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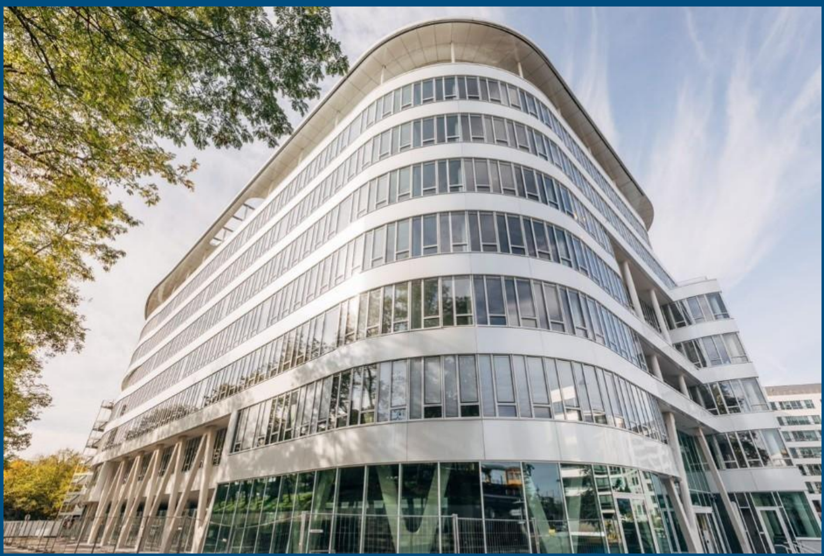
inovalis REIT

Annual Report 2023

December 31, 2023



Contents

All amounts in the MD&A are presented in thousands of Canadian dollars or Euros, except rental rates, per unit amounts or as otherwise stated. Information contained in this MD&A is based on information available to management as of March 28, 2024.

Letter to Unitholders

2023 was a challenging year in the office real estate market, here in Europe and around the world. Economic uncertainty, exacerbated by political tensions, dampened investor confidence and slowed down decision-making processes. Uncertainty regarding economic growth, inflation, and interest rates have also contributed to cautiousness among investors and tenants.

The net result is that the office real estate market is experiencing a cyclical oversupply of office space relative to demand. This has led to increased vacancy rates and downward pressure on rental prices. As is always the case in real estate cycles, it takes time for the market to rebalance as excess supply is absorbed. The current cycle, which began with the onset of the COVID-19 pandemic in 2020 has dynamics that are like the downturns experienced during Brexit uncertainty, the Eurozone Debt crisis in the 2010s and the global financial crisis in 2007 – 2009.

These downturns were characterized by varying degrees of severity and duration, but common elements include economic contraction, financial instability, oversupply, and changes in tenant behavior. Europe's economy avoided ending 2023 in a recession by a narrow margin; growth was recorded at 0.5%. I am sharing this with you to give you some insight into the challenges that the REIT is confronting.

As in previous cycles, recovery from these downturns requires efforts from policymakers, investors, and market participants to stimulate economic growth, stabilize financial markets, and adapt to changing market conditions.

The European Central Bank ("ECB") Governing Council decided on March 7, 2024 to keep the three key ECB interest rates unchanged. Since the last Governing Council meeting in January, inflation has declined further. ECB staff now project inflation to average 2.3% in 2024, 2.0% in 2025 and 1.9% in 2026.staff and expect the economy to pick up and to grow at 1.5% in 2025 and 1.6% in 2026, supported initially by consumption, cheaper energy prices and later also by investment.

As you read the MD&A, take note that results of the eight properties that have a range of 80%-100% occupancy are performing very well but are being dragged by the vacancy of three other properties in the Asset Recycling Plan: Arcueil, Sabliere and Baldi. Throughout 2023, management has devoted their efforts to repositioning and selling these three properties which have a net asset value per Unit well in excess of the current Unit price. The drag on performance by these properties has negatively impacted the overall results for 2023 and their disposition remains the focus of the management team. We will advance progress on these plans in 2024.

We are delivering on our long-term plans to resolve the joint venture held asset arrangements which ended in December 2023 and January 2024. Two of the five jointly held assets are being marketed and the capital generated from these sales will be redeployed into the deleveraging of our portfolio and higher return AFFO accretive assets.

Maintaining the REIT's positive cash flow, negotiating competitive debt renewals and ensuring sufficient liquidity to cover operational expenses and financial obligations will be key in 2024. Longer term plans involve setting achievable goals, assessing market opportunities and threats, strengthening operational efficiency and regularly reviewing and adjusting the strategic direction as needed.

We understand that the slow pace of events may be frustrating for our investors in such challenging economic times. While short-term fluctuations are unsettling, it is important that we keep our focus on the fundamentals of our business and the resilience of our team. I want to reassure you that our commitment to your investment and the long-term success of our REIT remains unwavering. Our Annual General Meeting is scheduled for a few weeks from now on May 8, 2024 and it will be held at 10:00 a.m. at the Ivey Donald K. Johnson Centre, 130 King Street West in the Exchange Tower in downtown Toronto. I am inviting you to join the Board of Trustees and the management team and to hear more about our plans.

As always, we appreciate your confidence in us.

Stéphane Amine

President and Chief Executive Officer, Inovalis Real Estate Investment Trust

Q4 2023

Quarterly NOI	Annual NOI	Quarterly FFO	Annual FFO
CAD$4.1 Million	CAD$23.2 Million	CAD$0.01	CAD$0.43

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, 2023 ("Q4 2023"), decreased significantly to CAD$4,084 (EUR€2,798) compared to CAD$6,705 (EUR€4,894) for the three months ended December 31, 2022 ("Q4 2022"). This aligned with our expectations given the vacancy of the Arcueil property since July 1, 2023.

For the year ended December 31, 2023, the IP Portfolio NOI was CAD$23,216, an increase of CAD$1,583 compared to the same period last year. The main contributing factors to this increase were the full 2023 impact of the two acquisitions that took effect at the end of Q1 2022, Gaia and Delgado, for a total of CAD$1,341 (EUR919) added to a CAD$1,413 (EUR968) positive foreign exchange impact The Orange indemnity, negotiated in Q2 2023 (CAD$2,320 EUR1,590) upon the sole tenant's departure from the Arcueil property, partly offset the negative rental income impact of the half year full vacancy of this property.

Leasing Operations

As at December 31, 2023, occupancy of the REIT's IP Portfolio was 54.1% and occupancy of the REIT's Total Portfolio was 64.2%, largely affected by the half year vacancy of Arcueil and the 20% space vacated by the main tenant at the Neu-Isenburg property.

Management is considering short and long-term rental opportunities for the Sablière office property to generate revenue during the City Hall approval process for redevelopment. Subsequent to the quarter, a new two-year lease was signed representing 13% of the Sabliere leaseable space, replacing a departing tenant and increasing the building's net rental income and service charge recoverability.

Steady interest from prospective tenants throughout 2023, for both long and short-term leases, reaffirms confidence in our Parisian, German and Spanish portfolio. To bolster leasing efforts, notably with on-field brokers management is selectively undertaking tenant improvements to attract tenants and maximize rent.

Asset Recycling Plan

The Arcueil (Fair Value CAD$85,703), Sabliere (Fair Value CAD$27,493) and Baldi properties (Fair Value CAD$26,762) are being marketed for sale as part of the REIT's previously announced Asset Recycling Plan. These are mature assets where management believes value can be maximized. Upon the sale of these properties, management and the Board will consider the best uses of the new capital including the options to pay down debt, make capital investments to support leasing, invest in redevelopment opportunities and make opportunistic acquisitions. Refer to the "Portfolio Overview - Asset Recycling Plan" section of this MD&A for more detailed discussion.

Joint Venture ("JV") Arrangement Wind Up

Management is executing on its previously announced commitment to wind up the current joint ventures in accordance with their respective agreements. Seller representation agreements were signed in January 2024 for each of the Stuttgart and Duisburg properties and the properties are being actively marketed. JV arrangements for the Kosching and Neu Isenburg properties had expiry terms in early 2025 however a one-year extension has been arranged for the Kosching property and negotiations are underway for an extension of the Neu Isenburg JV arrangement. The JV arrangement for Delizy does not expire until 2029. Refer to the "*Portfolio Overview - Joint Venture Arrangement Wind Up"* section of this MD&A for more detailed discussion.

Capital Market Considerations

Throughout 2023, there was significant downward pressure on net asset values due to volatile economic conditions driven by high inflation and energy costs in the Euro-zone. Unitholders' equity as at December 31, 2023 was CAD$246,397 (EUR€168,488), which implies a book value per Unit at that date of CAD$7.54/Unit or CAD$7.38/Unit on a fully-diluted basis, using the Weighted Average Number of Units for the period.

The REIT has addressed the volatile risks in the current capital markets by implementing short term leasing initiatives for properties in the REIT's Asset Recycling Plan, maintaining a conservative debt-to-gross-book value ratio, currently 43.6%, and securing fixed rate mortgages.

Funds From Operations and Adjusted Funds From Operations

In Q4 2023, due to the vacancy and increased finance costs, the REIT reported FFO and AFFO[1] per Unit of CAD$0.01; and full year 2023 FFO of CAD$0.43 which was in line with management's forecast. Refer to the "*Non-GAAP Financial Measures and Other Measures"* section of this MD&A for a more detailed discussion on FFO and AFFO.

Financing Activity

The REIT is financed almost exclusively with asset-level, non-recourse financing with an average term to maturity of 2.9 years for the Total Portfolio (3.2 years for the IP Portfolio).

In Q4 2023, after an interim extension, the CAD$17,765 mortgage loan on the Stuttgart property that matured in May 2023 was successfully extended for one year until August 2024. This short-term extension will allow management to reassess the strategy and try and obtain improved financing terms before this new expiration date. Refer to the "*Portfolio Overview - Joint Venture Arrangement Wind Up"* section of this MD&A for more detailed discussion.

For the year ended December 31, 2023, the weighted average interest rate across the Total Portfolio was 2.75% compared to 1.93% at December 31, 2022. For the year ended December 31, 2023, the weighted average interest rate across IP Portfolio was 2.62% compared to 1.91% at December 31, 2022. This increase reflects the higher interest rate on the Stuttgart mortgage loan and the additional interest cost of unhedged contracts on Sabliere, Arcueil and Delizy properties. As at December 31, 2023, 52.1% of the REIT's debt for the Total Portfolio was at fixed interest rates (47.6% on the IP Portfolio).

In early March 2024, the European Central Bank ("ECB") announced that key lending rates remained unchanged and inflation has declined further. ECB staff have revised their growth projection for 2024 down to 0.6%, with economic activity expected to remain subdued in the near term. Thereafter, the ECB expects the economy to grow at the rates of 1.5% in 2025 and 1.6% in 2026, supported initially by consumption and later also by investment. With this outlook, management will continue to seek financing opportunities through its banking networks in Europe, leveraging the quality of its properties, lease terms and high caliber tenants.

General and Administrative Expenses

In 2023, management successfully reduced General and Administrative expenses by 8.2% to CAD$6,405 from CAD$6,974 in 2023, primarily due to the streamlining of administrative processes and a reduction in legal fees.

Subsequent events

Subsequent to year end, on March 15, 2024, the Trio mortgage loan in the amount of EUR29,673 (CAD$43,394) matured and the REIT was given notice that the three Trio entities are in breach of their obligation to repay the loan. The lender has exercised its right to charge 5% default interest on the loan in addition to the Deutsche Bundesbank base interest rate 3.62 % until negotiations on a mortgage renewal conclude. The liquidity risk associated with this default is confined to default interest payments during the default period. If recourse is made to the guarantees provided by the REIT, the risk would entail the loss of Trio's contribution to the REIT's equity, without compromising its liquidity. (see Subsequent Events section). Management has been and remains in discussions with the lender regarding its options to extend the loan or refinance the Trio property. The REIT has scheduled further negotiations with the lender in early April.

