

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

For the three months ended March 31, 2019

(Unaudited)

Unaudited Interim Consolidated Balance Sheets

(All dollar amounts in thousands of Canadian dollars)

Assets	Note	As at March 31, 2019	As at December 31, 2018
Non-current assets			
Investment properties	6	477,054	421,937
Investments in joint ventures	7	95,074	98,703
Acquisition loan	-	24,775	25,719
Derivative financial instruments	-	821	306
Restricted cash	-	5,617	1,644
Total non-current assets		603,341	548,309
Current assets			
Trade receivables and other financial assets	-	6,790	4,000
Derivative financial instruments	-	7,825	6,814
Other current assets	-	2,017	1,080
Cash	-	20,593	19,110
Total current assets		37,225	31,004
Assets held for sale	5	-	40,027
Total assets		640,566	619,340
Liabilities and equity	Note	As at March 31, 2019	As at December 31, 2018
Non-current liabilities			
Interest-bearing loan	-	412	-
Mortgage loans	8	137,311	83,391
Finance lease liabilities	-	124,754	120,547
Lease equalization loans	-	1,761	2,130
Tenant deposits	-	2,026	2,180
Derivative financial instruments	-	2,579	1,396
Deferred tax liabilities	-	8,504	8,428
Exchangeable securities	9	5,168	4,779
Deferred income	-	1,052	1,099
Total non-current liabilities		283,567	223,950
Current liabilities			
Promissory notes	-	45,932	42,471
Mortgage loans	8	4,822	14,588
Finance lease liabilities	-	7,747	6,637
Lease equalization loans	-	1,131	1,185
Tenant deposits	-	666	687
Derivative financial instruments	8	1,417	1,207
Exchangeable securities	9	3,847	3,203
Trade and other payables	-	14,438	7,145
Deferred income	-	3,679	4,394
Total current liabilities		83,679	81,517
Liabilities directly associated with assets held for sale	5	-	21,792
Total liabilities		367,246	327,259
Equity			
Trust units	-	208,118	207,442
Retained earnings	-	41,245	47,974
Accumulated other comprehensive income	12	22,909	36,146
Total Unitholders' equity		272,272	291,562
Non-controlling interest	-	1,048	519
Total equity		273,320	292,081
Total liabilities and equity		640,566	619,340

See accompanying notes to the condensed interim 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

Unaudited Interim Consolidated Statements of Income

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

	<i>Note</i>	For the three months ended March 31, 2019	For the three months ended March 31, 2018 Restated (Note 2)
Rental revenue	-	6,043	6,714
Service charge revenue	-	2,433	2,146
Service charge expenses	-	(5,514)	(5,172)
Other revenues	-	3	244
Other property operating expenses	-	(61)	(90)
Net rental income		2,904	3,842
Administration expenses	-	(1,772)	(1,537)
Foreign exchange gain	-	29	55
Net change in fair value of investment properties	6	2,319	1,925
Loss on disposal of investment properties	5	(100)	-
Share of net income from joint ventures	7	914	(2,023)
Operating earnings		4,294	2,262
Net change in fair value of financial derivatives	-	(921)	1,776
Net change in fair value of Exchangeable securities	9	(649)	114
Net change in fair value of Promissory notes	-	(3,320)	(191)
Finance income	10	2,017	2,005
Finance costs	10	(2,662)	(2,392)
Distributions on Exchangeable securities	-	(177)	(268)
Income before income taxes		(1,418)	3,306
Current income tax expense	-	(48)	(119)
Deferred income tax expense	-	(436)	(5,078)
Net income (loss)		(1,902)	(1,891)
Net income (loss) attributable to :			
Non-controlling interest	-	(32)	2
Unitholders' of the Trust	-	(1,870)	(1,893)

See accompanying notes to the condensed interim consolidated financial statements

Unaudited Interim Consolidated Statements of Comprehensive (Loss) Income

(All dollar amounts in thousands of Canadian dollars)

