INOVALIS

REAL ESTATE INVESTMENT TRUST

CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Dollar amounts in the MD&A are presented in thousands of Canadian dollars and Euros, except rental rates, per unit amounts or as otherwise stated)

HIGHLIGHTS

- **Funds from Operations ("FFO"), Adjusted Funds from Operations ("AFFO")**

In Q3 2019, the REIT reported Funds from Operations (FFO) and Available Funds from Operations (AFFO) of CAD$0.23 and CAD$0.21 per unit respectively. This marks an improvement on FFO and AFFO over both Q2 2019 and Q3 2018. In line with these increases both the REIT's FFO and AFFO payout ratios improved, quarter to quarter, from 101.4% to 88.0% and the AFFO payout ratio improved from 98.6% to 97.3%.

- **Leasing Operations**

Q3 2019 saw the REIT benefit from Management's efforts to let several vacant spaces of the portfolio assets. A new lease was signed for the Stuttgart property (4,063 sq.ft.) while at the Jeuneurs property, an agreement was signed with the current single tenant to extend the in-place lease by 2 years and 8 months. Management continues to strive to lease the remaining vacant surfaces, selectively completing CAPEX improvements on vacant areas to attract tenants, maximize rents and, subsequently, sustain returns to Unitholders.

- **Net Rental Income**

Net rental for Q3 2019 (adjusted for IFRIC 21) was CAD$6.10 million (EUR4.15 million), an increase over the adjusted net rental income for the same period in 2018 CAD$5.83 million (EUR3.84 million). The gain in adjusted net rental income is due to the contribution from the Trio property, partially offset by the sale of the Hanover asset.

In Q3 2019, net rental income (adjusted for IFRIC 21) for our Total Portfolio was CAD$9.12 million (EUR6.21 million), compared to CAD$9.00 (EUR5.92 million) for the same period in the previous year, this increase CAD$0.12 million being due to the net contribution from the Trio asset.

- **Financing Activity**

The REIT currently has a weighted average interest rate of 2.03% across the Total Portfolio. Following recent refinancing operations – Veronese (Courbevoie) and Metropolitain properties - the REIT has a debt level of 51.9% (50.7% net of cash), comfortably within its mandated threshold of 60%.

- **Rueil acquisition loan**

On July 25, 2019, the forward sale agreement for the underlying asset relating to the "Rueil development loan" was signed. The economics of this agreement confirm the budgetary assumptions applied by Management in valuing the profit participation component of the loan since 2018 and allow Management to anticipate future (2020) fund inflows following the reimbursement of the loan, as per the initial loan plan. Gain in fair value of CAD$1.4M have been recognised in relation to the profit participation component for the year to date, and CAD$6.5M since the inception of the loan.

- **Future sale of Vanves property**

Subsequent to quarter end, on October 30th, 2019, the REIT entered into an agreement to sell the Vanves property with a gross leasable area of 24,031 m2 (258,673 sq. ft.) located in Paris periphery.

The net sale price is EUR95 million (CAD$137 million) (excluding closing costs), in excess of the carrying value of the property as of September 30th, 2019 by approximately 5%. The transaction is expected to close on or before December 26th, 2019.

***

OVERVIEW – GAAP AND NON-GAAP

Our key performance indicators are set out below. "Non-GAAP" and Total Portfolio measures include our proportionate interest in joint ventures, please refer to "*Non- GAAP Reconciliation*".

	September 30, 2019		December 31, 2018	
Operational information	IP Portfolio	Total Portfolio	IP Portfolio	Total Portfolio
Number of properties	7	15	7	15
Gross leasable area (sq.ft)	852,387	1,416,896	772,403	1,336,797
Weighted Occupancy rate (end of period) (2)	87.7%	91.9%	88.6%	93.0%
Weighted average lease term	3.8 years	3.7 years	4.9 years	4.5 years
Average capitalization rate (3)	5.3%	5.6%	5.8%	5.8%
Financing information				
Level of debt (debt-to-book value) (4)	44.0%	51.9%	38.3%	47.7%
Level of debt (debt-to-book value, net of cash) (4)	42.9%	50.7%	36.3%	45.8%
Weighted average term of principal repayments of debt	5.6 years	5.0 years	5.5 years	5.1 years
Weighted average interest rate (5)	2.05%	2.03%	2.15%	2.11%
Interest coverage ratio (6)	3.3 x	3.7 x	4.5 x	3.9 x

	Three months ended		Nine months ended	
(thousands of CAD$ except per Unit and other data)	September 30 2019	September 30 2018	September 30 2019	September 30 2018
Operating results				
Rental revenue	6,627	6,142	19,263	19,395
Rental revenue - Total Portfolio (1)	9,750	9,386	28,803	28,934
Net rental income	6,981	6,668	16,609	17,393
Net rental income - Total Portfolio (1)	10,173	10,013	25,637	26,243
Net income (loss) for the period, attributable to the Trust	6,023	3,573	7,353	7,650
Funds from Operations (FFO) (7)	6,758	6,027	17,628	19,963
Adjusted Funds from Operations (AFFO) (7)	6,112	5,738	17,367	19,244
FFO per Unit (diluted) (7) (8)	0.23	0.21	0.61	0.72
AFFO per Unit (diluted) (7) (8)	0.21	0.20	0.60	0.69
Distributions				
Declared distributions on Units and Exchangeable sec.	5,081	4,998	15,175	14,930
Declared distributions on Units and Exchangeable sec. & Promissory note	5,947	6,049	17,835	17,517
Declared distribution per Unit	0.21	0.21	0.62	0.62
FFO payout ratio (7)	88.0%	100.4%	101.2%	87.7%
AFFO payout ratio (7)	97.3%	105.4%	102.7%	91.0%

(1) Considering interests that the REIT has in partnerships.
(2) Calculated on weighted areas (activity, storage and inter-company restaurant areas being accounted for only a third of their effective areas), including vendor leases.
(3) Calculated on annualized net rental earnings (based on net rental earnings for the year-to-date period).
(4) The definition of *debt-to-book value* and of *debt-to-book value, net of cash* can be found under the section *Non-GAAP Financial Measures.* The figures presented for the periods ended September 30, 2018 and December 31, 2018 have been reclassified, when appropriate, in order to ensure comparability with the figures for the period ending September 30, 2019.
(5) Calculated as the weighted average interest rate paid on lease liabilities and the mortgage.
(6) Calculated as net rental earnings plus interest expense, less administrative expenses, divided by interest expense on the financial leases and mortgage financings.
(7) The reconciliation of FFO and AFFO to earnings can be found under the section *Non-GAAP Reconciliation (FFO and AFFO).*
(8) Based on the diluted weighted average number of Units, Exchangeable Units and the conversion of Private Placement Promissory Note.

BASIS OF PRESENTATION

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of Inovalis Real Estate Investment Trust (the "REIT") should be read in conjunction with the REIT's consolidated financial statements for the nine months period ended September 30, 2019, and the notes thereto.

The REIT has historically, within the MD&A, presented operating results based on financial information developed using proportionate consolidation for all the REIT's joint ventures, which are accounted for using the equity method, as required by IFRS 11 "Joint Arrangements". This manner of presentation provided current and prospective investors with, in management's view, the relevant information to assist them in understanding the REIT's financial performance, while providing for a reconciliation of such Non-Generally Accepted Accounting Principles ("GAAP") information to the REIT's financial statements as reported under IFRS in the relevant sections of the MD&A. The MD&A will begin with an Overview, providing a summary of the REIT's performance and operations for the period, including both GAAP and non-GAAP metrics. Management believes this presentation provides users of this MD&A additional information about the source of the revenue used by the REIT to pay distributions on its units, as joint venture structures represent significant equity investments (joint ventures account for approximately 30% of the total value of all properties held by the REIT), are a significant component of the REIT's investments.

This MD&A has been prepared considering material transactions and events up to and including November 14, 2019. Financial information provided in the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. All amounts in this MD&A are in thousands of Canadian dollars and Euro, except per unit amounts and where otherwise stated. Historical results, including trends which might appear in this MD&A, should not be taken as indicative of future operations or results. Additional information about Inovalis REIT has been filed with applicable Canadian securities regulatory authorities and is available at www.sedar.com. The exchange rate used throughout this MD&A for statement of earnings items is the average rate during the applicable period which for the nine months ended September 30, 2019 and September 30, 2018 are CAD$1.4933 and CAD$1.5371, respectively. For balance sheet items as at September 30, 2019, projections or market data, the exchange rate used is CAD$1.443 (CAD$1.5637 as at December 31, 2018).

FORWARD-LOOKING INFORMATION

Although we believe that the expectations reflected in the forward-looking information are reasonable, we can give no assurance that these expectations will prove to have been correct, and since forward-looking information inherently involves risks and uncertainties, undue reliance should not be placed on such information. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such forward-looking statements. The estimates and assumptions, which may prove to be incorrect, include, but are not limited to, the various assumptions set forth in this document as well as the following: (i) we will continue to receive financing on acceptable terms; (ii) our future level of indebtedness and our future growth potential will remain consistent with our current expectations; (iii) there will be no changes to tax laws adversely affecting our financing capability, operations, activities, structure or distributions; (iv) we will retain and continue to attract qualified and knowledgeable personnel as we expand our portfolio and business; (v) the impact of the current economic climate and the current global financial conditions on our operations, including our financing capability and asset value, will remain consistent with our current expectations; (vi) there will be no material changes to government and environmental regulations adversely affecting our operations; (vii) conditions in the international and, in particular, the French and German real estate markets, including competition for acquisitions, will be consistent with the current climate; and (viii) capital markets will provide us with readily available access to equity and/or debt financing. The forward-looking statements are subject to inherent uncertainties and risks, including, but not limited to, the factors listed under the Risk and Uncertainties section of this MD&A. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements.

FOREIGN CURRENCY ENVIRONMENT

Although the REIT's main assets and liabilities are denominated in Euro, the REIT's financial results are measured in Canadian Dollars. Change in the EUR/CAD foreign exchange rate has therefore had a major impact on the REIT's financial statements. Over the first nine months of the year, the Canadian Dollar strengthened by around 8% relative to the Euro. For the three-month period ending September 30th, 2019, the Canadian Dollar strengthened around 4% relative to the Euro.

These changes in the EUR/CAD foreign exchange rate have negatively impacted the REIT's equity through 'Other Comprehensive Income' by CAD$26.1M for the first nine months of the year and CAD$10.2M for the current quarter. However, as the REIT's underlying real estate investment holdings are Euro-denominated, they have not been impacted by these fluctuations.

