761)	2,094	(15,228)	32,151	9,247	4,165
FFO (1)	3,361	6,074	4,579	3,001	3,225	4,157	4,295	4,139
AFFO (1)	3,609	6,009	4,664	3,302	2,242	3,816	4,327	3,745
FFO per Unit (diluted) (1) (2)	0.10	0.18	0.14	0.09	0.10	0.12	0.13	0.12
AFFO per Unit (diluted) (1) (2)	0.11	0.18	0.14	0.10	0.07	0.11	0.13	0.11
Declared distribution per Unit	0.10	0.17	0.21	0.21	0.21	0.21	0.51	0.21
FFO payout ratio (2)	103.1%	95.2%	151.4%	230.4%	214.4%	174.7%	160.7%	167.0%
AFFO payout ratio (2)	96.0%	96.3%	148.6%	209.4%	308.4%	190.3%	159.5%	184.6%

(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 Related Party Transactions

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, 2023

Subsequent to the year-end, on March 27, 2023, the Board of Trustees approved a three-year extension of the Management Agreement with Inovalis SA. The following modifications were approved in the amended and management agreement:

- Extended for three years from April 1, 2023 to March 31, 2026
- Disposition fees are payable to Inovalis SA irrespective of whether proceeds of sale or disposition are paid to or distributed as a special distribution to Unitholders of the REIT.

Investment in Joint Ventures, Reconciliation

Consolidated Statement of Earnings - Reconciliation to Consolidated Financial Statements

	Three months ended					
	December 31, 2022			December 31, 2021		
(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 net earnings from investments in joint ventures[(1)]**	**Total**
Rental income	6,796	2,073	**8,869**	6,253	1,972	**8,225**
Property operating cost recoveries	1,353	933	**2,286**	840	515	**1,355**
Property operating costs	(1,613)	(791)	**(2,404)**	(1,459)	(614)	**(2,073)**
Other revenues	143	(173)	**(30)**	122	-	**122**
Other property operating expenses	26	182	**208**	57	(5)	**52**
					-	**-**
Net rental income	**6,705**	**2,224**	**8,929**	**5,813**	**1,868**	**7,681**
General and administrative expenses	(2,198)	(394)	**(2,592)**	(2,132)	(414)	**(2,546)**
Eviction and disposal costs	(362)	-	**(362)**	(3,348)	-	**-**
Foreign exchange loss	1,145	-	**1,145**	(140)	-	**(140)**
Loss on sale of investment in joint venture	-	-	**-**	(146)	-	**(146)**
Loss on disposal of investment properties	(946)	12	**(934)**	(3,988)	-	**(3,988)**
Share of net income from joint ventures	(5,422)	5,422	**-**	(4,648)	4,648	**-**
Operating income	**(1,078)**	**7,264**	**6,186**	**(8,589)**	**6,102**	**(2,487)**
Net change in fair value of investment properties	(38,301)	(6,618)	**(44,919)**	(5,038)	(2,656)	**(7,694)**
Net change in fair value of financial derivatives	(2,542)	5	**(2,537)**	904	3	**907**
Net change in fair value of Exchangeable securities	442	-	**442**	(278)	-	**(278)**
Finance income	916	(796)	**120**	1,127	(696)	**431**
Finance costs	(1,833)	(250)	**(2,083)**	(2,529)	(390)	**(2,919)**
Distributions on Exchangeable securities	(97)	-	**(97)**	(206)	-	**(206)**
Income before income taxes	**(42,493)**	**(395)**	**(42,888)**	**(14,609)**	**2,363**	**(12,246)**
Current income tax expense	(65)	(83)	**(148)**	(5,875)	29	**(5,846)**
Deferred income tax expense	1,300	840	**2,140**	5,171	346	**5,517**
Total income tax expense	**1,235**	**757**	**1,992**	**(704)**	**375**	**(329)**
Net income	**(41,258)**	**362**	**(40,896)**	**(15,313)**	**2,738**	**(12,575)**
Non-controlling interest	(216)	-	(216)	(85)	-	(85)
Net income attributable to the Trust	**(41,042)**	**362**	**(40,680)**	**(15,228)**	**2,738**	**(12,490)**

(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 recording, resulting in a reconciliation difference.

