Q3 2021

Inovalis REIT

Management's Discussion & Analysis

30 September 2021

European real estate assets managed by local experts

INOVALIS

REAL ESTATE INVESTMENT TRUST

Contents

All amounts in the MD&A are presented in thousands of Canadian dollars or Euros, except rental rates, per unit amounts or as otherwise stated. Information contained in this MD&A is based on information available to management as of November 10, 2021.

Tenant demand for our properties has strengthened throughout 2021

Letter to Unitholders

While recognizing the pandemic is not "over", a high level of vaccination uptake across Europe coupled with some form of vaccine passport, is allowing a return to many pre-pandemic activities across the continent. This includes people returning to work in offices and we sense that while there may be occasional isolated outbreaks, this move to more regular activities will continue.

For the REIT, the resilience of our business has gotten us through what we all hope is the worst of the pandemic. Our priorities continue to be based on our recently adopted Core+ strategy – deploying CAD$55,000 in assets, investing up to 15% in select new European markets, simplifying our governance structure, selling mature assets while investing in higher return AFFO[1] accretive opportunities, and continuing our participatory distribution program on asset divestitures.

Over the last two years, we have seen renewed expressions of interest from third parties in several of our assets, underscoring our strong track record of identifying and capitalizing on value in mature assets in Paris and Germany. As we assess individual expressions of interest, we expect our asset recycling program will continue to be an important activity for the REIT.

The CAD$105 million commitment to sell the Jeuneurs asset in Paris, signed last July, was subject to the Paris City Hall preemption right, which was officially waived on August 11. Closing should therefore occur by mid-December 2021 and the related increase in fair market value can be recognized this quarter.

The recently completed strategic review process addressed the sustainability of the REIT's distributions. Based on current cash flow stability and deployment of its capital, it concluded that the current $0.06875 regular monthly distribution should remain in place for the foreseeable future, in line with the following goals and priorities for the REIT:

- Reducing normalized AFFO[1] payout ratio[2] <95% in 12 months and <85% within three years,
- Achieving three-year average AFFO/unit growth of 2-3% per year, and
- Evaluating the asset recycling program profit distributions over a three-year period with the goal of increasing the payout by a minimum of 10% annualized.

We are also completing a portfolio-wide Environmental, Social and Governance (ESG) independent audit of our assets. This will give us critical data that will allow us to integrate ESG strategies and objectives in our pursuit of strong financial performance, while also providing clear and measurable ESG practices and disclosure.

We are feeling very good entering the last quarter of 2021. We performed well during a global pandemic that at times was particularly harsh in our key markets, we have renewed leadership on a smaller Board of Trustees, a well-defined strategy that is showing early signs of success, and several exciting opportunities for investments in Germany, France and possibly Spain.

The new board, together with management, are focused on operating fundamentals, managing the properties, supporting tenants, maintaining bank relationships, and delivering results to our unitholders. I am confident in our capacity to manage any challenges and opportunities ahead of us.

I thank you for your trust.

Stéphane Amine
President of Inovalis Real Estate Trust

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[1] Adjusted Funds From Operations (AFFO) is a Non-GAAP Measure. See the section on page 40 for further discussion on the composition and usefulness of this metric and as well as a quantitative reconciliation to its most directly comparable financial measure. Also see the section "Non-GAAP Financial Measures" on page 36 for more information on the REIT's non-GAAP financial measures."

[2] Calculated as Declared distributions on Units and Exchangeable Sec. & Promissory notes, excluding Participatory Distribution, divided by Adjusted Funds from Operations (AFFO).

Q3 2021

Net Rental Income	Adjusted Net Rental Income	FFO	AFFO
CAD$7.0 Million	**CAD$6.3 Million**	**CAD$0.12**	**CAD$0.11**

Highlights

Net Rental Income

For the portfolio that includes only assets owned entirely by the REIT ("IP Portfolio"), net rental income for the three months ended September 30, 2021 ("Q3 2021"), was CAD$7,022 (EUR€4,692) compared to CAD$7,260 (EUR€4,771) for the three months ended September 30, 2020 ("Q3 2020"). Net rental income for Q3 2021, adjusted for IFRIC 21 – Levies ("IFRIC 21")[1], was CAD$6,308 (EUR€4,215), compared to CAD$6,553 (EUR€4,307) adjusted net rental income for Q3 2020. The decrease in net rental income of CAD$167 and in net rental income adjusted for IFRIC 21 – Levies of CAD$174 is mainly attributable to the negative foreign exchange impact of CAD$120, the IP portfolio increase of Bad Homburg in Q3 2020 being offset by the departure of the main tenant in the Sablière property in Q3 2021.