As the REIT's net income is calculated based on the average foreign exchange rates for the year-to-date, the negative impact is around 2%. Through the REIT's hedging policy, a foreign currency hedge was established to provide coverage over the monthly distributions. The gains realized from this hedging program (CAD$0.6M) have covered almost 80% of the negative impact on the REIT's revenue arising from the FX rate variations.

MARKET AND INDUSTRY DATA

This MD&A includes market and industry data and forecasts that were obtained from third-party sources, industry publications and publicly available information as well as industry data prepared by Inovalis SA based on its knowledge of the commercial real estate industry in which we operate (including Inovalis SA estimates and assumptions relating to the industry based on that knowledge). Inovalis SA's knowledge of the real estate industry has been developed through its 20 years of experience and participation in the industry.

BUSINESS OVERVIEW AND STRATEGY

The REIT is an unincorporated open-ended real estate investment trust governed by the laws of the Province of Ontario. The REIT was founded and sponsored by Inovalis SA, our asset manager. Our Units have been listed on the Toronto Stock Exchange under the trading symbol INO.UN since April 10, 2013. Our head and registered office is located at 151 Yonge Street, 11th floor, Toronto, Ontario, M5C 2W7.

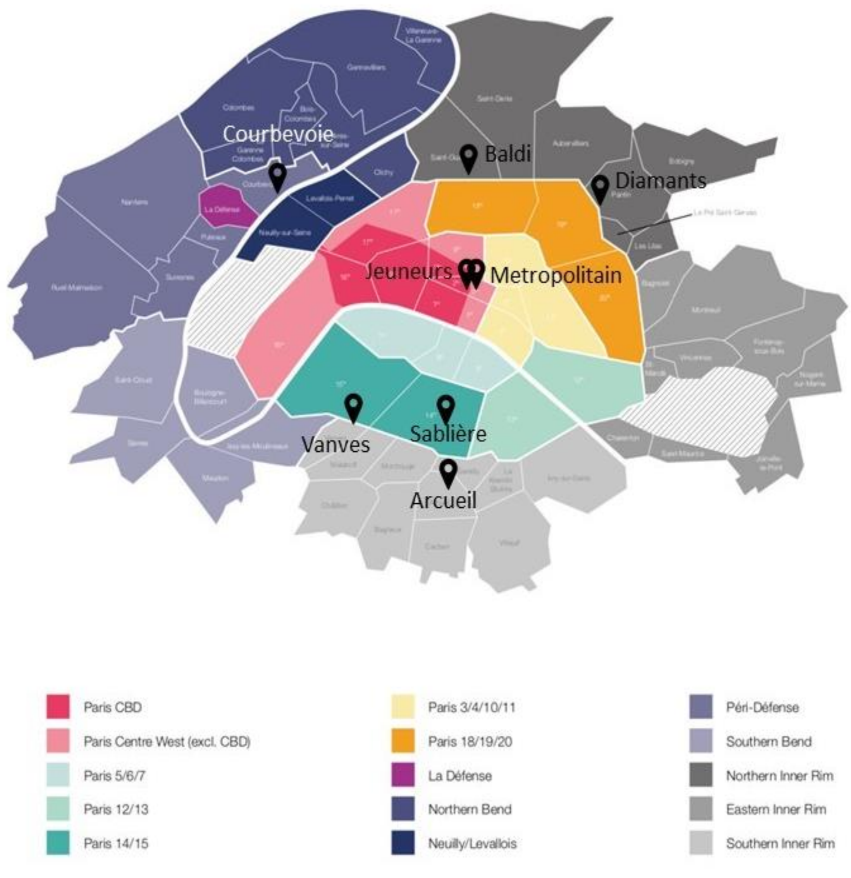
Our long-term objectives are to:

- generate predictable and growing cash distributions on a tax-efficient basis from investments in income-producing office properties;
- maximize the long-term value of both our properties and Units through active and efficient management;
- grow our asset base, primarily in France and Germany, but also opportunistically in other European countries where assets meet our investment criteria; and
- increase the cash available for distribution to holders of Units ("Unitholders"), through an accretive acquisition program that successfully leverages Inovalis SA's extensive relationships and depth of commercial property and financing.

The REIT's investment criteria encompass office properties outside of Canada with an occupancy level above 80% (unless AFFO accretive), secured rental cash flows, a property value between EUR20 million (CAD$30 million) to EUR60 million (CAD$90 million), unless AFFO accretive and a potential future upside with respect to matters including rent and area development. According to management, the target investment size falls within a very liquid segment of the real estate market in Europe, and debt financing for such acquisitions is readily available from local lenders.

BUSINESS ENVIRONMENT[1]

The high level of investment volumes at the end of the first half of 2019, and the expected completion of other very large transactions, indicate that the Greater Paris Region investment market is set to have another exceptional year. All the conditions seem to be in place to approach, or even repeat, the very strong performance seen in 2018 (EUR18.6 billion invested in offices buildings), despite an international context marked by strong geopolitical and commercial tensions, the still real possibility of a hard Brexit and the slowdown in the global economy.



Inovalis REIT
Paris Property Locations

Central Business District
- Jeuneurs
- Metropolitain

Paris - Montparnasse Area
- Sablière

La Defence Periphery
- Courbevoie

Northeastern Periphery
- Diamants / Pantin

Northern Inner Rim of Paris
- Baldi / St Ouen

Southern Inner Rim of Paris
- Vanves
- Arcueil

French commercial real estate investment market

Investment Market in France

Year to date, the investment volume for the Greater Paris Region market stands at EUR16.4 billion; this is the highest level on record for this period for the last 10 years. This volume was mainly driven by transactions in the >EUR100 million segment, including 3 transactions for lot sizes over EUR900 million. With EUR13.8 billion in investments, office assets remained firmly in the majority (84%). South Korean investors were particularly active over the last 9 months (20% of the overall activity). Prime yields for office and retail space may have remained stable over the last 3 months, but further compression was seen for logistics with yields now at 4.20%.
Investment was particularly active in the Greater Paris Region over Q3 2019 with a total of EUR6.2 billion taking the year-to-date investment volume to EUR16.4 billion; this is the highest level recorded for this period for the last 10 years.

---

[1] *Sources: Jones Lang LaSalle*

This represents a 25% year-on-year increase and is 62% higher than the 10-year average. The market is benefiting from an abundance of supply as low yields are encouraging sales, while market demand is consistently strong. This volume was mainly driven by transactions for lot sizes over EUR100 million including 3 transactions for lot sizes over EUR900 million.

Office Market in France

The office rental market remains in line with the average recorded over the same period since the 2000s. Transactions in the Greater Paris Region amounted to almost 1.7 million sqm over the first 9 months of the year; this is 11% lower than over the same period last year. This is mainly due to the fact that product is scarce, especially in the large segment size. This reduction was seen to a greater degree in Paris markets outside of the CBD (-12%) which are suffering from a persistent lack of stock.

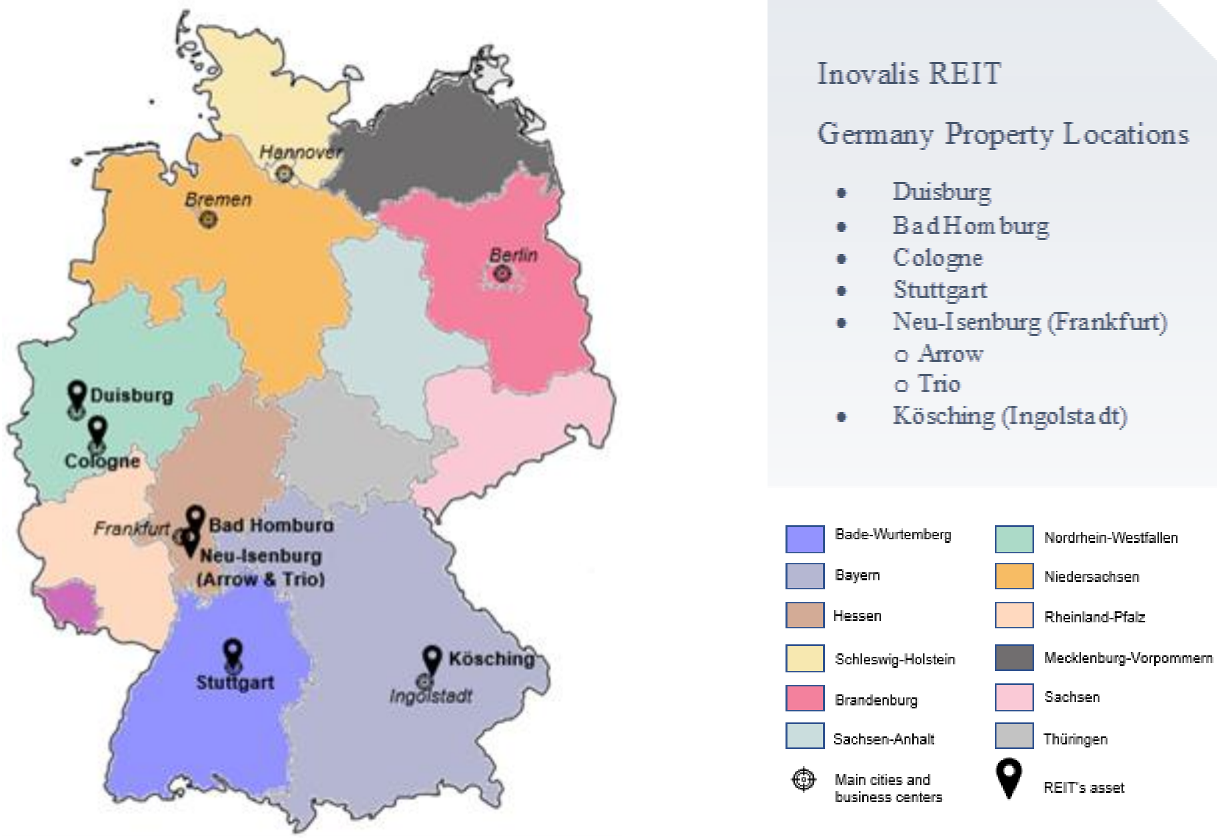
Submarkets in the Inner rim secured the majority of take-up in the Greater Paris Region and accounted for 47% of activity by the end of September 2019. The La Défense rental market is still suffering from a lack of new supply, despite the arrival of new product over the short term. However, activity remains strong in the medium space segment (~58,000 sqm) which is traditionally based on second-hand and renovated supply. The Inner Suburbs still posted the strongest performance with almost 341,000 sqm in transactions over the last 9 months; this is 31% higher than seen over the same period last year. This market is benefitting from a shift in business focus and is attracting attention due to its reasonable rents. Results for all markets were above the 10-year average. The South remained stable year on year while the North and the East posted double-digit growth (38% and 91%). Year to date, the 5 largest transactions in the Greater Paris Region were for buildings in the Inner Suburbs, most of which were new space.