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

	Twelve months ended					
	December 31, 2022			December 31, 2021		
(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	25,377	8,093	**33,470**	28,194	8,301	**36,495**
Property operating cost recoveries	5,525	2,965	**8,490**	5,974	2,625	**8,599**
Property operating costs	(9,415)	(3,439)	**(12,854)**	(9,585)	(3,251)	**(12,836)**
Other revenues	241	62	**303**	290	-	**290**
Other property operating expenses	(95)	(110)	**(205)**	(682)	-	**(682)**
Net rental income	**21,633**	**7,571**	**29,204**	**24,191**	**7,675**	**31,866**
General and administrative expenses	(6,974)	(1,429)	**(8,403)**	(8,392)	(1,614)	**(10,006)**
Eviction and disposal costs	(362)	-	**(362)**	(3,348)	-	**(3,348)**
Foreign exchange gain (loss)	250	-	**250**	(1,129)	-	**(1,129)**
Loss on sale of investment in joint venture	-	-	**-**	(254)	-	**(254)**
Loss on disposal of investment properties	(946)	-	**(946)**	(3,988)	-	**(3,988)**
Share of net income (loss) from joint ventures	(3,585)	3,585	**-**	(2,062)	2,062	**-**
Operating income	**10,016**	**9,727**	**19,743**	**5,018**	**8,123**	**13,141**
Net change in fair value of investment properties	(58,393)	(4,809)	**(63,202)**	29,419	(927)	**28,492**
Net change in fair value of financial derivatives	2,847	4	**2,851**	2,215	(6)	**2,209**
Net change in fair value of Exchangeable securities	5,479	-	**5,479**	(735)	-	**(735)**
Finance income	6,705	(2,746)	**3,959**	3,702	(3,221)	**481**
Finance costs	(5,766)	(1,686)	**(7,452)**	(7,492)	(1,421)	**(8,913)**
Distributions on Exchangeable securities	(645)	-	**(645)**	(1,238)	-	**(1,238)**
Income before income taxes	**(39,757)**	**490**	**(39,267)**	**30,889**	**2,548**	**33,437**
Current income tax expense	(191)	(157)	**(348)**	(8,088)	(29)	**(8,117)**
Deferred income tax recovery	2,971	251	**3,222**	7,498	219	**7,717**
Total income tax recovery (expense)	**2,780**	**94**	**2,874**	**(590)**	**190**	**(400)**
Net income (2)	**(36,977)**	**584**	**(36,393)**	**30,299**	**2,738**	**33,037**
Non-controlling interest	(123)	-	(123)	(34)	-	(34)
Net income attributable to the Trust	**(36,854)**	**584**	**(36,270)**	**30,333**	**2,738**	**33,071**

(1) Consolidated statement of earnings amounts presented for the REIT were taken respectively from audited consolidated financial statements as at December 31, 2022 and 2021.

(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.