	Note	For the three months ended March 31, 2019	For the three months ended March 31, 2018 Restated (Note 2)
Net income (loss)		(1,902)	(1,891)
Other comprehensive income (loss)			
Items that may be reclassified subsequently to income :			
Net losses on derivatives designated as a hedge of the net investment in a foreign entity	-	1,137	(958)
Derivatives designated as cash flow hedges			
Reclassification of net losses to income	-	152	177
Change in cumulative translation adjustment account	-	(14,260)	16,082
Share of other comprehensive income (loss) of joint ventures	-	(299)	125
Disposal of a part of interest		503	-
Dividends to minority interest		91	-
Other comprehensive income (loss) net of tax		(12,676)	15,426
Total comprehensive income (loss)		(14,578)	13,535
Total comprehensive income (loss) attributable to :			
Non-controlling interest	-	529	38
Unitholders of the Trust	-	(15,107)	13,497

Unaudited Interim Consolidated Statements of Changes in Equity

(All dollar amounts in thousands of Canadian dollars, except number of Units)

	Note	Number of Units issued and outstanding	Trust Units	Retained earnings	Accumulated other comprehen- sive income	Total attributable to the Unitholders' of the Trust	Non- controlling interest	Total equity
As at December 31, 2018		23,513,652	207,442	47,974	36,146	291,562	519	292,081
Issuance of units	-	-	-	-	-	-	-	-
Distributions earned by Unitholders	11	-	-	(4,859)	-	(4,859)	-	(4,859)
Distributions reinvestment Plan	11	69,754	676	-	-	676	-	676
		69,754	676	(4,859)	-	(4,183)	-	(4,183)
Net income (loss)		-	-	(1,870)	-	(1,870)	(32)	(1,902)
Other comprehensive income (loss)		-	-	-	(13,237)	(13,237)	561	(12,676)
Comprehensive income (loss)		-	-	(1,870)	(13,237)	(15,107)	529	(14,578)
As at March 31, 2019		23,583,406	208,118	41,245	22,909	272,272	1,048	273,320
As at December 31, 2017		22,235,421	195,739	44,749	24,436	264,924	353	265,277
Issuance of units	-	419,059	3,939	-	-	3,939	-	3,939
Distributions earned by Unitholders	11	-	-	(4,684)	-	(4,684)	-	(4,684)
Distributions reinvestment Plan	11	75,606	717	-	-	717	-	717
		494,665	4,656	(4,684)	-	(28)	-	(28)
Net income (loss)		-	-	(1,893)	-	(1,893)	2	(1,891)
Other comprehensive income		-	-	-	15,390	15,390	36	15,426
Comprehensive income		-	-	(1,893)	15,390	13,497	38	13,535
As at March 31, 2018		22,730,086	200,395	38,172	39,826	278,393	391	278,784

See accompanying notes to the condensed interim consolidated financial statements

Unaudited Interim Consolidated Statements of Cash Flows

(All dollar amounts in thousands of Canadian dollars)

	Note	For the three months ended March 31, 2019	For the three months ended March 31, 2018 Restated (Note 2)
Operating activities			
Income (loss) before income taxes	-	(1,418)	3,306
Interest received	-	2,012	1,257
Interest paid (on mortgage, lease liabilities and lease equalization loans)	-	(3,654)	(1,689)
Income tax paid	-	(48)	-
Adjustments for non-cash items and other reconciling items	15	2,991	90
		<u>(117)</u>	<u>2,964</u>
Working capital adjustments	15	2,061	9,194
Net cash flows related to operating activities		<u>1,944</u>	<u>12,158</u>
Investing activities			
Investment properties (additions and capitalized letting fees)	6	146	(975)
Investments in joint ventures	7	-	(9,743)
Loan repayments received from joint ventures	7	350	462
Investment in other financial assets	-	(1,510)	-
Decrease in financial current assets	-	1,845	1,165
Acquisitions of investment property	4	(26,983)	-
Proceeds from sale of investment property	5	15,916	-
Net cash flows related to investing activities		<u>(10,236)</u>	<u>(9,091)</u>
Financing activities			
Distributions on Units paid in cash	11	(4,179)	(3,933)
Distributions in respect of exchangeable securities paid in cash	9	(173)	(254)
Issuance of mortgage loans and finance lease liabilities	8	77,788	-
Repayment of mortgage loans and finance lease liabilities	8	(63,491)	(2,207)
Repayment of lease equalization loans	-	(285)	(298)
Net cash flows related to financing activities		<u>9,660</u>	<u>(6,692)</u>
Net increase (decrease) in cash		1,368	(3,625)
Effects of foreign exchange adjustments on cash	-	(769)	244
Cash at the beginning of the period		19,994	20,345
Cash at the end of the period		<u>20,593</u>	<u>16,964</u>

