

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

September 30, 2020

(Unaudited)

Disclosure of non-review of interim condensed consolidated financial statements for the quarters ended September 30, 2020 and 2019

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

The accompanying unaudited interim condensed consolidated financial statements of the REIT for the quarters ended September 30, 2020 and 2019 have been prepared in accordance with International Accounting Standard 34, Interim Financial reporting, and are the responsibility of the REIT's management.

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

Inovalis Real Estate Investment Trust
Interim Consolidated Balance Sheets
(Unaudited)
(All dollar amounts in thousands of Canadian dollars)

Assets	Note	As at September 30, 2020	As at December 31, 2019
Non-current assets			
Investment properties	5	513,069	478,700
Investments in joint ventures	7	89,637	100,782
Derivative financial instruments	-	-	10
Restricted cash	-	4,955	4,705
Total non-current assets		607,661	584,197
Current assets			
Trade receivables and other financial assets	8	8,948	4,437
Derivative financial instruments	-	10,126	10,828
Acquisition loan receivable	20	7,417	24,744
Other current assets	-	2,441	2,093
Restricted cash	-	518	498
Cash	-	73,330	83,409
Total current assets		102,780	126,009
Total assets		710,441	710,206
Liabilities and equity	Note	As at September 30, 2020	As at December 31, 2019
Liabilities			
Non-current liabilities			
Interest-bearing loan	-	508	473
Mortgage loans	9	137,577	130,162
Lease liabilities	9	122,344	116,968
Lease equalization loans	-	92	343
Tenant deposits	-	2,186	1,930
Derivative financial instruments	-	4,014	2,734
Deferred tax liabilities	-	13,303	12,295
Exchangeable securities	11	-	2,695
Total non-current liabilities		280,024	267,600
Current liabilities			
Interest-bearing loan	-	4	4
Promissory notes	10	33,737	47,909
Mortgage loans	9	4,478	4,198
Lease liabilities	9	10,150	6,910
Lease equalization loans	-	374	1,676
Tenant deposits	-	185	577
Derivative financial instruments	-	2,227	1,494
Exchangeable securities	11	8,013	6,867
Trade and other payables	12	11,857	34,336
Deferred income	-	900	5,491
Total current liabilities		71,925	109,462
Total liabilities		351,949	377,062
Equity			
Trust units	-	252,853	259,526
Retained earnings	-	68,401	57,827
Accumulated other comprehensive income	18	35,784	14,591
Total Unitholders' equity		357,038	331,944
Non-controlling interest	-	1,454	1,200
Total equity		358,492	333,144
Total liabilities and equity		710,441	710,206

Subsequent events – see Note 24

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

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

Daniel Argiros
Chairman and Trustee

Jo-Ann Lempert
Audit Chair and Trustee

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

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

	Note	For the three months ended September 30, 2020	For the three months ended September 30, 2019 Restated (Note 2)	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019 Restated (Note 2)
Rental revenue	13	7,154	6,627	21,151	19,263
Property operating cost recoveries	13	1,790	1,528	4,915	6,123
Property operating costs	14	(1,569)	(1,519)	(7,019)	(8,881)
Other revenues	-	-	411	19	409
Other property operating expenses	-	(115)	(66)	(228)	(305)
Net rental income		7,260	6,981	18,838	16,609
General and administrative expenses	14	(1,457)	(1,360)	(5,741)	(4,758)
Foreign exchange gain (loss)	-	816	(4)	2,619	(6)
Net change in fair value of investment properties	5	(763)	3,746	(1,348)	4,488
Loss on disposal of investment properties	-	-	-	-	(56)
Share of net income from joint ventures	7	(1,176)	342	(1,843)	886
Operating earnings		4,680	9,705	12,525	17,163
Net change in fair value of Financial derivatives	-	192	85	399	(1,543)
Net change in fair value of Exchangeable securities	11	96	(367)	2,675	(697)
Net change in fair value of Promissory notes	10	449	(2,067)	14,152	(4,494)
Finance income	15	1,561	2,594	5,737	6,743
Finance costs	15	(2,486)	(2,750)	(7,562)	(7,774)
Distributions on Exchangeable securities	11	(209)	(173)	(602)	(528)
Income before income taxes		4,283	7,027	27,324	8,870
Current income tax recovery (expense)	-	33	(64)	(16)	(191)
Deferred income tax recovery (expense)	-	165	(1,576)	(119)	(2,303)
Total income tax recovery (expense)		198	(1,640)	(135)	(2,494)
Net income		4,481	5,387	27,189	6,376
Net income attributable to :					
Non-controlling interest	-	36	14	42	21
Unitholders of the Trust	-	4,445	5,373	27,147	6,355

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

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

(All dollar amounts in thousands of Canadian dollars)

	Note	For the three months ended September 30, 2020	For the three months ended September 30, 2019 Restated (Note 2)	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019 Restated (Note 2)
Net income for the period		4,481	5,387	27,189	6,376
Other comprehensive income (loss)					
Items that may be reclassified subsequently to income :					
Net gains (losses) on derivatives designated as a hedge of the net investment in a foreign entity	-	(1,192)	364	(3,439)	1,770
Derivatives designated as cash flow hedges - Net gains	-	-	109	-	404
Change in cumulative translation adjustment account	-	8,143	(9,896)	24,766	(25,749)
Other comprehensive income (loss)		6,951	(9,423)	21,327	(23,575)
Total comprehensive income (loss)		11,432	(4,036)	48,516	(17,199)
Total comprehensive income (loss) attributable to :					
Non-controlling interest	-	156	(22)	176	(20)
Unitholders of the Trust	-	11,276	(4,014)	48,340	(17,179)
Total comprehensive income (loss)		11,432	(4,036)	48,516	(17,199)

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

Interim Consolidated Statements of Changes in Equity
For the nine months ended September 30,
(Unaudited)

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

	Note	Number of Units issued and outstanding	Trust Units	Retained earnings	Accumulated other comprehensive income	Total attributable to the Unitholders' of the Trust	Non-controlling interest	Total equity
As at December 31, 2018		23,513,652	207,442	41,282	35,998	284,722	519	285,241
Issuance of units	17	90,500	792	-	-	792	-	792
Distributions earned by or declared to Unitholders	16	-	-	(14,648)	-	(14,648)	-	(14,648)
Distributions under the Trust's reinvestment plan	16	222,809	2,180	-	-	2,180	-	2,180
Non-controlling interests on acquisition of subsidiary	-	-	-	-	-	-	930	930
Non-controlling interests on disposal of subsidiary	-	-	-	-	-	-	(389)	(389)
Capital increase from non-controlling interest	-	-	-	-	-	-	91	91
		313,309	2,972	(14,648)	-	(11,676)	632	(11,044)
Net income for the nine months as restated		-	-	6,355	-	6,355	21	6,376
Other comprehensive loss as restated		-	-	-	(23,534)	(23,534)	(41)	(23,575)
Comprehensive income (loss) as restated in 2019		-	-	6,355	(23,534)	(17,179)	(20)	(17,199)
As at September 30, 2019 - Restated		23,826,961	210,414	32,989	12,464	255,867	1,131	256,998
As at December 31, 2019		28,742,306	259,526	57,827	14,591	331,944	1,200	333,144
Issuance costs		-	(56)	-	-	(56)	-	(56)
Issuance of units		12,811	131	-	-	131	-	131
Repurchase of Trust Units	17	(905,565)	(7,961)	1,105	-	(6,856)	-	(6,856)
Distributions earned by or declared to Unitholders	16	-	-	(17,678)	-	(17,678)	-	(17,678)
Distributions under the Trust's reinvestment plan	16	145,616	1,213	-	-	1,213	-	1,213
Change in non-controlling interest		-	-	-	-	-	78	78
		(747,138)	(6,673)	(16,573)	-	(23,246)	78	(23,168)
Net income for the nine months		-	-	27,147	-	27,147	42	27,189
Other comprehensive income		-	-	-	21,193	21,193	134	21,327
Comprehensive income		-	-	27,147	21,193	48,340	176	48,516
As at September 30, 2020	17	27,995,168	252,853	68,401	35,784	357,038	1,454	358,492