Subsequent to year end, one-year mortgage extensions for the Neu Isenburg and Kosching mortgage loans that had matured at the end of 2023 and January 2024 were secured. This strategy to obtain such mortgage extensions is intended to facilitate the eventual exit from the joint venture ownership of these properties.

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.

The Spanish property Delgado is pursuing LEED Platinum certification.

On the German portfolio, offers for a green electricity procurement policy are to be received in 2024, in addition to the implementation of smart water-saving equipment.

The social aspect of the ESG policy is also a critical point in the upcoming redevelopment projects of Sabliere and Arcueil, where not only bio-climatic zoning plan are or should be adopted, but also where a social diversity and a diversified office-residential equilibrium is requested by the city mayors.

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

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, 2023, and 2022, 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 28, 2024. Additional information about Inovalis REIT has been filed with applicable Canadian securities regulatory authorities and is available at www.sedarplus.ca.

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, distributions, 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:

(ix) 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, or structure;

(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 and the market for dispositions, will be consistent with past conditions; and

(viii) 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 asset recycling, 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 around the world on the REIT’s business, operations and financial results;
- general economic conditions, including any continuation or intensification of the current economic conditions;
- 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 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;
- resume 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, 2023 and 2022 was CAD$1.4595 and CAD$1.3700 respectively (6.5% increase).

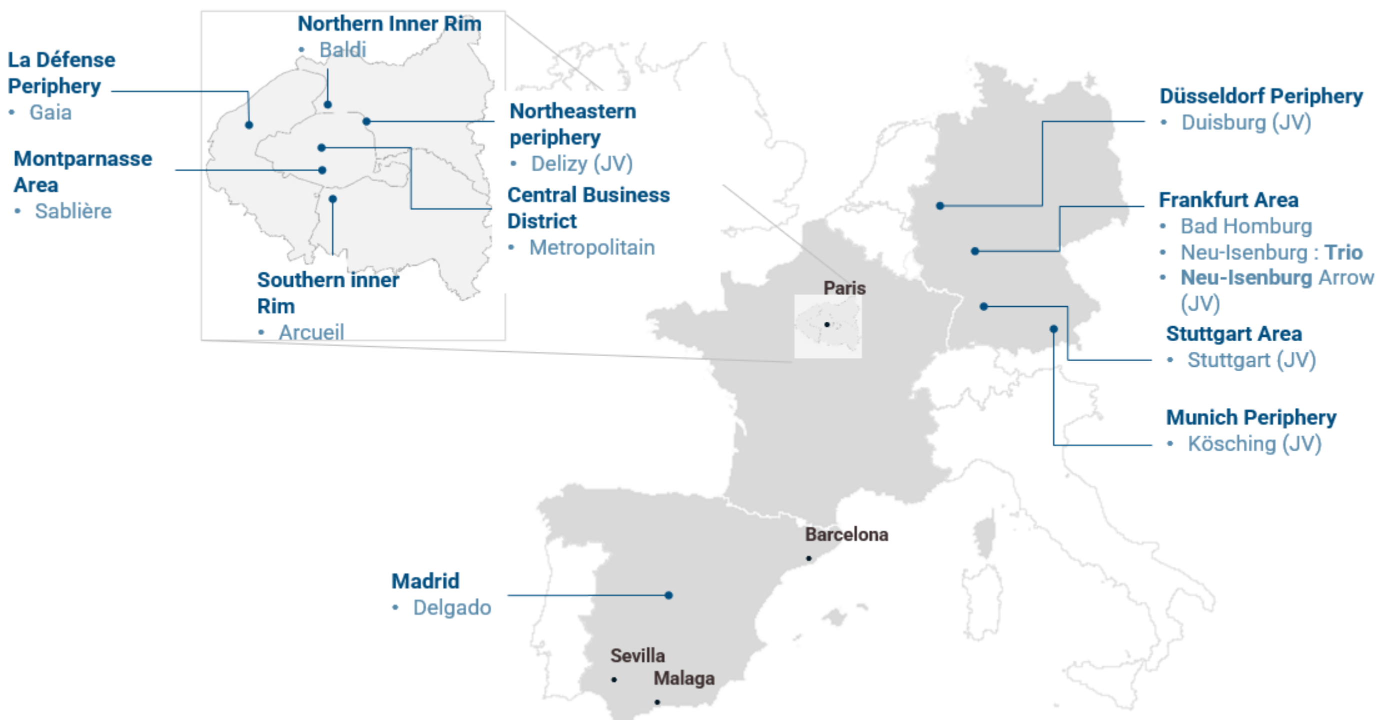
For balance sheet items as at December 31, 2023, projections, or market data, the exchange rate used is CAD$1.4624 (CAD$1.4505 as at December 31, 2022). Over the year ended December 31, 2023, the Canadian dollar weakened by approximatively 1% relative to the Euro.

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, 2023, 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 latter part of 2023, France, and the global economy in general, experienced economic contraction. France's GDP declined from an initial estimate of +0.1% to -0.1%. Inflation rates notably decelerated from September to November across sectors, with core inflation following suit. The ECB maintained their interest rates unchanged in March 2024, The ECB Governing Council considers that the key ECB interest rates are currently at levels that, maintained for a sufficiently long duration, will return inflation to its 2% medium-term target.

In 2023, the Greater Paris Region rental market displayed quarterly improvements, with 5.7 million sq.ft. of office space transacted in Q4, totalling 20.5 million sq. ft. for the year, a 17% decline from 2022 and 12% below the 10-year average. The medium segment (10,000 to 50,000 sq.ft.) dominated Q4, as it is less sensitive to the economy than the small segment, and also more agile and flexible compared to larger spaces where decision-making times can be protracted. Only six markets outperformed their long-term averages, while La Défense experienced its lowest leasing rates since 2014.

Immediate supply of office space, representing 8.5% vacancy rate, rose by 3% in the last 3 months of 2023, to 51.2 million sq. ft. at year-end, out of which 26% is new or refurbished.

The annual prime rent in the Central Business District of Paris ("the Paris CBD") continued to rise to CAD$130 per sq. ft. with top value of CAD$135 per sq. ft. Prime rents in La Défense fell by -5% to CAD$74 per sq. ft, returning to a more usual level for this market. The average subprime rent in the Greater Paris Region decreased by 2% to CAD$58 per sq. ft, while new space rents reached a record high at CAD$58 per sq. ft. These rents are usually offset by substantial tenant incentives: an average of 26% of the annual net rent as incentive for the Greater Paris Region, 17% in Paris, 31.2% in La Défense and the Western Crescent and from 24% to 29% in the Inner and Outer Rim.

Investment Market

In the Greater Paris Region's investment market, CAD$1.6 billion was invested in Q4 2023, marking the lowest Q4 volume in 20 years, and a fifth consecutive quarterly reduction. For the year, total investment amounted to CAD$9.9 billion, down sharply by 56% year-over-year and 64% lower than the 10-year average. Transactions for lot sizes over CAD$150 million represented just 39% of activity, compared to the average of 61% over the last decade.

Office space remained dominant (67% of market share of total real estate investment), with CAD$6.7 billion in investment (down 57% year-on-year).

Southern Paris led with almost CAD$2.5 billion in investments, followed by the Paris CBD with CAD$2.2 billion. Foreign investor activity slowed to 25% of the market share for the year, compared to an average of 35% over the last five years.

Yields increased across all asset classes in Q4 2023, with prime yields for office and retail properties reaching 4.25% and 4.75% for logistics assets, respectively, resulting in a risk premium for office space in the Paris CBD standing at just under 170 basis points by the year's end.

The reduction in the number of transactions, from 368 to 206 compared to the previous year, and the decrease in the average lot size from CAD$61 million to CAD$48 million reflect a broader market adjustment and investor behaviour in response to economic conditions and market uncertainties.

Germany

Office Market

In 2023, the German office leasing market experienced a substantial decline, with total leasing in the Top 7 office markets dropping by 28% compared to the previous year. marking the weakest result since 2009. Conservatively, office leasing is expected to increase by 10% in the coming year. Owners of lower-quality buildings are expected to face challenges in marketing space without upgrades.

In 2023, the volume of new construction in Germany fell by around 27% compared to the previous year, reflecting challenges such as high building costs, shortages of skilled labour, and material scarcities.

The reduction in new construction is alleviating pressure on the supply side, but newly constructed space impacts vacancy rates upon completion. From October to December 2023, over 1.6 million sq. ft. were added to the Top 7 office markets, contributing to a total of 61 million sq. ft available for short-term space.

Vacancy rates in the Top 7 office markets are all in the single-digit percentage range, ranging from 3.3% in Cologne and 4.0% in Stuttgart, to 8.8% in Frankfurt and 9.7% in Düsseldorf. At December 31, 2023, overall vacancy was 5.8%.

Prime office rents have consistently risen, while rental incentives are expected to increase, reflecting market dynamics and landlords' strategies to attract tenants. Munich and Berlin saw prime rents increase to CAD$81 per sq. ft. and CAD$71 per sq. ft., (14% and 6%

respectively). Prime rents in Hamburg and Frankfurt remained relatively stable while Dusseldorf and Stuttgart saw 5% increases year-on-year.

Investment Market

In 2023, the German real estate investment market faced significant headwinds, experiencing its most challenging year since 2011. The transaction volume amounted to CAD$46.3 billion, marking a 52% decrease compared to the previous year and a 58% decrease from the ten-year average. There was no traditional year-end leasing rally; the fourth quarter contributed only 28% to the annual leasing, whereas the 10-year average for the fourth quarter was 33%.

During the year, the market experienced various shifts in various sectors. The office segment faced significant pressure, constituting only around 17% of the total transaction volume, a sharp decline from the 5-year average of 33%. With just CAD$7.6 billion invested in office properties, it marked the lowest result since the cyclical low in 2009 following the financial crisis.

The Top 7 real estate markets, totaling CAD$18.7 billion in transactions, accounted for 40% of the nationwide transaction volume. The year-on-year decline of 60% was more pronounced than outside the Top 7, which experienced a 45% decline. This decline was primarily attributed to the weakened performance of the Office segment, traditionally significant in the Top 7 markets.

Office prime yields in the Big 7 increased by 98 bps to 4.29% year-over-year.

Spain

Office Market in Madrid

Despite a 30% quarterly decline in office space transactions, totalling 970,000 sq. ft., the year closed with 5.1 million sq. ft. leasing. The demand was fuelled by high-specification assets, with A/B+ rated buildings constituting 65% of transacted space. Notably, vacancy rates were below 5% in prime locations like the Central Business District of Madrid (the “Madrid CBD”), while Madrid's overall vacancy rate remained stable at approximately 10%.

Prime rents in the Madrid CBD increased to CAD$63.00 sq. ft. per year at the close of 2023, a yearly increase of 5.4%, reflecting the strong demand for quality office space. Rents remained primarily stable in most sub-markets compared to 2022. Vacancy rates could see a slight uptick owing to upcoming offerings under construction, potentially impacting average floorspace transacted in the market.

Investment Market in Madrid

The final quarter of 2023 brought relief to Madrid’s office market with the slowdown of interest rate hikes, culminating 18 months of continuous increases. The European Central Bank’s forecast reflects a positive economic cycle starting in the second half of 2024. Spain’s GDP growth forecasts for 2024 and 2025 are 1.4% and 2.0%, respectively.

In 2023, office investment volume totalled CAD$1.8 billion at the national level, with Madrid accounting for 73% of total investment of CAD$1.3 billion. In Q4-2023, approximately CAD$435 million was invested in office space.

International capital investors remained cautious, awaiting further price adjustments before committing to investments. In addition, interest rate hikes since mid-2022 have dramatically increased financing costs, prompting investors to seek higher returns in the real estate sector. Despite this, SCPIs and family-origin capital actively pursued products offering attractive returns and long contracts.

For 2024, a in office investment is expected to continue gradually, driven by pending deals and potential interest rate stabilization in the latter half of the year. The prime office yield in Madrid was 4.60% at the end of December 2023 (+45 bps compared to the first quarter and +70 bps compared to December 2022: 3.90%). Forecasts anticipate a yield compression in 2024 with an interest rate cut in the second half of 2024.