See accompanying notes to the condensed interim consolidated financial statements

Note 1 – Organization

Inovalis Real Estate Investment Trust (the “REIT”) 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, as amended and restated on January 20, 2016. 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.

The REIT engages Inovalis S.A. (“Inovalis SA”), a real estate asset manager having operations in France and Germany, to manage certain functions.

Note 2 – Basis of preparation of consolidated financial statements

Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. They are condensed and do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 2018 audited consolidated annual financial statements.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Trustees of the REIT on May 15, 2019.

Basis of presentation

These condensed interim consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars. All financial information has been rounded to the nearest thousand except when otherwise indicated.

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for investment properties, exchangeable securities, promissory notes and derivative financial instruments, which are measured at their fair values.

Reclassification

Certain figures presented for the three months period ended March 31, 2018 have been reclassified, when appropriate, in order to ensure comparability with amounts presented for the three months ended March 31, 2019 with respect to:

- The share of net income from joint ventures has been reduced by \$2,858 and finance costs has been reduced by \$2,858.

Correction of errors

Certain figures presented for the three months ended March 31, 2018 have been revised to correct errors as follows:

- Regarding the promissory notes, part of the change in the fair value of Promissory notes is reclassified from “Change in cumulative translation adjustment account” to “Net change in fair value of Promissory notes” for an amount of \$1,319, with the effect of reducing net income by \$1,319;
- Regarding the acquisition loan and the related call option, the net change in the fair value of the financial derivatives has been increased by \$1,359 and finance income (Finance income from a company controlled by Inovalis SA relating to the acquisition loan – Note 10) has been reduced by \$1,359 and the change in the fair value of financial derivatives has been increased by another \$1,400, resulting in an increase in net income of \$1,400.
- As a result, the net loss for the three months ended December 31, 2018 has decreased by \$81 and comprehensive income has increased by \$1,319.

Note 3 – Significant accounting policies

The condensed interim consolidated financial statements have been prepared in accordance with some accounting policies and methods of computation as compared with the REIT's most recent annual financial statements for the year ended December 31, 2018, except for the adoption of a new accounting policy describe below.

Amendment to IFRS 3 R Business combinations

On October 22, 2018, the IASB issued amendments to IFRS 3 that revises the definition of a business. Entities shall apply these amendments to business combinations and assets acquisitions for which the acquisition date is on or after the beginning of the first annual reporting periods beginning on or after January 1, 2020. Early application is permitted. Inovalis REIT has elected to apply this amendment starting January 1, 2019.

In particular, this amendment introduces an optional "concentration test" to perform a simplified assessment whether the transaction is an acquisition of a business or of assets.

An entity may elect to apply, a "concentration test" that, if met, eliminates the need for further assessment. Under this optional test, where substantially all the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. This election is made separately for each transaction or other event. Gross assets acquired shall exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities.

If the concentration test is not met, or if the entity elects not to apply the test, the entity shall then perform the detailed assessment whether the transaction is an acquisition of a business or of assets.

Other changes introduced by this amendment are:

- To qualify as a business, an acquisition has to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process exist. To be a business without outputs, there will now need to be an organized workforce;

- The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and excludes returns in the form of lower costs and other economic benefits;

- It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets.

IFRIC 23 Uncertainty over Income Tax Treatments issued

On June 7, 2017, the IASB issued an interpretation to IAS 12 who clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. There is no impact on first application by the REIT.

