

**INOVALIS REAL ESTATE INVESTMENT TRUST  
CONDENSED INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS**

June 30, 2023

**(Unaudited)**

## **Disclosure of non-review of interim condensed consolidated financial statements for the quarters ended June 30, 2023 and 2022**

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if the external auditors have not performed a review of the financial statements, the financial statements must be accompanied by a notice indicating that they have not been reviewed by the external auditors.

The accompanying unaudited interim condensed consolidated financial statements of the REIT for the quarters ended June 30, 2023 and 2022 have been prepared in accordance with International Accounting Standard 34, Interim Financial reporting, and are the responsibility of the REIT's management.

The REIT's external auditors, Ernst & Young Audit, have not performed a review of these interim condensed consolidated financial statements in accordance with the standards established by Chartered Professional Accountants Canada for a review of the financial statements by the external auditors of an entity.

**Inovalis Real Estate Investment Trust**  
**Interim Consolidated Balance Sheets**  
**(Unaudited)**

(All dollar amounts in thousands of Canadian dollars)

Assets	Note	As at June 30, 2023	As at December 31, 2022
<b>Non-current assets</b>			
Investment properties	5	436 659	437 422
Investments in joint ventures	7	51 601	55 693
Other financial assets		334	330
Derivative financial instruments	21	265	807
Restricted cash	8	4 267	4 436
<b>Total non-current assets</b>		<b>493 126</b>	<b>498 688</b>
<b>Current assets</b>			
Trade receivables and other financial assets	9	10 143	8 227
Derivative financial instruments	21	1 977	3 002
Other current assets		3 382	3 132
Restricted cash	8	1 357	2 882
Cash		18 865	45 176
<b>Total current assets</b>		<b>35 724</b>	<b>62 419</b>
<b>Total assets</b>		<b>528 850</b>	<b>561 107</b>
Liabilities and equity	Note	As at June 30, 2023	As at December 31, 2022
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Interest-bearing loan		322	245
Mortgage loans	10	108 111	96 254
Lease liabilities	10	98 405	102 121
Tenant deposits		2 122	2 068
Derivative financial instruments	21	462	299
Deferred tax liabilities		2 474	1 839
<b>Total non-current liabilities</b>		<b>211 896</b>	<b>202 826</b>
<b>Current liabilities</b>			
Interest-bearing loan		24	22
Mortgage loans	10	7 882	38 027
Lease liabilities	10	6 572	6 424
Tenant deposits		163	303
Exchangeable securities	11	3 170	3 536
Trade and other payables	12	11 227	18 960
Income tax payable		2 096	2 039
Deferred income		1 356	793
<b>Total current liabilities</b>		<b>32 490</b>	<b>70 104</b>
<b>Total liabilities</b>		<b>244 386</b>	<b>272 930</b>
<b>Equity</b>			
Trust units	17	289 465	289 940
Deficit retained earnings		(14 464)	(12 327)
Accumulated other comprehensive income	18	8 295	9 366
<b>Total unitholders' equity</b>		<b>283 296</b>	<b>286 979</b>
Non-controlling interest		1 168	1 198
<b>Total equity</b>		<b>284 464</b>	<b>288 177</b>
<b>Total liabilities and equity</b>		<b>528 850</b>	<b>561 107</b>

*The accompanying notes are an integral part of these interim condensed consolidated financial statements.*

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

Jean-Daniel Cohen  
Chairman and Trustee

Robert Waxman  
Audit Chair and Trustee

**Inovalis Real Estate Investment Trust**  
**Interim Consolidated Statements of Earnings**  
**(Unaudited)**

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

	<i>Note</i>	For the three months ended June 30, 2023	For the three months ended June 30, 2022	For the six months ended June 30, 2023	For the six months ended June 30, 2022
Rental revenue	13	7 571	6 877	14 896	12 078
Property operating cost recoveries	13	1 805	1 451	3 286	2 698
Property operating costs	14	(1 647)	(1 541)	(6 496)	(6 125)
Other revenues	13	2 625	-	2 643	39
Other property operating expenses		(14)	(69)	(27)	(99)
<b>Net rental income</b>		<b>10 340</b>	<b>6 718</b>	<b>14 302</b>	<b>8 591</b>
General and administrative expenses	14	(1 571)	(1 245)	(3 424)	(3 113)
Foreign exchange gain (loss)		61	87	55	(893)
Net loss from joint ventures	7	(3 763)	(2 671)	(3 479)	(2 346)
<b>Operating earnings</b>		<b>5 067</b>	<b>2 889</b>	<b>7 454</b>	<b>2 239</b>
Net change in fair value of Investment properties	5	(960)	(20 073)	654	(17 942)
Net change in fair value of Financial derivatives		(201)	788	(1 753)	1 587
Net change in fair value of Exchangeable securities	11	525	1 904	366	2 195
Finance income	15	1 457	1 270	2 986	2 438
Finance costs	15	(2 338)	(1 435)	(4 229)	(2 609)
Distributions on Exchangeable securities	11	(98)	(193)	(194)	(387)
<b>Income (loss) before income taxes</b>		<b>3 452</b>	<b>(14 850)</b>	<b>5 284</b>	<b>(12 479)</b>
Current income tax expense		(10)	-	(23)	(43)
Deferred income tax (expense) recovery		(465)	2 105	(666)	1 913
Total income tax (expense) recovery		(475)	2 105	(689)	1 870
<b>Net income (loss)</b>		<b>2 977</b>	<b>(12 745)</b>	<b>4 595</b>	<b>(10 609)</b>
<b>Net (loss) income attributable to:</b>					
Non-controlling interest		(25)	16	(29)	58
Unitholders of the Trust		3 002	(12 761)	4 624	(10 667)
		<b>2 977</b>	<b>(12 745)</b>	<b>4 595</b>	<b>(10 609)</b>

*The accompanying notes are an integral part of these interim condensed consolidated financial statements.*

**Inovalis Real Estate Investment Trust**  
**Interim Consolidated Statements of Comprehensive Income**  
**(Unaudited)**

(All dollar amounts in thousands of Canadian dollars)

	For the three months ended June 30, 2023	For the three months ended June 30, 2022	For the six months ended June 30, 2023	For the six months ended June 30, 2022
<b>Net income (loss) for the period</b>	2 982	(12 745)	4 595	(10 609)
<b>Other comprehensive loss</b>				
Items that may be reclassified subsequently to income:				
Net gains on derivatives designated as a hedge of the net investment in a foreign entity	-	423	-	918
Change in cumulative translation adjustment account	(4 080)	(7 898)	(1 091)	(20 337)
<b>Other comprehensive loss</b>	<b>(4 080)</b>	<b>(7 475)</b>	<b>(1 091)</b>	<b>(19 419)</b>
<b>Total comprehensive (loss) income</b>	<b>(1 098)</b>	<b>(20 220)</b>	<b>3 504</b>	<b>(30 028)</b>
<b>Total comprehensive (loss) income attributable to:</b>				
Non-controlling interest	(39)	1	(49)	80
Unitholders of the Trust	(1 059)	(20 221)	3 553	(30 108)
<b>Total comprehensive (loss) income</b>	<b>(1 098)</b>	<b>(20 220)</b>	<b>3 504</b>	<b>(30 028)</b>