Outlook

The 2024 outlook is for the successful recycling of our portfolio to resume distribution to Unitholders, in a challenging current macroeconomic environment. However, as a long-time investor and manager of European office real estate, the Inovalis team knows how to manage through fluctuating economic cycles capably and profitably. Management of the REIT have three principal areas of focus in 2024:

1. organic growth through leasing vacant space and renewing expiring leases;
2. execution of the Asset Recycling Plan with the repositioning/disposition of the Sablière, Arcueil and Baldi properties, and
3. winding up ownership arrangements for the properties held under joint venture arrangements by selling the properties.

Portfolio Overview

The REIT's Total Portfolio by geographic region as at December 31, 2023 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)	Financing maturity
Sabliere	100%	27,493	13,757	5%	41,043	4%	4	53%	1.1	2.5
Baldi	100%	26,762	4,994	5%	123,657	4%	10	32%	3.0	3.8
Metropolitain	100%	101,250	53,756	19%	78,818	18%	6	100%	4.0	7.2
Arcueil	100%	85,703	49,242	16%	334,521	0%	0	0%	-	3.5
Gaia	100%	56,156	31,382	10%	119,499	12%	6	80%	5.2	3.2
Delizy (1)	50%	15,888	9,581	3%	71,618	4%	18	68%	4.1	5.7
Subtotal France		**313,252**	**162,712**	**58%**	**769,155**	**43%**	**44**	**37.0%**	**4.1**	**4.7**
Delgado	100%	41,459	22,707	8%	117,274	9%	2	100%	3.2	3.2
Trio	95%	53,670	43,394	10%	193,914	16%	8	90%	2.8	0.2
Bad Homburg	100%	20,474	-	4%	109,104	7%	5	71%	2.5	none
Duisburg (1)	50%	39,303	24,188	7%	108,960	8%	2	99%	3.9	3.2
Stuttgart (1)	50%	30,582	17,979	6%	121,416	8%	5	99%	5.2	0.7
Neu-Isenburg (1)	50%	24,536	16,715	5%	67,337	6%	6	80%	4.1	- 0.0
Kosching (1)	50%	17,725	9,679	3%	53,058	5%	1	100%	3.9	0.1
Subtotal Germany & Spain		**227,749**	**134,662**	**42%**	**771,063**	**57%**	**29**	**89.8%**	**3.7**	**1.3**
Total Portfolio		**541,001**	**297,374**	**100%**	**1,540,218**	**100%**	**73**	**64.2%**	**3.5**	**3.2**
IP Portfolio		**412,967**	**219,232**	**76%**	**1,117,830**	**70%**	**41**	**54.1%**	**3.3**	**3.6**
JV Portfolio		**128,034**	**78,142**	**24%**	**422,388**	**30%**	**32**	**91.0%**	**4.3**	**1.9**

(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, weighted average lease term and financing maturity) are presented on a proportionate share basis at the REIT's ownership percentage of the related investment.

General portfolio updates

- At the Gaia property, an early termination by one tenant reduced the occupancy rate from 85% to 80%, however the Effective Occupancy rate is 95% until the beginning of 2025 owing to the vendor-backed rental guarantee that covers both a three-year vacancy, and the cost of rent-free periods. When the effect of this rental guarantee is considered, the Total Portfolio occupancy rate is 1.1% higher.
- At the **Trio property,** which has a 90% occupancy rate, brokers have been engaged on a retainer basis to pursue the fieldwork and relet the vacant space when the demand would grow again. Management is discussing extension or refinancing of the HCOB's in-place facility which matured in March 2024 with several lenders. Refer to *Subsequent event section* and *Liquidity risk* section.
- The **Delgado property** in Spain, acquired in March 2022, is fully leased to two blue-chip tenants on leases maturing at the end of 2024 and in June 2029. Final approval with one tenant of a 5-year firm extension (plus 5 optional years) should occur by the end of Q1 2024, securing cashflow for 5.7 years.
- At the **Duisburg property**, the main tenant Hitachi reduced its leased space by 11% in the building in 2023 The asset management work and the attractiveness of the property allow to minimize vacancy period. After a new 10-year firm lease was signed in March 2023, another long-term lease was signed effective in March 24 on 8,400 sq. ft. In addition, subsequent to year

end, a 10-year lease on 20,000 sq. ft was finalized, effective August 2024. Rent-free periods and tenant improvements costs will be offset by early termination penalties negotiated with Hitachi. These two new leases will extend the WALT of the building to 6.5 years, securing cashflow for joint venture partners, or alternatively attract potential buyers. Refer to the "*Portfolio Overview – Joint Venture Agreement Wind Up"* section of this MD&A.

- At the **Stuttgart property,** the short-term extension on the financing, finalized in Q4 2023 and now maturing in August 2024 allow to possibly obtain more attractive financing terms in mid-2024 if a sale does not occur. Refer to the "*Portfolio Overview – Joint Venture Agreement Wind Up"* section. The main tenant Daimler intends to extend its footprint in the building by taking-up future vacancies.

At the **Neu-Isenburg property**, refinancing of the mortgage loan has been secured until February 2025, allowing an extended period for management to assess the best possible strategy for this property. An on-site marketing and leasing team at this location has improved the turnover productivity.

The REIT's available cash was applied to fully repay the CAD$16,042 **Bad Homburg property** mortgage loan that matured in March 2023. Management may refinance this property, and potentially collateralize it with other properties. Selective capital expenditures to upgrade the lobby are taking place and are expected to support leasing in 2024.

Asset Recycling Plan

On June 7, 2021, the Board of Trustees completed its strategic review and announced that the REIT intends to continue to sell mature assets where it believes value can be maximized and utilize the new capital to invest in higher return AFFO accretive opportunities. Management proceeded with the dispositions of the Jeuneurs property in December 2021 and the Courbevoie property in December 2022. The proceeds were used to acquire the Gaia and Delgado properties in March 2022.

- **The Baldi and Sabliere properties are** now in the REIT's Asset Recycling Plan. The main tenants for these properties vacated the properties positioning the REIT to proceed with redevelopment plans which are currently in review. Several non-binding offers from developers were received in 2023 for each property. For Sabliere, located downtown Paris, additional offers were received subsequent to year end and are being assessed. A sale of the Sabliere property at the Q4 2024 appraised value, in line with offers at hand, could generate CAD$12.5 million of cash readily available.. Plans for the Baldi property are underway and a building permit is being obtained. A sale of this asset at fair market value (CAD$26,762; EUR18,800), considering actual low LTV of 18%, would generate CAD$21 million of cash.

  To offset the impact of the vacancy in these properties and to mitigate risk, management is considering short and longer-term rental opportunities until the properties are redeveloped or sold.

- Management is advancing plans to redevelop or sell the vacant 335,000 sq.ft. **Arcueil property,** located five minutes from the Paris southern ring road. Management is engaging with a developer, on an exclusivity agreement, to sell this property near its actual appraised value (EUR59.8 million; CAD$85,703) with a building permit application and change of the local zoning plan as a prerequisite. Management is engaged in debt service negotiation with the senior lender to decrease amortization (presently 9% amortization per year). A sale at Q4 2023 last fair market value could generate CAD$41 million of cash, that could be partly available for reinvestment in the redevelopment project.

Joint Venture Agreement Wind Up

As announced on June 7, 2021, management was committed to either acquiring or disposing of current joint ventures in accordance with their respective agreements in an attempt to simplify its corporate structure and governance.

- The terms for four of the five jointly held properties have now concluded and it has been decided to sell two of them: Duisburg and Stuttgart in Germany, which benefit from strong quality tenants and long WALT. Upon the sale of these properties, the REIT's will use the proceeds to acquire new properties as wholly-owned assets.

Seller representation agreements were signed in January 2024. A sale at the targeted price for the Duisburg, in line with last fair value, could generate for the REIT's share - CAD$13.8 million, and for the Stuttgart property, CAD$9.5 million cash.

JV arrangements for the Kosching and Neu Isenburg properties had expiry terms in early 2024 (combined with the Facility agreement maturity) however a one-year extension has been arranged for both properties subsequent to year end until 2025. The JV arrangement for Delizy does not expire until 2029.

Tenant Profile

As at December 31, 2023, the REIT had 41 tenants across the IP Portfolio compared to 42 tenants, as at December 31, 2022, and 73 tenants across the Total Portfolio, compared to 75, as at December 31, 2022.

All lease contracts in France, Germany and Spain have rental indexation. In France, this is 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”). The Consumer Price Index – CPI, or the German or Spanish Consumer Price Index provides for rent indexation in those jurisdictions. Rent is increased annually to reflect the rising cost of living which protects returns to Unitholders. The rent indexation applied on most leases was approximatively 4% for 2023.

Investment Property Portfolio

The following table shows the five largest tenants across the Investment Property portfolio as at December 31, 2023 (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.)	% of Total Areas	Average remaining lease term (years)
The Lorenz Bahlsen Snack-World	Food and beverage	11%	86,501	7.7%	2.0
ITP Aero	Aeronautics	7%	59,159	5.3%	1.0
Indra	IT systems	6%	58,115	5.2%	5.4
Fresenius	Health care	6%	44,942	4.0%	0.1
Bureau Veritas	Consulting and Advisory	8%	39,030	3.5%	3.0
Top 5 tenants		**37%**	**287,747**	**25.7%**	**2.3**
Other tenants	Diversified	63%	316,755	28.4%	4.2
Total occupied space		**100%**	**604,502**	**54.1%**	**3.3**
Vacant			513,328	45.9%	
IP Portfolio			**1,117,830**	**100.0%**	

Total Portfolio

The following table shows the REIT’s five largest tenants across the Total Portfolio at December 31, 2023, including interests that the REIT has in properties held in joint ventures.

Tenant	Tenant Sector	% of annual contractual rental revenue	Occupied space (sq. ft.)	% of Total Areas	Average remaining lease term (years)
Daimler Truck	Manufacturer	7%	109,136	7.1%	5.4
The Lorenz Bahlsen Snack-World	Food and beverage	6%	86,501	5.6%	2.0
Hitachi Power	Manufacturer	6%	82,802	5.4%	1.4
ITP Aero	Aeronautics	4%	59,159	3.8%	1.0
Indra	Aeronautics	4%	58,115	3.8%	5.4
Top 5 tenants		**29%**	**395,713**	**25.7%**	**3.2**
Other tenants	Diversified	71%	593,269	38.5%	3.7
Total occupied space		**100%**	**988,982**	**64.2%**	**3.5**
Vacant			551,235	35.8%	
Total Portfolio			**1,540,218**	**100.0%**	

No tenant represents more than 10% of the REIT’s rental revenue of the Total Portfolio.

Occupancy and Leasing Activity

The change in occupancy and leasing activity in the IP Portfolio by geographic region for the period ended December 31, 2023 was as follows:

	Occupied space (sq. ft.)							
IP Portfolio	**January 1, 2023**	**New leases**	**Lease Expiries**	**December 31, 2023**	**Occupancy rate**	**Committed space (sq. ft) (1)**	**Total occupied space (sq. ft)**	**Committed occupancy**
France	570,853	7,234	(342,096)	235,991	33.8%	-	235,991	33.8%
Germany	246,577	4,658	-	251,235	82.9%	(44,942)	206,292	68.1%
Spain	117,274	-	-	117,274	100.0%	-	117,274	100.0%
Total IP Portfolio	**934,704**	**11,892**	**(342,096)**	**604,500**	**54.1%**	**(44,942)**	**559,558**	**50.1%**

(1) The committed space relates to the departure at the end of January 2024 of the main tenant from the Bad Homburg property.