IFRS 16 – Leases

In January 2016, the IASB published IFRS 16 which will replace IAS 17 *Leases*. For lessees, IFRS 16 introduces a single accounting model, requiring lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain circumstances.

There is no material impact of IFRS 16 on the condensed interim consolidated financial statements, since existing leases are already accounted for as finance leases.

Note 4 – Acquisition of investment properties

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 (\$69,488). The Trio

INOVALIS REIT

property is financed by a new senior bank loan of €31,200 (\$47,383) 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 94.1% 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 (€47,430), includes transaction costs (€1,675). No goodwill or deferred tax is recognized.

As a consequence of the Trio acquisition there is an unrecognized deferred tax liability of \$2,908.

Purchase price allocation	(in 000's of €)	(in 000's of \$)
<u>Recognized amounts of identifiable assets acquired and liabilities assumed</u>		
Investment property	47,430	71,619
Mortgage loan	(30,841)	(46,570)
Other liabilities ⁽¹⁾	(498)	(752)
Total liabilities assumed	(31,339)	(47,322)
Net asset acquired	16,091	24,297
<u>Consideration transferred by the REIT for the acquisition consists of the following :</u>		
Cash	17,900	27,029
Restricted cash	(2,700)	(4,077)
Consideration transferred by the REIT	15,200	22,952
<u>Consideration for minority interest :</u>	891	1,345

(1) Including cash for €31 (\$46).

Note 5 – Assets held for sales

In January 2019, the REIT sold its interest in the Hanover property to a third party.

To facilitate the transaction, entities owned by Inovalis SA and a company controlled by a Trustee were engaged to facilitate a structure and as such hold the voting interests in the property. However, pursuant to the structure, such interests have been pledged to the purchaser and such parties have no economic interest in the property, other than the receipt of fees for providing their services.

Assets held for sale and Liabilities related to assets held for sale were:

Assets	At the date of disposal	As at December 31, 2018
Non-current assets		
Investment property	37,378	39,030
Total non-current asset	37,378	39,030
Current assets		
Trade and financial assets	9	62
Other current assets	34	51
Cash	952	884
Total current assets	995	997
Total assets	38,373	40,027
Liabilities		
Non-current liabilities		
Mortgage loans	18,730	19,523
Deferred tax liabilities	1,444	1,508
Total non-current liabilities	20,174	21,031
Current liabilities		
Trade and other payables	842	723
Other current liabilities	47	38
Total current liabilities	889	761
Total liabilities	21,063	21,792
Net assets held for sale	17,310	18,235

The loss on disposal of the net assets held for sale was €65 (\$100).

	(in 000's of €)	(in 000's of \$)
Net assets held for sale	11,559	17,310
Minority interest	(230)	(342)
Total attributable to the Unitholders' of the Trust	11,329	16,968
Cash received	11,264	16,868
Loss on disposal of investment properties	(65)	(100)

Note 6 – Investment properties

	For the three months ended March 31, 2019	For the year ended December 31, 2018
Balance, beginning of period	421,937	440,813
Acquisition of Trio Property	71,619	-
Additions	(112)	3,858
Capitalized letting fees	(35)	818
Rent free periods	(203)	(926)
Net change in fair value of investment properties ⁽¹⁾	2,319	335
Foreign currency translation adjustment	(18,471)	16,069
Assets classified as held for sale	-	(39,030)
Balance, end of period	477,054	421,937

(1) The increase in 'Net change of fair value of investment properties' include the impact of IFRIC 21 with respect to French property taxes for \$ 2,608 (nil as at December 31, 2018). Pursuant to IFRIC 21, the French property tax for the entire year must be recognized in full in the first quarter of each fiscal year, even though payment is required in the fourth quarter. This results in a reduction in net rental income in the first quarter, an increase in Trade and other payables, an increase in the net change in fair value of investment properties and an increase in the carrying value of the investment properties). In the subsequent quarters, this is reversed on a proportional basis, which results in an increase of the Q2, Q3 and Q4 net rental income, and a decrease in the value of the investment properties.