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

Inovalis Real Estate Investment Trust
Interim Consolidated Statements of Cash Flows
For the nine months ended September 30,
(Unaudited)

(All dollar amounts in thousands of Canadian dollars)

	<i>Note</i>	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019
Operating activities			
Income before income taxes	-	27,324	8,870
Interest received	-	5,054	6,222
Interest paid	-	(7,562)	(7,191)
Income tax paid	-	(16)	(191)
Distributions in respect of exchangeable securities paid in cash	-	(601)	(545)
Adjustments for non-cash items and other reconciling items	22	(13,661)	4,005
		<u>10,538</u>	<u>11,170</u>
Working capital adjustments	22	(20,050)	(158)
Net cash flows related to operating activities		<u>(9,512)</u>	<u>11,012</u>
Investing activities			
Investment properties (additions and capitalized letting fees)	6	(920)	(1,414)
Acquisitions of subsidiary, net of cash acquired	5	2,175	(26,928)
Proceeds from sale of investment property	6	-	15,960
Investments in joint ventures	7	(1,225)	-
Loan repayments received from joint ventures	7	2,277	1,175
Repayment of acquisition loan	-	18,893	-
Decrease (increase) in other financial assets	-	195	(1,721)
Decrease in financial current assets	-	-	1,958
Net cash flows related to investing activities		<u>21,395</u>	<u>(10,970)</u>
Financing activities			
Distributions to unitholders	16	(16,507)	(12,445)
Repayment of promissory notes	-	(20)	-
Proceeds from issuance of unit	-	131	-
Issuance unit costs	-	(56)	-
Repurchase of Trust Units	17	(6,856)	-
Mortgage loans net of transaction costs	9	-	13,971
Lease liabilities net of transaction costs	9	-	62,866
Repayment of mortgage loans	9	(1,940)	(13,780)
Repayment of lease liabilities	9	(306)	(56,971)
Repayment of interest bearing loan	-	(42)	-
Repayment of lease equalization loans	-	(1,656)	(844)
Net cash flows related to financing activities		<u>(27,252)</u>	<u>(7,203)</u>
Net decrease in cash		<u>(15,369)</u>	<u>(7,161)</u>
Effects of foreign exchange adjustments on cash	-	5,290	(1,238)
Cash at the beginning of the period		<u>83,409</u>	<u>19,994</u>
Cash at the end of the period		<u>73,330</u>	<u>11,595</u>

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

Inovalis Real Estate Investment Trust
Notes to the condensed interim consolidated financial statements
September 30, 2020

Note 1 – Organization

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

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

The REIT’s Condensed Interim Consolidated Financial Statements for the nine months ended September 30, 2020, were authorized for issuance by the Board of Trustees on November 12, 2020.

The REIT has hired Inovalis S.A. (“Inovalis SA”), a real estate asset manager having operations in France and Germany, to manage certain functions. Refer to Note 1 of the Annual Consolidated Financial Statements for more information about the relationship between Inovalis SA and the REIT, and to Note 20 – Transactions with related parties, for information regarding the services provided by Inovalis SA to the REIT.

Inovalis SA is considered as a related party of the REIT as they share the same management. The founder and Chairman of Inovalis S.A. is President of the REIT, the Chief Executive Officer (“CEO”) of Inovalis S.A. is also CEO of the REIT, and the Deputy Chief Executive Officer of Inovalis S.A. is Chief Investment Officer (“CIO”) and Chief Financial Officer (“CFO”) of the REIT.

Note 2 – Basis of presentation and statement of compliance

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

These condensed interim consolidated financial statements use the same accounting policies and methods of their application as the REIT’s most recent annual consolidated financial statements and should be read in conjunction with the 2019 audited consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the IASB.

The condensed interim consolidated financial statements for the quarter and the nine months ended September 30, 2019 have been restated to recognize an increase of 10% in the withholding tax rate used for the calculation of the deferred income tax liability following the Double Taxation Treaty (the “New Treaty”), ratified by France in March 2018 and Luxembourg on July 2, 2019, and effective as of January 1, 2020. Refer to the Note 34 of the Annual Consolidated Financial Statements for more information about the nature of the restatement, and to Note 23 – Restatement of financial results.

Note 3 – Recent Accounting Pronouncements Adopted

Amendments to IFRS 16, Leases

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

Note 4 – Critical Accounting Judgments and Estimates

In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the REIT's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2019, except for the impact of COVID-19 as detailed below.

The recent outbreak of COVID-19, which the World Health Organization has declared to constitute a pandemic, has impacted global commercial activity and contributed to significant volatility in certain equity and debt markets. The extent and duration of the impact of COVID-19 on communities and the economy remains unclear. In the preparation of these unaudited condensed interim consolidated financial statements, the REIT has incorporated the potential impact of COVID-19 into its estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amount of earnings for the reporting period using the best available information as of September 30, 2020. Actual results could differ from those estimates. The estimates and assumptions that the REIT considers critical and/or could be impacted by COVID-19 include those underlying the valuation of investment properties, the valuation of its investments in joint ventures, the estimate of any expected credit losses on amounts receivable including loans to joint ventures, and the acquisition loan receivable, and determining the fair values of derivative financial instruments, such as the call option related to the acquisition loan.

Note 5 – Investment properties

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

	For the nine months ended September 30, 2020	For the year ended December 31, 2019
Balance, beginning of period	478,700	421,937
Capex	835	1,545
Acquisition of Trio investment properties including acquisitions costs	-	71,443
Acquisition of Arcueil investment property	-	134,005
Capitalized letting fees	85	274
Disposition of Vanves investment property	-	(136,330)
Rent free periods	290	141
Net change in fair value of investment properties	(1,348)	16,722
Foreign currency translation adjustment	34,507	(31,037)
Balance, end of period	513,069	478,700

Appraisal capitalization and discount rates

The fair value of investment properties is determined using recognized valuation techniques. Until Q1 2020, the methods principally used by the REIT were the Direct Capitalization Method (“DC”) and the Discounted Cash Flow Method (“DCF”). Starting with the second quarter of 2020, the REIT has been using only the DC method.

With the DC method, the cash generated during the term of the lease as well as the cash generated at reversion, are capitalized using the same capitalization rate. The capitalization rates are determined based on recent real estate transactions with similar characteristics and location to those of the REIT assets.