German Commercial Real Estate Market

Investment

The aggregated transaction volume for the Big 7 was almost identical to last year, rising by 2% to EUR31.7 billion compared to the corresponding period of 2018. On one hand, this illustrates the particular significance of these major cities as an investment target for national and international capital. On the other hand, it should also be noted that Berlin alone accounts for EUR11.8 billion or almost 40% of the volume, while four of the property strongholds (Düsseldorf, Frankfurt, Hamburg and Cologne) even registered a decline.

Given the political debate in the German capital about rental regulations, this exceptional result, which reflects growth of 71% compared to 2018, may come as a surprise. However, it also indicates that investors still have faith in Berlin’s market forces and do not assume that the sometimes drastic regulatory proposals will be implemented in this way. Frankfurt is in second place with a transaction volume of EUR5.6 billion, which puts it ahead of Munich. The average yield for the Big 7 fell below the 3% threshold. At the end of the third quarter, a “2” stood before the decimal place for the first time, with the yield now positioned at 2.97%. Compared to the previous year, the prime yield for the Big 7 fell by 23 basis points. The development of property yields is and remains a reflection of the global financial economy. The risk exposure from bonds and equities is pushing investors towards alternative investments, and real estate is becoming increasingly important here.



Inovalis REIT

Germany Property Locations

- Duisburg
- BadHomburg
- Cologne
- Stuttgart
- Neu-Isenburg (Frankfurt)
  - Arrow
  - Trio
- Kösching (Ingolstadt)

Office Market in Germany

The office lettings markets in the seven strongholds registered further take-up growth in the current year. Overall, 3.05 million sqm was either leased by tenants or bought by owner-occupiers in the first three quarters. Compared to the corresponding period of the previous year, this represents an increase of 5%. While this initially appears to be at odds with the economic downturn, it can be explained on one hand by the delayed reaction described above. On the other hand, owing to the significant supply shortage in the current cycle some relocations could not be realised because there was no available space. Strong variations exist between the individual markets, however. Stuttgart (+58% to 257,000 sqm) and Berlin (+26% to 759,000 sqm) recorded the strongest growth, while Frankfurt (-15% to 389,000 sqm) and Munich (-12% to 605,000 sqm) fell somewhat short of the previous year's figures.

The short-term supply of office space is still in decline. Overall, only 3 million sqm is available to companies seeking space in the Big 7. The figure was 1 million sqm higher only five quarters ago. However, the rate of decline is not as strong as in the prior quarters. While vacancies in the past four quarters fell by an average of 250,000 sqm per quarter, the figure dropped to only 25,000 sqm in the period from July to end-September. Düsseldorf and Hamburg registered the sharpest quarterly declines in vacancies, with each falling by 0.3 percentage points to 550,000 sqm and 472,000 sqm respectively.

Portfolio

The REIT has an interest in fifteen properties, (the "Property Portfolio" or "Total Portfolio"), of which seven are entirely owned by the REIT (the "IP Portfolio") and eight are held through partnerships with various global institutional funds, (the "JV Portfolio"). Eight properties are in France and seven properties are in Germany.

Asset	% owned	*REIT Ownership Valuation as at September 30, 2019*	*% of REIT's Portfolio Value*	*Gross Leaseable Area (GLA)*	*Contribution to GLA*	*# of tenants*	*Occupancy rate (including vendor leases)*	*Weighted occupancy rate (including vendor leases)*	*WALT (end of lease)*
		(CAD)	*%*	*sq. ft.*	*%*		*%*	*%*	*Years*
Jeuneurs	100%	67,669	10%	50,407	3%	1	100%	100.0%	3.9
Courbevoie	100%	38,571	6%	95,903	8%	6	86%	87.7%	2.6
Vanves	100%	129,057	20%	258,673	18%	5	81%	80.5%	2.2
Sablière	100%	35,264	5%	41,043	3%	7	98%	99.4%	3.6
Baldi	100%	34,541	5%	123,657	9%	7	69%	78.3%	4.7
Metropolitain	100%	89,901	14%	78,818	5%	7	100%	100.0%	5.8
Arcueil	25%	32,418	5%	83,630	6%	1	100%	100.0%	3.4
Pantin	50%	19,328	3%	71,628	5%	17	100%	100.0%	3.8
Subtotal France		**446,749**	**68%**	**803,759**	**57%**	**51**	**86.0%**	**87.4%**	**3.4**
Trio	100%	67,810	10%	203,886	14%	6	93%	92.4%	5.1
Duisburg	50%	37,078	6%	108,960	8%	1	100%	100.0%	1.3
Bad Homburg	50%	16,378	3%	54,553	4%	6	93%	97.3%	3.5
Cologne	6%	2,026	0%	3,930	-	1	100%	100.0%	6.4
Stuttgart	50%	32,737	5%	121,416	8%	6	100%	99.9%	4.3
Neu-Isenburg	50%	30,427	5%	67,334	5%	4	100%	91.9%	3.3
Kösching	50%	20,909	3%	53,058	4%	1	100%	100.0%	8.2
Subtotal Germany		**207,365**	**32%**	**613,137**	**43%**	**25**	**96.9%**	**96.2%**	**4.1**
Total - France and Germany		**654,114**	**100%**	**1,416,896**	**100%**	**76**	**91.5%**	**91.9%**	**3.7**
IP Portfolio		**462,813**	**71%**	**852,387**	**60%**	**39**	**86.3%**	**87.7%**	**3.8**
JV Portfolio		**191,301**	**29%**	**564,509**	**40%**	**37**	**99.3%**	**98.7%**	**3.6**

In January 2019 the REIT sold the 124,076 square foot, 100% occupied, Hanover property and in March 2019 acquired the 203,886 square foot Trio property. The IP Portfolio weighted occupancy at September 30, 2019 was thus 87.7%, compared to 88.6 % at December 31, 2018. While the weighted occupancy rate across the Total Portfolio fell from 93.0% as at December 31, 2018 to 91.9% as at end of September 2019, the occupancy rate for Q3 2019 represent an improvement of 0.2% over the rates for Q2 2019 for both the IP Portfolio and Total Portfolio.

The average lease term for JV Portfolio decreased to 3.6 years as at September 30, 2019 from 4.5 years as at December 31, 2018. The average lease term for Investment Property Portfolio decreased to 3.8 years compared to 4.9 as at December 31, 2018.

Tenants

The tenant base in the Property Portfolio is well diversified by industry segment, with many national and multinational tenants. As at September 30, 2019, the REIT had 39 tenants across the IP Portfolio and 76 across the entire Portfolio. Our largest tenant, Orange (formerly France Telecom), is rated BBB+/Baa1/BBB+ by S&P/Moody's/Fitch and has leases in two of our properties, the Vanves property and the Arcueil property.

All leases contracts have rental indexation based on the French ICC (construction cost index), ILAT (index averaging construction costs and CPI indexes) or the German Consumer Price Index, as applicable.

The following table shows our five largest tenants, sorted by contribution to gross leasable area (GLA) in the IP Portfolio.

Tenant	Tenant Sector	GLA (sq.ft.) (1)	Weighted Areas (sq.ft) (1)	% of Weighted Areas
Orange (Formerly France Telecom)	Telecommunications	186,070	181,096	22.5%
The Lorenz Bahlsen Snack-World GmbH & Co. KG Germany	Food and beverage	91,150	86,270	10.7%
Rue Du Commerce	E-commerce	51,926	51,926	6.5%
CNAM	Education & Training	50,407	49,543	6.2%
SAS Smart & Co	Internet and direct marketing retail	43,481	39,796	5.0%
Top 5 tenants		**423,034**	**408,631**	**50.9%**
Other tenants	Diversified	312,899	295,962	36.8%
Vacant		116,454	98,939	12.3%
Total GAAP Measures		**852,387**	**803,532**	**100.0%**

(1) Activity, storage and intercompany restaurant areas are weighted by being accounted for a third of their effective areas.

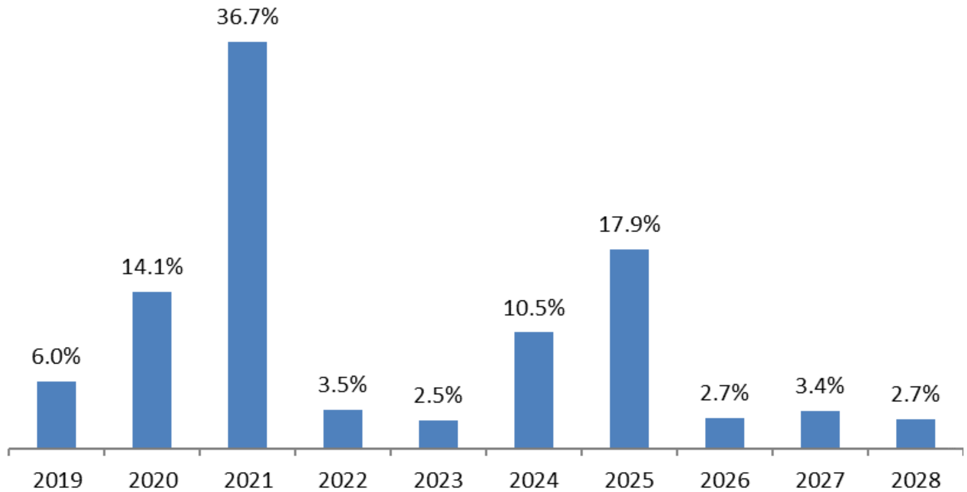
The REIT's five largest tenants across the Property Portfolio are presented in the table below.

Tenant	Tenant Sector	GLA (sq.ft.) (1)	Weighted Areas (sq.ft) (1) (2)	% of Weighted Areas
Orange (Formerly France Telecom)	Telecommunications	269,701	253,651	19.4%
Daimler AG	Manufacturer	109,136	100,486	7.7%
Hitachi Power	Manufacturer	108,959	104,046	7.9%
The Lorenz Bahlsen Snack-World GmbH & Co. KG Germany	Food and beverage	91,150	86,270	6.6%
Arrow Central Europe	E-commerce	55,639	51,717	3.9%
Top 5 tenants		**634,585**	**596,170**	**45.5%**
Other tenants	Diversified	650,514	608,502	46.4%
Vacant		131,797	105,698	8.1%
Total Non-GAAP Measures		**1,416,896**	**1,310,370**	**100.0%**

(1) Considering the interests that the REIT has in properties held in partnerships
(2) Activity, storage and intercompany restaurant areas are weighted by being accounted for a third of their effective areas.