The change in occupancy and leasing activity in the Total Portfolio, including joint ventures at the REIT's proportionate ownership interest, by geographic region as at December 31, 2023, are as follows:

	Occupied space (sq. ft.)							
Total Portfolio	**January 1, 2023**	**New leases**	**Lease Expiries**	**December 31, 2023**	**Occupancy rate**	**Committed space (sq. ft) (1)**	**Total occupied space (sq. ft)**	**Committed occupancy**
France	619,648	7,234	(342,096)	284,786	37.0%	-	284,786	37.0%
Germany	596,302	16,713	(26,089)	586,926	89.8%	(44,942)	541,984	82.9%
Spain	117,274	-	-	117,274	100.0%	-	117,274	100.0%
Total Portfolio	**1,333,224**	**23,947**	**(368,185)**	**988,986**	**64.2%**	**(44,942)**	**944,044**	**61.3%**

(1) The committed space relates to the departure at the end of January 2024 of the main tenant from the Bad Homburg property.

New Leases Signed During the Quarter:

Effective April 2024, a 5-year lease extension was signed on the Trio property, on 27,000 sq.ft. (13% occupancy), against a space reduction of 27%.

At the Duisburg property, a new 5-year lease effective March 2024 on 16,700 sq.ft. was signed. The tenant would take areas left vacant by Hitachi in January 2024. The 3-month vacancy and tenant incentives are paid by Hitachi as a compensation for early termination of its lease, initially maturing in 2027.

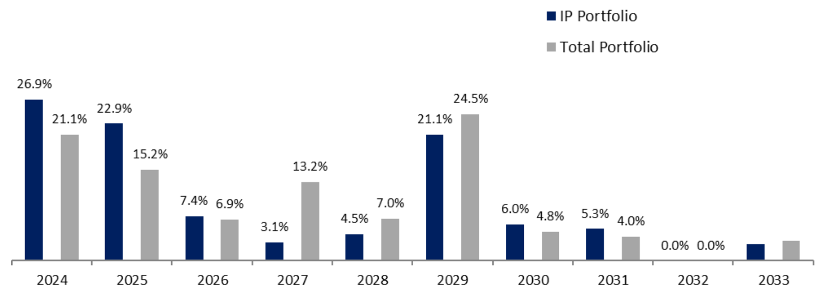
Subsequent to year end:

- At the Duisburg property, to compensate for Hitachi reducing its footprint on the building, a new 10-year firm lease was agreed upon on 40,000 sq.ft. (18%), effective August 2024. Tenant incentives (rent free and capex) are mostly financing by Hitachi penalty negotiated for its early departure.

Lease Maturities

Lease Maturity Profile

(in % of total GLA as at December 31, 2023)



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 3.3 years (3.5 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 2.5 years (Total Portfolio 2.8 years).

The 2024 maturities concern 209,000 sq. ft., of which the effective termination notices have been received for 75,000 sq. ft., reflecting mostly the decision of the main tenant of the Bad Homburg property for a departure end of January 2024 (45,000 sq. ft).

The 2025 maturities relate mostly to the Trio property's anchor tenant, Lorenz Bahlsen. Renewal discussion will begin in early 2024 on the lease expiry term of Q4 2025.

Refer to the "*Portfolio Overview – General Property Updates"* section for leasing initiatives underway.

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 as a substitute for other measures of performance prepared in accordance with IFRS.

"**Accretive Acquisition**" means that 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) amortization of fair value adjustment on assumed debt, (iv) capital expenditures, excluding those funded by a dedicated cash reserve or capex financing, and (v) 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, if any, and Exchangeable Securities, 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) other long-term liabilities, and (iv) 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 CanCorpEurope, in the form of interest-bearing notes, non-interest bearing notes and variable share capital.

"**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 2023 with one exception pertaining to the unrealized gain or loss on the REIT's cash in Euros which are domiciled in Canadian financial institutions.

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 in 2022 and the volatility of the Canadian dollar against the Euro, the unrealized gain (loss) recognized for the three and twelve months ended 2022, have been excluded from the FFO calculation.

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 paid to Unitholders, if any.

"**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.

"**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, 2023 and 2022, based on proportionate consolidation figures including REIT's interest in joint ventures (see the "*Consolidated Statement of Earnings - Reconciliation to Consolidated Financial Statements" section*), is as follows:

	Three months ended December 31,		Year ended December 31,	
(in thousands of CAD$)	**2023**	**2022**	**2023**	**2022**
Net (loss) income attributable to the Trust **(including share of net earnings from investments in joint ventures)**	(35,217)	(40,680)	(29,334)	(36,270)
Add/(Deduct):				
Acquisition, eviction and disposal costs	-	362	-	362
Loss on disposal on investment properties	-	934	-	946
Net change in fair value of investment properties	39,575	44,919	44,701	63,202
Net change in fair value of financial derivatives	1,172	2,537	3,613	(2,851)
Adjustment for property taxes accounted for under IFRIC 21	(917)	(865)	-	-
Distributions on Exchangeable securities	110	97	387	645
Net change in fair value of Exchangeable securities	(1,225)	(442)	(1,941)	(5,479)
Foreign exchange loss (gain) (1)	(21)	(1,145)	(22)	(252)
Loss on extinguishment of mortgage loans (2)	-	-	-	54
Deferred income tax recoveries	(2,720)	(2,140)	(2,552)	(3,222)
Non-controlling interest	(269)	(216)	(263)	(123)
FFO	**488**	**3,361**	**14,589**	**17,012**
Add/(Deduct):				
Non-cash effect of straight line rents	210	(65)	417	(43)
Cash effect of the rental guarantee	186	286	1,078	1,145
Amortization of transaction costs on mortgage loans	61	222	243	293
Capex	(533)	(195)	(1,680)	(821)
AFFO	**412**	**3,609**	**14,647**	**17,586**
FFO / Units (diluted) *(in CAD$)*	**0.01**	**0.10**	**0.43**	**0.51**
AFFO / Units (diluted) *(in CAD$)*	**0.01**	**0.11**	**0.44**	**0.52**

(1) REALPAC guidance suggests 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.

(2) Loss on the Bad Homburg mortgage loan extension.

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, 2023		December 31, 2022	
Operating metrics	**IP Portfolio**	**Total Portfolio**	**IP Portfolio**	**Total Portfolio**
Number of properties	8	13	8	13
Gross leasable area (sq. ft.)	1,117,830	1,540,218	1,117,830	1,540,218
Occupancy rate - end of period	54.1%	64.2%	83.6%	86.6%
Weighted average lease term	3.3 years	3.5 years	2.8 years	3.0 years
Average initial yield (1)	5.1%	5.3%	6.0%	5.5%
Capital management metrics	**IP Portfolio**	**Total Portfolio**	**IP Portfolio**	**Total Portfolio**
Available cash (3)	$12,489	$15,290	$45,176	$49,913
Fair value of investment properties	$412,967	$541,001	$437,422	$579,623
Debt-to-gross book value (2)	45.6%	52.1%	43.6%	50.5%
Debt-to-gross book value, net of cash (2)	44.2%	50.8%	38.7%	46.4%
Weighted average loan term to maturity	3.2 years	2.9 years	3.7 years	3.4 years
Weighted average interest rate (2)	2.62%	2.75%	1.91%	1.93%
Interest coverage ratio (2)	2.3 x	2.4 x	3.4 x	3.5 x

(1) Calculated on annualized Net Rental Income (based on Net Rental Income for the year-to-date period).
(2) As defined in the section "Non-GAAP Financial Measures and Other Financial Measures".
(3) See the section "Capital Management" further discussion on the composition and usefulness of this metric.

	Three months ended December 31,		Year ended Dec. 31,	
(thousands of CAD$ except per Unit and other data)	**2023**	**2022**	**2023**	**2022**
Financial performance metrics				
Rental revenue	4,788	6,796	24,656	25,377
Rental revenue - Total Portfolio (1)	6,827	8,869	32,704	33,470
Net rental income	4,084	6,705	23,216	21,633
Net rental income - Total Portfolio (1)	6,118	8,929	30,895	29,204
Net income, attributable to the Trust	(35,574)	(41,042)	(29,691)	(36,854)
Funds from Operations (FFO) (1) (2)	488	3,361	14,589	17,012
Adjusted Funds from Operations (AFFO) (1) (2)	412	3,609	14,647	17,586
FFO per Unit (diluted) (1) (2)	0.01	0.10	0.43	0.51
AFFO per Unit (diluted) (1) (2)	0.01	0.11	0.44	0.52
Distributions				
Declared distributions on Units and Exchangeable securities	2,349	3,466	12,750	23,097
Declared distribution per Unit	0.07	0.10	0.38	0.69
FFO payout ratio (1) (2)	481.4%	103.1%	87.4%	135.8%
AFFO payout ratio (1) (2)	570.3%	96.0%	87.0%	131.3%

(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

(in thousands of CAD$)	Three months ended December 31, 2023	2022	Year ended December 31, 2023	2022
Rental revenue	4,788	6,796	24,656	25,377
Property operating cost recoveries	1,694	1,353	6,211	5,525
Property operating costs	(2,266)	(1,613)	(10,054)	(9,415)
Other revenues	56	143	2,699	241
Other property operating expenses (income)	(188)	26	(296)	(95)
Net rental income	**4,084**	**6,705**	**23,216**	**21,633**
General and Administration expenses	(1,771)	(2,198)	(6,405)	(6,974)
Foreign exchange gain	21	1,145	21	250
Share of net loss from joint ventures	(10,307)	(5,422)	(13,984)	(3,585)
Operating earnings	**(7,973)**	**(132)**	**2,848**	**10,016**
Net change in fair value of investment properties	(28,011)	(38,301)	(28,117)	(58,393)
Net change in fair value of financial derivatives	(1,167)	(2,542)	(3,604)	2,847
Net change in fair value of Exchangeable securities	1,225	442	1,941	5,479
Finance income	(102)	916	4,049	6,705
Finance costs	(859)	(1,833)	(7,012)	(5,766)
Distributions on Exchangeable securities	(110)	(97)	(387)	(645)
Loss before income taxes	**(36,997)**	**(41,547)**	**(30,282)**	**(39,757)**
Current income tax expense	(175)	(65)	(229)	(191)
Deferred income tax recovery	1,329	1,300	557	2,971
Total income tax recovery	**1,154**	**1,235**	**328**	**2,780**
Net loss	**(35,843)**	**(40,312)**	**(29,954)**	**(36,977)**
Non-controlling interest	(269)	(216)	(263)	(123)
Net loss attributable to the Trust	**(35,574)**	**(40,096)**	**(29,691)**	**(36,854)**

Net Rental Income

For the IP Portfolio, NOI for the three months ended December 31, 2023 (“Q4 2023”), decreased significantly to CAD$4,084 (EUR€2,798) compared to CAD$6,705 (EUR€4,894) for the three months ended December 31, 2023 (“Q4 2022”), in line with our expectations regarding the full vacancy of the Arcueil property since July 1, 2023.

For the year ended December 31, 2023, the IP Portfolio NOI was CAD$23,216, an increase of CAD$1,583 compared to the same period last year. The main contributing factors to this increase were the full 2023 impact of the two acquisitions that took effect at the end of Q1 2022, Gaia and Delgado, for a total of CAD$1,341 (EUR919) added to a CAD$1,413 (EUR968) positive foreign exchange impact The Orange indemnity, negotiated in Q2 2023 (CAD$2,320 EUR1,590) upon the sole tenant’s departure from the Arcueil property, partly offset the negative rental income impact of the half year full vacancy of this property.

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 approximately CAD$3,166. 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, 2023, and 2022 is set out below.

In Canadian dollars (in thousands)	Three months ended December 31, 2023	2022	Variance	Year ended December 31, 2023	2022	Variance
Net rental income	4,084	6,705	(2,621)	23,216	21,633	1,583
IFRIC 21 impact	(815)	(777)	(39)	0	0	0
Adjusted net rental income - IFRIC 21 (1)	3,269	5,928	(2,660)	23,216	21,633	1,583

In Euros (in thousands)	Three months ended December 31, 2023	2022	Variance	Year ended December 31, 2023	2022	Variance
Net rental income	2,798	4,894	(2,096)	15,907	15,791	117
IFRIC 21 impact	(559)	(567)	8	0	0	0
Adjusted net rental income - IFRIC 21 (1)	2,240	4,327	(2,088)	15,907	15,791	117

(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.