	As at March 31, 2019			As at December 31, 2018		
	France	Germany	Total	France	Germany	Total
Adjusted market value in CAD\$	406,821	70,233	477,054	421,937	39,030	460,967
Principal method used to value property	Discounted cash flow & Direct Capitalization Method	Discounted cash flow		Discounted cash flow & Direct Capitalization Method	Discounted cash flow	
Number of years used in cash flow projection	10	10		10	10	
Discount rate	4,20% to 6,75%	5,20%		4,20% to 6,75%	5,20%	
Weighted average discount rate	5,63%	5,20%		5,63%	5,20%	
Weighted average ending capitalization rate	5,63%	5,20%		5,63%	5,20%	
Impact on the fair value of investment properties of:						
an increase of 25 bps in discount rates	(18,107)	(3,054)	(21,161)	(18,792)	(1,790)	(20,582)
a decrease of 25 bps in discount rates	19,965	3,344	23,309	20,722	1,971	22,693

Finance leases

The REIT leases various investment properties with a carrying amount of \$221,388 (2018 – \$229,336) under finance leases expiring within eight to ten years.

Note 7 – Investments in joint ventures

Outlined below is a breakdown of the carrying amounts of the components of the investment in the Joint Ventures:

	CCD	Walpur	Arcueil ²	Cologne	Stuttgart	Delizy	Neu Isenburg	Kösching	Total
Balance -December 31, 2017	20,298	8,786	13,780	698	15,635	8,375	11,522	-	79,094
Additional investment of the year	-	-	-	-	-	-	2,334	9,086	11,420
Share of net income (loss) from investments ¹	(450)	266	2,340	253	1,135	73	1,739	1,570	6,926
Loan to joint ventures repayments	-	-	-	-	(887)	-	(625)	(338)	(1,850)
Exchange differences	726	324	552	31	572	305	494	109	3,113
Balance -December 31, 2018	20,574	9,376	16,672	982	16,455	8,753	15,464	10,427	98,703
Additional investment of the period	-	-	-	-	-	-	-	-	-
Share of net income (loss) from investments ¹	37	73	442	2	149	(70)	137	144	914
Loan to joint ventures repayments	-	-	-	-	(87)	-	(200)	(63)	(350)
Exchange differences	(872)	(398)	(709)	(42)	(697)	(370)	(654)	(451)	(4,193)
Balance - March 31, 2019	19,739	9,051	16,405	942	15,820	8,313	14,747	10,057	95,074

(1) The share of net income includes the interest expense in relation to the loans granted to the joint ventures. The interest earned by the REIT in relation to these loans amounts to \$ 1,311 (2018 – \$ 1,316) and are included in “Finance income” (see note 10).

(2) The share of net income regarding Arcueil property includes the variance of the foreign exchange derivative (conversion from € to KRW). The REIT is entitled to receive a 25% share of the net earnings and, upon asset disposal, 75% of the variance of fair value of investment properties, reduced by 100% of foreign exchange derivative costs. As at March 31, 2019 the fair value of the forward contract is \$ (2,277) (2018 - \$ (2,551)) as at December 31, 2018.

The balance of the investments in joint ventures as at March 31, 2019 includes loans to Joint Ventures for an amount of \$ 48,113 which is detailed as follows:

Loans to joint ventures	CCD	Walpur	Arcueil	Cologne	Stuttgart	Delizy	Neu Isenburg	Kösching	Total
Balance - March 31, 2019	14,905	4,737	-	791	12,244	8,873	4,176	2,387	48,113
Balance -December 31, 2018	15,564	4,946	-	825	12,876	9,265	4,568	2,557	50,601

Note 8 – Mortgage loans and finance lease liabilities

On March 18, 2019 the REIT entered into a new finance lease for the Metropolitan property in the amount of €43,000 (\$ 64,930), with a twelve year term and a fixed rate of interest of 2.07% for five years, after which the interest rate is variable based on 1.84% + Euribor 3M. Expenditures associated with obtaining the new financing

of €835 (\$1,260) will be amortized over the twelve year term. On closing, the REIT repaid an outstanding balance of €34,020 (\$ 51,370) under the old finance lease.