*The accompanying notes are an integral part of these interim condensed consolidated financial statements.*

**Interim Consolidated Statements of Changes in Equity**  
**For the six months ended June 30,**  
**(Unaudited)**

(All dollar amounts in thousands of Canadian dollars, unless otherwise stated)

	Note	Number of Units issued and outstanding	Trust Units	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total attributable to the Unitholders' of the Trust	Non-controlling interest	Total equity
As at December 31, 2021		32 587 809	288 752	46 979	9 055	344 786	1 299	346 085
Distributions earned by or declared to Unitholders		-	-	(13 459)	-	(13 459)	-	(13 459)
Distributions under the Trust's reinvestment plan		59 152	428	-	-	428	-	428
Foreign exchange impact on Non-controlling interest		-	-	-	-	-	(105)	(105)
		<u>59 152</u>	<u>428</u>	<u>(13 459)</u>	<u>-</u>	<u>(13 031)</u>	<u>(105)</u>	<u>(13 136)</u>
(Loss) income for the period		-	-	(10 667)	-	(10 667)	58	(10 609)
Other comprehensive (loss) income		-	-	-	(19 441)	(19 441)	22	(19 419)
Comprehensive (loss) income		<u>-</u>	<u>-</u>	<u>(10 667)</u>	<u>(19 441)</u>	<u>(30 108)</u>	<u>80</u>	<u>(30 028)</u>
<b>As at June 30, 2022</b>		<b><u>32 646 961</u></b>	<b><u>289 180</u></b>	<b><u>22 853</u></b>	<b><u>(10 386)</u></b>	<b><u>301 647</u></b>	<b><u>1 274</u></b>	<b><u>302 921</u></b>
<b>As at December 31, 2022</b>		<b><u>32 778 699</u></b>	<b><u>289 940</u></b>	<b><u>(12 327)</u></b>	<b><u>9 366</u></b>	<b><u>286 979</u></b>	<b><u>1 198</u></b>	<b><u>288 177</u></b>
Repurchase of Trust Units		-	(484)	-	-	(484)	-	(484)
Distributions earned by or declared to Unitholders	17	-	-	(6 761)	-	(6 761)	-	(6 761)
Issuance of units for payment of Trustee Fees	17	-	9	-	-	9	-	9
Foreign exchange impact on Non-controlling interest		-	-	-	-	-	19	19
		<u>-</u>	<u>(475)</u>	<u>(6 761)</u>	<u>-</u>	<u>(7 236)</u>	<u>19</u>	<u>(7 217)</u>
Net income (loss) for the period		-	-	4 624	-	4 624	(29)	4 595
Other comprehensive loss		-	-	-	(1 071)	(1 071)	(20)	(1 091)
Comprehensive income (loss)		<u>-</u>	<u>-</u>	<u>4 624</u>	<u>(1 071)</u>	<u>3 553</u>	<u>(49)</u>	<u>3 504</u>
<b>As at June 30, 2023</b>	18	<b><u>32 778 699</u></b>	<b><u>289 465</u></b>	<b><u>(14 464)</u></b>	<b><u>8 295</u></b>	<b><u>283 296</u></b>	<b><u>1 168</u></b>	<b><u>284 464</u></b>

*The accompanying notes are an integral part of these interim condensed consolidated financial statements.*

**Inovalis Real Estate Investment Trust**  
**Interim Consolidated Statements of Cash Flows**  
**(Unaudited)**

(All dollar amounts in thousands of Canadian dollars)

	<i>Note</i>	For the six months ended June 30, 2023	For the six months ended June 30, 2022
<b>Operating activities</b>			
(Loss) income before income taxes		5 284	(12 479)
Interest received		2 553	2 895
Interest paid		(4 229)	(2 609)
Income tax paid		(23)	-
Distributions in respect of exchangeable securities paid in cash	11	(187)	(406)
Adjustments for non-cash items and other reconciling items	22	5 685	17 597
		<b>9 083</b>	<b>4 998</b>
Working capital adjustments	22	(7 316)	(1 833)
<b>Net cash flows related to operating activities</b>		<b>1 767</b>	<b>3 165</b>
<b>Investing activities</b>			
Additions to investment properties and capitalized letting fees	5	(248)	(691)
Acquisition of investment property - Gaia	6	-	(56 678)
Acquisitions of investment property - Delgado	6	-	(43 154)
Additional loan advances to joint ventures	7	(728)	-
Loan repayments received from joint ventures	7	1 159	4 656
Increase in financial current assets		-	(316)
Net change in restricted cash	9	155	(65)
<b>Net cash flows related to investing activities</b>		<b>338</b>	<b>(96 248)</b>
<b>Financing activities</b>			
Distributions to unitholders	16	(6 767)	(13 040)
Repurchase of Trust Units	17	(437)	-
Issuance of mortgage loans	22	-	50 794
Repayment of mortgage loans	22	(17 820)	(1 038)
Repayment of lease liabilities	22	(3 204)	(3 172)
Repayment (issuance) of interest bearing loan		79	(67)
<b>Net cash flows related to financing activities</b>		<b>(28 149)</b>	<b>33 477</b>
<b>Decrease increase in cash</b>		<b>(26 044)</b>	<b>(59 606)</b>
Effects of foreign exchange adjustments on cash		(267)	(3 674)
<b>Cash at the beginning of the period</b>		<b>45 176</b>	<b>76 627</b>
<b>Cash at the end of the period</b>		<b>18 865</b>	<b>13 347</b>

*The accompanying notes are an integral part of these interim condensed consolidated financial statements.*

**Inovalis Real Estate Investment Trust**  
**Notes to the condensed interim consolidated financial statements**  
**June 30, 2023**

**Note 1 – Organization**

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

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

The REIT’s condensed interim consolidated financial statements as at and for the six months ended June 30, 2023, were authorized for issuance by the Board of Trustees on August 04, 2023.

The REIT has hired Inovalis S.A. (“Inovalis SA”), a real estate asset manager having operations in France, Germany, and Spain to manage certain functions. Refer to Note 1 of the 2022 annual consolidated financial statements for more information about the relationship between Inovalis SA and the REIT, and to Note 20 in these condensed interim consolidated financial statements, for information regarding the services provided by Inovalis SA to the REIT.

Inovalis SA 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.

**Note 2 – Basis of presentation and statement of compliance**

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”), and thus do not contain all of the disclosures applicable to the annual audited 2022 consolidated financial statements.

The Group has prepared the financial statements on the basis that it will continue to operate as a going concern. The Directors consider that there are no material uncertainties that may cast significant doubt over this assumption. They have formed a judgement that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and not less than 12 months from the end of the reporting period.