In Canadian dollars (in thousands)	Three months ended December 31, 2023	2022	Variance	Year ended December 31, 2023	2022	Variance
Net rental income	4,084	6,705	(2,621)	23,216	21,633	1,583
Net rental income - proportionate share of JVs	2,034	2,224	(190)	7,679	7,571	108
IFRIC 21 impact	(917)	(865)	(52)	-	-	-
Adjusted net rental income - IFRIC 21 - including proportionate share of JVs (1)	5,201	8,064	(2,863)	30,895	29,204	1,691

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 Q4 2023 (CAD$1,771) and year ended December 31, 2023 (CAD$6,405) amounted to CAD$1,771 showed a significant decrease compared to CAD$2,198 and CAD$6,974 for the same periods last year and are mostly in line with the annual budget, except for audit fees that includes out-of-scope expenses related to 2022 annual closing and non-recurring costs related to the sale process of properties in the Asset Recycling Plan.

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

	Year ended Dec. 31, 2023	2022	Variance
Asset management fees – Inovalis SA	(2,206)	(2,306)	100
Less: amount reinvoiced to joint ventures	1,160	1,089	71
	(1,046)	**(1,217)**	**171**
Professional fees for accounting. tax and audit	(2,786)	(2,449)	(337)
Legal expenses	(559)	(727)	168
Trustee fees	(300)	(189)	(111)
Travel expenses	(501)	(512)	11
Governance expenses	(363)	(349)	(14)
Bank and depositary expenses	(335)	(338)	3
Listing, transfer agent and publication fees	(119)	(174)	55
Other general and administrative expenses	(396)	(1,019)	623
Total G&A expenses	**(6,405)**	**(6,974)**	**569**

Share of Net 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).

Heavily impacted by the decompression of cap rate and the decrease in fair value of properties, the share of net loss from joint ventures for the three-month period and year ended December 31, 2023 were CAD$10,307 and CAD$13,984 respectively. Based on external appraisals, the JV portfolio lost 11% value year-on-year.

Net Change in Fair Value of IP Portfolio

For the same reason described above on the JV portfolio, the net change in fair value in IP portfolio for the three and twelve-month periods ended December 31, 2023 were CAD$(28,011) and CAD$(28,117) respectively (compared to CAD$(38,301) and CAD$(58,393) for the same periods last year). The 2022 figures were dramatically impacted by the CAD$16,815 decrease in fair value of the Arcueil property in Q2 2022, which further lost 8% value over 2023.

Refer to the section *"IP Portfolio"* 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$1.70 on December 31, 2023, compared to CAD$3.77 at close of December 31, 2022, resulting in a gain of CAD$1,941 in the net change in fair value of Exchangeable Securities throughout the year ended December 31, 2023.

Finance Income

In Q4 2023, finance income included notably CAD$678 interest on loans granted to joint ventures. Cash-in income on interest rate swap have been reclassified in Q4 2023 in decrease of finance costs on mortgage loans and lease liabilities.

For the year ended December 31, 2023, the finance income was CAD$4,049 compared to CAD$6,705 for the same period last year, the decrease being mainly attributable to the gain on sale of forward currency hedge contracts recognized in September 2022 for CAD$1,958.

Finance Costs

The finance costs in Q4 2023 included CAD$2,223 related to interest on mortgage loans and lease liabilities, negatively impacted by the increase in interest rates on unhedged financing contracts.

For the year ended December 31, 2023, finance costs were CAD$7,012 compared to CAD$5,766 for the same period last year. Despite the CAD$1,742 generated on interest swap contracts, the interest expenses is CAD$1,511 higher than in 2022, as a consequence of interest rate hikes in 2023 and the two mortgage loans contracted for the Gaia and Delgado acquisitions at the end of Q1 2022 increasing the mortgage loans interests in 2023 to date.

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 paid to the Unitholders, if any. In Q4 2023, the distributions on Exchangeable Securities were stable at CAD$110 compared to CAD$97 for Q4 2022. The decrease in distributions occurred following the cut in distributions implemented in October 2022 and the suspension of all distributions following the November 2023 distribution.

For the same reason, the yearly distributions on Exchangeable Securities decreased from CAD$387 in 2022 to CAD$645.

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$)	**2023**	**2022**	**2021**	**2023 vs. 2022**	**2022 vs. 2021**
Rental revenue	24,656	25,377	28,194	(721)	(2,817)
Net change in fair value of investment properties	(28,117)	(58,393)	29,419	30,276	(87,812)
Finance income	4,049	6,705	3,702	(2,656)	3,003
Net income	(29,954)	(36,977)	30,299	7,023	(67,276)
Net income attributable to the Trust	(29,691)	(36,854)	30,333	7,163	(67,187)

Consolidated Balance Sheet

Assets	As at December 31, 2023	As at December 31, 2022	Variance
Non-current assets			
Investment properties	412,967	437,422	(24,455)
Investments in joint ventures	41,632	55,693	(14,061)
Derivative financial instruments	-	807	(807)
Other financial assets	333	330	3
Restricted cash	4,973	4,436	537
Total non-current assets	**459,905**	**498,688**	**(38,783)**
Current assets			
Trade receivables and other financial assets	7,134	8,227	(1,093)
Derivative financial instruments	527	3,002	(2,475)
Other current assets	3,809	3,132	677
Restricted cash	196	2,882	(2,686)
Cash	12,489	45,176	(32,687)
Total current assets	**24,155**	**62,419**	**(38,264)**
Total assets	**484,060**	**561,107**	**(77,047)**

Liabilities and Unitholders' equity	As at December 31, 2023	As at December 31, 2022	Variance
Liabilities			
Non-current liabilities			
Interest-bearing loan	186	245	(59)
Mortgage loans	65,710	96,254	(30,544)
Lease liabilities	96,179	102,121	(5,942)
Tenant deposits	2,224	2,068	156
Derivative financial instruments	110	299	(189)
Deferred tax liabilities	1,295	1,839	(544)
Total non-current liabilities	**165,704**	**202,826**	**(37,122)**
Current liabilities			
Interest-bearing loan	28	22	6
Mortgage loans	50,524	38,027	12,497
Lease liabilities	6,819	6,424	395
Tenant deposits	168	303	(135)
Exchangeable securities	1,595	3,536	(1,941)
Trade and other payables	7,356	18,440	(11,084)
Provisions	765	520	245
Income tax payable	2,175	2,039	136
Deferred income	1,184	793	391
Total current liabilities	**70,991**	**70,104**	**887**
Total liabilities	**236,695**	**272,930**	**(36,235)**
Equity			
Trust units	288,156	289,940	(1,784)
Retained earnings	(53,230)	(12,327)	(40,903)
Accumulated other comprehensive income	11,492	9,366	2,126
Total Equity	**246,418**	**286,979**	**(40,561)**
Non-controlling interest	947	1,198	(251)
Total liabilities and equity	**484,060**	**561,107**	**(77,047)**

Selected Consolidated Balance Sheet Information

(in thousands of CAD$)	Dec 31. 2023	Dec. 31, 2022,	Dec. 31, 2021	2023 vs. 2022	2022 vs. 2021
	For the period ended				
Fair value of investment properties - IP Portfolio	412,967	437,422	427,631	(24,455)	9,791
Fair value of investment properties - Total Portfolio	541,001	579,623	573,223	(38,622)	6,400
Investment in joint ventures - carrying value	41,632	55,693	64,327	(14,061)	(8,634)
Total assets	484,060	561,107	587,245	(77,047)	(26,138)
Total debt [(1)]	219,446	243,093	207,117	(23,647)	35,976
Total non-current liabilities	165,704	202,826	161,826	(37,122)	41,000
Unitholders' equity	246,418	286,979	344,786	(40,561)	(57,807)
Number of outstanding Units	32,594,711	32,778,699	32,587,809	(183,988)	190,890

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

IP Portfolio

The fair value of the REIT's IP Portfolio as at December 31, 2023 was CAD$412,967 (EUR€282,387), a decrease compared to CAD$437,422 (EUR€301,566) as at December 31, 2022, mostly attributable to the change fair value based on the latest external appraisals. The decrease was partially offset by a foreign currency adjustment of CAD$3,544. Scarce transactions and high borrowing costs in 2023 induced global cap rate decompression on all asset class, and particularly office properties.

Management uses the Direct Capitalization Method ("DCM") to determine the fair value of all the REIT's properties in France, Germany and now Spain (previously, a discounted cash flow ("DCF") method was used for the Spanish property). The values are supported by external appraisals of the total portfolio as at December 31, 2023, 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 maturing in December 2024 if no sale occurs or a buy-out strategy has not been negotiated,

the Stuttgart property (50%), through a joint venture agreement maturing in August 2024,

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 February 2025, and

- the Kosching property (50%), through a joint venture agreement maturing in January 2025.

Refer to the section "*Portfolio Overview – Joint Venture Agreement Wind Up"* for details of the REIT's plans for each property its joint venture arrangement matures.

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The REIT's investment in joint ventures was CAD$41,632 as at December 31, 2023, compared to CAD$55,693 as at December 31, 2022, impacted negatively by the decrease in property values (CAD$33,167 negative impact on 2023 result of JV portfolio), added to an impairment charge on the Delizy loan of CAD$3,223. In addition, CAD$1,241 of joint venture loans were repaid over the year.

Trade Receivables and Other Financial Assets

Trade receivables and other financial assets as at December 31, 2023 amounted to CAD$7,134, relatively stable compared to CAD$8,227 at December 31, 2022, including CAD$3.5 million of interest receivables on joint venture loans, an increase of CAD$1.2

million compared to 2022 figure as interest payments have been deferred on most joint venture properties to anticipate refinancing terms in 2024 .

Trade and Other Payables

Trade and other payables as at December 31, 2023 amounted to CAD$7,356 compared to CAD$18,449 as at December 31, 2022. The variance is mostly attributable to the CAD$7,398 VAT on the sale of Courbevoie property that was paid in January 2023.

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 from time to time, 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. Mature assets could be sold to access capital readily available for redeployment, in line with an 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, 2023	**December 31, 2022**	**December 31, 2023**	**December 31, 2022**
Capital management metrics				
Debt-to-gross book value	45.6%	43.6%	52.1%	50.5%
Debt-to-gross book value, net of cash	44.2%	38.7%	50.8%	46.4%
Debt due in the next 12 months (1)	57,343	44,451	102,379	79,758
Weighted average loan term to maturity	3.2 years	3.7 years	2.8 years	3.4 years
Weighted average interest rate (1)	2.62%	1.91%	2.75%	1.93%
Interest coverage ratio (2)	2.3	3.4	2.4	3.0

(1) Includes lease liabilities and mortgage financings.

(2) As defined in the section "Non-GAAP Financial Measures and Other Financial Measures".

On the IP Portfolio, the Trio mortgage loan, representing CAD$43,394, is maturing on March 2024 and is presented in current liabilities on the consolidated balance sheet. The REIT is in close relationship with the senior lender and other German financing banks to refinance the in-place mortgage loan.

On the JV portfolio, the mortgage loans on the Neu-Isenburg and Kosching properties, matured respectively in December 2023 and January 2024, and have also been classified as a current liability for a total of CAD$26,395. Subsequent to the Management finalized these one-year refinancing with a different bank (Isenburg) or mortgage loan extension (Kosching), allowing for arbitrage over 2024 and possibly improved terms of refinancing in 2025.

Financing covenants

Since June 2022, further to ongoing redevelopment scenarios or arbitrages anticipated on the Baldi property, 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, the Baldi mortgage loan has been classified as a CAD$4,994 current liability the balance sheet as at December 31, 2023 and the annual weight of the debt amortization is CAD$910.

Throughout the periods in which the occupancy covenant has been breached, the REIT has been in communication with the lenders to refinance some of 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.

Financing covenants for the Sablière property, were in breach during 2022 due to decreases in occupancy and redevelopment plans. CAD$804 additional contributions to the Sabliere cash reserve paid during 2023 eliminated the covenant breach as set out in the December 31, 2022 consolidated financial statements. As at December 31, 2023, the Sabliere cash reserve totalled CAD$1,628.