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

Emergency measures enacted by governments in response to the COVID-19 pandemic, including travel restrictions, physical distancing, and temporary closure of non-essential businesses, have created estimation uncertainty in the determination of the fair market value of investment property as at September 30, 2020. There has been a scarcity of recently observed market transactions to support changes in the discount and capitalization rates, as well as market rents. The REIT has made assumptions with respect to the duration and severity of these emergency measures as well as the duration of the subsequent economic recovery in estimating the amount and timing of the cash flows generated from investment properties and used in determination of fair value of the investment properties as at September 30, 2020.

The adjusted market-value and stabilized capitalization rates by country are set out in the following table:

	As at September 30, 2020			As at December 31, 2019		
	France	Germany	Total	France	Germany	Total
Fair value of investment properties for financial reporting purposes						
Market value (in Euros) as estimated by external appraisers	283,030	47,200	330,230	283,670	47,000	330,670
IFRIC 21 adjustment	428	-	428	-	-	-
Option costs	(2,084)	-	(2,084)	(2,006)	-	(2,006)
Adjusted market value in Euros	281,374	47,200	328,574	281,664	47,000	328,664
Exchange adjustment	157,992	26,503	184,495	128,580	21,456	150,036
Adjusted market value in CAD\$	439,366	73,703	513,069	410,244	68,456	478,700
Principal method used to value property	Direct Capitalization Method	Direct Capitalization Method		Direct Capitalization Method	Discounted cash flow	
Number of years used in cash flow projection					10	
Capital rate / discount rate	4.20% to 7.00%	4.90%		4.20% to 7.00%	5.25%	
Terminal capitalization rate	5.38%	4.90%		5.38%	-	
Weighted average discount rate	-	-		-	5.25%	
Impact on the fair value of investment properties of:						
an increase of 25 bps on the cap rate and/or discount rates	(20,164)	(3,578)	(23,742)	(18,793)	(3,112)	(21,905)
a decrease of 25 bps on the cap rate and/or discount rates	22,277	3,963	26,240	20,759	3,423	24,182

Right-of-use asset

The REIT leases various investment properties with a carrying amount of \$253,328 (2019 – \$235,217) under leases which begin to expire in approximately 7 years (2019: 8 years).

Note 6 – Acquisition of investment properties

Transaction that occurred in 2019

Trio

The REIT, through a controlled subsidiary, together with a company controlled by Inovalis SA, acquired on March 27, 2019 a property (“Trio property”) located near Frankfurt, for approximately €45,755 (\$69,090). The Trio property is financed by a new senior bank loan of €31,200 (\$47,112) bearing interest at a fixed rate of 1.56%. Pursuant to the loan agreement, a €2,700 (\$4,077) reserve for capital expenditures was established and is considered restricted cash. The REIT owns 94.9% of the subsidiary and the company controlled by Inovalis SA owns 5.1% of the subsidiary.

The REIT has elected to apply the "concentration test" authorized by the amendment to IFRS 3. As the fair value of the acquired gross assets is substantially concentrated in the Trio property, the transaction has been qualified as an acquisition of assets. As a consequence, the cost of such an acquisition of €47,430 (\$71,619), includes transaction costs for €1,675 (\$2,529).

Note 7 – Investments in joint ventures

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

	CCD	Walpur	Arcueil ²	Cologne	Stuttgart	Delizy	Neu Isenburg	Kösching	Total
Balance -December 31, 2018	20,574	9,376	15,573	982	16,455	8,753	15,464	10,427	97,604
Share of net income (loss) from investments ¹	7,273	800	(105)	41	2,700	332	5	736	11,782
Loan to joint ventures repayments	-	-	-	-	(451)	-	(922)	(350)	(1,723)
Exchange differences	(1,551)	(658)	(1,052)	(68)	(1,173)	(606)	(1,042)	(731)	(6,881)
Balance -December 31, 2019	26,296	9,518	14,416	955	17,531	8,479	13,505	10,082	100,782
Additional investment of the period	670	-	-	-	-	555	-	-	1,225
Share of net income (loss) from investments ¹	(2,461)	265	(17)	1	203	(569)	174	561	(1,843)
Loan to joint ventures repayments	-	-	-	-	(548)	-	(1,248)	(481)	(2,277)
Reduction of loan on account of share capital	-	(806)	-	-	-	-	-	-	(806)
Change in equity	-	802	-	-	-	-	-	-	802
Exchange differences	1,850	694	6	69	1,255	611	945	729	6,159
Acquisition of control	-	-	(14,405)	-	-	-	-	-	(14,405)
Balance - September 30, 2020	26,355	10,473	-	1,025	18,441	9,076	13,376	10,891	89,637

- (1) The share of net earnings includes the interest expense in relation to the loans granted to the joint ventures. The interest earned by the REIT in relation to these loans amounts to \$3,017 (2019 – \$3,849) and are included in “Finance income” (see note 15).
- (2) On January 22, 2020, the REIT became the only shareholder of the Arcueil joint venture following the repurchase of the 75% share interest owned by the other partner and began consolidating this entity.

The balance of investments in joint ventures as at September 30, 2020 includes loans to joint ventures for an amount of \$46,277 which is detailed as follows:

Loans to joint ventures	CCD	Walpur ¹	Cologne	Stuttgart	Delizy	Neu Isenburg	Kösching	Total
Balance - September 30, 2020	16,229	4,326	824	11,820	9,076	2,311	1,691	46,277
Balance -December 31, 2019	14,497	4,806	769	11,550	8,479	3,350	2,038	45,489
Maturity date	12/31/2020	10/31/2020	11/06/2024	05/30/2023	08/31/2022	12/29/2023	12/31/2023	
Interest rate	10%	8.75%	10.50%	6.50%	9%	8.70%	6.50%	

- (1) The maturity date has been extended from June 30, 2020 to October 31, 2020 as the REIT expects to buy back 50% of the equity interest in Walpur owned by a co-investor by October 31, 2020. Refer to Note 24 – Subsequent Events.

Arcueil

In accordance with the agreement signed between the two investors on December 18, 2019, the partner to the Arcueil joint venture, holding 75% interest, was bought out of the partnership on January 22, 2020.

Stuttgart

On July 20, 2020 the board of trustees of the REIT resolved to dispose of the Stuttgart property and a real estate brokerage firm has been engaged to assist with the identification of a buyer and the materialization of the sale.

Walpur

Effective September 30, 2020, the shareholders of Walpur approved a resolution to increase the share capital by \$1,612 through the issuance of shares, with a reduction of shareholder loan for the same amount. Concurrently the share capital account will be reduced by \$1,400 through the cancellation of shares, with a resulting decrease in accumulated losses. As a result, the REIT’s loan to the joint venture was reduced by \$806 with a corresponding increase in the REIT’s share of equity by \$802. The above steps have been made in preparation of the REIT’s acquisition of additional equity interest in Walpur. Please refer to Note 24 – Subsequent events for further detail.