These condensed interim consolidated financial statements use the same accounting policies and methods of their application as the REIT’s most recent annual consolidated financial statements and should be read in conjunction with the annual audited 2022 consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the IASB.

***Changes to basis of consolidation***

Changes to details of the REIT's subsidiaries from December 31, 2022 to June 30, 2023 are as follows:

Name of entity	Principal Activity	Property Name	Country of Incorporation and Residence	Porportion of Ownership Interest and Voting Power Held - June 30, 2023	Porportion of Ownership Interest and Voting Power Held - June 30, 2022
SCI Véronèse <sup>1</sup>	Investment property holding	Dubonnet Property	France	N/A	100% held by INOPCI 1

<sup>1</sup> On April 23, 2023, SCI Véronèse was dissolved and any remaining assets and liabilities within the entity were absorbed by its 100% shareholder, INOPCI 1

### **Note 3 – Recent accounting pronouncements adopted**

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

#### ***Amendment to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies***

In February 2021, the IASB published amendments to IAS 1, Presentation of Financial Statements and the IFRS Practice Statement 2 Making Materiality Judgements. The amendments to IAS 1 replace the requirement to disclose ‘significant’ accounting policies with a requirement to disclose ‘material’ accounting policies. Guidance and illustrative examples are added in the Practice Statement to assist in the application of materiality concept when making judgments about accounting policy disclosures. The amendments are effective for annual periods beginning on or after January 1, 2023, with early adoption permitted. Prospective application is required on adoption.

This amendment had no impact on the condensed interim consolidated financial statements of the REIT, as all material accounting policies were determined to have been disclosed in the annual audited 2022 consolidated financial statements.

#### ***Amendment to IAS 8 – Definition of Accounting Estimates***

In February 2021, the IASB published amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. The amendments to IAS 8 provide an updated definition to changes in accounting estimates to assist in assessing between a changing in accounting policy and a change in accounting estimate. The amendments are effective for annual periods beginning on or after January 1, 2023, with early adoption permitted. Prospective application is required on adoption.

This amendment had no impact on the condensed interim consolidated financial statements of the REIT, as no material changes in accounting estimates were determined to have occurred in the six-months ended June 30, 2023.

#### ***Amendment to IAS 12 – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction***

In May 2021, the IASB published amendments to IAS 12, Income Taxes. The amendments to IAS 12 introduce an exception to the initial recognition exemption in IAS 12 in which an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2023, with early adoption permitted. The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented.

This amendment had no impact on the condensed interim consolidated financial statements of the REIT as no initial recognition exemptions were recognized for acquisitions occurring in the current period or the comparative period.

#### ***IFRS 17 – Insurance Contracts***

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 and its amendments, applicable as at January 1<sup>st</sup>, 2023, had no impact on the condensed Interim Consolidated Financial Statements of the REIT as no insurance contracts have been entered into by the REIT.

### **Note 4 – Critical accounting judgments and estimates**

In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the REIT’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2022.

## Note 5 – Investment properties

Reconciliations of the carrying amounts of investment properties at the beginning and end of the current financial period are as follow:

	For the six months ended June 30, 2023	For the year ended December 31, 2022
<b>Balance, beginning of period</b>	<b>437 422</b>	<b>427 631</b>
Capex	326	1 842
Acquisition of Delgado investment property (including acquisition costs)	-	43 154
Acquisition of Gaia investment property (including acquisition costs)	-	56 678
Disposition of Veronese investment property held by Veronese SCI	-	(39 386)
Change in capitalized letting fees	(78)	113
Rent free periods	(91)	172
Net change in fair value of investment properties	654	(58 393)
Foreign currency translation adjustment	(1 574)	5 611
<b>Balance, end of period</b>	<b>436 659</b>	<b>437 422</b>

All of the REIT's investment properties with a fair value of \$436,659 (December 31, 2022 - \$437,422) are pledged as security for an amount of \$220,970 (December 31, 2022 - \$242,886) in mortgage loans and lease liabilities.

### Appraisal capitalization and discount rates

The fair value of investment properties is determined by real estate valuation experts using recognized valuation techniques and the principles of IFRS 13. The techniques used by the REIT are the Direct Capitalization Method ("DC") and the Discounted Cash Flow Method ("DCF").

On the Direct Capitalization Method, the cash generated during the term of the lease as well as the cash generated at reversion, as estimated based on the normalized net operating income generated by the property, are capitalized on using the same capitalization (discount) rate. The capitalization rates are determined based on recent real estate transactions with similar characteristics and location to those of the REIT assets.

Under the DCF method, a property's fair value is estimated using analysis of the future cash flow generated by the property on a 10 year period associated with a market derived discount rate and exit cap rate. The duration of the cash flow and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewals and related lease up periods, reletting, redevelopment, or refurbishment. In the case of investment properties, periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net cash inflows, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

The group that determines the REIT's valuation policies and procedures for property valuations comprises the CEO, CIO and CFO. Each year, Inovalis SA appoints an independent real estate valuation expert who is responsible for the valuation of the REIT's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

In addition, the CEO and the CIO are responsible for the internal valuation department in charge of the evaluation of the REIT's properties. Inovalis SA's internal valuation department comprises a certain number of employees that hold relevant internationally recognized professional qualifications and are experienced in valuing the types of property in the applicable locations. External valuations are obtained every six months for the French properties, German properties and Spanish properties.

The REIT's investment properties were last appraised by an external evaluator as of June 30, 2023. The adjusted market-value and stabilized capitalization rates by country are set out in the following table:

## Note 5 – Investment properties (Cont'd)

	As at June 30, 2023				As at December 31, 2022			
	France	Germany	Spain	Total	France	Germany	Spain	Total
Fair value of investment properties for financial reporting purposes								
Market value (in Euros) as estimated by external appraisers	219 316	55 900	29 324	304 540	215 394	58 098	30 403	303 895
Option costs	(2 416)	-	-	(2 416)	(2 337)	-	-	(2 337)
<b>Adjusted market value in Euros</b>	<b>216 900</b>	<b>55 900</b>	<b>29 324</b>	<b>302 124</b>	<b>213 057</b>	<b>58 098</b>	<b>30 403</b>	<b>301 558</b>
Exchange adjustment	96 585	24 892	13 058	134 536	95 990	26 176	13 698	135 864
<b>Adjusted market value in CAD\$</b>	<b>313 485</b>	<b>80 792</b>	<b>42 382</b>	<b>436 659</b>	<b>309 047</b>	<b>84 274</b>	<b>44 101</b>	<b>437 422</b>
Principal method used to value property	Direct Capitalization Method	Direct Capitalization Method	Discounted Cash Flow Method		Direct Capitalization Method	Direct Capitalization Method	Discounted Cash Flow Method	
Number of years used in cash flow projection			10				10	
Capitalization rate / discount rate	4.35% to 7.10%	5.20% to 6.25%	6.25%		4.35% to 7.10%	5.20% to 6.25%	7.50%	
Terminal capitalization rate	5.72%	5.85%			5.57%	5.50%	-	
Weighted average discount rate			6.25%		-	-	7.50%	
Impact on the fair value of investment properties of :								
an increase of 25 bps on the cap rate and/or discount rate	(13 599)	(3 323)	(1 630)	(18 553)	(13 670)	(3 688)	(1 423)	(18 781)
a decrease of 25 bps on the cap rate and/or discount rate	14 948	3 623	1 766	20 337	15 045	4 045	1 521	20 611

### Right-of-use asset

The REIT leases various investment properties with a carrying amount of \$192,223 (December 31, 2022 – \$193,152) under leases which begin to expire in approximately 4 years (December 31, 2022: 5 years).