Balance Sheet Reconciliation to Consolidated Financial Statements

	As at December 31, 2022			As at December 31. 2021		
Assets	**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 (2)**	**Proportionate Consolidation**
Non-current assets						
Investment properties	437,422	142,201	579,623	427,631	145,592	573,223
Investments in joint ventures	55,693	(55,693)	-	64,327	(64,327)	-
Other financial assets	330	-	330	-	-	-
Derivative financial instruments	807	-	807	-	-	-
Restricted cash	4,436	-	4,436	4,964	-	4,964
Total non-current assets	**498,688**	**86,508**	**585,196**	**496,922**	**81,265**	**578,187**
Current assets						
Trade receivables and other financial assets	8,227	(856)	7,371	9,368	(1,303)	8,065
Derivative financial instruments	3,002	-	3,002	845	-	845
Other current assets	3,132	1,601	4,733	3,431	1,210	4,641
Restricted cash	2,882	-	2,882	52	-	52
Cash	45,176	4,737	49,913	76,627	3,101	79,728
Total current assets	**62,419**	**5,482**	**67,901**	**90,323**	**3,008**	**93,331**
Total assets	**561,107**	**91,990**	**653,097**	**587,245**	**84,273**	**671,518**
Liabilities and Unitholders' equity						
Liabilities						
Non-current liabilities						
Interest-bearing loan	245	-	245	334	-	334
Mortgage loans	96,254	33,399	129,653	48,662	61,258	109,920
Lease liabilities	102,121	9,502	111,623	106,351	9,918	116,269
Tenant deposits	2,068	147	2,215	1,172	129	1,301
Derivative financial instruments	299	-	299	366	-	366
Deferred tax liabilities	1,839	6,626	8,465	4,941	6,832	11,773
Total non-current liabilities	**202,826**	**49,674**	**252,500**	**161,826**	**78,137**	**239,963**
Current liabilities						
Interest-bearing loan	22	-	22	24	-	24
Mortgage loans	38,027	34,806	72,833	44,046	226	44,272
Lease liabilities	6,424	501	6,925	7,700	489	8,189
Tenant deposits	303	46	349	277	32	309
Exchangeable securities	3,536	-	3,536	9,015	-	9,015
Derivative financial instruments	-	-	-	853	-	853
Trade and other payables	18,960	3,357	22,317	11,248	2,286	13,534
Income tax payable	2,039	-	2,039	2,167	-	2,167
Deferred income	793	260	1,053	4,004	365	4,369
Total current liabilities	**70,104**	**38,970**	**109,074**	**79,334**	**3,398**	**82,732**
Total liabilities	**272,930**	**88,644**	**361,574**	**241,160**	**81,535**	**322,695**
Equity						
Trust units	289,940	-	289,940	288,752	-	288,752
Retained earnings (2)	(12,327)	3,346	(8,981)	46,979	2,738	49,717
Accumulated other comprehensive income	9,366	-	9,366	9,055	-	9,055
	286,979	**3,346**	**290,325**	**344,786**	**2,738**	**347,524**
Non-controlling interest	1,198	-	1,198	1,299	-	1,299
Total liabilities and equity	**561,107**	**91,990**	**653,097**	**587,245**	**84,273**	**671,518**

(1) Balance sheet amounts presented for the REIT were taken respectively from audited consolidated financial statements as at December 31, 2022 and 2021.
(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

Extension of Management Agreement

Subsequent to the year-end, on March 27, 2023, the Board of Trustees approved a three-year extension of the Management Agreement with Inovalis SA. The following modifications were approved in the amended and management agreement:

- Extended for three years from April 1, 2023 to March 31, 2026
- Disposition fees are payable to Inovalis SA irrespective of whether proceeds of sale or disposition are paid to or distributed as a special distribution to Unitholders of the REIT.

Rights Plan

Subsequent to the year-end, on March 29, 2023, the Board of Trustees adopted a Unitholders' rights plan (the "Rights Plan"), subject to Unitholder ratification. The Board considered a number of factors and believes that adopting the Rights Plan will protect the REIT's Unitholders from unfair, abusive or coercive take-over strategies and to ensure that all Unitholders have an equal opportunity to participate in any future take-over bid, and to receive full and fair value for their Units.

The Rights Plan was not adopted by the REIT in response to any specific proposal to acquire control of the REIT and the Board of Trustees is not aware of any such proposal. Although the Rights Plan takes effect immediately, Unitholders will be asked to ratify the Rights Plan at the May 9, 2023 Annual General Meeting of Unitholders.

The Rights Plan is similar to other security holder rights plans adopted by other Canadian real estate investment trusts, income trusts and corporations.