On March 21, 2019 the REIT closed a new mortgage loan in the amount of €9,500 (\$14,345), with a twelve year term and a fixed rate of 2.13%, after which the interest rate is variable based on 1.90% + Euribor 3M. The issuance costs amounted to €150 (\$227). The loan is secured by the Veronese investment property. On closing, the REIT repaid an outstanding loan of €7,675 (\$11,589).

Note 9 – Exchangeable securities

Exchangeable securities issued and outstanding	Exchangeable securities	
	Number of Exchangeable securities	Carrying amount of Exchangeable securities
Balance -December 31, 2017	1,679,370	16,743
Asset management fees paid in exchangeable securities	229,740	2,280
Conversion of exchangeable securities into units of the REIT	(1,064,437)	(9,559)
Net change in fair value of exchangeable securities	-	(1,482)
Balance -December 31, 2018	844,673	7,982
Asset management fees paid in exchangeable securities	37,496	384
Net change in fair value of exchangeable securities	-	649
Balance - March 31, 2019	882,169	9,015

Note 10 – Finance costs and finance income

	For the three months ended March 31, 2019	For the three months ended March 31, 2018
Interest costs related to mortgage loans	(464)	(540)
Interest costs related to finance leases	(623)	(630)
Interest costs related to lease equalization loans	(36)	(52)
Interest costs related to promissory notes	(1,038)	(578)
	(2,161)	(1,800)
Interest SWAP & CAP	(345)	(320)
Other finance costs	(89)	(197)
	(2,595)	(2,317)
Amortization of transaction costs on mortgage loans	(67)	(75)
Finance costs	(2,662)	(2,392)
Finance income from a company controlled by Inovalis SA relating to the acquisition loan	699	667
Financial income from joint ventures loans	1,311	1,316
Other finance income	7	22
Finance income	2,017	2,005

Note 11 – Distributions

	For the three months ended March 31, 2019	For the three months ended March 31, 2018
Amount payable at the beginning of the period	1,618	1,529
Declared and recognised during the period	4,859	4,684
Distributions paid in units (Distribution Reinvestment Plan)	(676)	(717)
Paid in cash	(4,179)	(3,933)
Amount payable at the end of the period	1,622	1,563
Distributions paid per unit (based on an annual basis)	0.2063	0.2063

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

Note 12 – Accumulated other comprehensive income

	As at March 31, 2019	As at December 31, 2018
Net unrealized gains on derivatives designated as a hedge of the net investment in foreign entities	2,000	863
Net unrealized losses on interest rate derivatives formerly designated as a cash flow hedge	(252)	(404)
Cumulative translation adjustment account	21,161	35,687
Accumulated other comprehensive income	22,909	36,146

Note 13 – Transactions with related parties**Inovalis SA – Asset manager**

Pursuant to the Management Agreement, Inovalis SA 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.

Unless otherwise stated, none of these transactions incorporated special terms and conditions. Outstanding balances are usually settled in cash, with the exception of asset management fees that were settled quarterly through the issuance of exchangeable securities until Q1 2018 included. The amended and restated Management Agreement effective April 1, 2018 permits the asset management fees can be settled quarterly through the issuance of either exchangeable securities or in cash. Since April 1, 2018, the asset management fees were settled half in exchangeable securities and half in cash following the approval of the Board of Trustees.