## Note 6 – Acquisitions of investment properties

### Acquisitions of investment properties for 2022

#### Gaia property

On January 11, 2022, the REIT, through its 100% owned subsidiary, INOPCI 1, finalized the registration and incorporation of a new entity, Gaia, to use to hold an office building it planned to purchase in a suburb of Paris, France. Gaia is owned 99.99% by INOPCI 1 and 0.01% by Inovalis SA, the asset manager of the REIT.

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

The REIT has elected to apply the "concentration test" in accordance with IFRS 3. As the fair value of the gross assets acquired are substantially concentrated in the Gaia Property, the transaction has been classified as an asset acquisition. No goodwill or deferred tax were recognized on the asset acquisition.

Purchase price allocation	(in 000's of €)	(in 000's of \$)
<b><u>Recognized amounts of identifiable assets acquired and liabilities assumed:</u></b>		
Investment property	41,211	56,678
Other assets	65	89
<b>Total assets acquired</b>	<b>41,276</b>	<b>56,767</b>
Deferred rent	(593)	(816)
<b>Total liabilities assumed</b>	<b>(593)</b>	<b>(816)</b>
<b>Net assets acquired</b>	<b>40,683</b>	<b>55,951</b>
<b><u>Consideration transferred by the REIT for the acquisition consists of the following:</u></b>		
Cash	39,439	54,239
Acquisition costs	3,720	5,118
Less: Rental guarantee received from the seller	(2,476)	(3,406)
<b>Total consideration transferred</b>	<b>40,683</b>	<b>55,951</b>

## Note 6 – Acquisitions of investment properties (Cont'd)

### Delgado property

On March 31, 2022, the REIT entered into a deed of sale to purchase the office building (“the Delgado Property”). The REIT obtained ownership of the Delgado Property and any related working capital items for total consideration of €31,207 (\$43,198), which includes transaction costs of €1,781 (\$2,467). The transaction was financed using a bank loan of €16,225 (\$22,474) as well as excess cash from the sale of the Jeuneurs property, which took place in Q4 of 2021.

The REIT has elected to apply the "concentration test" in accordance with IFRS 3. As the fair value of the gross assets acquired is substantially concentrated in the Delgado Property, the transaction has been qualified as an asset acquisition. No goodwill or deferred tax were recognized on the asset acquisition.

Purchase price allocation	(in 000's of €)	(in 000's of \$)
<i><u>Recognized amounts of identifiable assets acquired and liabilities assumed:</u></i>		
Investment property	31 175	43 154
Other assets	32	44
<b>Total assets acquired</b>	<b>31 207</b>	<b>43 198</b>
<b>Net asset acquired</b>	<b>31 207</b>	<b>43 198</b>
<i><u>Consideration transferred by the REIT for the acquisition consists of the following:</u></i>		
Cash	29 426	40 731
Acquisition costs	1 781	2 467
<b>Total consideration transferred</b>	<b>31 207</b>	<b>43 198</b>

## Note 7 – Investments in joint ventures

Outlined below is a breakdown of the carrying amounts of the components of the investments in joint ventures:

	Duisburg	Stuttgart	Delizy	Isenburg	Kosching	Total
<b>Balance - December 31, 2021</b>	<b>24 100</b>	<b>13 942</b>	<b>4 888</b>	<b>11 377</b>	<b>10 020</b>	<b>64 327</b>
Additional investment for the period	-	-	171	-	-	171
Share of net (loss) income from investments <sup>1</sup>	(3 011)	1 636	(1 380)	117	(362)	(3 000)
Impairment of investment in joint ventures	-	-	(585)	-	-	(585)
Repayment on loans to joint ventures	(4 028)	(452)	-	(192)	(630)	(5 302)
Exchange differences	(204)	191	(28)	94	29	82
<b>Balance - December 31, 2022</b>	<b>16 857</b>	<b>15 317</b>	<b>3 066</b>	<b>11 396</b>	<b>9 057</b>	<b>55 693</b>
Additional investment for the period	-	-	728	-	-	728
Share of net loss from investments <sup>1</sup>	(585)	(739)	(457)	(1 212)	(486)	(3 479)
Repayment on loans to joint ventures	-	(218)	-	(874)	(67)	(1 159)
Exchange differences	(56)	(47)	(26)	(25)	(28)	(182)
<b>Balance - June 30, 2023</b>	<b>16 216</b>	<b>14 313</b>	<b>3 311</b>	<b>9 285</b>	<b>8 476</b>	<b>51 601</b>

(1) The share of net income (loss) from investments includes the interest expense in relation to the loans granted to the joint ventures. The interest earned by the REIT in relation to these loans amounts to \$1.366 (2022 - \$1.477 and are included in "Finance income" (see note 15)).

## Note 7 – Investments in joint ventures (Cont'd)

The balance of investments in joint ventures as at June 30, 2023 includes loans to joint ventures for an amount of \$27,101 which is detailed as follows:

Loans to joint ventures	Duisburg	Stuttgart	Delizy	Isenburg	Kosching	Total
Gross Balance - June 30, 2023	10 774	9 314	10 164	172	-	30 424
Less: Cumulative ECL	-	-	(3 323)	-	-	(3 323)
Net Balance - June 30, 2023	<u>10 774</u>	<u>9 314</u>	<u>6 841</u>	<u>172</u>	<u>-</u>	<u>27 101</u>
Gross Balance - December 31, 2022	10 812	9 565	10 201	1 044	67	31 689
Less: Cumulative ECL	-	-	(3 323)	-	-	(3 323)
Net Balance - December 31, 2022	<u>10 812</u>	<u>9 565</u>	<u>6 878</u>	<u>1 044</u>	<u>67</u>	<u>28 366</u>

### *Delizy*

In June of 2023, the REIT entered into an extension of its initial agreement to defer monthly interest payments on its loan to Delizy. The agreement includes the deferral of monthly interest payments for the months of November 2020 to June 2023 which are now due to be paid at the end of July 2023. No additional interest will be charged on any interest payments deferred. There was no impact on the REIT's income from joint ventures because of the above deferral.

The REIT increased its loan to Delizy over the period by €500 (\$728).