In Q3 2021, net rental income adjusted for IFRIC 21 for the portfolio that includes the REIT's proportionate share in joint ventures ("Total Portfolio")[2], was CAD$8,304 (EUR€5,548), compared to CAD$8,793 (EUR€5,779) for Q3 2020, mainly attributable the departure of main tenant in the Sablière property (CAD$380) and the negative foreign exchange loss of CAD$146.

As at September 30, 2021, 82.2% of the REIT's wholly-controlled properties and 84.9% of the Total Portfolio are leased on a long-term basis to high-credit quality tenants. The weighted average lease break option of the Total Portfolio stands at 2.7 years.

COVID-19 Related Business Update

High levels of vaccination coupled with proof of vaccination requirements have allowed many markets to return to a much higher level of activity than we have seen over the last 18 months, but management continues to monitor market conditions carefully.

Management remains confident in the strength of its portfolio, as indicated by Q3 2021 results and its strong rent collections, both in France and Germany.

Leasing Operations

In the REIT's Total Portfolio, over 12,000 sq. ft. of office space have been secured over the nine-month period, through new leases or maturity extensions on the Baldi, Pantin and Stuttgart properties. In addition, the REIT has signed two major leases that will result in over 46,000 sq. ft. of previously vacant office space being occupied starting in Q4 2021. At the Bad Homburg property, 37% of vacant space has been leased for seven-firm years. On the Duisburg property, the lease of the vacant floor has been finalized which will increase occupancy of that property to 100% before the end of the year.

Overall, the occupancy rate on the Total Portfolio is 84.9%. For Q4, the occupancy rate will be impacted by the departure of the main tenant on the Baldi property (approximately 3.6% of total occupancy and CAD$1.5 million in rental income), but also two new significant leases signed on the Bad Homburg and Duisburg properties. Renewed inquiries from prospective tenants since Q2 2021 show growing confidence in both France and Germany. To bolster leasing efforts, management will selectively complete capital expenditure improvements on vacant areas to attract tenants and maximize rent.

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1 Net rental Income adjusted for IFRIC 21 is a Non-GAAP Measure. See the "Net Rental Income" section on page 21 for further discussion on the composition and usefulness of this metric and as well as a quantitative reconciliation to its most directly comparable financial measure. See the section "Non-GAAP Financial Measures" on page 36 for more information on the REIT's non-GAAP financial measures.

2 Net rental Income adjusted for IFRIC 21 for the portfolio that includes the REIT's proportionate share in joint ventures is a Non-GAAP Measure. See the "Net Rental Income" section on page 21 for further discussion on the composition and usefulness of this metric and as well as a quantitative reconciliation to its most directly comparable financial measure. See the section "Non-GAAP Financial Measures" on page 36 for more information on the REIT's non-GAAP financial measures.

Adjusted Funds From Operations

The REIT follows the recommendations of the Real Property Association of Canada (“REALPAC”) (February 2019 White Paper) with certain exceptions. Funds from Operations (“FFO”) per unit and Adjusted Funds from Operations (“AFFO”) per unit are Non-GAAP ratios. Non-GAAP ratios do not have standardized meaning under IFRS. These measures as computed by the REIT may differ from similar computations as reported by other entities and, accordingly, may not be comparable to other entities. Refer to the Non-GAAP Financial Measures section of this MD&A for a more detailed discussion on FFO and AFFO.

In Q3 2021, the REIT reported FFO and AFFO of CAD$0.12 and CAD$0.11 per Unit respectively, versus CAD$0.19 and CAD$0.18 for the same period last year[1]. As economic recovery is gradually restored in the Paris and German markets and the REIT’s strategic review has been completed, management is launching plans to deploy its cash for acquisitions of income-generating assets.

Financing Activity

The REIT is financed almost exclusively with asset-level, non-recourse financing with an average term to maturity of 4.1 years.

As at September 30, 2021, the weighted average interest rate across the IP Portfolio debt was 2.02% and the debt-to-book value ratio was 40.6% (37% net of cash), comfortably within the REIT’s mandated threshold of 60%[2].

At the same date, the REIT had CAD$38,600 of cash on its consolidated balance sheet.

Looking ahead, management is considering other refinancing opportunities to take advantage of historically low interest rates in Europe, which have been marginally affected by the economic consequences of the pandemic.The REIT should be able to finance assets on a less costly basis than that offered by traditional financing in Canada.