Note 8 – Trade and other receivables

	As at September 30, 2020	As at December 31, 2019
Trade receivables	4,758	1,595
Trade receivables - Inovalis SA	-	200
Provision for impairment of trade receivables	(107)	(60)
Trade receivables	4,651	1,735
Other receivables	2,918	1,747
Other receivables - Inovalis SA	292	88
Other receivables - Joint ventures	-	507
Interest receivables - Joint ventures	1,087	360
Other current financial assets	4,297	2,702
Total trade receivables and other financial assets	8,948	4,437

Note 9 – Mortgage loans, lease liabilities and interest-bearing loan

Mortgage loans, and leases liabilities consist of the following:

Entity	Nominal value (in 000's of €)	Nominal value (in 000's of \$)	Interest rate	Maturity	As at September 30, 2020		
					Total	Non-current	Current
Mortgage loan - Jeûneurs SCI	27,500	42,941	Euribor 3M + 1.75%	26/10/2027	42,804	41,539	1,265
Mortgage loan - Véronèse SCI	8,135	12,703	Euribor 3M + 1.90%	21/03/2031	12,641	11,685	956
Mortgage loan - Sablière SCI	11,880	18,551	Euribor 3M + 1.59%	23/06/2026	18,632	17,697	935
Mortgage loan - Cancorp Trio	30,732	47,988	1.56%	15/03/2024	47,358	46,871	487
Mortgage loan - Baldi SCI	13,176	20,574	Euribor 3M + 1.75%	26/10/2027	20,620	19,785	835
Mortgage loans	91,423	142,757			142,055	137,577	4,478
Lease liabilities - Arcueil SCI ¹	41,511	64,819	Euribor 3M + 2.20%	08/07/2027	68,583	60,896	7,687
Lease liabilities - Métropolitain SCI	41,498	64,799	Euribor 3M + 1.84%	18/03/2031	63,911	61,448	2,463
Lease liabilities	83,009	129,618			132,494	122,344	10,150
Total mortgage loans and lease liabilities	174,432	272,375			274,549	259,921	14,628

(1) The current portion of the Arcueil SCI lease liability includes two quarterly lease payments that were due and unpaid. Both quarterly payments were subsequently deferred to April 8, 2027. Please refer to Note 24 – Subsequent Events.

Entity	Nominal value (in 000's of €)	Nominal value (in 000's of \$)	Interest rate	Maturity	As at December 31, 2019		
					Total	Non-current	Current
Mortgage loan - Jeûneurs SCI	28,168	41,027	Euribor 3M + 1.75%	26/10/2027	40,769	39,631	1,138
Mortgage loan - Véronèse SCI	8,476	12,345	Euribor 3M + 1.75%	05/05/2019	12,158	11,011	1,147
Mortgage loan - Sablière SCI	12,015	17,500	Euribor 3M + 1.59%	23/12/2025	17,432	16,659	773
Mortgage loan - Cancorp Trio	30,966	45,102	Euribor 3M + 1.75%	26/10/2027	44,515	44,060	455
Mortgage loan - Baldi SCI	13,434	19,567			19,486	18,801	685
Mortgage loans	93,059	135,541			134,360	130,162	4,198
Lease liabilities - Arcueil SCI	42,093	61,308	Euribor 3M + 2.00%	20/06/2026	64,493	59,301	5,192
Lease liabilities - Métropolitain SCI	41,801	60,883	Euribor 3M + 1.85%	20/03/2028	59,385	57,667	1,718
Lease liabilities	83,894	122,191			123,878	116,968	6,910
Total mortgage loans and lease liabilities	176,953	257,732			258,238	247,130	11,108

The aggregate principal repayments and balances maturing on the mortgages payables in the year indicated, are as follows:

	As at September 30, 2020		As at December 31, 2019	
	Carrying value	Minimum payments	Carrying value	Minimum payments
Within 1 year	4,478	7,181	4,198	6,941
After 1 year, but not more than 5 years	66,281	58,697	61,955	70,637
More than 5 years	71,296	91,390	68,207	74,041
	142,055	157,268	134,360	151,619
Less : future interest costs	-	(15,213)	-	(17,259)
Total mortgage loans	142,055	142,055	134,360	134,360

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

	As at September 30, 2020		As at December 31, 2019	
	Carrying value	Minimum lease payments	Carrying value	Minimum lease payments
Within 1 year	10,150	12,438	6,910	8,168
After 1 year, but not more than 5 years	28,468	20,132	27,523	32,347
More than 5 years	93,876	116,912	89,445	95,458
	132,494	149,482	123,878	135,973
Less : future interest costs	-	(16,988)	-	(12,095)
Total lease liabilities	132,494	132,494	123,878	123,878

Loan concessions

Given the unprecedented and pervasive impact of changing circumstances surrounding the COVID-19 pandemic, there is inherently more economic uncertainty and expectations as compared to prior periods. At this time, the REIT has accepted deferral plans whenever proposed by banks / financial lessors, further to government incentives.

The plan unfolds as follows:

Sablire SCI

The REIT has accepted to defer the interest and principal payments due in periods ending June 30 and September 30, 2020 in respect of its outstanding mortgage liability due 2025 by six months from their due dates. The next payment will be on December 23, 2020 and the term of the loan has been extended by six months.

Courbevoie SCI

The REIT has accepted to defer the interest and principal payments due in periods ending June 30 and September 30, 2020 in respect of its outstanding mortgage loan due 2031. The interest payment due on these quarters will be paid on December 21, 2020 and amortization will be reduced by the interest paid as to not increase future quarterly payments. The principal unpaid will be settled at the maturity date.

Baldi SCI

The REIT has elected to defer the interest and principal payments due in the period ending September 30, 2020 in respect of its outstanding mortgage loan due 2027. The interest payment due this quarter will be paid on December 31, 2020 and amortization will be reduced by the interest paid as to not increase future quarterly payments. The principal unpaid will be settled at the maturity date.

These loan modifications were non-substantial, and as a result, the REIT recognized a gain of €40 (\$61) in the consolidated statement of earnings for the nine months ended September 30, 2020.

Metropolitain SCI

The REIT has elected to defer the quarterly payments due on June 18 and Sept 18, 2020 under this lease liability. Payment will resume on December 18, 2020. Starting March 18, 2021 eight quarterly payments will be proportionally increased by the total amount of the two deferred quarterly payments. In addition to these proportional increases, interest payments for the eight quarters starting March 18, 2021 will also be increased to account for the time value of the deferred payments. In accordance with the amendment to IFRS 16, the payment deferrals for Metropolitain SCI were not treated as modifications to the leases. The approach taken by the REIT was to continue to account for the lease liability and right-of-use asset using the rights and obligations of the existing lease, unchanged.

Note 10 – Promissory notes

The REIT entered into three private placements in the form of Euro denominated interest bearing promissory notes (“Note 1”, “Note 2”, “Note 3” and collectively the “Promissory Notes”) through its subsidiary CCE to a single non-Canadian investor (the “Investor”) as summarized below. The REIT incurred issuance fees of 3% and may incur financing fees equal to the product of the amount of the monthly distribution payable on a REIT Unit that exceeds a stated amount (the “Distribution Threshold”) and the Equivalent REIT Units. CCE has the option to repay all or any portion of the promissory notes following the first anniversary of the issue date of each promissory note.

On June 22, 2020, the REIT obtained an extension to its promissory note issued in June 2017 with REIT Notes Program Ltd (Note 1). As part of the amended agreement, the term of the Promissory Note is extended to the maturity date of December 31, 2020, all other conditions and features as per above have not been modified. The principal amount outstanding as of September 30, 2020 is €8,607. In accordance with IFRS 9, the original liability was extinguished, and the REIT recognized a new liability in the second quarter of 2020.