### *Repayments on loans to joint ventures*

During the period-ended June 30, 2023, loan repayments of €150 (\$218), €581 (\$874) and €50 (\$67) occurred respectively for Stuttgart, Neu Isenburg and Kosching.

## Note 8 – Restricted Cash

As at June 30, 2023, the restricted cash includes €903 (\$1,305) in current assets in relation to the covenant deposit for the bank loan relating to the Walpur property, €2,325 (\$3,360) of which €36 (\$52) is in current assets, in relation to a capital expenditure reserve for the TRIO property and €664 (\$959) in non-current assets corresponding to the cash reserve relating to the Sablière bank loan. The guarantee deposit for the bank loan agreement for the Veronese property of €1,000 (\$1,450) was released by the lender on January 9, 2023.

The covenant deposit for the bank loan relating to the Walpur property was returned by the bank at the beginning of July following the repayment of the loan.

## Note 9 – Trade and other receivables

	Note	As at June 30, 2023	As at December 31, 2022
Trade receivables		6 395	3 063
Provision for impairment of trade receivables		(667)	(669)
<b>Trade receivables</b>		<b>5 728</b>	<b>2 394</b>
Other receivables		1 467	3 233
Other receivables - Inovalis SA	20	246	331
Interest receivable - Joint ventures - current	20	2 702	2 269
<b>Other current financial assets</b>		<b>4 415</b>	<b>5 833</b>
<b>Total trade receivables and other financial assets</b>		<b>10 143</b>	<b>8 227</b>

## Note 10 – Mortgage loans and lease liabilities

Mortgage loans and lease liabilities consist of the following:

As at June 30, 2023					
Entity	Interest rate	Maturity	Total	Non-current	Current
Mortgage loan - Sabliere SCI	Euribor 3M + 1.59%	23/06/2026	14 272	12 915	1 357
Mortgage loan - Cancorp Trio	1.56%	15/03/2024	43 056	42 605	451
Mortgage loan - Baldi SCI	Euribor 3M + 1.75%	26/10/2027	5 371	-	5 371
Mortgage loan - Gaia Nanterre SCI	1.91%	31/03/2027	30 900	30 900	-
Mortgage loan - Cancorp Vegacinco	1.99%	31/03/2027	22 394	21 691	703
<b>Mortgage loans</b>			<b>115 993</b>	<b>108 111</b>	<b>7 882</b>
Lease liabilities - Arcueil SCI	Euribor 3M + 2.20%	08/07/2027	50 884	46 462	4 422
Lease liabilities - Metropolitan SCI	Euribor 3M + 1.84%	18/03/2031	54 093	51 943	2 150
<b>Lease liabilities</b>			<b>104 977</b>	<b>98 405</b>	<b>6 572</b>
<b>Total mortgage loans and lease liabilities</b>			<b>220 970</b>	<b>206 516</b>	<b>14 454</b>

As at December 31, 2022					
Entity	Interest rate	Maturity	Total	Non-current	Current
Mortgage loan - Sabliere SCI	Euribor 3M + 1.59%	23/06/2026	14 951	-	14 951
Mortgage loan - Cancorp Trio 1	1.56%	15/03/2024	43 380	42 928	452
Mortgage loan - Baldi SCI	Euribor 3M + 1.75%	26/10/2027	5 817	-	5 817
Mortgage loan - Walpur Four	1.43%	31/03/2022	16 101	-	16 101
Mortgage loan - Gaia Nanterre SCI	1.91%	31/03/2027	30 898	30 898	-
Mortgage loan - Cancorp Vegacinco	1.99%	31/03/2027	23 134	22 428	706
<b>Mortgage loans</b>			<b>134 281</b>	<b>96 254</b>	<b>38 027</b>
Lease liabilities - Arcueil SCI	Euribor 3M + 2.20%	08/07/2027	53 291	48 841	4 450
Lease liabilities - Metropolitan SCI	Euribor 3M + 1.84%	18/03/2031	55 254	53 280	1 974
<b>Lease liabilities</b>			<b>108 545</b>	<b>102 121</b>	<b>6 424</b>
<b>Total mortgage loans and lease liabilities</b>			<b>242 826</b>	<b>198 375</b>	<b>44 451</b>

## Note 10 – Mortgage loans and lease liabilities (Cont'd)

The aggregate principal repayments and balances maturing on the mortgage loans during the period indicated, are as follows:

	As at June 30, 2023		As at December 31, 2022	
	Carrying value	Minimum payments	Carrying value	Minimum payments
Within 1 year	7 882	9 073	38 027	40 488
After 1 year, but not more than 5 years	108 111	111 094	96 254	99 271
More than 5 years	-	-	-	-
	<b>115 993</b>	<b>120 167</b>	<b>134 281</b>	<b>139 759</b>
Less : future interest costs	-	(4 174)	-	(5 478)
<b>Total mortgage loans</b>	<b>115 993</b>	<b>115 993</b>	<b>134 281</b>	<b>134 281</b>

The aggregate principal repayments and balances maturing on the lease liabilities during the period indicated, are as follows:

	As at June 30, 2023		As at December 31, 2022	
	Carrying value	Minimum lease payments	Carrying value	Minimum lease payments
Within 1 year	6 572	8 396	6 424	8 305
After 1 year, but not more than 5 years	56 051	62 065	58 363	64 833
More than 5 years	42 354	44 772	43 758	46 673
	<b>104 977</b>	<b>115 233</b>	<b>108 545</b>	<b>119 811</b>
Less : future interest costs	-	(10 256)	-	(11 266)
<b>Total lease liabilities</b>	<b>104 977</b>	<b>104 977</b>	<b>108 545</b>	<b>108 545</b>

### Baldi SCI – Loan Covenant Breach

As at June 30, 2023, the REIT is in breach of the debt service coverage ratio (“DSCR”) covenant on the mortgage loan within Baldi SCI. The covenant requirement of 115% is in breach as a result of planned tenant vacancies within this entity in preparation for the future sale of the Baldi property. In Q1 of 2023, the REIT signed a waiver with the lender waiving the rights to repayment until July 31, 2023. However, as the waiver covers a period less than 12 months from June 30, 2023, the total carrying amount of the loan remains classified as a current liability due to the lender’s right to repayment.

### Sabliere SCI – Loan Covenant Remediation

As of June 30, 2023, the REIT is no longer in breach of the DSCR covenant requirement of 120% on the mortgage loan within Sabliere SCI. The breach was remedied due to the REIT advancing funds to a cash reserve account with the lender. The total carrying amount of the loan will be split between current liabilities and long-term liabilities based on schedule repayments as at June 30, 2023.