Inovalis and its subsidiaries	Financial statement line item	Note	For the three months ended March 31, 2019	For the three months ended March 31, 2018
Revenues				
Acquisition fees reimbursed	Other revenues	D	-	244
Interest income from acquisition loan	Finance income	11	699	667
			699	911
Expenses				
Asset management fees	Administration expenses	A	(408)	(744)
Facilities management fees	Service charge expenses	B	(267)	(107)
Property management Fees	Service charge expenses	C	(336)	(492)
Expenses related to the distribution for exchangeable securities	Distributions on Exchangeable securities		(177)	(268)
Interest expense on lease equalization loans	Finance costs		(36)	(52)
Reimbursement of travel expenses	Administration expenses		(88)	(35)
Trustee fees	Administration expenses		(74)	(74)
			(1,386)	(1,772)
Unitholders' Equity				
Conversion of Exchangeable securities into units of the REIT	Issuance of Units	10	-	(9,559)
			-	(9,559)
Assets				
Acquisition fees capitalized for the period	Investments in joint ventures or in subsidiaries	D	-	436
Acquisition fees capitalized for the period	Investment properties	E	1,441	-
Call option related to the acquisition loan	Derivative financial instruments		6,582	6,750
			8,023	7,186
Liabilities				
Exchangeable securities issued for the period	Exchangeable securities		384	2,280
Shareholder loans	Interest-bearing loan		412	-
			796	2,280

- (A) Asset management fees of \$795 and \$1,111 for the three months ended March 31, 2019 and March 31, 2018 respectively, correspond to the asset management fees earned for the entire portfolio, including \$387 and \$367 attributable to assets held through joint-ventures. Since April 1, 2018 asset management fees have been reduced from 0.75% to 0.50% and calculated based on the book value of assets. Fees are payable in cash and/or exchangeable securities, the exact composition of which is determined by the Board annually.
- (B) A facility management fee related to the management of service charges that are rebilled directly to tenants;
- (C) An annual property management fee (the "Property Management Fee") in an amount equal to 3.5% of the gross paid revenue from the REIT's properties, payable quarterly in arrears, approximately 90% of which is rebilled to tenants;
- (D) See the transactions and balances with joint ventures entities below
- (E) Includes fees to Inovalis SA of \$766 and to an entity related to Inovalis SA of \$675.

Inovalis and its subsidiaries	Due from (to) Inovalis SA	
	As at March 31, 2019	As at December 31, 2018
Trade and other receivables	170	2,399
Trade and other payables	(1,772)	(2,722)
Acquisition loan	24,775	25,719
Distributions payable	(253)	(2,475)
Exchangeable securities	(9,015)	(7,982)
Lease equalization loans	(2,892)	(3,315)
	11,013	11,624

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.

Joint ventures

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

Joint ventures	Financial statement line item	For the three months ended March 31, 2019	For the three months ended March 31, 2018
Management fees invoiced to joint ventures	Administration expenses	387	367
Acquisition fees ¹	Acquisition costs	-	102
Finance income	Finance income	1,311	1,316
		1,698	1,785

(1) An acquisition fee ("Acquisition Fee") in the amount of 1% of the purchase price of any property acquired by the REIT, payable in cash, on completion of each acquisition, provided that no such Acquisition Fee will be payable in respect of the acquisition of properties owned or managed by the Manager. Acquisition fees of 183 € (\$ 276) at March 31, 2019 correspond to the acquisition fees earned for the entire portfolio, including 274 € (\$436) of acquisition fees capitalized in the investments in joint ventures and 157 € (\$ 244) of reimbursement to CCE.

		Due from joint ventures	
		As at March 31, 2019	As at December 31, 2018
Loan receivable	Investments accounted for using the equity method	48,113	50,601
Interest receivables	Other current assets	336	354
Accounts receivable	Trade and other receivables	502	243
		48,951	51,198

For more information, 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 and the Chief Financial Officer. The other officers of the REIT are employed and remunerated by Inovalis SA rather than the REIT, and the costs of their services are not invoiced distinctly from the overall asset management fees.