Lease profile

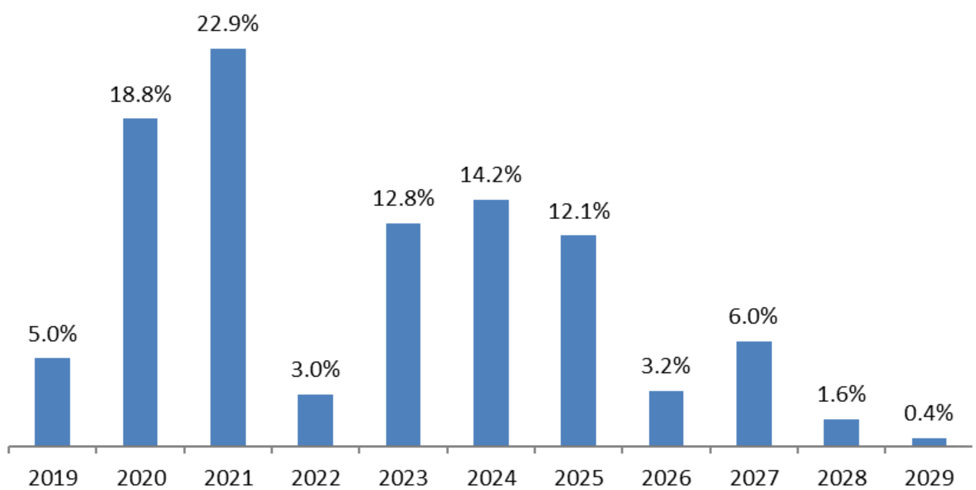
Lease Maturity Profile as at September 30, 2019
(% of total GLA)



The average remaining lease term in the IP Portfolio is 3.8 years (not including tenant early termination rights). Assuming all tenants leave at the earliest possible early termination rights, which the REIT believes is unlikely, the average remaining lease term in our portfolio is 3.4 years. The following graph sets out the percentage of total GLA of the IP Portfolio subject to leases expiring by year (excluding early lease terminations).

At our Courbevoie property, Smart & Co leases (43,481 square feet of GLA) expired on September 30, 2019 and will impact the Q4 2019 occupancy rates. The REIT anticipates completing improvement works on this vacated surface and on common areas of the building, with completion scheduled for Q2 2020, to maximise letting values.

Lease Maturity Profile as at September 30, 2019
Entire portfolio including joint ventures
(% of total GLA)



Including the JV Properties, the average remaining lease term is 3.7 years (not including tenant early termination rights) and 3.2 years including early termination rights. The above graph presents the percentage of total GLA expiring in the Property Portfolio by year (excluding early lease terminations).

New leases signed during the quarter

- At the Jeuneurs property, in mid-July, an agreement was signed with the current single tenant to extend the in-place lease by two years and eight months to August 31, 2023, thus ensuring the continuation of the 100% weighted occupancy rate.

- At the Sablière property, a new lease was signed in June 2019, effective September 1, 2019 for the remaining office space (5.1% of surface area or 2,045 sq.ft.) currently vacant, bringing the occupation level to 99.4%.

- At the Stuttgart property, a new lease was signed in August 2019 for 4,063 sq.ft. increasing the asset's occupancy from 98.6% to 99.9%.

CONSOLIDATED FINANCIAL INFORMATION

Consolidated Statements of Earnings

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

	Three months ended September 30,		Nine months ended September 30,	
(in thousands of CAD$)	**2019**	**2018**	**2019**	**2018**
Rental income	6,627	6,142	19,263	19,395
Property operating cost recoveries	1,528	1,903	6,123	6,007
Property operating costs	(1,519)	(1,635)	(8,881)	(8,528)
Other revenues	411	328	409	752
Other property operating expenses	(66)	(70)	(305)	(233)
Net rental earnings	6,981	6,668	16,609	17,393
Administration expenses	(1,360)	(1,126)	(4,758)	(4,173)
Foreign exchange gain	(4)	2	(6)	85
Net change in fair value of investment properties	3,746	(1,062)	4,488	276
Loss on disposal of investment properties	-	-	(56)	-
Share of net earnings from investments accounted for using the ec	342	925	886	2,499
Operating earnings	9,705	5,407	17,163	16,080
Loss on financial instruments at fair value through profit or loss	85	1,107	(1,543)	2,928
Finance income	2,435	2,058	6,743	6,161
Finance costs	(2,627)	(2,589)	(7,774)	(7,606)
Distributions on Exchangeable securities	(173)	(265)	(528)	(819)
Net change in fair value of Exchangeable securities	(367)	135	(697)	201
Net change in fair value of Promissory Notes	(2,031)	(1,981)	(4,494)	(3,661)
Earnings before income taxes	7,027	3,872	8,870	13,284
Current income tax expense	(64)	(11)	(191)	(25)
Deferred income tax expense	(926)	(302)	(1,305)	(5,622)
Earnings for the period	**6,037**	**3,559**	**7,374**	**7,637**
Non-controlling interest	14	- 14	21	(13)
Earnings for the period (part attributable to the Trust)	**6,023**	**3,573**	**7,353**	**7,650**

DISCUSSION OF STATEMENT OF CONSOLIDATED EARNINGS

The figures presented for the period ended September 30, 2018 have been restated, when appropriate, in order to ensure comparability with the figures for the period ending September 30, 2019:

- Part of the change in 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 $ 479 as at September 30, 2018;
- The adjustment of the acquisition loan interest at 14% due to the recognition of the call option derivative decreases “Finance income” for an amount of $ (1,744) and increases “Net change in fair value of financial derivatives” for an amount of $ 3,327 as at September 30, 2018;

Some of the prior period's data have been reclassified to conform to the presentation adopted in the current period:

- Distributions in respect of exchangeable securities paid in cash are reclassified from “Financing activities” to “Operating activities” in the cash-flows statements.

- Amortization of issuance costs on promissory notes are reclassified from “Finance costs” to “Net change in fair value of Promissory Notes” in the statement of income.

Net rental earnings

Net rental income for the three months ended September 30, 2019 (“Q3 2019”) was CAD$6,981 compared to CAD$6,668 for the three months ended September 30, 2018 (“Q3 2018”).

In accordance with IFRIC 21, the annual property taxes for our properties located in France are expensed in full in the first quarter our fiscal year. Realty taxes expenses for the year are CAD$3.6 million. These taxes are paid in the fourth quarter. This results in a reduction to net rental income in the first quarter of each year with relatively higher net rental income in the subsequent three quarters. The impact of IFRIC 21 on net rental income for Q3 2019 and Q3 2018 is set out below.

	CAD		EUR	
	Q3 2019	**Q3 2018**	**Q3 2019**	**Q3 2018**
Net rental income	6,981	6,668	4,731	4,378
IFRIC 21 impact	880	831	579	534
Adjusted net rental income - IFRIC 21	6,101	5,837	4,152	3,844

Excluding FX impact, the Q3 2019 net rental income earnings have increased when compared with Q3 2018 earnings. The gain in adjusted net rental income is due to the contribution from the Trio property, partially offset by the sale of the Hanover asset.

For the nine-month period the decrease in net rental income was primarily due to the sale of the Hanover property in January 2019 only compensated by the income of the newly acquired Trio property from the end of March 2019.

	CAD		EUR	
	YTD Q3 2019	**YTD Q3 2018**	**YTD Q3 2019**	**YTD Q3 2018**
Net rental income	16,609	17,393	11,122	11,316
IFRIC 21 impact	(861)	(894)	(577)	(582)
Adjusted net rental income - IFRIC 21	17,470	18,287	11,699	11,897

Administration expenses

Administration expenses are comprised of Inovalis SA’s asset management fees and other general administrative expenses such as trustee fees, directors’ and officers’ liability insurance, professional fees (including accounting fees), legal fees, filing fees and Unitholder related expenses.

Administration expenses for the quarter ended September 30, 2019 amounted to CAD$1,360 slightly increased compared to CAD$1,126 for Q3 2018. The increase is due to an increase of other general expenses of CAD$228 with asset management fees remaining stable. The increase in other general expenses includes CAD$160 attributable to non-recurring costs due to the reorganisation of the finance function.

Administration expenses for the nine-month period ended September 30, 2019 amounted to CAD$4,758, an increase of CAD$585 compared to Q3 2018. Asset management fees were CAD$505 lower, which was offset by approximately CAD$1,110 of non-recurring costs associated with accounting services and internal controls over financial reporting matters.

Net change in fair value of investment properties

The net change in fair value of investment properties for the quarter of CAD$3,746 relates principally to an increase of CAD$5,500 in portfolio valuation, partially offset by the impact of the IFRIC 21 of (CAD$880) and capex and option exercise costs of (CAD$874).

The net change in fair value of investment properties for the year to date of CAD$4,488 relates principally to an increase of CAD$4,780 in portfolio valuation, (CAD$1,153) of CAPEX and option exercise costs and the impact of the IFRIC 21 CAD$861.

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.

Share of net income from joint ventures

To reflect the full performance of the investments in joint ventures, one should consider both the share of net income from joint ventures and the interest on loans granted to joint ventures (presented in the finance income line item).

Share of net income from joint ventures were CAD$342 for Q3 2019 compared to CAD$925 for same period in 2018. Interest on loans granted to joint ventures were CAD$1,251 and CAD$1,325 for Q3 2019 and 2018 respectively.

Share of net income from joint ventures was CAD$886 for the nine months ended September 30, 2019 compared to CAD$2,499 for same period in 2018, the decrease is mainly attributable to the variance of the foreign exchange derivative related to the Arcueil investment. Interest on loans granted to joint ventures were CAD$3,849 and CAD$4,012 for Q3 2019 and 2018 respectively.

Finance income

In addition to interest on loans granted to joint ventures, in Q3 2019 and Q3 2018, finance income consisted mainly of interest earned with respect to the acquisition loan granted to an Inovalis SA's subsidiary for the development of the Rueil property CAD$787 for Q3 2019 compared to CAD$721 for Q3 2018.