### Walpur Four – Loan Repayment

As at June 30, 2023, the mortgage loan on the Bad Homburg property has reached maturity. The REIT repaid the loan and accrued interest in the amount of € 11,236 (\$ 16,239) on June 30, 2023

## Note 11 – Exchangeable securities

Exchangeable securities issued and outstanding	Exchangeable securities	
	Number of Exchangeable securities	Carrying amount of Exchangeable securities
<b>Balance - December 31, 2021</b>	<b>938 086</b>	<b>9 015</b>
Conversion of exchangeable securities into units of the REIT	-	(5 479)
<b>Balance - December 31, 2022</b>	<b>938 086</b>	<b>3 536</b>
Net change in fair value of exchangeable securities		(366)
<b>Balance - June 30, 2023</b>	<b>938 086</b>	<b>3 170</b>

### Distribution in respect of Exchangeable Securities:

The Exchangeable Securities entitle the holders, Inovalis SA, to cash distributions from CCEU equal, on a per unit basis to the distributions paid to holders of units by the REIT.

The following table breaks down distribution payments for distributions on exchangeable securities:

	Note	For the three months ended June 30, 2023	For the three months ended June 30, 2022	For the six months ended June 30, 2023	For the six months ended June 30, 2022
Amount payable at the beginning of the period		236	260	236	249
Declared and recognized in earnings during the period		97	193	194	387
Distribution on exchangeable securities paid in cash		(90)	(223)	(187)	(406)
<b>Amount payable at the end of the period</b>		<b>243</b>	<b>230</b>	<b>243</b>	<b>230</b>

## Note 12 – Trade and other payables

	Note	As at June 30, 2023	As at December 31, 2022
Trade payables		6 295	7 032
<b>Trade payables</b>		<b>6 295</b>	<b>7 032</b>
Other payables		615	498
Other payables - Joint ventures	20	258	740
Distributions payable	16	1 127	1 133
Distributions payable - Inovalis SA	20	243	236
VAT payable		2 689	9 321
<b>Other payables</b>		<b>4 932</b>	<b>11 928</b>
<b>Total trade and other payables</b>		<b>11 227</b>	<b>18 960</b>

As at June 30, 2023, the VAT payable is mainly impacted by the VAT on the sale of the Veronese property on December 19, 2022, paid in January 2023, for an amount of \$7,402.

## Note 13 – Revenue from investment properties

Revenue from investment properties consists of the following:

	For the three months ended June 30, 2023	For the three months ended June 30, 2022	For the six months ended June 30, 2023	For the six months ended June 30, 2022
Regular rents	7 623	6 841	14 901	12 324
Amortization of (lease incentives) rent free periods	(52)	36	(5)	(246)
<b>Rental income</b>	<b>7 571</b>	<b>6 877</b>	<b>14 896</b>	<b>12 078</b>
Property operating cost recoveries	1 805	1 451	3 286	2 698
<b>Total revenue</b>	<b>9 376</b>	<b>8 328</b>	<b>18 182</b>	<b>14 776</b>

The property operating cost recoveries were as follows:

	For the three months ended June 30, 2023	For the three months ended June 30, 2022	For the six months ended June 30, 2023	For the six months ended June 30, 2022
Taxes	742	625	1 412	1 099
Insurance	24	25	134	104
Property management fees	263	251	538	469
Utilities and other cost recoveries	776	550	1 202	1 026
<b>Property operating cost recoveries</b>	<b>1 805</b>	<b>1 451</b>	<b>3 286</b>	<b>2 698</b>

Other revenues include an amount of €1,590 (\$2,140) relating to an indemnity that will be received by the REIT in conjunction with a tenant returning its leased premises upon termination of the lease without completing certain restoration works as required under the lease agreement.

## Note 14 – Expenses

Property operating costs consist of the following:

	For the three months ended June 30, 2023	For the three months ended June 30, 2022	For the six months ended June 30, 2023	For the six months ended June 30, 2022
Property tax expense	(82)	4	(3 305)	(3 267)
Insurance	(34)	(45)	(168)	(139)
Property management fees	(277)	(262)	(611)	(488)
Utilities	(1 254)	(1 238)	(2 412)	(2 231)
<b>Total property operating costs</b>	<b>(1 647)</b>	<b>(1 541)</b>	<b>(6 496)</b>	<b>(6 125)</b>

## Note 14 – Expenses (Cont'd)

In accordance with IFRIC 21, the REIT recognizes the full amount of annual property tax liabilities at the point in time when the realty tax obligation is imposed. For the six months ended June 30, 2023, the amount recognized is \$2,407 (2022 - \$2,507).

General and administrative expenses consist of the following:

	For the three months ended June 30, 2023	For the three months ended June 30, 2022	For the six months ended June 30, 2023	For the six months ended June 30, 2022
Asset management fees	(548)	(619)	(1 101)	(1 115)
Less : amount invoiced to joint ventures	291	271	579	553
	(257)	(348)	(522)	(562)
Professional fees for accounting, tax and audit	(641)	(490)	(1 509)	(1 198)
Legal expenses	(71)	(4)	(205)	(286)
Trustee fees	(75)	(63)	(178)	(126)
Travel expenses	(117)	(88)	(235)	(232)
Governance expenses	(86)	(85)	(175)	(285)
Bank and depositary fees	(159)	(88)	(220)	(204)
Other general and administrative expenses	(165)	(79)	(380)	(220)
<b>Total general and administrative expenses</b>	<b>(1 571)</b>	<b>(1 245)</b>	<b>(3 424)</b>	<b>(3 113)</b>

## Note 15 – Finance costs and finance income

	For the three months ended June 30, 2023	For the three months ended June 30, 2022	For the six months ended June 30, 2023	For the six months ended June 30, 2022
Interest costs related to mortgage loans	(978)	(663)	(1 709)	(1 080)
Interest costs related to lease liabilities	(1 268)	(481)	(2 396)	(902)
Interest costs related to lease equalization loans	-	-	-	-
	(2 246)	(1 144)	(4 105)	(1 982)
Interest SWAP and CAP	(29)	(218)	-	(470)
Other finance costs	(2)	(13)	(4)	(85)
	(2 277)	(1 375)	(4 109)	(2 537)
Amortization of transaction costs on mortgage loans	(61)	(60)	(120)	(72)
<b>Finance costs</b>	<b>(2 338)</b>	<b>(1 435)</b>	<b>(4 229)</b>	<b>(2 609)</b>
Finance income from joint venture loans	682	698	1 366	1 477
Other finance income	775	572	1 620	961
<b>Finance income</b>	<b>1 457</b>	<b>1 270</b>	<b>2 986</b>	<b>2 438</b>

## Note 16 – Distributions

	Note	For the three months ended June 30, 2023	For the three months ended June 30, 2022	For the six months ended June 30, 2023	For the six months ended June 30, 2022
Amount payable at the beginning of the period		1 133	2 240	1 133	2 240
Declared and recognised during the period		3 381	6 738	6 761	13 459
Distributions paid in units		-	(428)	-	(428)
Paid in cash		(3 387)	(6 319)	(6 767)	(13 040)
<b>Amount payable at the end of the period</b>	12	<b>1 127</b>	<b>2 231</b>	<b>1 127</b>	<b>2 231</b>

The amount of distributions payable is included in “Trade and Other Payables”.

## **Note 17 – Trust units**

The REIT is authorized to issue an unlimited number of units and an unlimited number of Special Voting Units.