Until the occurrence of certain specified events, the rights will trade with the Units of the REIT and certificates representing the rights will not be sent to Unitholders. The rights become exercisable only when a person (including a related party and joint actor of such person) acquires or announces its certificates reporting the rights will not be sent to Unitholders. The rights become exercisable only when a person (including a related party and joint action of such person) acquires or announces its intention to acquire twenty (20%) or more of the outstanding Units without complying with the "permitted bid" provisions of the Rights Plan. As soon as practicable thereafter, separate certificates evidencing the rights will be mailed to Unitholders. Should a non-permitted acquisition occur, each right would entitle the holder of Units (other than the acquiring person and related persons and joint actors of such acquiring person) to purchase additional Units at a fifty (50%) percent discount to the market price at the time.

The Rights Plan permits a "permitted bid", which is a take-over bid made to all Unitholders on identical terms and conditions that is open for acceptance for a period of at least 105 days. If at the end of the 105 day period at least 50% of the outstanding Units (other than those owned by the offeror and related parties and joint actors of the offeror) have been tendered under the bid, the offeror may take up and pay for the tendered Units but must extend the bid for a further 10 days to allow all Unitholders to tender to the bid.

Upon ratification by Unitholders and completion of certain other requirements, the rights referred to in the Plan will be listed on the TSX. The rights will not appear on the TSX's trading list as an entry separate from the REIT's Units. If and when the rights become separable from the Units, an application to list the securities issuable upon exercise of such rights will have to be made to the TSX. If the Plan is not ratified by Unitholders, it will be rescinded or otherwise cancelled and be of no further effect immediately after such Unitholders' meeting. If ratified by the Unitholders, the Plan shall be reconfirmed by the Unitholders at every annual meeting.

To the best of the knowledge of the REIT, no existing Unitholder currently owns greater than 20% of the outstanding Units of the REIT.

A summary of the principal terms and conditions of the Rights Plan will be set out in the REIT's Management Information Circular. A copy of the complete Unitholder Rights Plan will be filed on SEDAR. A copy of the Rights Plan and the Management Information Circular will be available under the REIT's profile on SEDAR at www.sedar.com.

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 the REIT, 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.

Risks Inherent in the Real Estate Industry May Adversely Affect the REIT's 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 war 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 48.8% of the total weighted areas. Four of the five largest tenants are committed to multi-year leases, which are set to expire gradually between 2023 and 2029, 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 2026. The lease for the REIT's largest tenant which fully occupies the Arcueil asset expires in mid-2023 and the REIT has been notified of their intention to not renew the lease. This tenant currently contributes 36% to the REIT's annual rental revenue and represents 28% of the REIT's rental income on the Total Portfolio. The REIT is advancing its plans for mixed use re-development of this asset.

To minimize further 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 that may not be passed on to 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, Germany and Spain. Although the governments in France, Germany and Spain 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 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 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 low level of interest rates continues. There is a risk that interest rates will increase, which would result in a significant increase in the amount paid by the REIT and its subsidiaries to service debt, resulting in a decrease in distributions to Unitholders, and could impact the market price of the Units. 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 Fifth Amended and Restated Management Agreement has been approved by the Board of Trustees for a three year term expiring on March 31, 2026.

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, Germany and Spain 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 Canada Revenue Agency (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

On November 3, 2022, the Minister of Finance released revised proposals to amend the Tax Act (the "EIFEL Proposals") that are intended, where applicable, to limit the deductibility of interest and other financing-related expenses by an entity to the extent that such expenses, net of interest and other financing-related income, exceed a fixed ratio of the entity's tax EBITDA. The EIFEL Proposals are proposed to be effective for taxation years beginning on or after October 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, which could reduce the after-tax return associated with an investment in Units. Unitholders are advised to consult their personal tax advisors.

German Taxes

The Luxembourg SPV 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 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 will not be subject to TT.

Luxco taxation

CanCorpEurope S.A., a public limited liability company (or "société anonyme") and a subsidiary of the REIT ("Luxco") is 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. No Luxembourg withholding tax is levied on distributions from CCE. 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 structure of Luxco. CCE, as a SIF, might be subject to the Luxembourg real estate levy. This levy of 20% applies on gross rental income and disposal gains deriving from real estate located in Luxembourg. Since CCE does not hold any properties located in Luxembourg, the real estate levy should not apply.