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 an IP and Total Portfolio basis is calculated as the sum of (i) lease liabilities, (ii) mortgage loans, (iii) other long-term liabilities, and (iv) 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, 2023	**December 31, 2022**	**December 31, 2023**	**December 31, 2022**
Lease liabilities	102,998	108,545	112,579	118,548
Mortgage loans	116,234	134,281	184,795	202,486
Interest-bearing loans	186	245	(4,487)	245
Deferred tax liabilities	1,295	1,839	5,977	8,465
Total debt outstanding	**220,713**	**244,910**	**298,864**	**329,744**
Less : Cash	(12,489)	(45,176)	(15,290)	(49,913)
Debt net of cash	**208,224**	**199,734**	**283,574**	**279,831**
Gross book value	484,060	561,107	573,726	653,097
Gross book value. net of cash	471,571	515,931	558,436	603,184
Debt-to-gross book value	**45.6%**	**43.6%**	**52.1%**	**50.5%**
Debt-to-gross book value, net of cash	**44.2%**	**38.7%**	**50.8%**	**46.4%**

The debt-to-gross book value ratio slightly increased compared to the period ending December 31, 2022, at 45.6% for the IP Portfolio (44.2% net of cash), due to decreasing fair value of properties. The ratio is within the REIT's mandated threshold of maximum 60% debt to the gross book value of assets. For the Total Portfolio, the debt-to-gross book value ratio increased similarly over the year at 52.6% (50.8% net of cash).

Interest Coverage Ratio

Interest coverage ratio	Consolidated basis - IP Portfolio		Proportionate share basis - Total Portfolio	
	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2023	Year ended December 31, 2022
Net rental income	23,216	21,633	30,895	29,204
Arcueil indemnity	(2,320)	-	(2,316)	-
Net rental income adjusted	**20,896**	**21,633**	**28,579**	**29,204**
General and Administrative expenses	(6,405)	(6,974)	(7,958)	(8,403)
Interest income (2)	1,328	3,960	1,328	3,960
Total income	**15,819**	**18,619**	**21,949**	**24,761**
Interest expense (1)	(6,983)	(5,522)	(9,303)	(7,151)
Interest coverage ratio	**2.3**	**3.4**	**2.4**	**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 on the IP portfolio, excluding the positive impact on the net rental income of Arcueil's sole tenant indemnity recognized in Q2 2023, decreased over 2023, impacted by higher interest rates on unhedged debts.

Weighted-Average Interest Rate

The weighted average interest rate across the IP Portfolio debt rose slightly to 2.62% and 2.75% for the Total Portfolio. The Sablière, Arcueil, Delizy and Stuttgart financings bear interest at floating rates, indexed on the EURIBOR rates and were impacted over 2023 by increasing borrowing costs. Alongside its disposition effort on three of these properties, management is actively monitoring the market price of hedging products to mitigate interest costs. Management is able to finance assets in Europe on a slightly less costly basis than that offered by traditional financing in Canada, through its strong longstanding relationships with a handful of major European bankers.

Debt Profile

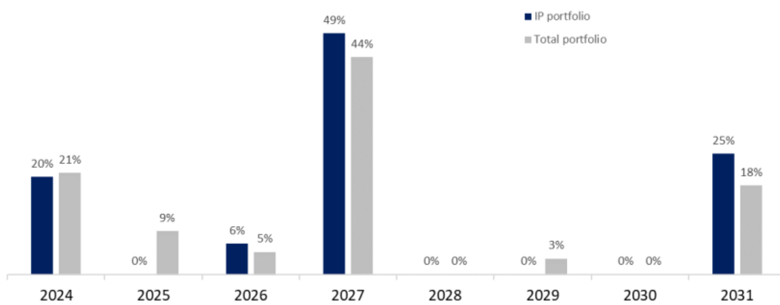
Debt profile as at December 31, 2023	IP Portfolio		Total Portfolio	
	Carrying value	%	Carrying value	%
Lease liabilities	**102,998**	47%	**112,579**	38%
Mortgage loans	**116,234**		**184,795**	
of which : Amortized mortgage loan	*84,852*	*39%*	*94,531*	*32%*
Bullet mortgage loan	*31,382*	*14%*	*90,264*	*30%*
Total	**219,232**	**100%**	**297,374**	**100%**

As at December 31, 2023, the debt on the IP Portfolio is composed of 53% mortgage loans and 47% lease liabilities, under contracts expiring from 2024 (Trio) to 2031 (Metropolitain). Average term of repayment of financing is 3.2 years (2.9 years on the Total Portfolio). Lease liabilities contracts are not bound by loan-to-value or debt-service-coverage-ratio covenants.

The REIT repays principal amounts quarterly on both mortgage and lease liabilities. This represents 86% of the REIT's IP Portfolio financing, excluding bullet mortgage loans (70% on the Total Portfolio).

Leasehold and Mortgage Financing Maturity Profile

(in % of amount outstanding as at December 31, 2023)



As at December 31, 2023, the Baldi mortgage loan contract matures in October 2027 and has been presented as such in the above graph. However, due to the lender's right to repayment upon breach of the covenant on the Baldi property, this loan has been classified as a current liability for a total amount of CAD$4,994.

The 2027 maturity relates mostly to the lease liability contract on the Arcueil property with the bank, in addition to Delgado and Gaia financings. The sole tenant left the premises on June 30, 2023, management is considering a sale and redevelopment opportunities and will continue to keep its senior lenders informed on next steps. The Arcueil financing is a finance lease, and consequently no breach is considered as long as the debt installments are paid. A favorable position from the city hall on the Arcueil redevelopment would foster the freeze of the quarterly amortization (which currently represents approximately 9% annually).

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).

Contractual Obligations

	Contractual Cash Flows (1)	2024	2025	2026	2027	2028	Thereafter
Interest-bearing loan	214	28	186	-	-	-	-
Mortgages – principal payments	5,477	2,128	2,242	1,107	-	-	-
Mortgages -maturities	110,757	47,434	-	10,266	53,057	-	-
Lease liabilities	102,998	6,377	6,438	6,499	36,792	2,503	44,389
Exchangeable securities	1,595	1,595	-	-	-	-	-
Accounts payable	7,356	7,356	-	-	-	-	-
Income tax payable	2,175	2,175	-	-	-	-	-
Total	**230,572**	**67,093**	**8,866**	**17,872**	**89,849**	**2,503**	**44,389**

(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, 2023, and following the cancellation of 206,100 Units pursuant to the NCIB (see below), the REIT has 32,576,445 Units issued and outstanding, plus 938,036 Exchangeable Securities.

	Three months period ended December 31, 2023	Year ended December 31, 2023
Units		
Number at beginning of period	32,576,445	32,778,699
Increase in number during the period	18,266	22,112
Decrease in number during the period	-	(206,100)
Number at end of period	32,594,711	32,594,711
Weighted average number during the period	32,582,820	32,686,715
Exchangeable securities		
Number at beginning of period	938,036	938,036
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	33,514,481	33,716,735
Decrease in number during the period	-	(206,100)
Number at end of period	33,532,747	33,532,747
Weighted average number during the period	33,520,856	33,624,751

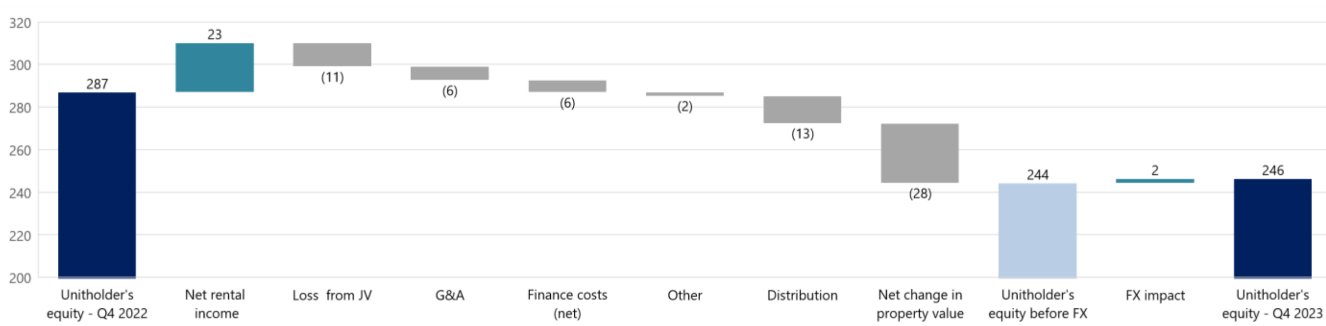
Normal course issuer bid

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 began to purchase Units on June 8, 2023 until July 17, 2023. As at December 31, 2023, the REIT completed its repurchase of Units.

During the year ended December 31, 2023, the REIT acquired 206,100 Units for CAD$684 (plus CAD$6 broker fees) at a weighted average price of CAD$3.32 per Unit. All Units repurchased during the year have been cancelled by the REIT. The share repurchases and cancellations resulted in a reduction of Trust Units of CAD$684 and an increase in retained earnings of CAD$1,151 representing the difference between the book value of the Units and the purchase price.

Unitholders' equity

The Unitholders' equity breakdown throughout the year 2023 is presented below (in CAD$ million):



Notes to the Unitholder's Equity chart:

- Net rental income was CAD$2 million off to pay for distribution, G&A expenses and finance costs.

- Income from JV includes both the share of net loss for CAD$13,984 (largely impacted by the negative change in fair values of properties of CAD$16,583) and the finance income from interests on joint venture loans for CAD$2,721.
- Finance costs (CAD$7,012) are presented net of the finance income (CAD$1,328) mostly attributable to the profit on currency hedge contracts and restructuration of swap/cap (Courbevoie and Baldi) and net of interests on joint venture loans for CAD$2,721,
- FX impact: The closing foreign exchange rate was 1.4624 as at December 31, 2023, slightly above the 1.4505 as at December 31, 2022. This 1% variance positively impacted the REIT's consolidated balance sheet and Unitholders' equity by CAD$2,126.

Available and Restricted Cash

The REIT's available cash was CAD$12,489 as at December 31, 2023 (compared to CAD$45,176 as at December 31, 2022) following the payment of the CAD$7 million VAT on the Courbevoie sale in December 2022, payable and paid in January 2023, the CAD$16 million of the Bad Homburg mortgage loan full repayment in Q2 2023 and the annual debt amortization of CAD$9 million. Available funds are intended to be used for senior debt payments (interest and amortization) before the REIT can execute some dispositions of the properties in the Asset Recycling Plan.

In addition to this available cash, the REIT held:

- CAD$4,973 of restricted cash, that could be used for either capex financing on the Trio property or the partial repayment Sablière mortgage loan.
- CAD$2,801 of cash in the assets held in joint venture.

Cash Flows

The table below show is the cash utilization throughout the years 2023 and 2022 for the IP Portfolio, not including the REIT's share of cash in the joint venture-owned properties.

	Year ended Dec. 31,		
	2023	**2022**	**Variance**
Cash at the beginning of the period	**45,176**	**76,627**	**(31,451)**
Cash provided by (used in):			
Operating activities	3,971	21,427	(17,456)
Investing activities	2,146	(60,471)	62,617
Financing activities	(39,083)	9,704	(48,787)
Net change during the period	**(32,966)**	**(29,340)**	**(3,626)**
Impacts of FX adjustment on cash	279	(2,111)	2,390
Cash at period-end	**12,489**	**45,176**	**(32,687)**

Over the year ended December 31, 2023, the variation of cash is mainly attributable to the payment in January 2023 of the VAT due on the Courbevoie sale (CAD$7,398) and the repayment in June 2023 of the principal mortgage loan on the Bad Homburg property (CAD$16,043) as well as the annual amortization of debt (mortgage loans and lease liabilities), notably on the vacant Arcueil property.

The 2022 comparative figures embedded the Gaia and Delgado acquisitions and the issuance of the related mortgage loans.