The beneficial interests of the REIT are comprised of a single class of units which represent a unitholders' proportionate undivided beneficial interest in the REIT. No unit has any preference over any other unit. Each unit confers the right to one vote at any meeting of unitholders and to participate on a pro rata basis in any distributions by the REIT and, in the event of the termination of the REIT, in the net assets of the REIT remaining after the settlement of all liabilities of the Trust. The units of the Trust are redeemable at the demand of the unitholders at the fair market value of the units at that time.

Special Voting Units have no economic entitlement in the REIT but entitle the holder to one vote per Special Trust Unit at any meeting of the unitholders of the REIT. Special Voting Units may only be issued in connection with or in relation to Exchangeable Securities (see Note 11 – Exchangeable Securities) for the purpose of providing voting rights with respect to the REIT to the holders of such securities. As at June 30, 2023, 938,036 Special Voting Units were issued and outstanding (December 31, 2022 – 938,036).

### **Rights Plan**

On March 29, 2023, the Board of Trustees adopted a Unitholders' rights plan (the "Rights Plan"), subject to Unitholders ratification. The Rights Plan protects 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 ("Units"). The Rights Plan took effect immediately and was ratified at the May 9, 2023 Annual General Meeting of 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. 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. The Rights Plan is similar to other security holder rights plans adopted by other Canadian real estate investment trusts, income trusts and corporations.

### **Normal Course Issuer Bid**

On May 12, 2023 the Toronto Stock Exchange (the "TSX") approved the REIT's intention to make a normal course issuer bid ("NCIB") to acquire up to a maximum of 3,047,058 units, or approximately 10% of its public float as of May 12, 2023 over the next 12 months for cancellation. In connection with the NCIB, the REIT entered into an automatic purchase plan for a broker to repurchase units under the plan.

The number of units that can be purchased pursuant to the NCIB is subject to a current daily maximum of 23,274 Units (which is equal to 25% of 93,099, being the average daily trading volume during the last six months), subject to the REIT's ability to make one block purchase of Units per calendar week that exceeds such limits. The REIT may begin to purchase Units on May 25, 2023 and the NCIB will terminate on May 24, 2024 or such earlier time as the REIT completes its purchases pursuant to the NCIB or provides a notice of termination.

During the three months ended June 30, 2023, the REIT acquired 146,100 units for \$484 (of which broker fees \$4) at a weighted average price of \$3.28 per unit. As at June 30, 2023, an amount of \$47 is owed to the broker by the REIT, and none of the acquired units were cancelled, with all units scheduled to be cancelled in July 2023, subsequent to the quarter-end. The share repurchase resulted in a reduction of Trust Units of \$484, with no impact to retained earnings as none of the repurchased units were cancelled during the quarter.

## Note 18 – Accumulated other comprehensive income

	As at June 30, 2023	As at December 31, 2022
Net unrealized gain on derivatives designated as a hedge of the net investment in foreign entities	2 816	2 820
Cumulative translation adjustment account	5 108	6 546
<b>Accumulated other comprehensive income</b>	<b>7 924</b>	<b>9 366</b>

## Note 19 - Unit-based compensation plan

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

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

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

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

	As at June 30, 2023	As at December 31, 2022
Outstanding at beginning of period	39 398	20 250
Granted DU	3 609	18 285
Elected DU		4 465
Exercised	2 363	(4 726)
ADUs earned	1 014	1 124
<b>Outstanding at end of period</b>	<b>46 384</b>	<b>39 398</b>

As at June 30, 2023, 46,384 DSUs are outstanding and 153,616 DSUs are available for grant under the DSU Plan.

## Note 20 – Transactions with related parties

### Inovalis SA – Asset manager

Pursuant to the Management Agreement, Inovalis SA 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.

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 March 31, 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.

Unless otherwise stated, none of these transactions incorporated special terms and conditions. The amended management agreement allows for the management fees to be settled quarterly through the issuance of either exchangeable securities or in cash. During the six months ended June 30, 2023, the management fees were settled fully in cash.

Inovalis and its subsidiaries	Financial statement line item	Note	For the three months ended June 30, 2023	For the three months ended June 30, 2022	For the six months ended June 30, 2023	For the six months ended June 30, 2022
<b>Expenses</b>						
Asset management fees	Administration expenses	A	(257)	(348)	(522)	(562)
Facilities management fees	Service charge expenses		-	(67)	(39)	(128)
Property management fees	Service charge expenses	B	(241)	(243)	(528)	(469)
Letting fees invoiced	Service charge expenses		-	1	-	(53)
less portion accounted for over the lease term	Service charge expenses		-	(2)	-	51
Expenses related to the distribution for exchangeable securities	Distributions on exchangeable securities		(98)	(193)	(194)	(387)
Interest expense on lease equalization loans	Finance costs		(8)		(13)	-
Reimbursement of travel expenses	Administration expenses		(117)	(68)	(235)	(212)
Trustee fees	Administration expenses		(75)	(63)	(178)	(126)
			<b>(796)</b>	<b>(983)</b>	<b>(1 709)</b>	<b>(1 886)</b>

(A) Asset management fees of \$1,101 and \$1,115 as at June 30, 2023, and June 30, 2022 respectively, correspond to the asset management fees earned for the entire portfolio, including \$579 and \$553 attributable to assets held through joint ventures. Fees are payable in cash and/or exchangeable securities, the exact composition of which is determined by the Board annually.

(B) An annual property management fee in an amount between 3.0% and 3.5% of the gross revenue of the properties, approximately 90% of which is rebilled to tenants.

Inovalis and its subsidiaries	Note	Due from (to) Inovalis SA	
		As at June 30, 2023	As at December 31, 2022
<b>Assets</b>			
Trade and other receivables	8	246	331
		<b>246</b>	<b>331</b>
<b>Liabilities</b>			
Interest-bearing loan		346	267
Distributions payable	11	243	236
Exchangeable securities	11	3 171	3 536
		<b>3 760</b>	<b>4 039</b>

## Note 20 – Transactions with related parties (Cont'd)

### Joint ventures

The transactions and balances with joint ventures entities are summarized below:

	Financial statement line item	For the three months ended June 30, 2023	For the three months ended June 30, 2022	For the six months ended June 30, 2023	For the six months ended June 30, 2022
Management fees invoiced to joint ventures	Administration expenses	291	271	579	553
Property management fees	Service charge expenses	-	(101)	(259)	(131)
Finance income	Finance income	682	698	1 366	1 477
		<u>973</u>	<u>868</u>	<u>1 686</u>	<u>1 899</u>

		Due from joint ventures	
	Financial statement line item	As at June 30, 2023	As at December 31, 2022
<b>Assets</b>			
Loan receivable	Investments accounted for using	27 101	28 366
Interest receivables	Other financial assets - current	2 702	2 269
		<u>29 803</u>	<u>30 635</u>
<b>Liabilities</b>			
Balance of sale payable	Trade and other payables	258	740
		<u>258</u>	<u>740</u>

For more information on joint ventures, please refer to Note 7 – Investments in joint ventures.