Finance costs

The finance costs in Q3 2019 were CAD$2,627, versus CAD$2,589 in Q3 2018, which include CAD$1,245 related to interest on loans and lease liabilities, CAD$902 related to promissory notes and CAD$480 due to derivative interest and other financial costs.

The finance costs year to date were CAD$7,774 compared to CAD$7,606 for the same period in 2018. The finance costs for 2019 include CAD$3,632 related to interests on loans and lease liabilities, CAD$2,660 related to promissory notes and CAD$1,482 due to derivative interest and other financial costs.

Distributions on Exchangeable Securities

Distributions to the holders of Exchangeable Securities are calculated in a manner to provide a return that is economically equivalent to the distributions received by the Unitholders. In Q3 2019 the distributions on Exchangeable Securities were CAD$173 compared to CAD$265 in Q3 2018 as fewer Exchangeable Securities were outstanding due to multiple conversions of Exchangeable Securities into units in Q3 2018, Q4 2018 and Q2 2019.

Net change in fair value of Exchangeable securities

The fair value of the Exchangeable Securities depends on the trading price of the REIT Units. Exchangeable Securities are considered a liability and a fair value reduction will be recognized if the market price of the REIT Units increases and a fair value increase will be recognized when the market price of the REIT Unit decreases.

Net change in fair value of Promissory Notes

The fair value of the Promissory Notes depends of the trading price of the REIT Units. Promissory Notes are accounted for as a liability on an accounting basis and a fair value reduction will be recognized if the market price of the REIT Units increases and a fair value increase will be recognized when the market price of the REIT Unit decreases.

Deferred tax expense

The deferred income tax expense (and deferred income tax liabilities) correspond to the origination of temporary differences primarily arising from investment properties.

The governments of France and Luxembourg signed a new Double Taxation Treaty ("DTT") and accompanying protocol in 2018. The DTT was ratified by France in Q4 2018 and by Luxembourg in Q2 2019. As the DTT has received ratification from both countries, it will come into effect on January 1, 2020.

Under the existing DTT, the REIT, through its subsidiary located in Luxembourg, incurs French withholding tax at the 5% treaty rate on the dividend received from French OPCI[1]. Under the anticipated DTT, such dividend distributions would be subject to withholding tax at a rate of approximately 30%, which can be reduced to 15% under specific cases.

Management is currently implementing a structure that will allow the REIT to benefit from a reduced rate of 15% once the transformation has been completed. Deferred income tax liabilities are based on the reduced rate of 15% and the assumption of the distribution of 50% of the OPCIs' net profits arising from capital gains upon disposition (which results in an effective rate of 7.5%).

INVESTMENT PROPERTIES

Fair value

The fair value of the REIT's investment property portfolio as at September 30, 2019 was CAD$462,813 (EUR 320,730) compared to CAD$421,937 (EUR 269,832) at December 31, 2018. The increase is mainly attributable to the acquisition of the Trio property for CAD$71,497 (EUR47,430) and the net change in fair value of investment properties for CAD$4,488 (EUR 3,468), offset by foreign currency translation adjustments (CAD$35,935).

Management principally uses cap-rate method to determine the fair value of the French investment properties. These values are supported by third party appraisals in conformity with the requirements of the *Royal Institution of Chartered Surveyors Standards*, and for the French properties, in conformity with the *Charte de l'expertise immobilière*, *European Valuation Standards of TEGoVA* (the European Group of Valuers' Association) and IFRS 13.

Building improvements

The REIT is committed to improve its operating performance by incurring appropriate capital expenditures to replace and maintain the productive capacity of its property portfolio to sustain its rental income generating potential over the portfolio's useful life. Over CAD$700 of capital expenditures has been completed during the quarter.

[1] "INOPCI" refers to *Organisme de placement collectif en immobilier* which refers to French real estate collective investment undertakings. OPCIs are tax exempt vehicles once they distribute 50% of their net profit.

OTHER SIGNIFICANT ASSETS

Investments accounted for using the equity method

Investments accounted for using the equity method encompasses the interest the REIT (through its subsidiaries) has in the Duisburg property (50%), the the Walpur (Bad Homburg) property (50%), the Arrow (Neu-Isenburg) property (50%), the Stuttgart property (50%), the Kösching property (50%) and the Arcueil property (25%).

The REIT's investment in joint ventures accounted for using the equity method was CAD$90,797 on September 30, 2019 compared to CAD$98,703 on December 31, 2018. The decrease is due to the exchange rate fluctuation for a total impact of CAD$7,617, loan repayments of CAD$1,175 partially compensated by the positive results of the investments accounted for using the equity method of CAD$886 for the year to date.

Acquisition loan

As at September 30, 2019, acquisition loan of CAD$24,400 (EUR17,166) consists of loan granted in Euro to an Inovalis SA's subsidiary for the development of the Rueil property.

Trade and other receivables

Trade and other receivables as at September 30, 2019 amounted to CAD$5,413 compared to the CAD$4,000 at December 31, 2018. The increase, as every year, is mainly due to property operating cost recoveries arising from realty taxes expenses.

PRESENTATION OF OUR CAPITAL

Liquidity and capital resources

The REIT's primary sources of capital are cash generated from operations, credit facilities, sharing the ownership of actual assets owned entirely and equity issues. Our primary uses of capital include property acquisitions, payment of distributions, costs for attracting and retaining tenants, recurring property maintenance, major property improvements and debt interest payments. We expect to meet all our ongoing obligations through current cash, cash flows from operations, debt refinancing and, as growth requires and when appropriate, new equity or debt issues. We can also sell portion of assets owned to access capital, but this action would be considered in the overall strategy of diversification of our portfolio.

The REIT's cash available was CAD$11,595 as at September 30, 2019 compared to CAD$19,110 as at December 31, 2018.

Financing activities

Our debt strategy is to have secured mortgage financing with a term to maturity commensurate with the profile of our portfolio and to put in place, where appropriate, interest-bearing financings. We are preferably looking for fixed rate or floating rate financings with a cap. As such, 82.0% of the REIT's senior debt benefits from an interest rate protection (66.9% in the form of a swap and 15.0% in the form a cap). Management's preference is to have staggered debt maturities to mitigate interest rate risk and limit refinancing exposure in any particular period. With no financial institution representing more than 18% of our senior debt commitment, we also make sure that the REIT has a diversified base of senior debt providers.

Debt-to-book value

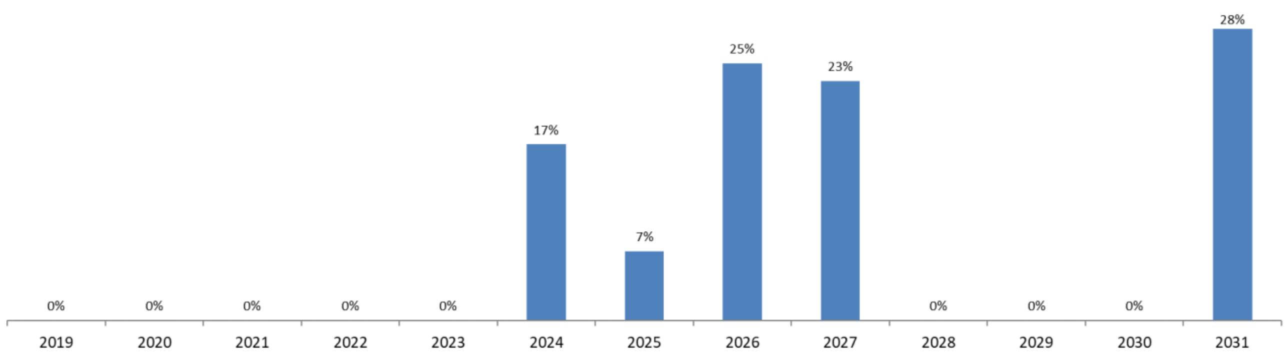
Our debt-to-book value ratio is calculated on a look-through basis and considers the REIT's apportioned amount of indebtedness at the partnership level. Indebtedness at the REIT level, as well as at the different partnership levels is calculated as the sum of (i) lease liabilities, (ii) mortgage loans, (iii) lease equalization loans, (iv) other long-term liabilities and (v) deferred tax liabilities. Indebtedness does not take into include certain liabilities as is the case for the Exchangeable securities and Promissory Notes and at the partnership level for the contribution from the REIT and its partners.

Key performance indicators in the management of our debt are summarized in the following table.

Entire portfolio incorporating interest in joint-ventures	As at September 30, 2019	As at December 31, 2018
Weighted average interest rate (1)	2.03%	2.11%
Debt-to-book value (2)	51.9%	47.7%
Debt-to-book value, net of cash (2)	50.7%	45.8%
Interest coverage ratio (3)	3.7 x	3.9 x
Debt due in next 12 months in thousand of CAD$	12,249	22,573
Weighted average term to maturity of debt (4)	5.0 years	5.1 years

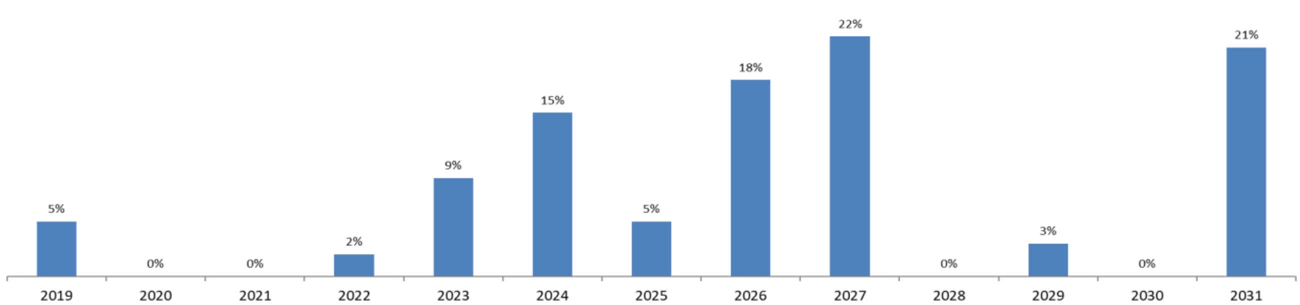
(1) Calculated as the weighted average interest rate paid on lease liabilities and the mortgage financing.
(2) The definition of *debt-to-book value* and of *debt-to-book value, net of cash* can be found in the *Debt-to-book value* note above.
(3) Calculated as net rental earnings plus interest, less general and administrative expenses, divided by interest expense on the financial leases and mortgage financings.
(4) Calculated as the weighted average term on all the financial leases and mortgage financings.