Promissory notes are a liability recorded at fair value based on the market price of the REIT Units. Due to the decrease in the REIT’s unit price, the fair value of the Promissory Notes (including the Put Option and Call Option) present a reduction and is estimated at \$33,737 as at September 30, 2020 (December 31, 2019 - \$47,909). The variance for the three and nine months ended September 30, 2020 is respectively a loss of \$449 and a profit of \$14,152 and it is presented in net change in fair value of promissory notes.

Promissory Notes were issued as follows:

	As at September 30, 2020				
	Principal (in 000's of €)	Principal (in 000's of \$)	Interest rate	Equivalent Trust Units	Carrying value of the Promissory Notes
Notes 1	8,607	13,440	8.18%	1,280,208	9,614
Notes 2	7,262	11,340	8.13%	1,091,103	8,194
Notes 3	13,584	21,211	7.95%	2,121,008	15,929
Total Promissory Notes	29,453	45,991		4,492,319	33,737

	As at December 31, 2019				
	Principal (in 000's of €)	Principal (in 000's of \$)	Interest rate	Equivalent Trust Units	Carrying value of the Promissory Notes
Notes 1	8,620	12,555	8.18%	1,282,190	13,668
Notes 2	7,262	10,577	8.13%	1,091,103	11,631
Notes 3	13,584	19,785	7.95%	2,121,008	22,610
Total Promissory Notes	29,466	42,917		4,494,301	47,909

Please refer to Note 24 – Subsequent Events for additional information on the extension and redemption of promissory notes that occurred after September 30, 2020. The repayment resulted in a cumulative gain of CAD\$10,916 arising from a net change in fair value of the Promissory Notes.

Note 11 – Exchangeable Securities

Exchangeable securities issued and outstanding	Exchangeable securities	
	Number of Exchangeable securities	Carrying amount of Exchangeable securities
Balance -December 31, 2018	844,673	7,982
Asset management fees paid in exchangeable securities	142,909	1,501
Conversion of exchangeable securities into units of the REIT	(90,500)	(792)
Net change in fair value of exchangeable securities	-	871
Balance -December 31, 2019	897,082	9,562
Asset management fees paid in exchangeable securities	169,843	1,126
Net change in fair value of exchangeable securities	-	(2,675)
Balance - September 30, 2020	1,066,925	8,013

Distribution in respect of Exchangeable Securities:

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

The following table breaks down distribution payments for the three and nine months ended September 30:

	For the three months ended September 30, 2020	For the three months ended September 30, 2019	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019
Amount payable at the beginning of the period	324	234	250	249
Declared and recognized in earnings during the period	209	173	602	528
Distribution on exchangeable securities paid in cash	(284)	(176)	(601)	(545)
Amount payable at the end of the period	249	231	251	232

Note 12 – Trade and other payables

	Note	As at September 30, 2020	As at December 31, 2019
Trade payables		5,934	5,614
Trade payables - Inovalis SA		565	795
Trade payables		6,499	6,409
Other payables		1,309	1,115
Other payables - Inovalis SA		158	407
Other payables - Joint ventures		-	13,748
Distributions payable	16	1,936	1,978
Distributions payable - Inovalis SA	20	251	250
VAT payable		1,704	10,429
Other payables		5,358	27,927
Total trade and other payables		11,857	34,336

Note 13 – Revenue from investment properties

Revenue from investment properties consists of the following:

	For the three months ended September 30, 2020	For the three months ended September 30, 2019	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019
Regular rents	7,139	6,745	21,187	19,851
Amortization of rent free periods (lease incentives)	15	(118)	(36)	(588)
Rental income	7,154	6,627	21,151	19,263
Property operating cost recoveries	1,790	1,528	4,915	6,123
Total revenue	8,944	8,155	26,066	25,386

For the nine months ended September 30, the property operating cost recoveries were as follows:

	For the three months ended September 30, 2020	For the three months ended September 30, 2019	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019
Taxes	636	680	1,646	2,098
Insurance	24	87	110	148
Property management fees	340	414	883	977
Utilities and other cost recoveries	790	347	2,276	2,900
Property operating cost recoveries	1,790	1,528	4,915	6,123

Note 14 – Expenses

Property operating costs consist of the following:

	For the three months ended September 30, 2020	For the three months ended September 30, 2019	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019
Taxes (expense) recovery	(51)	8	(2,885)	(3,409)
Insurance	(31)	(97)	(126)	(171)
Property management fees	(348)	(422)	(1,013)	(1,036)
Utilities	(1,139)	(1,008)	(2,995)	(4,265)
Total property operating costs	(1,569)	(1,519)	(7,019)	(8,881)

In accordance with IFRS Interpretations Committee (IFRIC) 21, Levies, the Company recognizes the full amount of annual property tax liabilities at the point in time when the realty tax obligation is imposed. For the nine months ended September 30, 2020, the amount recognized is \$651 (2019 - \$861).

General and administrative expenses consist of the following:

	For the three months ended September 30, 2020	For the three months ended September 30, 2019	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019
Asset management fees - Inovalis SA	(786)	(744)	(2,310)	(2,330)
Less : amount invoiced to joint ventures	333	375	979	1,146
	(453)	(369)	(1,331)	(1,184)
Professional fees for accounting, tax and audit	(562)	(392)	(2,260)	(1,649)
Legal expenses	(111)	(228)	(1,074)	(674)
Trustee fees	(109)	(102)	(428)	(327)
Travel expenses	-	(83)	(22)	(251)
Bank expenses	(38)	(27)	(101)	(100)
Other general and administrative expenses	(184)	(159)	(525)	(573)
Total general and administrative expenses	(1,457)	(1,360)	(5,741)	(4,758)

Note 15 – Finance costs and finance income

	For the three months ended September 30, 2020	For the three months ended September 30, 2019	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019
Interest costs related to mortgage loans	(613)	(571)	(1,799)	(1,660)
Interest costs related to leases liabilities	(640)	(672)	(1,804)	(1,972)
Interest costs related to lease equalization loans	(14)	(36)	(57)	(123)
Interest costs related to promissory notes	(933)	(866)	(2,711)	(2,660)
	(2,200)	(2,145)	(6,371)	(6,415)
Interest SWAP & CAP	(182)	(258)	(887)	(1,005)
Other finance costs	(39)	(267)	(80)	(126)
	(2,421)	(2,670)	(7,338)	(7,546)
Amortization of transaction costs on mortgage loans	(65)	(80)	(224)	(228)
Finance costs	(2,486)	(2,750)	(7,562)	(7,774)
Finance income from a company controlled by Inovalis SA relating to the acquisition loan	295	786	1,619	2,319
Finance income from joint venture loans	1,031	1,251	3,017	3,849
Other finance income	235	557	1,101	575
Finance income	1,561	2,594	5,737	6,743

Note 16 – Distributions

	Note	For the three months ended September 30, 2020	For the three months ended September 30, 2019	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019
Amount payable at the beginning of the period		1,974	1,632	1,978	1,618
Declared and recognised during the period		5,799	4,908	17,678	14,648
Distributions paid in units		-	(815)	(1,213)	(2,180)
Paid in cash		(5,837)	(4,085)	(16,507)	(12,445)
Amount payable at the end of the period	12	1,936	1,640	1,936	1,641

The amount of distributions payable is included in the “Trade and other payables”.