Bad Homburg

The contribution of the Bad Homburg property to the nine-month net rental income represented CAD$892, an increase of CAD$75 compared to the same period in 2020. The property was initially a jointly owned asset, with the REIT acquiring the outstanding 50% in October 2020. Although the property had a 48% vacancy rate at the end of Q3 2021, a new lease has been finalized on 18% of the property area for a firm seven-year period (plus five optional years) starting at the end Q4 2021.

Jeuneurs

On July 27, as part of the new asset recycling program, the REIT signed an agreement to sell the Jeuneurs asset for CAD$104,500 (EUR€71,200). The asset will be sold to a Paris-based investor specialized in the repositioning of Central Business District assets, with a closing date tentatively scheduled for mid-December. The property is currently recorded at a fair value equal to the sale price of CAD$104,500 (EUR€71,200), excluding closing costs. Closing costs of CAD$4,900 (EUR€3,300) are estimated to be incurred by the REIT at the time of sale and will be

1 Calculated as FFO/AFFO divided by the diluted weighted average number of Units, Exchangeable Securities and Promissory Notes (in 2020 only). A reconciliation of FFO and AFFO to Net Income can be found under the section Non-GAAP Reconciliation (FFO and AFFO) on Page 41.

2 Also see the section "Capital Management" on page 25 for further discussion on the composition and usefulness of these metrics.

accounted for accordingly at that time. As at September 30, 2021, the asset is presented on a separate “Asset held for sale” line on the REIT’s consolidated balance sheet.

Courbevoie (Veronese)

The sale of the Courbevoie asset was initially conditionally scheduled to be completed by the end 2021 at a price of CAD$40,000 (EUR€27,200), the disposition being contingent on the buyer obtaining a building permit and the seller vacating the asset by the end of the year, each acting at their own expense. The building permit application was obtained on October 7, and final negotiations with tenants are underway. Given the uncertainty related to the conditions attached to the commitment to sell and the final timing of closing which may be deferred to the end of Q1 2022, the Courbevoie property does not qualify for the presentation as an asset held for sale as of September 30, 2021.

Duisburg

On April 19, 2021, management signed a two-year extension of the Joint Venture Agreement (“JVA”) with the partner in the Duisburg property, maturing on December 31, 2022. The only vacant floor has been leased to a new tenant with a firm five-year term, bringing the occupancy rate back to 100% this month. Refinancing of the in-place CAD$36,000 (EUR€24,500) mortgage loan agreement - maturing in June 2023 – is now being tendered to a handful of banks.

Environmental, Social and Governance (ESG)

Integrating ESG objectives and strategies into our business reflects the growing importance these factors play with many of our key stakeholders. Investors recognize the risks associated with changing regulatory requirements, tenants are including sustainability considerations in their leasing decisions, and employees want to work for responsible organizations. The REIT wants to improve its long-term environmental performance, and also invest in “human capital” for the implementation and monitoring of all ESG initiatives. We are completing a portfolio-wide ESG independent audit of our assets, with the view to formalizing ESG priorities adjusted to the nature of our properties. The exercise will identify clear and measurable ESG practices and disclosures which we will apply and ensure are addressed by our third-party service providers.

FX Hedging

Adjusting to the recent strengthening of the Canadian dollar against the Euro, a new hedging contract has been set for the period from November 2022 to October 2024, at more competitive rates relative to recent foreign exchange fluctuation. Twenty-three monthly forward exchange contracts have been signed for the conversion of CAD$2,200 at $1.53/EUR average exchange rate.

Capital Market Considerations

The REIT has reliably maintained returns to unitholders, continuing to pay a stable, attractive distribution and, in July 2021, paid out a special participatory distribution of $0.307 per unit. With an average trading price of CAD$9.65 in Q3 2021, the REIT provides a very attractive investment opportunity for investors who understand the long-term value of quality real estate in strategic European locations, all the more as the current unit price still represents a significant discount of the underlying net asset value. The REIT’s unitholders’ equity on September 30, 2021, was CAD$371,366, which implies a book value per Unit at that date of CAD$11.46/Unit or CAD$11.39/Unit on a fully diluted basis. The REIT is well positioned to opportunistically invest its substantial cash reserve in new assets as the real estate sector and European economy stabilizes. Several operational and value add opportunities are in the outlook for the remainder of 2021 and beyond.