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,		Year ended December 31,	
	Note	2023	2022	2023	2022
Net cash flows related to operating activities	A	(5,366)	8,787	3,971	21,427
Fund From Operations (FFO)	B	488	3,361	14,589	17,012
Declared distribution on Units	C	2,239	3,369	12,363	22,452
Excess (shortfall) of cash flows from operating activities over cash distributions paid	A-C	(7,605)	5,418	(8,392)	(1,025)
Excess (shortfall) of FFO over distributions	B-C	(1,751)	(8)	2,226	(5,440)

As quantified in the FFO and AFFO calculations, the CAD$2,239 required to make the distributions on Units, for the three months ended December 31, 2023 was below the Q4 2023 reported FFO of CAD$488.

However, the cumulative FFO for the year end December 31, 2023 was CAD$0.43 per Unit and provided sufficient cash to cover distributions to Unitholders of CAD$0.38 per Unit up to the November distribution which was payable on December 15, 2023. Distributions were suspended by the Board of Trustees thereafter.

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 DUs vest 1/3 over each anniversary date from date of grant over three years. The cost of Granted DUs 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. ADUs were suspended at the same time as distributions to Unitholders effective with the December 2023 distribution.

As of December 31, 2023, there are 61,218 DSUs outstanding and 138,782 DSUs available for grant under the DSU Plan.

Financial Instruments

The REIT has the following financial assets and liabilities as at December 31, 2023

	Classification
Financial assets	
Loans to joint ventures	Amortized cost
Derivative financial instruments	Fair Value Through Profit and Loss
Trade receivables and other financial assets	Amortized cost
Restricted cash	Amortized cost
Cash	Amortized cost
Financial liabilities	
Mortgage loan	Amortized cost
Tenant deposits	Amortized cost
Exchangeable Securities	Fair Value Through Profit and Loss
Derivative financial instruments	Fair Value Through Profit and Loss
Trade and other payables	Amortized cost

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

Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 unobservable inputs for the asset or liability.

There were no transfers between levels of the fair value hierarchy during the year ended December 31, 2023.

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, 2023		December 31, 2022	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial assets				
Loans to joint ventures	24,896	24,896	28,366	28,366
Financial liabilities				
Mortgage loans	113,897	116,234	133,425	134,281
Tenant deposits	2,392	2,392	2,371	2,371

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

- The fair value of the loans to joint venture was 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 were carried at amortized cost using the effective interest method of amortization. The estimated fair values of long-term borrowings were based on market information, when available, or by discounting future payment of interest and principal at estimated interest rates expected to be available to the REIT as at December 31, 2023 and 2022.

The fair value of the mortgage loans was determined by discounting the cash flows of these financial obligations using December 31, 2023, market rates for debts of similar terms (Level 2). Based on these assumptions, the fair value as at December 31, 2023 of the mortgage loans was estimated at CAD$113,897 (December 31, 2022 – CAD$133,425) compared with the carrying value before deferred financing costs of CAD$116,234 (December 31, 2022 – CAD$134,281). 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 was 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 at the request of the holders of the Exchangeable Securities. 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, 2023, after taking into consideration the effect of the interest rate swap (25%) and the interest rate cap (2%), as well as fixed interest rates (45%), 72% of the REIT's IP portfolio long-term debt obligation has no exposure to interest rate risk (70% for the Total Portfolio).

Currency Risk

The REIT operates in France, Germany and Spain, and the functional currency for these operations is the Euro. The REIT's distributions, which had been paid in cash in 2023, were paid to Unitholders in Canadian dollars. To mitigate the risk of foreign exchange fluctuations on the distributions to our Unitholders prior to the suspension of the distributions, management had established a 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 further extended the in-place contracts in Q1 2023 with three additional monthly hedging operations applicable for Q1 2025.

Over the second half of 2023, the REIT sold 7 of its forward contracts covering the distribution payment from September 2023 to March 2024, generating a CAD$301 cashed-in finance income.

Financial institution	Contracts maturity	Nominal contracts ('000 CAD)	Hedge Value ('000 EUR)	Weighted average hedging rate
BANQUE PALATINE	Q2 2024	4,200	2,732	1.537
	Q3 2024	4,200	2,726	1.541
ALPHA GROUP	Q4 2024	4,200	3,112	1.349
	Q1 2025	4,200	2,920	1.438
		16,800	**11,490**	**1.466**

Despite the distribution cut announced in November 2023, the REIT still holds foreign currency forward contracts with Banque Palatine and Alpha Group to secure a CAD$1,400 monthly conversion at an average rate of 1.466 until March 2025. Management will carefully consider cash analysis and transactions arbitrages to unlock the potential profit under these contracts.

Subsequent to year end, in February 2024, the remaining six foreign exchange contracts with Banque Palatine were sold, generating CAD$439 (EUR300) cash-in profit.

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, 2023	% change	Net income	OCI	Total
Impact in the event of an increase in the value of the Euro/CAD$	10%	275	(19,297)	(19,022)
Impact in the event of a decrease in the value of the Euro/CAD$	(10%)	(275)	19,297	19,022
December 31, 2022				
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

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, 2023.

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 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 receivables 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. Considering 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 the "*Contractual Obligations*" section above for further details.

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

In arriving at the above conclusion, management has considered that as at December 31, 2023, the REIT's current liabilities exceeded the REIT's current assets by CAD$46,857. This shortfall is mainly due to the following:

A. Trio Mortgage Loan - Classified as current liabilities due to maturity on March 15, 2024 – CAD$43,394
B. Baldi Mortgage Loan - Classified as current liabilities due to breach over loan covenant since Q2 2022 – CAD$4,994

Management has concluded that the shortfall does not have a significant impact on the REIT's ability to sustain its operations within the next 12-months, despite the following:

A. **Trio Mortgage Loan** – The REIT is in current discussion with the senior lender – HCOB - to extend the maturity of the loan that matured on March 15, 2024, in order to give management more time to either refinance the mortgage loan of the

Trio property (CAD$53.7m FMV and 90% occupancy rate) or organize its sale. However, as at release date of the financial statements, no agreement has yet been reached. The liquidity risk associated with this default is confined to default interest payments during the default period. If recourse is made to the guarantees provided by the REIT, the risk would entail the loss of Trio's contribution to the REIT's equity, without compromising its liquidity (see *Subsequent Events* section).

B. **Baldi Mortgage Loan** - The REIT has kept the senior lender – SOCFIM - regularly informed about the Baldi redevelopment opportunity and related arbitrage plans (considering the 32% occupancy rate). Since the late 2021 massive deleverage (CAD$11.5m), the bank exposure is down to a 18% loan-to-value (supported by Q4 2023 external valuation report of CAD$26.7m), and management estimates that, based on its regular exchanges with SOCFIM since then, that they would not seek loan acceleration as all other terms of the loan are met.

Management also notes that the REIT is already executing its asset recycling plan and joint venture wind up to unlock additional liquidity as required, including the potential disposal of its Sabliere (unsolicited offers received subsequent to year-end) and Arcueil properties and the sale of its interest in the Duisburg and Stuttgart joint ventures, which was initiated subsequent to year-end. The close of any of the above transactions would generate significant positive working capital, that the REIT could allocate to the above-mentioned mortgage loan repayment in case of unsuccessful extension or refinancing options

Quarterly Information – Last Eight Quarters

	As at and for the three months ended							
	Dec. 31 2023	Sept. 30 2023	June. 30 2023	March. 31 2023	Dec. 31 2022	Sept. 30 2022	June 30 2022	Mar. 31 2022
Rental revenue	4,788	4,972	7,571	7,325	6,796	6,503	6,877	5,201
Rental revenue - Total Portfolio (1)	6,827	6,643	9,806	9,428	8,869	8,452	8,897	7,253
Net rental income	4,084	4,830	10,341	3,962	6,705	6,337	6,718	1,873
Net rental income - Total Portfolio (1)	6,118	6,668	12,474	5,635	8,929	8,078	8,691	3,506
Net income attributable to Unitholders	(35,574)	1,260	3,003	1,622	(41,042)	14,855	(12,761)	2,094
FFO (1)	488	1,984	7,545	4,575	3,361	6,074	4,579	3,001
AFFO (1)	412	2,294	7,265	4,677	3,609	6,009	4,664	3,302
FFO per Unit (diluted) (1) (2)	0.01	0.06	0.22	0.14	0.10	0.18	0.14	0.09
AFFO per Unit (diluted) (1) (2)	0.01	0.07	0.22	0.14	0.11	0.18	0.14	0.10
Declared distribution per Unit	0.07	0.10	0.10	0.10	0.10	0.17	0.21	0.21
FFO payout ratio (2)	481.4%	173.7%	46.1%	75.8%	103.1%	95.2%	151.4%	230.4%
AFFO payout ratio (2)	570.3%	150.2%	47.9%	74.1%	96.0%	96.3%	148.6%	209.4%

(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) Based on the diluted weighted average number of Units and Exchangeable Securities

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 Chair of Inovalis S.A. is President and Chief Executive Officer ("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.

Management Agreement

On March 27, 2023, the Board of Trustees approved a three-year extension of the Management Agreement with Inovalis SA with a term ending on March 31, 2026, on the same financial terms. Inovalis SA has been the manager of the REIT continuously since the initial public offering in 2013.

Investment in Joint Ventures, Reconciliation

Consolidated Statement of Earnings - Reconciliation to Consolidated Financial Statements

	Three months ended					
	December 31, 2023			**December 31, 2022**		
(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	4,788	2,039	**6,827**	6,796	2,073	**8,869**
Property operating cost recoveries	1,694	338	**2,032**	1,353	933	**2,286**
Property operating costs	(2,266)	(871)	**(3,137)**	(1,613)	(791)	**(2,404)**
Other revenues	56	731	**787**	143	(173)	**(30)**
Other property operating expenses	(188)	(203)	**(391)**	26	182	**208**
					-	**-**
Net rental income	**4,084**	**2,034**	**6,118**	**6,705**	**2,224**	**8,929**
General and administrative expenses	(1,771)	(435)	**(2,206)**	(2,198)	(394)	**(2,592)**
Eviction and disposal costs	-	-	**-**	(362)	-	**(362)**
Foreign exchange gain	21	-	**21**	1,145	-	**1,145**
Loss on disposal of investment properties	-	-	**-**	(946)	12	**(934)**
Share of net loss from joint ventures	(10,307)	10,307	**-**	(5,422)	5,422	**-**
Operating income	**(7,973)**	**11,906**	**3,933**	**(1,078)**	**7,264**	**6,186**
Net change in fair value of investment properties	(28,011)	(11,564)	**(39,575)**	(38,301)	(6,618)	**(44,919)**
Net change in fair value of financial derivatives	(1,167)	(5)	**(1,172)**	(2,542)	5	**(2,537)**
Net change in fair value of Exchangeable securities	1,225	-	**1,225**	442	-	**442**
Finance income	(102)	(678)	**(780)**	916	(796)	**120**
Finance costs	(859)	(692)	**(1,551)**	(1,833)	(250)	**(2,083)**
Distributions on Exchangeable securities	(110)	-	**(110)**	(97)	-	**(97)**
Loss before income taxes	**(36,997)**	**(1,033)**	**(38,030)**	**(42,493)**	**(395)**	**(42,888)**
Current income tax expense	(175)	(1)	**(176)**	(65)	(83)	**(148)**
Deferred income tax recovery	1,329	1,391	**2,720**	1,300	840	**2,140**
Total income tax recovery	**1,154**	**1,390**	**2,544**	**1,235**	**757**	**1,992**
Net loss	**(35,843)**	**357**	**(35,486)**	**(41,258)**	**362**	**(40,896)**
Non-controlling interest	(269)	-	(269)	(216)	-	(216)
Net loss sattributable to the Trust	**(35,574)**	**357**	**(35,217)**	**(41,042)**	**362**	**(40,680)**

(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 purpose (Non-GAAP) relates entirely to the impairment charge recorded on the REIT's loan to Delizy joint venture in accordance with IFRS 9. As the loan to Delizy has been considered equity for proportionate consolidation purposes, no impairment under IFRS 9 has been recorded resulting in a reconciliation difference.