Leasehold and Mortgage Financing Maturity Profile
(% of amount outstanding as at September 30, 2019)



The above table does not include the impact of the annual amortization of outstanding debt.

Leasehold and Mortgage Financing Maturity Profile
(Entire portfolio including joint-ventures)
(% of amount outstanding as at September 30, 2019)



The above table does not include the impact of the annual amortization of outstanding debt.

ANALYSIS OF DISTRIBUTED CASH

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018	2019	2018
Cash flows from operating activities (A)	7,141	4,601	11,010	13,887
Earnings before income taxes (B)	6,037	3,559	7,374	7,637
Declared distribution on Units (C)	4,908	4,733	14,647	14,111
Excess (shortfall) of cash flows from operating activities over cash distributions paid (A-C)	2,233	(132)	(3,637)	(224)
Excess (shortfall) of profit or loss over cash distributions paid (B - C)	1,129	(1,174)	(7,273)	(6,474)

Cash flows from operating activities and net income (loss) are not relied upon as measures of the REIT's ability to pay distributions.

Management believes that FFO and AFFO are important measure of our economic performance over the long term. As an alternate measure to cash flow from operations, FFO and AFFO are indicative of the REIT’s ability to generate cash flow from its properties and to pay distributions to unitholders. FFO and AFFO are non-GAAP measures which do not have a standard meaning as defined by IFRS and therefore it may not be comparable to similar measures presented by other entities.

As quantified in the FFO and AFFO calculations, the funds used to make the distributions declared on Units, exchangeable securities and promissory notes for the three months ended September 30, 2019, i.e., CAD$5,947, were less than FFO, CAD$6,758, and AFFO, CAD$6,112, for the quarter.

The REIT expects to continue paying distributions based on the current plan.

RISKS AND UNCERTAINTIES

We are exposed to various risks and uncertainties, many of which are beyond our control, the occurrence of which could materially and adversely affect our investments, prospects, cash flows, results of operations or financial condition and our ability to make cash distributions to Unitholders. We believe the risk factors described in our Management Discussion and analysis for the year ended December 31, 2018 are the most material risks that we face, however they are not the only ones. Additional risk factors not presently known to us or that we currently believe are immaterial could also adversely affect our investments, prospects, cash flows, results of operations or financial condition and our ability to make cash distributions to Unitholders and negatively affect the value of the Units. For a discussion of the risk and uncertainties identified by the REIT, please refer to our Management Discussion and Analysis for the year ended December 31, 2018 and our Annual Information Form dated April 1, 2019, filed on the System for Electronic Document Analysis and Review (“SEDAR”) (www.sedar.com).

OUTLOOK

We believe that the current market environment is favourable for the REIT to prosper. In addition to actively managing our properties, we are continuously assessing potential acquisitions in our target markets and focus on the ones offering value and stability. Our long-term credit worthy tenants, low cost of debt with staggered maturities and the foreign exchange rate contracts for our distributions in place until October 2020, not only provide predictable cash flows but serve as a basis for future growth. In addition to the cash available, we can also sell some portion of assets that we own to get access to additional cash and at the same time diversify our portfolio risk.

CRITICAL ACCOUNTING POLICIES

The preparation of the REIT's consolidated financial statements in conformity with GAAP requires management to make judgments, estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities. Management basis its judgements, estimates and assumptions on experience and other factors it believes to be reasonable under the circumstances. However, uncertainty about these judgements, estimates and assumptions could result in outcomes requiring a material adjustment to the carrying amount of the asset or liability affected in future periods. Our critical accounting judgements estimates and assumptions in applying accounting policies are described in Note 4 to the annual audited consolidated financial statements of the REIT for the year ended December 31, 2018.

A description of significant accounting policies is provided in note 3 of the consolidated financial statements as at December 31, 2018.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures (DCP)

The CEO and CFO of the REIT have designed or caused to be designed under their direct supervision the REIT’s DCP to provide reasonable assurance that: i) material information relating to the REIT is made known to management by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the REIT in its annual and interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. The CEO and CFO are assisted in this responsibility by Management. No changes were made to the REIT’s DCP during the three months ended September 30, 2019. The CEO and CFO concluded that such disclosure controls and procedures were not effective as at December 31, 2018 as a result of material weaknesses in the REIT’s internal control over financial reporting, as further described below.

Notwithstanding the material weaknesses identified, the REIT has concluded that the financial statements, as at September 30, 2019, are fairly represented in all material respects, in accordance with IFRS.

Internal Controls over Financial Reporting (ICFR)

Management is responsible for establishing and maintaining adequate ICFR to provide reasonable assurance regarding the reliability of the REIT’s financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS. The material weaknesses in risk assessment, control activities, information and communication, and monitoring activities contributed to the following:

- Non-performance of a fraud risk assessment and resulting mitigation program;
- Incomplete design and assessment of business process controls and information technology general controls;
- Failure to record significant transactions on a timely basis;
- Ineffective accounting policies related to acquisitions, new accounting pronouncements; (ex. IFRS 9), and complex financial instruments;
- Improper accounting treatment for significant contracts;
- Incomplete reconciliation processes; and
- Inadequate evidence of review and approval over source documentation.

As defined by National Instrument 52-109 of the Canadian Securities Administration, a material weakness means a deficiency, or a combination of deficiencies, in ICFR such that there is a reasonable possibility that a material misstatement of the reporting issuer’s annual or interim financial statements will not be prevented or detected on a timely basis.

Accordingly, a reasonable possibility exists that material misstatements in the REIT’s financial statements will not be prevented or detected on a timely basis.

Notwithstanding the material weaknesses identified, the REIT has concluded that the financial statements, as at September 30, 2019, are fairly represented in all material respects, in accordance with IFRS.

Remediation Plans and Actions Undertaken

A remediation plan and actions to resolve the aforementioned DCP & ICFR material weaknesses have been communicated to the Audit Committee by the CEO and CFO.

The Board, with direction by the Audit Committee, continues to review progress on the remediation activities determined on a regular and ongoing basis.

The remediation plan and actions include, but are not limited to, the following:

The REIT is acting on the recommendations of an independent consulting firm that was engaged in June 2019 to identify and articulate opportunities to improve the efficiency and effectiveness of the financial close, consolidate and reporting ("CCR"). The REIT is implementing its action plan devised by the consulting firm and approved by the Board of Trustees. In Q3 2019, management enhanced the REIT's financial reporting processes in asset valuation, augmented the documentation of complex transactions and codified internal control processes. In Q4, the REIT will seek to hire a new Chief Financial Officer and begin to implement the revised finance operating model.

The ongoing evaluation and assessment of the Trust's ICFR Program will be monitored and evaluated by the CEO, CFO and the Audit Committee. Any additional control deficiencies identified as part of this process will be evaluated and actioned-upon by Management, as required.

No assurance can be provided at this time that the actions and remedial efforts determined will effectively remediate the material weaknesses described above or prevent the occurrence of further material weaknesses in ICFR due to the inherent limitations noted below. The material weaknesses cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Inherent Limitations

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Given the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of any undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.

SELECTED FINANCIAL INFORMATION

	For the year ended December 31,		
(in thousands of CAD$)	**2018**	**2017**	**2016**
Revenue (excluding finance income)	33,486	32,688	31,120
Revenue (including finance income)	41,261	39,506	35,464
Earnings attributable to Unitholders	22,152	19,167	23,284
Earnings	22,296	19,364	23,405
Assets	622,932	576,709	510,125
Non-current liabilities	223,947	255,441	219,573
Distributions per unit	$ 0.825	$ 0.825	$ 0.825

NON-GAAP FINANCIAL MEASURES

This following presentation incorporates the REIT's proportionate share of income and expenses from investments in joint ventures. Please refer to "Non-GAAP reconciliation".

	Three months ended		Nine months ended	
(in thousands of CAD$)	**2019**	**2018**	**2019**	**2018**
Rental income	9 750	9 386	28 803	28 934
Property operating cost recoveries	2 309	2 825	8 557	8 681
Property operating costs	(2 229)	(2 460)	(11 788)	(11 696)
Other revenues	411	339	435	572
Other property operating expenses	(68)	(77)	(370)	(248)
Net rental earnings	**10 173**	**10 013**	**25 637**	**26 243**
Administration expenses	(1 873)	(1 666)	(6 297)	(5 648)
Foreign exchange gain (loss)	(4)	2	(6)	85
Net change in fair value of investment properties	2 644	(1 282)	3 757	810
Loss on disposal of investment properties	-	-	(56)	-
Acquisition costs	-	61	-	513
Share of profit of an investment (equity method)	-	-	-	-
Operating earnings	**10 940**	**7 128**	**23 035**	**22 003**
Gain (loss) on financial instruments at fair value through P&L	102	1 128	(1 545)	2 924
Finance income	1 163	680	2 832	2 109
Finance costs	(3 070)	(3 204)	(9 601)	(9 311)
Additionnal income (loss) from Arcueil's JV	438	311	4	399
Distributions on Exchangeable securities	(173)	(265)	(528)	(819)
Net change in fair value of Exchangeable securities	(367)	135	(697)	201
Net change in fair value of Promissory notes	(2 031)	(1 982)	(4 494)	(3 661)
Earnings before income taxes	**7 002**	**3 931**	**9 006**	**13 846**
Current income tax expense	(68)	10	(206)	(84)
Deferred income tax expense	(897)	(382)	(1 426)	(6 125)
Earnings for the period	**6 037**	**3 559**	**7 374**	**7 637**
Non-controlling interest	14	(14)	21	(13)
Earnings for the period (part attributable to the Trust)	**6 023**	**3 573**	**7 353**	**7 650**

(1) Includes the REIT's share of the hedging cost of Arcueil's partner.
(2) Reflects the income (loss) in reference to the REIT's 75% interest in the net profit of the Arcueil JV.

LAST 24 MONTHS – KEY FINANCIAL INFORMATION

The information provided in the table below includes our proportionate share of income from investments in joint ventures. Refer to "Non-GAAP section" for reconciliation to our condensed interim consolidated financial statements.