	For the three months ended March 31, 2019	For the three months ended March 31, 2018
Wages, fees and other benefits	(174)	(74)
	(174)	(74)

Note 14 – Fair value measurements

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 level of the fair value hierarchy:

As at March 31, 2019				
	Level 1	Level 2	Level 3	Total
Investment properties	-	-	477,054	477,054
Derivative financial instruments - assets	-	8,646	-	8,646
Call option related to the acquisition loan	-	-	6,582	6,582
Derivative financial instruments - liabilities	-	(3,996)	-	(3,996)
Exchangeable securities	-	(9,015)	-	(9,015)
Promissory notes	-	(45,932)	-	(45,932)
As at December 31, 2018				
	Level 1	Level 2	Level 3	Total
Investment properties	-	-	421,937	421,937
Investment properties - Assets classified as held for sale	-	-	39,030	39,030
Derivative financial instruments - assets	-	7,120	-	7,120
Call option related to the acquisition loan	-	-	6,750	6,750
Derivative financial instruments - liabilities	-	(2,603)	-	(2,603)
Exchangeable securities	-	(7,982)	-	(7,982)
Promissory notes	-	(42,471)	-	(42,471)

The reconciliation of the carrying amounts of non-financial assets classified within Level 3 is in Note 6 – Investment properties. The gains or losses relating to the investment properties are recognized in the consolidated statement of earnings line entitled “Net change in fair value of investment properties”. The entire amount of the gain or loss reported on this line in the reporting period is unrealized.

The following methods and assumptions were used to estimate the above-mentioned fair values:

- The fair value of derivative financial instruments is determined based on discounted cash flows using interest rate yield curves and volatilities 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 market price of REIT units, on the basis that they are exchangeable on a one for one basis throughout their life at the request of holder of the exchangeable securities, and upon maturity of the underlying notes, at the request of the REIT. Other features of the Exchangeable Securities have no significant impact on their fair value.
- The fair value of the promissory notes is based on the quoted market price of REIT units, on the basis that they are exchangeable into REIT units pursuant to a put option and a call option.

Note 15 – Cash flow information

	Note	For the three months ended March 31, 2019	For the three months ended March 31, 2018 Restated (Note 2)
Adjustments for non-cash items and other reconciling items:			
Elimination of gains or losses on disposal	5	100	-
Rent free period	6	203	329
Management fees paid in Exchangeable securities	9	384	762
Net change in fair value of investment properties	6	(2,319)	(1,925)
Net change in fair value of investment properties classified as asset held for sales	5	-	-
Net change in fair value of financial derivatives	-	921	(1,776)
Distributions recognized on Exchangeable securities	9	177	268
Net change in fair value of Exchangeable securities	9	649	(114)
Net change in fair value of Promissory notes	-	3,320	191
Finance income	10	(2,017)	(2,005)
Finance costs	10	2,662	2,392
Share of net earnings from investments in joint venture	7	(914)	2,023
Net unrealized exchange loss (gain)	-	(29)	(55)
Acquisition loans	-	(146)	-
		<u>2,991</u>	<u>90</u>
Working capital adjustments			
Increase in trade and other receivables	-	(3,794)	765
Increase in tenant deposits	-	(13)	(122)
(Decrease) Increase in trade and other payables	-	5,868	8,551

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

Liabilities	As at December 31, 2018	Cash flows					
			Amortization of issuance costs on promissory notes	Acquisition of investment properties	Disposal of a part of interest	Issuance of exchangeable securities	Foreign exchange movement
Promissory notes	42,471	-	141	-	-	-	-
Exchangeable securities	7,982	-	-	-	-	384	-
Mortgage loans ¹	117,502	3,506	-	46,502	(19,989)	-	(5,388)
Finance lease liabilities	127,184	10,791	-	-	-	-	(5,474)
Lease equalization loans	3,315	(285)	-	-	-	-	(138)

(1) Of which \$ 19,503 is presented in liabilities directly associated with assets held for sale

Corporate information

Head office

Inovalis REIT

151 Yonge Street, 11th floor

Toronto, Ontario, M5C 2W7

Investor relations

E-mail: info@inovalis.com

Website: www.inovalisreit.com

Stock exchange listing

The Toronto Stock Exchange listing symbol: INO.UN

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.

INOVALIS

REAL ESTATE INVESTMENT TRUST

INOVALIS REIT

151 Yonge Street, 11th floor

Toronto, Ontario, M5C 2W7

www.inovalisreit.com