Note 17 – Trust Units

The REIT is authorized to issue an unlimited number of units and an unlimited number of Special Voting Units. The beneficial interests of the REIT are comprised of a single class of units which represent a unitholders’ proportionate undivided beneficial interest in the REIT. No unit has any preference over any other unit. Each unit confers the right to one vote at any meeting of unitholders and to participate on a pro rata basis in any distributions by the REIT and, in the event of the termination of the REIT, in the net assets of the REIT remaining after the settlement of all liabilities of the Trust. The units of the Trust are redeemable at the demand of the unitholders at the fair market value of the units at that time. Special Voting Units have no economic entitlement in the REIT but entitle the holder to one vote per Special Trust Unit at any meeting of the unitholders of the REIT. Special Voting Units may only be issued in connection with or in relation to Exchangeable Securities (see Note 11 – Exchangeable Securities) for the purpose of providing voting rights with respect to the REIT to the holders of such securities. As at September 30, 2020, 1,066,925 Special Voting Units were issued and outstanding (2019 – 826,135).

A Distribution Reinvestment Plan (“DRIP”) has been put in place starting from the July 2013 distribution, providing unitholders with the opportunity to accumulate additional units plus additional bonus units in an amount equal to three percent of the distributions reinvested by the unitholders (see Note 19). Until further notice, in response to the market disruption caused by the COVID-19 pandemic, the REIT has suspended its Distribution Reinvestment and Unit Purchase Plan (the “DRIP”) effective as of the distribution payable on May 15, 2020 to unitholders of record as at April 30, 2020.

Normal course issuer bid

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

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

During the three and nine months ended September 30, 2020, the REIT repurchased 374,175 units for \$2,964 at a weighted average price of \$7.92 per unit and 884,675 units for \$6,679 at a weighted average price of \$7.55. For the three and nine months ended September 30, 2020, 220,475 of the 374,175 units and 730,975 of the 884,675 units were cancelled and the residual of 153,700 units repurchased at September 30, 2020 will be cancelled subsequently.

On September 30, 2020, the REIT entered into an automatic purchase plan for a broker to repurchase a daily maximum of 20,890 units at a maximum price of \$8.50 per unit, for the period of September 30 to November 13, 2020. A liability of \$178 has been recorded and included within Trade and Other Payables, relating to the repurchase obligation of 20,890 units as at September 30, 2020.

As of September 30, 2020, the 27,995,168 units already include the upcoming cancellations of 153,700 and 20,890. The number of units repurchased resulted during the three and nine months ended September 30, 2020 in a reduction of Trust Units representing the average book value of \$3,817, and \$7,961 and an increase in retained earnings of \$676 and \$1,105, respectively.

Note 18 – Accumulated other comprehensive income

	As at September 30, 2020	As at December 31, 2019
Net unrealized (loss) gains on derivatives designated as a hedge of the net investment in foreign entities	(976)	2,463
Cumulative translation adjustment account	36,760	12,128
Accumulated other comprehensive income	35,784	14,591

Note 19 - Unit-based compensation plan

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

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

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

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

	For the nine months ended September 30, 2020	2019
Outstanding at beginning of period	11,782	-
Granted DU	19,094	11,782
Elected DU	11,612	-
ADUs earned	561	-
Outstanding at end of period	43,049	11,782

As of September 30, 2020, 43,049 DSUs are outstanding and 156,951 DSUs are available for grant under the DSU Plan.

For the three months ended September 30, 2020, the REIT recorded an expense of \$56 and an increase to the liability for the same amount. The total liability related to the DSU plan as of September 30, 2020 was \$185 and was included in Trade and other payables.

Note 20 – Transactions with related parties

Inovalis SA – Asset manager

Pursuant to the Management Agreement, Inovalis SA is the asset manager of the REIT and provides the strategic, advisory, asset management, project management, construction management, property management and administrative services necessary to manage the operations of the REIT and its subsidiaries.

Inovalis and its subsidiaries	Financial statement line item	Note	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019
Revenues				
Interest income from acquisition loan	Finance income	15	1,619	2,319
			<u>1,619</u>	<u>2,319</u>
Expenses				
Asset management fees	Administration expenses	A	(1,331)	(1,184)
Facilities management fees	Service charge expenses		(332)	(452)
Property management Fees	Service charge expenses	B	(1,028)	(1,006)
Letting fees invoiced	Service charge expenses		(118)	-
less portion accounted for over the lease term	Service charge expenses		112	-
Expenses related to the distribution for exchangeable securities	Distributions on exchangeable securities		(602)	(528)
Reimbursement of travel expenses	Acquisition costs		-	-
Interest expense on lease equalization loans	Finance costs	15	(57)	(123)
Reimbursement of travel expenses	Administration expenses		(22)	(251)
Trustee fees	Administration expenses		(428)	(327)
			<u>(3,806)</u>	<u>(3,871)</u>
Assets				
Acquisition fees capitalized for the period	Investment properties	C	-	1,426
			<u>0</u>	<u>1,426</u>
Liabilities				
Exchangeable securities issued for the period	Exchangeable securities	11	1,126	1,501
			<u>1,126</u>	<u>1,501</u>

(A) Asset management fees of \$2,310 and \$2,330 as at September 30, 2020, and September 30, 2019, respectively, correspond to the asset management fees earned for the entire portfolio, including \$979 and \$1,146 attributable to assets held through joint-ventures. Fees are payable in cash and/or exchangeable securities, the exact composition of which is determined by the Board annually.

(B) An annual property management fee (the "Property Management Fee") in an amount equal to 3.0% of the gross revenue of the properties, approximately 90% of which is rebilled to tenants;

(C) Includes fees to Inovalis SA of \$759 and to an entity related to Inovalis SA of \$667 as at September 30, 2019.

Inovalis and its subsidiaries	Note	Due from (to) Inovalis SA	
		As at September 30, 2020	As at December 31, 2019
Assets			
Acquisition loan	D	7,417	24,744
Derivative financial instruments - Call option related to the acquisition loan		9,937	9,124
Trade and other receivables		292	288
		17,646	34,156
Liabilities			
Interest-bearing loan		512	477
Lease equalization loans		466	2,019
Distributions payable	12	251	250
Exchangeable securities	11	8,013	9,562
Trade and other payables		723	1,202
		9,965	13,510

(D) On July 30, 2020, the REIT has received a partial reimbursement of \$18,898 for the acquisition loan.

In performing its obligations under the Management Agreement, Inovalis SA is entitled to receive the following fees from the REIT:

- A. An annual asset management fee in the amount of 0.5% of assets under management
- B. A facility management fee related to the management of service charges that are rebilled directly to tenants;
- C. A leasing fee in an amount equal to (i) 10% of the first-year annual rent for lease renewals signed by existing tenants, or (ii) 20% of the first-year annual rent for leases by new tenants;
- D. A construction management fee in respect of capital projects in an amount equal to 5% of all hard construction costs incurred on a project;
- E. An acquisition fee in the amount of 1% of the purchase price of any property acquired (excluding of properties owned or managed by the Manager);
- F. An annual property management fee (the "Property Management Fee") in an amount equal to 3.0% of the gross revenue of the properties, unless otherwise stipulated in any tenant lease provided the Property Management Fee is fully recoverable by the landlord.

Certain service charge expenses and other costs are paid to third parties by Inovalis SA and its subsidiaries on behalf of the REIT and are reimbursed from time to time.