Overview – GAAP and Non-GAAP

The REIT has identified specific key performance indicators to measure the progress of its long-term objectives. These are set out below:

	September 30, 2021		December 31, 2020	
Operating metrics	**IP Portfolio**	**Total Portfolio**	**IP Portfolio**	**Total Portfolio**
Number of properties	8	13	8	14
Gross leasable area (sq. ft.)	1,026,940	1,449,325	1,026,940	1,453,255
Weighted occupancy rate - end of period (1)	82.2%	84.9%	89.3%	90.3%
Weighted average lease term	2.6 years	3.2 years	3.1 years	3.6 years
Average initial yield (2)	4.7%	4.8%	4.9%	5.1%
Capital management metrics	**IP Portfolio**	**Total Portfolio**	**IP Portfolio**	**Total Portfolio**
Available liquidity (3) (4)	$38,574	$42,624	$80,376	$84,189
Fair value of investment properties	$544,993	$591,372	$541,218	$701,458
Level of debt (debt-to-book value) (3)	40.6%	46.7%	42.3%	48.3%
Level of debt (debt-to-book value, net of cash) (3)	37.0%	43.5%	35.0%	42.3%
Weighted average term of principal repayments of debt	4.1 years	3.7 years	5.4 years	4.9 years
Weighted average interest rate (3) (5)	2.02%	1.95%	2.03%	1.95%
Interest coverage ratio (3) (6)	2.6 x	3.0 x	3.5 x	3.7 x

(1) Calculated on weighted areas (activity, storage and inter-company restaurant areas) being accounted for only a third of their effective areas, because of their lower rental value.

(2) Calculated on annualized net rental income (based on net rental income for the year-to-date period).

(3) See the section “Non-GAAP Financial Measures” on page 36 for more information on the REIT’s non-GAAP financial measures and reconciliations thereof. Non-GAAP measures do not have standardized meaning under IFRS. These measures as computed by the REIT may differ from similar computations as reported by other entities and, accordingly, may not be comparable to other entities.

(4) See the section “Capital Management” on page 25 for further discussion on the composition and usefulness of this metric.

(5) Calculated as the weighted average interest rate on lease liabilities and mortgage financing.

(6) Calculated as net rental income plus interest income, less general and administrative expenses, divided by interest expenses on the lease liabilities and mortgage financing. Also see the section “Capital Management” on page 25 for further discussion on the composition and usefulness of this metric.

(thousands of CAD$ except per Unit and other data)	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Financial performance metrics				
Rental revenue	7,650	7,154	21,941	21,151
Rental revenue - Total Portfolio (1)	9,773	9,606	28,270	28,369
Net rental income	7,022	7,260	18,378	18,838
Net rental income - Total Portfolio (1)	9,112	9,610	24,185	25,701
Net income for the period, attributable to the Trust	32,151	4,445	45,562	27,147
Funds from Operations (FFO) (1) (2)	4,157	6,393	12,592	17,293
Adjusted Funds from Operations (AFFO) (1) (2)	3,816	5,984	11,890	15,336
FFO per Unit (diluted) (1) (2) (3)	0.12	0.19	0.38	0.51
AFFO per Unit (diluted) (1) (2) (3)	0.11	0.18	0.35	0.45
Distributions				
Declared distributions on Units and Exchangeable sec.	7,264	6,008	31,028	18,280
Declared distributions on Units and Exchangeable sec. & Promissory notes	7,264	6,941	31,028	20,991
Declared distributions on Units and Exchangeable sec. & Promissory notes, excluding Participatory Distribution	7,264	6,941	21,081	20,991
Declared distribution per Unit, including Participatory Distribution	0.21	0.21	0.93	0.62
Declared distribution per Unit, excluding Participatory Distribution	0.21	0.21	0.62	0.62
FFO payout ratio (1) (2) (4)	174.7%	108.6%	167.4%	121.4%
AFFO payout ratio (1) (2) (5)	190.3%	116.0%	177.3%	136.9%

(1) See the section “Non-GAAP Financial Measures” on page 36 for more information on the REIT’s non-GAAP financial measures and reconciliations thereof.

(2) Excluding the Participatory Distribution. The reconciliation of FFO and AFFO to Net Income can be found under the section Non-GAAP Reconciliation (FFO and AFFO).

(3) Based on the diluted weighted average number of Units, Exchangeable securities and Promissory Notes (in 2020 only).

(4) Calculated as Declared distributions on Units and Exchangeable Sec. & Promissory notes, excluding Participatory Distribution, divided by Funds from Operations (FFO).

(5) Calculated as Declared distributions on Units and Exchangeable Sec. & Promissory notes, excluding Participatory Distribution, divided by Adjusted Funds from Operations (AFFO).

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 unaudited condensed interim consolidated financial statements as at September 30, 2021, and for the three and nine-month periods ended September 30, 2021, and 2020. These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB").