### Remuneration of key management personnel

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

	For the three months ended June 30, 2023	For the three months ended June 30, 2022	For the six months ended June 30, 2023	For the six months ended June 30, 2022
Wages, fees and other benefits	(75)	(63)	(178)	(126)
	<u>(75)</u>	<u>(63)</u>	<u>(178)</u>	<u>(126)</u>

## Note 21 – Financial instruments and risk management

The following table shows an analysis of the fair values of financial instruments and non-financial assets measured at fair value on a recurring basis recognized on the consolidated balance sheet by the level of the fair value hierarchy. There are currently no items valued using Level 1 of the fair value hierarchy.

	As at June 30, 2023		
	Level 2	Level 3	Total
Investment properties	-	436 659	436 659
Derivative financial instruments - assets	2 242	-	2 242
Derivative financial instruments - liabilities	(462)	-	(462)
Exchangeable securities	(3 170)	-	(3 170)

	As at December 31, 2022		
	Level 2	Level 3	Total
Investment properties	-	437 422	437 422
Derivative financial instruments - assets	3 809	-	3 809
Derivative financial instruments - liabilities	(299)	-	(299)
Exchangeable securities	(3 536)	-	(3 536)

The REIT's financial assets and liabilities comprise cash, trade receivables, trade payables and accrued liabilities, mortgages loans and exchangeable securities. Fair values of financial assets and liabilities and discussion of risks associated with financial assets and liabilities are presented as follows.

### Fair value of financial assets and liabilities

The fair values of cash, trade receivables, trade payables and accrued liabilities approximate their carrying values due to the short-term maturities of these instruments.

#### (a) Mortgage loans

Mortgage loans are carried at a mortgaged cost using the effective interest rate method of a mortgization. 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 June 30, 2023.

The fair value of the mortgage loans has been determined by discounting the cash flows of these financial obligations using June 30, 2023, market rates for debts of similar terms (Level 2). Based on these assumptions, the fair value as at June 30, 2023 of the mortgage loans has been estimated at \$114,830 (December 31, 2022 – \$133,425) compared with the carrying value before deferred financing costs of \$115,993 (December 31, 2022 – \$134,281). The fair value of the mortgages payable varies from the carrying value due to fluctuations in interest rates since their issue.

#### (b) Exchangeable Securities

The fair value of the Exchangeable Securities is based on the quoted price of the REIT's own units, on the basis that they are exchangeable on a one-to-one basis throughout their life at the request of the unit holders. Other features of the Exchangeable Securities have no significant impact on their fair value.

## Note 21 – Financial instruments and risk management (Cont'd)

### Risks associated with financial assets and liabilities

The REIT is exposed to financial risks arising from its financial assets and liabilities. The financial risks include interest rate risk, credit risk and liquidity risk. The REIT's overall risk management program focuses on establishing policies to identify and analyze the risks faced by the REIT, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the REIT's activities. The REIT aims to develop a disciplined control environment in which all employees understand their roles and obligations.

### 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 ensure the predictability of distributions to unitholders, the REIT enters into foreign currency forward contracts to offset its exposure to currency risk.

### Fair value of financial assets and liabilities

The following table provides a comparison of the carrying amounts and fair value of the REIT's financial assets and liabilities that are not carried at fair value in the Consolidated Financial Statements.

As at June 30, 2023	Fair value hierarchy level	Carrying amount	Fair value
<b>Financial assets</b>			
Loans to joint ventures	3	27 101	27 101
<b>Financial liabilities</b>			
Mortgage loans	2	115 993	114 830
Tenant deposits	2	2 285	2 285
<hr/>			
As at December 31, 2022	Fair value hierarchy level	Carrying amount	Fair value
<b>Financial assets</b>			
Loans to joint ventures	3	28 366	28 366
<b>Financial liabilities</b>			
Mortgage loans	2	134 281	133 425
Tenant deposits	2	2 371	2 371

## Note 22 – Cash flow information

	Note	For the six months ended June 30, 2023	For the six months ended June 30, 2022
<b>Adjustments for non-cash items and other reconciling items:</b>			
Decrease (increase) in rent-free period	5	91	(44)
Net change in fair value of investment properties	5	(654)	17 942
Net change in fair value of financial derivatives		1 753	(1 587)
Distributions recognized on exchangeable securities	11	194	387
Net change in fair value of exchangeable securities		(366)	(2 195)
Finance income	15	(2 986)	(2 438)
Finance costs	15	4 229	2 609
Share of net loss from investments in joint venture	7	3 479	2 120
Impairment of loans to joint ventures	7	-	227
Foreign exchange (gain) loss		(55)	893
Net change in fair value of acquisition loan		-	(316)
		<b>5 685</b>	<b>17 598</b>
<b>Working capital adjustments</b>			
Increase in trade and other receivables		(2 395)	(3 262)
(Decrease) increase in tenant deposits		(103)	1 102
(Decrease) increase in trade and other payables		(4 818)	327
		<b>(7 316)</b>	<b>(1 833)</b>

Cash and non-cash changes in liabilities arising from financing activities:

Liabilities	As at December 31, 2022	Cash flows - repayment	Foreign exchange movement	Fair value changes	As at June 30, 2023
Exchangeable securities	3 536	-	-	(366)	3 170
Mortgage loans <sup>1</sup>	134 281	(17 820)	(468)	-	115 993
Lease liabilities	108 545	(3 204)	(364)	-	104 977

<sup>1</sup> Of which 16 239 \$ for the mortgage loans repayment on the Bad Homburg property (see – Note 10 Mortgage loans and lease liabilities)

# Corporate information

## Head office

Inovalis REIT  
151 Yonge Street, 11<sup>th</sup> floor  
Toronto, Ontario, M5C 2W7

## Investor relations

E-mail: [info@inovalis.com](mailto:info@inovalis.com)

Website: [www.inovalisreit.com](http://www.inovalisreit.com)

## Stock exchange listing

The Toronto Stock Exchange  
Listing symbol: INO.UN.TO

## Distribution Reinvestment Plan

On August 15, 2022, the REIT announced the suspension of its Distribution Reinvestment and Unit Purchase Plan (the “DRIP”) effective as of its September Distribution. The DRIP will remain suspended until further notice and commencing with the September 2022 Distribution, distributions of the REIT will be paid only in cash. The DRIP allowed eligible holders of units to reinvest their cash dividends paid in respect of their units in additional units, which, at the REIT’s election, were issued from treasury or purchased on the open market. If the REIT elected to issue units from treasury, such units were purchased under the DRIP at a three percent discount to the volume weighted average of the closing price for the units on the Toronto Stock Exchange (the “TSX”) for the five trading days immediately preceding the relevant dividend payment date. The REIT could, from time to time, in its sole discretion, change or eliminate the discount applicable to units issued from treasury.

# inovalis

REIT

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