On July 1, 2020, the REIT disposed of 1 share representing 0.1% of equity interest in SCI Lenine Arcueil to a related party, Inovalis SA, for \$98.

Joint ventures

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

	Financial statement line item	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019
Management fees invoiced to joint ventures	Administration expenses	(979)	(1,146)
Letting fees invoiced	Service charge expenses	(30)	-
less portion accounted for over the lease term	Service charge expenses	24	-
Finance income	Finance income	3,017	3,849
		<u>2,032</u>	<u>2,703</u>

Due from joint ventures

	Financial statement line item	As at September 30, 2020	As at December 31, 2019
Assets			
Loan receivable	Investments accounted for using the equity method	46,277	45,489
Interest receivables	Other current assets	1,087	360
Accounts receivable	Trade and other receivables	-	507
		<u>47,364</u>	<u>46,356</u>
Liabilities			
Balance of sale payable	Trade and other payables	-	13,748
		<u>-</u>	<u>13,748</u>

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

Remuneration of key management personnel

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

	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019
Wages, fees and other benefits	(428)	(672)
	<u>(428)</u>	<u>(672)</u>

Note 21 – Financial instruments and risk management

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

	As at September 30, 2020		
	Level 2	Level 3	Total
Investment properties	-	513,069	513,069
Derivative financial instruments - assets	189	-	189
Call option related to the acquisition loan	-	9,937	9,937
Derivative financial instruments - liabilities	(6,241)	-	(6,241)
Exchangeable securities	(8,013)	-	(8,013)
Promissory notes	(33,737)	-	(33,737)

As at December 31, 2019

	Level 2	Level 3	Total
Investment properties	-	478,700	478,700
Derivative financial instruments - assets	1,714	-	1,714
Call option related to the acquisition loan	-	9,124	9,124
Derivative financial instruments - liabilities	(4,228)	-	(4,228)
Exchangeable securities	(9,562)	-	(9,562)
Promissory notes	(47,909)	-	(47,909)

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

Fair Value of Financial Assets and Liabilities

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

(a) Mortgage loans

Mortgage loans are carried at amortized cost using the effective interest rate method of amortization. The estimated fair values of long-term borrowings are based on market information, where available, or by discounting future payments of interest and principal at estimated interest rates expected to be available to the REIT as at September 30, 2020.

The fair value of the mortgage loans has been determined by discounting the cash flows of these financial obligations using September 30, 2020, market rates for debts of similar terms (Level 2). Based on these assumptions, the fair value as at September 30, 2020, of the mortgage loans has been estimated at \$160,077 (December 31, 2019 – \$150,823) compared with the carrying value before deferred financing costs of \$142,055 (December 31, 2019 – \$134,360). The fair value of the mortgages payable varies from the carrying value due to fluctuations in interest rates since their issue.

(b) Call option related to the acquisition loan

Related to the acquisition loan is determined based mainly on (i) the expected gain on the sale of the property and (ii) the probability of realization of that gain.

(c) Exchangeable Securities and Promissory Notes

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

Risks Associated with Financial Assets and Liabilities

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

The continued spread of the COVID-19 pandemic and the ensuing actions being taken by governments, businesses and individuals to limit its effects, including business closures, physical distancing and partial unemployment has impacted the global economy and the available income and liquidity of our tenants, effectively increasing the credit risk associated with our receivables, limiting our ability to respond quickly to changes in credit risk, extending the time to completion and occupancy of major assets and potentially reducing our ability to serve our tenants in the future. As of end of September 2020, the potential impact of such uncertainties on our future financial results is difficult to reliably measure.

As at September 30, 2020	Fair value hierarchy level	Carrying amount	Fair value
Financial assets			
Loans to Joint Ventures	3	46,277	46,277
Acquisition loan	3	7,417	7,417
Financial liabilities			
Mortgage loan	2	142,055	160,077
Lease equalization loans	2	466	466
Tenant deposits	2	2,371	2,371
As at December 31, 2019			
Financial assets			
Loans to Joint Ventures	3	45,489	45,489
Acquisition loan	3	24,744	24,744
Financial liabilities			
Mortgage loan	2	122,675	150,823
Lease equalization loans	2	2,019	2,019
Tenant deposits	2	2,507	2,504

Note 22 – Cash flow information

	Note	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019 Restated (Note 2)
Adjustments for non-cash items and other reconciling items:			
Gains or losses on disposal	-	-	56
(Increase) decrease Rent free period	5	(290)	588
Management fees paid in Exchangeable securities	11	1,126	1,126
Net change in fair value of investment properties	5	1,348	(4,488)
Net change in fair value of financial derivatives	-	(399)	1,543
Distributions recognized on Exchangeable securities	11	602	528
Net change in fair value of Exchangeable securities	11	(2,675)	697
Net change in fair value of Promissory notes	-	(14,152)	4,494
Finance income	15	(5,737)	(6,743)
Finance costs	15	7,562	7,774
Share of net earnings from investments in joint venture	7	1,843	(886)
Net unrealized exchange loss (gain)	-	(2,619)	6
Acquisition loan	-	(270)	(690)
		(13,661)	4,005
Working capital adjustments			
Decrease (Increase) in trade and other receivables	-	(4,110)	(2,547)
Decrease in financial current assets	-	-	-
(Decrease) Increase in tenant deposits	-	(228)	35
(Decrease) Increase in trade and other payables	-	(15,712)	2,354
		(20,050)	(158)

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

Liabilities	As at December 31, 2019	Cash-flows ¹					As at September 30, 2020
			Interest capitalized	Issuance of exchangeable securities	Foreign exchange movement	Fair value changes	
Promissory notes	47,909	(20)	-	-	-	(14,152)	33,737
Exchangeable securities	9,562	-	-	1,126	-	(2,675)	8,013
Mortgage loans	134,360	(1,940)	-	-	9,635	-	142,055
Lease liabilities	123,878	(306)	-	-	8,922	-	132,494
Lease equalization loans	2,019	(1,656)	-	-	103	-	466

(1) Cash-flows includes issuance and repayment

The current economic, operating and capital market environment resulting from COVID-19 pandemic has led to an increased emphasis on liquidity. While management has not changed the REIT's objectives in managing capital, the current focus is on increasing the control of cash flows and ensuring parsimonious use of our existing liquidity.

Note 23 – Restatement of financial results

The consolidated financial statements for the three and nine months ended September 30, 2019 have been restated to recognize an increase of 10% in the withholding tax rate used for the calculation of the deferred income tax liability as at December 31, 2018 following the Double Taxation Treaty (the "New Treaty"), ratified by France in March 2018 and Luxembourg on July 2, 2019, and effective as of January 1, 2020.

An increase in the withholding tax rate in Luxembourg could have a significant impact in the calculation of the deferred income tax liability for the REIT and management is in the process of reviewing the legal status of its corporate structure in Luxembourg, namely CanCorpEurope (CCEU), to transform it into a regulated eligible entity, known as a Specialized investment fund (SIF), to benefit from a reduced withholding rate of 15%, on the basis of the provisions of the New Treaty.

Management had considered that it was probable as at September 30, 2019 that CCEU would obtain the necessary authorization allowing the conversion of CCEU into a SIF, which would result in the application of a reduced effective tax rate of 15%. Given that the regulatory approval required to convert to a SIF is considered a substantive process, the reduced effective tax rate should not have been considered in measuring the REIT's deferred taxes until such time as the regulatory approval is obtained. The application process to convert to a SIF is still ongoing as of the release date of these interim consolidated financial statements.