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, Spain, 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. The reduced rate of 15% provided by the double tax treaty (“DTT”) concluded between Luxembourg and France should apply to dividends distributed by the INOPCI to CCE.

CanCorp Duisburg (“CCD”), TFI CanCorp Isenburg (“CCI”), TFI CanCorp Kosching (“CCK"), TFI CanCorp Stuttgart (“CCS”), CanCorp Cologne, CanCorp Cologne 2 and Cancorp Trio I, Cancorp Trio II, Cancorp Trio III (together “Trio”), Walpur Four, Arcueil SI GP (“the Luxembourg subsidiaries”) 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. Any distributions of dividends from the Luxembourg subsidiaries to CCE should be subject to a 15% Luxembourg withholding tax.

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.

Trio, CCD, CCI, CCK, CCS and Walpur Four are Luxembourg limited liability companies that are managed in Luxembourg and, therefore, should not be considered tax resident of Germany for German tax purposes. Trio, CCD, CCI, CCK, CCS and Walpur Four 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.

Cancorp Vegacinco, a limited liability company, is established in Spain as a fully taxable company, subject to annual corporate income at a 25% rate. SIF are explicitly excluded from the benefit of the DTT concluded between Luxembourg and Spain. Any distributions from Cancorp Vegacinco to CCE should thus be subject to the withholding tax rate applicable in Spain and could not benefit from any reduced rate provided by the DTT.

Public Health Crises / COVID-19

Through the successful application of vaccinations and other disease control measures, Europe, and most regions around the world, continue to adapt to living with the virus that causes COVID-19 and the variants that emerge from time to time.

It is not currently possible to ascertain the long-term impact of COVID-19 on the REIT's business and operations. Certain aspects of the REIT's business and operations that could potentially be impacted include rental income, occupancy, tenant inducements, future demand for space and market rents, changes in the preferences of tenants and prospective tenants, temporary or long-term labour shortages or disruptions, temporary or long-term impacts on domestic and global supply chains, increased risks to IT systems and networks, impairments and/or write-downs of assets, and the deterioration of worldwide credit and financial markets that could limit the REIT’s ability to access capital and financing on acceptable terms or at all.

Critical Accounting Policies and Estimates

The preparation of the REIT's consolidated financial statements in conformity with GAAP requires management to make judgments, estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities. Management bases its judgements, estimates and assumptions on experience and other factors that it believes to be reasonable under the circumstances. However, uncertainty about these judgements, estimates and assumptions could result in outcomes requiring a material adjustment to the carrying amount of the asset or liability affected in future periods. Critical accounting judgements estimates and assumptions in applying accounting policies are described in Note 4 to the annual audited consolidated financial statements of the REIT for the year ended December 31, 2022.

A description of significant accounting policies is provided in Note 3 of the annual audited consolidated financial statements of the REIT for the year ended December 31, 2022.

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, 2022 due to the material weaknesses 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.

An evaluation of the adequacy of the design and effective operation of the REIT’s ICFR was conducted under the supervision of management, including the CEO and CFO, as at December 31, 2022. The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate. Based on that evaluation, the CEO and the CFO have concluded that the design of ICFR was complete as at December 31, 2022. These controls have been implemented and the process for testing the controls for operating effectiveness was in progress as at December 31, 2022.

Further to the material weakness identified in the operation of the control over the review of loan covenants during the fiscal year ended December 31, 2021, management had identified a material weakness in the operation of controls over the financial close process. Consequently, the REIT developed and implemented in 2022 a remediation plan to address this material weakness that identifies areas where enhanced precision will help detect and prevent material misstatements. These are currently being tested. This remediation plan includes, but is not limited to:

- The implementation of a documented process for management to identify significant events and/or material transactions that could have accounting and reporting implications and discuss them with all relevant internal and external stakeholders;
- The implementation of a documented process for management to adequately assess and determine the accounting implications of transactions on the REIT’s financial reporting;
- 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 outputs from the financial close process.

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.

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 weaknesses identified, the REIT has concluded that the financial statements, as at December 31, 2022 are fairly represented in all material respects, in accordance with IFRS.

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.