	Three month period ended							
(in thousands of CAD$)	**Sept. 30, 2019**	**June 30, 2019**	**March 31, 2019**	**Dec. 31, 2018**	**Sept. 30, 2018**	**June 30, 2018**	**March 31, 2018**	**Dec. 31, 2017**
Rental income	6,627	6,593	6,043	6,039	6,142	6,539	6,714	6,381
Rental income - Total Portfolio	***9,750***	***9,794***	***9,259***	***9,581***	***9,386***	***9,831***	***9,718***	***8,977***
Net rental earnings	6,981	6,724	2,904	6,136	6,668	6,882	3,842	7,411
Net rental earnings - Total Portfolio	***10,173***	***9,937***	***5,527***	***9,246***	***10,013***	***10,315***	***5,915***	***9,891***
Net income (loss) for the period	6,037	3,240	(1,902)	16,723	3,573	5,970	(1,891)	13,785

NON-GAAP RECONCILIATION

Investments in joint ventures

The REIT's proportionate share of the financial position and results of operation of its investment in joint ventures, which are accounted for using the equity method under IFRS in the condensed interim consolidated financial statements, are presented below using the proportionate consolidation method (with the exception of Arcueil), which is a non-GAAP measure. For the purpose of the proportionate consolidation, the initial investment of both partners in the joint ventures were considered as being equity investments as opposed to a combination of equity and loans and accordingly, the related proportionate consolidation balance sheet items were eliminated as well as the associated finance income and finance costs.

For the Arcueil joint venture, the consolidation presentation reflects a 25% proportionate share of results which aligns with the REIT 25% ownership interest. Per the joint venture agreement, and as reflected in the condensed interim consolidated financial statements, the REIT is entitled to receive a 75% share of the net profit. A line entitled "additional gain or loss from Arcueil joint venture" in the consolidated statement of earnings reconciliation to condensed interim consolidated financial statements bridges both presentations. A reconciliation of the financial position and results of operations to the balance sheets and consolidated statements of earnings is included in the tables shown in the Non-GAAP Reconciliation section.

For the three-month and nine-month periods ended September 30, 2019, the proportional financial results include the following proportion of the revenues and expenses of each one of the joint ventures: 50% respectively for Duisburg, Walpur (Bad Homburg), Stuttgart, Pantin, Arrow (Neu-Isenburg) and Kösching and 25% for Arcueil.

Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO")

FFO and AFFO are non-IFRS performance measures that are widely used by the real estate industry in evaluating the operating performance of real estate entities. The REIT's determination of FFO and AFFO follows the definition prescribed by the Real Estate Property Association of Canada (''REALPAC'') White Paper on Funds From Operations & Adjusted Funds From Operations for IFRS dated February 2019 and as subsequently amended (''White Paper'').

The management considers FFO to be a meaningful supplemental measure that can be used to determine the REIT's ability to service debt, fund capital expenditures and provide distributions to stapled unitholders. The AFFO is a meaningful supplemental measure that can be used to determine the REIT's ability to service debt, fund expansion capital expenditures, fund property development and provide distributions to stapled unitholders after considering costs associated with sustaining operating earnings.

FFO and AFFO calculations are reconciled to net income, which is the most directly comparable IFRS measure. FFO and AFFO should not be construed as an alternative to net income or cash flow generated from operating activities determined in accordance with IFRS.

FFO for the REIT is defined as net earnings in accordance with IFRS, subject to certain adjustments including adjustments for: (i) acquisition costs, (ii) net change in fair value of investment properties, (iii) net change in fair value of derivative financial instruments at fair value through profit and loss, (iv) net changes in fair value of Exchangeable Securities and Private Placement Promissory Note, (v) finance costs related to distribution on Exchangeable Securities and Promissory Notes (vi) adjustment for property taxes accounted for under IFRIC 21 (if any), (vii) loss on exercise of lease option (if any), (viii) adjustment for foreign exchange gains or losses on monetary items not forming part of an investment in a foreign operation, (ix) gain on disposal of an interest in a subsidiary and the non-cash portion of earnings from investments accounted for using the equity method, (x) finance income earned from loans to joint-ventures (if any), (xi) loss on refinancing of debts and other non-recurring finance costs, (xii) deferred taxes and (xiii) gains or losses from non-recurring items, (xiv) additional non-recurring income (loss) from JVs, (xv) minority interest. It has also been adjusted to exclude the distributions declared on Exchangeable Securities and finance costs associated with Promissory Notes. These distributions are recognized in profit and loss consistent with the classification of the Exchangeable Securities as a liability. However, they are not to be considered when determining distributions for the Unitholders as indeed they are subordinated to the distributions to the Unitholders.

Exchangeable Securities and Private Placement Promissory Note are recorded as liability. Exchangeable Securities and Promissory Note are recorded at fair value through profit and loss in accordance with IFRS. However, both are considered as equity for the purposes of calculating FFO and AFFO as they are economically equivalent to the REIT's Units, with the same features and distribution rights that are economically equivalent to the distribution received by Unitholders.

Other non-recurring finance costs corresponds mainly to the foreign exchange hedge maintained on the Arcueil property in line with the Arcueil JV agreement.

Additional non-recurring income (loss) from JV's is related to the Arcueil JV. As per the JV agreement the REIT, upon asset disposal, is entitled to receive 75% of the variance of fair value of investment properties, reduced by 100% of foreign exchange derivative costs.

AFFO is defined as FFO subject to certain adjustments, including adjustments for: (i) the non-cash effect of straight line rents, (ii) the cash effect of the lease equalization loans (iii) amortization of fair value adjustment on assumed debt, (iv) the non-cash portion of the asset management fees paid in Exchangeable securities, (v) capital expenditures, (vi) amortization of transaction costs on mortgage loans.

FFO and AFFO should not be construed as alternatives to net earnings or cash flow from operating activities, determined in accordance with IFRS, as indicators of our performance. Our method of calculating FFO and AFFO may differ from other issuers' methods and accordingly may not be comparable to measures used by them.

Management believes FFO is an important measure of our operating performance and is indicative of our ability to pay distributions. However, it does not represent cash flow from operating activities as defined by IFRS and is not necessarily indicative of cash available to fund Inovalis REIT's needs. This non-IFRS measurement is commonly used for assessing real estate performance.

FFO and AFFO

(in thousands of CAD$)	Three months ended September 30, 2019	2018	Nine months ended September 30, 2019	2018
Earnings for the period	6,023	3,573	7,353	7,650
Add/(Deduct):				
Adjustment to related acquisition costs	-	(61)	-	(513)
Net change in fair value of investment properties	(2,644)	1,282	(3,757)	(810)
(Gain) loss on financial instruments at fair value through profit and loss	550	(784)	2,861	403
Loss on disposal of investment properties	-	-	57	-
Adjustment for property taxes accounted for under IFRIC 21	(1,054)	(1,015)	1,033	1,079
Additional income (loss from Arcueil's JV)	(448)	(311)	(14)	(399)
Interest on promissory notes	902	891	2,660	2,222
Distributions on Exchangeable securities	173	265	528	819
Net change in fair value of Exchangeable securities	367	(135)	697	(201)
Net change in fair value of Promissory Notes	2,031	1,981	4,494	3,661
Foreign exchange (loss) gain	4	(2)	6	(85)
Other non-recurring finance costs	(57)	(25)	263	25
Deferred income tax expense	897	382	1,426	6,125
FFO from Joint Ventures				
Minority interest	14	(14)	21	(13)
FFO	**6,758**	**6,027**	**17,628**	**19,963**
Add/(Deduct):				
Non-cash effect of straight line rents	79	(69)	491	580
Cash effect of the lease equalization loans	(276)	(299)	(844)	(895)
Amortization of transaction costs on mortgage loans	79	71	227	220
Non-cash part of asset management fees paid in Exchangeable securities	372	408	1,165	1,451
Capex net of cash subsidy	(900)	(400)	(1,300)	(2,075)
AFFO	**6,112**	**5,738**	**17,367**	**19,244**
FFO / Units (diluted) *(in CAD$) (4)*	**0.23**	**0.21**	**0.61**	**0.72**
AFFO / Units (diluted) *(in CAD$) (4)*	**0.21**	**0.20**	**0.60**	**0.69**

(1) For purposes of this presentation, 50% of the asset management fee is included in the AFFO reconciliation. 50% of the asset management fees for were paid in Exchangeable securities.

Balance sheet reconciliation to consolidated financial statements

Assets	As at September 30,2019 As per REIT's financial statements (1)	Share from investments in joint-ventures	Proportionate Consolidation	As at December 31, 2018 As per REIT's financial statements (1)	Share from investments in joint-ventures	Proportionate Consolidation
Non-current assets						
Investment properties	462 813	191 301	**654 114**	421 937	207 752	**629 689**
Investments accounted for using the equity method	90 797	(90 797)	**-**	98 703	(98 703)	**-**
Acquisition loans	24 400	-	**24 400**	25 719	-	**25 719**
Derivative financial instruments	321	(1)	**320**	306	28	**334**
Restricted cash	5 155	-	**5 155**	1 644	280	**1 924**
Total non-current assets	583 486	100 503	**683 989**	548 309	109 357	**657 666**
Current assets						
Trade and other financial assets	5 413	1 332	**6 745**	4 000	1 126	**5 126**
Derivative financial instruments	2 578	19	**2 597**	64	20	**84**
Call option related to the acquisition loan	7 084	-	**7 084**	6 750		**6 750**
Other current assets	2 140	1 030	**3 170**	1 080	1 166	**2 246**
Cash and cash equivalents	11 595	5 822	**17 417**	19 110	6 444	**25 554**
Total current assets	28 810	8 203	**37 013**	31 004	8 756	**39 760**
Assets classified as held for sale				40 027		**40 027**
Total assets	612 296	108 706	**721 002**	619 340	118 113	**737 453**
Liabilities and Unitholders' equity						
Liabilities						
Non-current liabilities						
Interest-bearing loan	469		**469**	-		**-**
Mortgage loans	130 391	71 192	**201 583**	83 391	76 850	**160 241**
Lease liabilities	116 641	25 250	**141 891**	120 547	28 442	**148 989**
Other long-term liabilities	-	844	**844**	-	638	**638**
Lease equalization loans	1 160	-	**1 160**	2 130	-	**2 130**
Tenant deposits	1 922	117	**2 039**	2 180	134	**2 314**
Exchangeable securities	2 642	-	**2 642**	4 779	-	**4 779**
Derivative financial instruments	4 001	-	**4 001**	1 396	107	**1 503**
Deferred tax liabilities	9 038	6 839	**15 877**	8 428	7 274	**15 702**
Deferred income	-	-	**-**	1 099	-	**1 099**
Total non-current liabilities	266 264	104 242	**370 506**	223 950	113 445	**337 395**
Current liabilities						
Interest-bearing loan	-	-	**-**	-	-	**-**
Promissory Notes	46 965	-	**46 965**	42 471	-	**42 471**
Mortgage loans	4 016	28	**4 044**	14 588	35	**14 623**
Lease liabilities	6 897	1 308	**8 205**	6 637	1 313	**7 950**
Lease equalization loans	1 084	-	**1 084**	1 185	-	**1 185**
Tenant deposits	596	22	**618**	687	23	**710**
Exchangeable securities	6 371	-	**6 371**	3 203	-	**3 203**
Derivative financial instruments	1 366	91	**1 457**	1 207	-	**1 207**
Trade and other payables	11 912	2 723	**14 635**	7 145	3 042	**10 187**
Deferred income	2 886	292	**3 178**	4 394	255	**4 649**
Total current liabilities	82 093	4 464	86 557	81 517	4 668	**86 185**
Liabilities directly associated with assets classified as held for sale				21 792		**21 792**
Total liabilities	348 357	108 706	**457 063**	327 259	118 113	**445 372**
Equity						
Trust units	210 414	-	**210 414**	207 442	-	**207 442**
Retained earnings	40 680	-	**40 680**	47 974	-	**47 974**
Accumulated other comprehensive income	11 714	-	**11 714**	36 146	-	**36 146**
	262 808	-	**262 808**	291 562	-	**291 562**
Non-controlling interest	1 131	-	**1 131**	519	-	**519**
Total liabilities and equity	612 296	108 706	**721 002**	619 340	118 113	**737 453**

(1) Balance sheet amounts presented for the REIT were taken from the interim consolidated financial statements as at September 30, 2019 and from the audited consolidated financial statements as at December 31, 2018.