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

	Year ended					
	December 31, 2023			December 31, 2022		
(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 net earnings from investments in joint ventures (2)**	**Total**
Rental revenue	24,656	8,048	**32,704**	25,377	8,093	**33,470**
Property operating cost recoveries	6,211	2,580	**8,791**	5,525	2,965	**8,490**
Property operating costs	(10,054)	(3,542)	**(13,596)**	(9,415)	(3,439)	**(12,854)**
Other revenues	2,699	805	**3,504**	241	62	**303**
Other property operating expenses	(296)	(212)	**(508)**	(95)	(110)	**(205)**
Net rental income	**23,216**	**7,679**	**30,895**	**21,633**	**7,571**	**29,204**
General and administrative expenses	(6,405)	(1,553)	**(7,958)**	(6,974)	(1,429)	**(8,403)**
Eviction and disposal costs	-	-	**-**	(362)	-	**(362)**
Foreign exchange gain	21	-	**21**	250	-	**250**
Loss on disposal of investment properties	-	-	**-**	(946)	-	**(946)**
Share of net loss from joint ventures	(13,984)	13,984	**-**	(3,585)	3,585	**-**
Operating income	**2,848**	**20,110**	**22,958**	**10,016**	**9,727**	**19,743**
Net change in fair value of investment properties	(28,117)	(16,584)	**(44,701)**	(58,393)	(4,809)	**(63,202)**
Net change in fair value of financial derivatives	(3,604)	(9)	**(3,613)**	2,847	4	**2,851**
Net change in fair value of Exchangeable securities	1,941	-	**1,941**	5,479	-	**5,479**
Finance income	4,049	(2,721)	**1,328**	6,705	(2,746)	**3,959**
Finance costs	(7,012)	(2,334)	**(9,346)**	(5,766)	(1,686)	**(7,452)**
Distributions on Exchangeable securities	(387)	-	**(387)**	(645)	-	**(645)**
Loss before income taxes	**(30,282)**	**(1,538)**	**(31,820)**	**(39,757)**	**490**	**(39,267)**
Current income tax expense	(229)	(100)	**(329)**	(191)	(157)	**(348)**
Deferred income tax recovery	557	1,995	**2,552**	2,971	251	**3,222**
Total income tax recovery	**328**	**1,895**	**2,223**	**2,780**	**94**	**2,874**
Net loss (2)	**(29,954)**	**357**	**(29,597)**	**(36,977)**	**584**	**(36,393)**
Non-controlling interest	(263)	-	(263)	(123)	-	(123)
Net loss attributable to the Trust	**(29,691)**	**357**	**(29,334)**	**(36,854)**	**584**	**(36,270)**

(1) Consolidated statement of earnings amounts presented for the REIT were taken respectively from audited consolidated financial statements as at December 31, 2023 and 2022.

(2) The difference in net loss 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 the proportionate consolidation purposes, no impairment under IFRS 9 has been recorded, resulting in a reconciliation difference.

Balance Sheet Reconciliation to Consolidated Financial Statements

Assets	As at December 31, 2023			As at December 31. 2022		
	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	412,967	128,034	541,001	437,422	142,201	579,623
Investments in joint ventures	41,632	(41,632)	-	55,693	(55,693)	-
Other financial assets	333	-	333	330	-	330
Derivative financial instruments	-	-	-	807	-	807
Restricted cash	4,973	-	4,973	4,436	-	4,436
Total non-current assets	**459,905**	**86,402**	**546,307**	**498,688**	**86,508**	**585,196**
Current assets						
Trade receivables and other financial assets	7,134	(1,877)	5,257	8,227	(856)	7,371
Derivative financial instruments	527	-	527	3,002	-	3,002
Other current assets	3,809	1,970	5,779	3,132	1,601	4,733
Restricted cash	196	370	566	2,882	-	2,882
Cash	12,489	2,801	15,290	45,176	4,737	49,913
Total current assets	**24,155**	**3,264**	**27,419**	**62,419**	**5,482**	**67,901**
Total assets	**484,060**	**89,666**	**573,726**	**561,107**	**91,990**	**653,097**
Liabilities and Unitholders' equity						
Liabilities						
Non-current liabilities						
Interest-bearing loan	186	(4,673)	(4,487)	245	-	245
Mortgage loans	65,710	24,039	89,749	96,254	33,399	129,653
Lease liabilities	96,179	9,067	105,246	102,121	9,502	111,623
Tenant deposits	2,224	138	2,362	2,068	147	2,215
Derivative financial instruments	110	-	110	299	-	299
Deferred tax liabilities	1,295	4,682	5,977	1,839	6,626	8,465
Total non-current liabilities	**165,704**	**33,253**	**198,957**	**202,826**	**49,674**	**252,500**
Current liabilities						
Interest-bearing loan	28	4,234	4,262	22	-	22
Mortgage loans	50,524	44,522	95,046	38,027	34,806	72,833
Lease liabilities	6,819	514	7,333	6,424	501	6,925
Tenant deposits	168	187	355	303	46	349
Exchangeable securities	1,595	-	1,595	3,536	-	3,536
Derivative financial instruments	377	-	377	-	-	-
Trade and other payables	7,356	2,595	9,951	18,440	3,357	21,797
Provisions	765	-	765	520	-	520
Income tax payable	2,175	-	2,175	2,039	-	2,039
Deferred income	1,184	636	1,820	793	260	1,053
Total current liabilities	**70,991**	**52,688**	**123,679**	**70,104**	**38,970**	**109,074**
Liabilities directly associated with assets class	**-**	**-**	**-**	**-**	**-**	**-**
Total liabilities	**236,695**	**85,941**	**322,636**	**272,930**	**88,644**	**361,574**
Equity						
Trust units	288,156	-	288,156	289,940	-	289,940
Retained earnings (2)	(53,230)	3,705	(49,525)	(12,327)	3,346	(8,981)
Accumulated other comprehensive income	11,492	-	11,492	9,366	-	9,366
	246,418	**3,705**	**250,123**	**286,979**	**3,346**	**290,325**
	-	-	-	-	-	-
Non-controlling interest	947	-	947	1,198	-	1,198
Total liabilities and equity	**484,060**	**89,646**	**573,706**	**561,107**	**91,990**	**653,097**

(1) Balance sheet amounts presented for the REIT were taken respectively from audited consolidated financial statements as at December 31, 2023 and audited consolidated financial statements as at December 31, 2022.

(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

- **Trio mortgage loan maturity**

The Trio mortgage loan in the amount of EUR29,673 (CAD$43,394) matured on March 15, 2024 and the REIT is in breach of its obligation to repay the loan as at the date of issuance of the consolidated financial statements. The REIT has been and remains in constant discussions with the lender regarding options to extend the loan or refinance the Trio property.

Pending a negotiated extension of the loan, the bank has exercised its right effective March 20, 2024, pursuant to clause 10.3 of the Facility to charge a 5% default interest in addition to the Deutsche Bundesbank base interest rate of 3.62% on the loan principal, representing a potential financial impact on an annual basis of an additional default interest charge of €1,484 ($2,165).

The lender also has the right to seek any applicable damages from the lender Trio due to the breach. Management is unable to estimate the expected financial impact of potential damages sought by the lender, due to the significant uncertainty surrounding the ongoing negotiations and potential legal actions that could take place.

Finally, upon partial or full enforcement of its guarantees as pledgee and subordinated debtor against the REIT (CanCorpEurope), obtained on the financing (shares and bank account pledge) the lender could, ultimately take the control and ownership of the Trio property and demand financial compensation, upon clauses 16 and 17 of the pledges. In case of full enforcement, clauses 16 and 17 would be extinguished and any claim for damages would require legal action from the pledgee. Management of the REIT estimated that this loss of control is not in the best interest of the senior lender HCOB. Based on the financial statements as at December 31, 2023, a loss of control would represent a loss in net equity (including the Trio shareholder loans) of $10,967 (€7,495).

- **Neu Isenburg mortgage loan refinancing**

On February 15, 2024 , the REIT successfully refinanced the HCOB $33,342 (€22,800) mortgage loan of the Neu Isenburg property, held 50% in joint venture, with a new lender, DZHYP for CAD$31,295 (EUR21,400).

The new loan, maturing in February 2025, will bear interest at 1.59% margin on top of the EURIBOR 3-month floating rate and will require quarterly cash reserve payments for an annual amount of $804 (€550). This refinancing allows Management to work on the reletting of the 20% vacant areas and plan for the exit strategy.

- **Kosching mortgage loan extension**

On January 31, 2024, the REIT successfully extended the DZHYP CAD$20,473 (EUR14,000) mortgage loan of the Kosching property, held 50% in joint venture.

The new loan, maturing in January 2025, will bear interest at 1.55% margin on top of the EURIBOR 3-month floating rate and will require quarterly cash reserve payments for an annual amount of CAD$760 (EUR520). This one-year extension provides time to reassess the partner’s strategy for this fully let property.

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 the restrictive covenant contained in the Baldi debt obligations relating to the debt service coverage ratio. See the "*Capital Management Financing Covenants*" section. 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. 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

As at December 31, 2023, five of the REIT's largest tenants, by percentage of total GLA, occupy 25.7% of the total weighted areas, with the main tenant in Trio representing 11% of the IP Portfolio rental income. Four of the five largest tenants are committed to multi-year leases, which are set to expire gradually between 2024 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.

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). 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. The REIT 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 if the Canadian dollar increases in value compared to foreign currencies. However, to the extent that the REIT fails to adequately manage this risk, including if any such hedging arrangements do not effectively or completely hedge changes in foreign currency rates, the REIT's financial results may be negatively impacted.

Changes in Interest Rates Could Adversely Affect Cash Flows 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. 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, 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 a 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 the 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 joint venture 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 (whether such distributions are paid in cash, additional Units or otherwise) 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 long term objective of maximizing after-tax distributions, taxes (including corporate, withholding, land transfer, and other taxes) in the various jurisdictions in which the REIT invests will reduce the amount of cash available for distribution to the REIT by its subsidiaries and, therefore, reduce the amount of cash available for distribution by the REIT to Unitholders. No assurance can be given as to the future level of taxation suffered by the REIT or its subsidiaries. In addition, certain tax positions adopted by the REIT and its subsidiaries may be challenged by the CRA or a foreign taxing authority. This could materially increase the taxable income of, and taxes payable by, the REIT and its subsidiaries, and thereby increase taxable income of Unitholders and/or adversely affect the REIT's financial position and cash available for distribution to Unitholders.

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

Qualified Investments

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

EIFEL Rules

The Minister of Finance has released 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.

Unit Distributions

If the Trustees determine that the REIT does not have cash in an amount sufficient to pay distributions equal to the net income of the REIT (including net realized taxable capital gains), distributions may be satisfied by issuing additional Units to Unitholders. Unitholders generally will be required to include in computing their income for Canadian tax purposes in a particular taxation year the portion of the net income of the REIT, including net realized taxable capital gains, that is paid or payable to such Unitholders in that taxation year, whether or not those amounts are received in cash, additional Units or otherwise. As such, Unitholders may incur tax liabilities without receiving cash distributions from the REIT to fund such liabilities. Unitholders are advised to consult their own tax advisors in this regard.

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 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 23% 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.

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 audited consolidated financial statements of the REIT for the period ending December 31, 2023.

A description of significant accounting policies is provided in Note 3 of the annual audited consolidated financial statements of the REIT for the period ending December 31, 2023.

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 effective, as at December 31, 2023.

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, 2023. 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 and implementation of ICFR were complete as at December 31, 2023

In line with the remediation plan outlined in the December 31, 2022 MD&A, the REIT, engaged an internal audit specialist, independent of management, to assess the operating effectiveness of the REIT’s ICFR. The testing program was operating in fiscal year 2023. 2023 internal audit results and recommendations were presented to Management and the 2024 internal audit plan shall continue to test and grant the effectiveness of the ICFR.

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.