Interim Consolidated Statements of Earnings

	For the nine months ended September 30, 2019			For the three months ended September 30, 2019		
	As restated	As previously reported	Restatement	As restated	As previously reported	Restatement
Rental income	19,263	19,263	-	6,627	6,627	-
Service charge income	6,123	6,123	-	1,528	1,528	-
Service charge expenses	(8,881)	(8,881)	-	(1,519)	(1,519)	-
Other revenues	409	409	-	411	411	-
Other property operating expenses	(305)	(305)	-	(66)	(66)	-
Net rental earnings	16,609	16,609	-	6,981	6,981	-
Administration expenses	(4,758)	(4,758)	-	(1,360)	(1,360)	-
Foreign exchange gain (loss)	(6)	(6)	-	(4)	(4)	-
Net change in fair value of investment properties	4,488	4,488	-	3,746	3,746	-
Loss on disposal of investment properties	(56)	(56)	-	-	-	-
Share of net earnings from joint ventures	886	886	-	342	342	-
Operating earnings	17,163	17,163	-	9,705	9,705	-
Net change in fair value of financial derivatives	(1,543)	(1,543)	-	85	85	-
Net change in fair value of Exchangeable securities	(697)	(697)	-	(367)	(367)	-
Net change in fair value of Promissory notes	(4,494)	(4,494)	-	(2,067)	(2,031)	-
Finance income	6,743	6,743	-	2,594	2,435	-
Finance costs	(7,774)	(7,774)	-	(2,750)	(2,627)	-
Distributions on Exchangeable securities	(528)	(528)	-	(173)	(173)	-
Earnings before income taxes	8,870	8,870	-	7,027	7,027	-
Current income tax expense	(191)	(191)	-	(64)	(64)	-
Deferred income tax expense	(2,303)	(1,305)	(998)	(1,576)	(926)	(650)
Net loss for the period	6,376	7,374	(998)	5,387	6,037	(650)
Net loss for the period attributable to :						
Non-controlling interest	21	21	-	14	14	-
Unitholders' of the Trust	6,355	7,353	(998)	5,373	6,023	(650)
	6,376	7,374	(998)	5,387	6,037	(650)

Interim Consolidated Statements of Comprehensive income

	For the nine months ended September 30, 2019			For the three months ended September 30, 2019		
	As restated	As previously reported	Restatement	As restated	As previously reported	Restatement
Earnings for the period	6,376	7,374	(998)	5,387	6,037	(650)
Other comprehensive income						
Items that may be reclassified subsequently to earnings :						
Net losses on derivatives designated as a hedge of the net investment in a foreign entity	1,770	1,770	-	364	364	-
Net gains	0	0	0	0	0	0
Reclassification of net losses to net income	-	-	-	-	-	-
Derivatives designated as cash flow hedges						
Net gains	-	-	-	-	-	-
Derivatives designated as cash flow hedges - Net gains (losses)	404	404	-	109	109	-
Change in cumulative translation adjustment account	(25,749)	(26,051)	302	(9,896)	(10,464)	568
Income tax relating to these items	-	-	-	-	-	-
Other comprehensive loss	(23,575)	(23,877)	302	(9,423)	(9,991)	568
Total comprehensive loss	(17,199)	(16,503)	(696)	(4,036)	(3,954)	(82)
Total comprehensive loss attributable to :						
Non-controlling interest	(20)	(20)	-	(22)	(22)	-
Unitholders of the Trust	(17,179)	(16,483)	(696)	(4,014)	(3,932)	(82)
Total comprehensive loss	(17,199)	(16,503)	(696)	(4,036)	(3,954)	(82)

Interim Consolidated Statements of Changes in Equity

	Total Unitholders' equity		
	As restated	As previously reported	Restatement
As at December 31, 2018	285,241	285,241	-
Issuance of units	792	792	-
Distributions earned by or declared to Unitholders	(14,648)	(14,648)	-
Distributions under the Trust's reinvestment plan	2,180	2,180	-
Non-controlling interests on acquisition of subsidiary	930	930	-
Non-controlling interests on disposal of subsidiary	(389)	(389)	-
Capital increase from minority interest	91	91	-
	(11,044)	(11,044)	-
Net income for the year	6,376	7,374	(998)
Other comprehensive income	(23,575)	(23,841)	266
Comprehensive income	(17,199)	(16,467)	(732)
As at September 30, 2019	256,998	257,730	(732)

Note 24 – Subsequent events

Walpur – future buy-back of joint venture

On July 27, 2020, the REIT entered into an agreement with its joint venture partner to buy-back the 50% interest held in Walpur by a co-investor. Total purchase price of €5,873 (CAD\$8,957) is based on Q2 2020 asset valuation of €22,900 (CAD\$34,924; REIT share of CAD\$17,462). The transaction was closed on October 27, 2020 and is in line with REIT strategy to buy-back joint ventures to simplify ownership structure.

Arcueil – lease liability concession

On October 23, 2020 the REIT entered into an agreement to defer the quarterly payment due on April 8, 2020 and July 8, 2020 under this lease liability to April 8, 2027. Regular payments under the lease obligation will resume starting October 8, 2020. A charge equal to 1% per annum of the deferred payments for the rest of the lease term will be applied and due on October 23, 2020.

Extension and Redemption of Promissory Notes

On October 4, 2020, the REIT signed an amended agreement to extend its promissory note issued in October 2017 with REIT Notes Program Ltd (Note 2). As part of the amended agreement, the term of the Promissory Note is extended to the maturity date of October 4, 2021. All other conditions and features of the note have not been modified. In accordance with IFRS 9, the original liability was extinguished, and the REIT recognized a new liability in the fourth quarter of 2020. Later in October, the Investor confirmed its intention to exercise its put right under the put/call agreement and redeem the entire outstanding principal amount of the three Promissory Notes. On November 3, 2020 the REIT has repaid the total amount of Note 3 by delivering 2,121,008 units. On November 5, 2020 the REIT has entirely repaid Note 1 and Note 2 by delivering 1,280,208 and 1,087,911 units, respectively. The repayment resulted in a cumulative gain of CAD\$10,916 arising from a net change in fair value of the Promissory Notes.

Conversion of the call option into shares of SCCV Rueil

Upon completion of the Rueil property held by SCCV Rueil, on October 2, 2020, the REIT exercised its call option related to the acquisition loan and acquired 20% of the shares (2,200 shares) of SCCV Rueil for a purchase price of €2,200 (CAD\$3,410).

Corporate information

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Stock exchange listing

The Toronto Stock Exchange

Listing symbol: INO.UN.TO

Distribution Reinvestment Plan

Inovalis has implemented a Distribution Reinvestment Plan (“**DRIP**”). By participating in the Plan, unitholders have cash distributions from Inovalis REIT reinvested in additional units as and when cash distributions are made with a “bonus” distribution of units equal to 3% of the amount of the cash distribution reinvested pursuant to the Plan. Until further notice, in response to the market disruption caused by the COVID-19 pandemic, the REIT has suspended its Distribution Reinvestment and Unit Purchase Plan (the “DRIP”) effective as of the distribution payable on May 15, 2020 to unitholders of record as at April 30, 2020.

INOVALIS

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