Consolidated statement of earnings reconciliation to consolidated financial statements

	Three months ended					
	As at September 30,2019			As at September 30,2018		
(in thousands of CAD$)	**Amounts per REIT's financial statements (1)**	**Share of earnings from investments in joint ventures**	**Total**	**Amounts per REIT's financial statements (1)**	**Share of earnings from investments in joint ventures**	**Total**
Rental income	6 627	3 123	**9 750**	6 142	3 244	**9 386**
Property operating cost recoveries	1 528	781	**2 309**	1 903	922	**2 825**
Property operating costs	(1 519)	(710)	**(2 229)**	(1 635)	(825)	**(2 460)**
Other revenues	411	-	**411**	328	11	**339**
Other property operating expenses	(66)	(2)	**(68)**	(70)	(7)	**(77)**
Net rental earnings	**6 981**	**3 192** -	**10 173** -	**6 668** -	**3 345** -	**10 013**
Administration expenses	(1 360)	(513)	**(1 873)**	(1 126)	(540)	**(1 666)**
Foreign exchange gain	(4)	-	**(4)**	2	-	**2**
Net change in fair value of investment properties	3 746	(1 102)	**2 644**	(1 062)	(220)	**(1 282)**
Acquisition costs	-	-	**-**	-	61	**61**
Share of profit of an investment (equity method)	342	(342)	-	925	(925)	-
Operating earnings	**9 705**	**1 235**	**10 940**	**5 407**	**1 721**	**7 128**
Gain (loss) on financial instruments at fair value through P&L	85	17	**102**	1 107	21	**1 128**
Finance income	2 435	(1 272)	**1 163**	2 058	(1 378)	**680**
Finance costs	(2 627)	(443)	**(3 070)**	(2 589)	(615)	**(3 204)**
Additionnal income (loss) from Arcueil's JV	-	438	**438**	-	311	**311**
Distributions on Exchangeable securities	(173)	-	**(173)**	(265)	-	**(265)**
Net change in fair value of Exchangeable securities	(367)	-	**(367)**	135	-	**135**
Net change in fair value of Promissory notes	(2 031)	-	**(2 031)**	(1 981)	(1)	**(1 982)**
Earnings before income taxes	**7 027**	**(25)**	**7 002**	**3 872**	**59**	**3 931**
Current income tax expense	(64)	(4)	**(68)**	(11)	21	**10**
Deferred income tax expense	(926)	29	**(897)**	(302)	(80)	**(382)**
Earnings for the period	**6 037**	**-**	**6 037**	**3 559**	**-**	**3 559**
Non-controlling interest	14	-	14	(14)	-	(14)
Earnings for the period (part attributable to the Trust)	**6 023**	**-**	**6 023**	**3 573**	**-**	**3 573**

(1) Income statement amounts presented for the REIT were taken from the interim consolidated financial statements as at September 30, 2019 and September 30, 2018.

Consolidated statement of earnings reconciliation to consolidated financial statements - Continued

	Nine months ended					
	September 30,2019			September 30,2018		
(in thousands of CAD$)	Amounts per REIT's financial statements [(1)]	Share of earnings from investments in joint ventures	Total	Amounts per REIT's financial statements [(1)]	Share of earnings from investments in joint ventures	Total
Rental income	19 263	9 540	**28 803**	19 395	9 539	**28 934**
Property operating cost recoveries	6 123	2 434	**8 557**	6 007	2 674	**8 681**
Property operating costs	(8 881)	(2 907)	**(11 788)**	(8 528)	(3 168)	**(11 696)**
Other revenues	409	26	**435**	752	(180)	**572**
Other property operating expenses	(305)	(65)	**(370)**	(233)	(15)	**(248)**
Net rental earnings	**16 609**	**9 028**	**25 637**	**17 393**	**8 850**	**26 243**
Administration expenses	(4 758)	(1 539)	**(6 297)**	(4 173)	(1 475)	**(5 648)**
Foreign exchange gain	(6)	-	**(6)**	85	-	**85**
Net change in fair value of investment properties	4 488	(731)	**3 757**	276	534	**810**
Loss on disposal of investment properties	(56)	(0)	**(56)**	-	-	-
Acquisition costs	-	-	-	-	513	**513**
Share of profit of an investment (equity method)	886	(886)	-	2 499	(2 499)	-
Operating earnings	**17 163**	**5 872**	**23 035**	**16 080**	**5 923**	**22 003**
Gain (loss) on financial instruments at fair value through P&L	(1 543)	(2)	**(1 545)**	2 928	(4)	**2 924**
Finance income	6 743	(3 911)	**2 832**	6 161	(4 052)	**2 109**
Finance costs	(7 774)	(1 827)	**(9 601)**	(7 606)	(1 705)	**(9 311)**
Additionnal income (loss) from Arcueil's JV	-	4	**4**	-	399	**399**
Distributions on Exchangeable securities	(528)	-	**(528)**	(819)	-	**(819)**
Net change in fair value of Exchangeable securities	(697)	-	**(697)**	201	-	**201**
Net change in fair value of Promissory notes	(4 494)	-	**(4 494)**	(3 661)	-	**(3 661)**
Earnings before income taxes	**8 870**	**136**	**9 006**	**13 284**	**562**	**13 846**
Current income tax expense	(191)	(15)	**(206)**	(25)	(59)	**(84)**
Deferred income tax expense	(1 305)	(121)	**(1 426)**	(5 622)	(503)	**(6 125)**
Earnings for the period	**7 374**	**(0)**	**7 374**	**7 637**	**(0)**	**7 637**
Non-controlling interest	21	-	21	(13)	-	(13)
Earnings for the period (part attributable to the Trust)	**7 353**	**(0)**	**7 353**	**7 650**	**(0)**	**7 650**

Equity

Our discussion about equity is inclusive of Exchangeable Securities and Private Placement Promissory Note which are economically equivalent to the REIT's Units. In our condensed interim consolidated financial statements, the Exchangeable securities are classified as a combination of current and non-current liabilities under GAAP because of the conversion feature that can be exercised by the holder of those securities.

As at September 30, 2019 the REIT has 23,826,961 Units issued and outstanding.

	Three month period ended September 30, 2019	Nine month period ended September 30, 2019
Units		
Number at beginning of period	23,743,618	23,513,652
Increase/(Decrease) in number during the period	-	90,500
Units issued pursuant to the DRIP	83,343	222,809
Number at end of period	23,826,961	23,826,961
Weighted average number during the period	23,797,510	23,655,095
Exchangeable securities		
Number at beginning of period	826,135	844,673
Increase in number during the period	36,416	17,878
Number at end of period	862,551	862,551
Weighted average number during the period	826,135	843,220
Promissory notes		
Number at beginning of period	4,494,301	4,494,301
Number at end of period	4,494,301	4,494,301
Weighted average number during the period	4,494,301	4,494,301
Units, Exchangeable securities and Promissory notes		
Number at beginning of period	29,064,054	28,852,626
Increase/(Decrease) in number during the period	119,759	331,187
Number at end of period	29,183,813	29,183,813
Weighted average number during the period	29,117,946	28,992,616

83,343 Units were issued pursuant to the Distribution Reinvestment Plan ("DRIP") in Q3 2019. As at September 30, 2019, 16.7% of the Units were enrolled in the DRIP.

Distribution and management of foreign exchange risk

Our Declaration of Trust provides our trustees with the discretion to determine the percentage payout of income that would be in the best interests of the REIT. Given that the level of working capital tends to fluctuate over time and should not affect our distribution policy, we do not consider it when determining our distributions.

Contracts Maturing by Quarter	Hedge Value (EUR)	Weighted average hedging rate
Q4 2019	2,387,176	1.634
Q1 2020	2,373,135	1.643
Q2 2020	2,360,637	1.652
Q3 2020	2,348,270	1.661
Q4 2020	780,312	1.666
	10,249,530	

To mitigate risk of foreign exchange fluctuations on the distributions to our Unitholders, we have established an active foreign exchange hedging program. As at September 30, 2019, the REIT was committed to sell EUR788 (on average) at an average rate of 1.649 and to receive CAD$1,300 on a monthly basis until October 2020 (included).

Monthly distributions to Unitholders have been CAD$0.06875 per Unit, or CAD$0.825 per Unit on an annual basis.

SUBSEQUENT EVENTS

On October 30th, 2019, the REIT entered into an agreement to sell the Vanves property with a gross leasable area of 24,031 m2 (258,673 sq. Ft.) located in Paris periphery.

The net sale price is EUR95 million (CAD$137 million) (excluding closing costs), in excess of the carrying value of the property as of September 30th, 2019 by approximately 5%. The transaction is expected to close on or before December 26th, 2019.

The buyer has demonstrated his commitment by agreeing to a EUR9.5 million (c. CAD$13.7 million) non-refundable security deposit of which EUR4.75 million (CAD$6.9 million) was paid on the day of signing under the unilateral promise to sell. The second half of the non-refundable security deposit is due to be paid on or before December 26, 2019. This amount will be applied to the selling price of the property at the transaction date, it will not be refunded in the event of the withdrawal of the buyer’s offer.

****