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

Historical results, including trends which might appear in this MD&A, should not be taken as indicative of future operations or results. See "Forward-Looking Information" for further details. Information contained in this MD&A, including forward-looking information, is based on information available to management as of November 10, 2021. Additional information about Inovalis REIT has been filed with applicable Canadian securities regulatory authorities and is available at www.sedar.com.

Forward-Looking Information

Although management believes that the expectations reflected in the forward-looking information are reasonable, no assurance can be given that these expectations will prove to be correct, and since forward-looking information inherently involves risks and uncertainties, undue reliance should not be placed on such information.

Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such forward-looking statements. The estimates and assumptions, which may prove to be incorrect, include, but are not limited to, the various assumptions set forth in this document as well as the following:

(i) the ability to continue to receive financing on acceptable terms;

(ii) the future level of indebtedness and the REIT's future growth potential will remain consistent with current expectations;

(iii) there will be no changes to tax laws adversely affecting the REIT's financing capability, operations, activities, structure, or distributions;

(iv) the REIT will retain and continue to attract qualified and knowledgeable personnel as the portfolio and business grow;

(v) the impact of the current economic climate and the current global financial conditions on operations, including the REIT's financing capability and asset value, will remain consistent with current expectations;

(vi) there will be no material changes to government and environmental regulations that could adversely affect operations;

(vii) conditions in the international and, in particular, the French, German and other European real estate markets, including competition for acquisitions, will be consistent with past conditions;

(viii) capital markets will provide the REIT with readily available access to equity and/or debt financing; and

(ix) the impact the COVID-19 pandemic will have on the REIT's operations, the demand for the REIT's properties and global supply chains and economic activity in general.

The REIT cautions that this list of assumptions is not exhaustive. Although the forward-looking statements contained in this MD&A are based upon assumptions that management believes are reasonable based on information currently available to management, there can be no assurance that actual results will be consistent with these forward-looking statements.

When relying on forward-looking statements to make decisions, the REIT cautions readers not to place undue reliance on these statements, as forward-looking statements involve significant risks and uncertainties. Forward-looking statements should not be read as guarantees of future performance or results and will not necessarily be accurate indications of whether or not, or the times at or by which, such performance or results will be achieved. A number of factors could cause actual results to differ, possibly materially, from the results discussed in the forward-looking statements, including, but not limited to:

- the REIT's ability to execute its growth and capital deployment strategies;
- the impact of changing conditions in the European office market;
- the marketability and value of the REIT's portfolio;
- changes in the attitudes, financial condition and demand in the REIT's demographic markets;
- fluctuation in interest rates and volatility in financial markets;
- the duration and ultimate impact of the COVID-19 pandemic and related government interventions on the REIT's business, operations and financial results;
- general economic conditions, including any continuation or intensification of the current economic downturn;
- developments and changes in applicable laws and regulations; and
- such other factors discussed under ''Risk Factors and Uncertainties'' in this MD&A.

If any risks or uncertainties with respect to the above materialize, or if the opinions, estimates or assumptions underlying the forward-looking statements prove incorrect, actual results or future events might vary materially from those anticipated in the forward-looking statements. The opinions, estimates or assumptions referred to above and described in greater detail under ''Risks and Uncertainties'' should be considered carefully by readers. Although management has attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other risk factors not presently known or that management believes are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking statements.

Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Certain statements included in this MD&A may be considered a ''financial outlook'' for purposes of applicable Canadian securities laws, and as such, the financial outlook may not be appropriate for purposes other than this MD&A. All forward-looking statements are based only on information currently available to the REIT and are made as of the date of this MD&A. Except as expressly required by applicable Canadian securities law, the REIT assumes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All forward-looking statements in this MD&A are qualified by these cautionary statements.

Market and Industry Data

This MD&A includes market and industry data and forecasts that were obtained from third-party sources, industry publications and publicly available information, as well as industry data prepared by Inovalis S.A. based on its knowledge of the commercial real estate industry (including Inovalis S.A. estimates and assumptions relating to the industry based on that knowledge). Inovalis S.A.'s management has knowledge of the real estate industry developed through its nearly 30 years of experience and participation in the industry.

Business Overview and Strategy

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

The REIT's long-term objectives are to:

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

The REIT's investment criteria encompass office properties outside of Canada with an occupancy level above 80% (unless AFFO accretive), secured rental cash flows, a property value between EUR€20,000 to EUR€60,000 (unless AFFO accretive) and potential future upside with respect to matters including rent and area development. According to management, the target investment size falls within a very liquid segment of the real estate market in Europe, and debt financing for such acquisitions is readily available from local lenders.

Foreign Currency Environment

The REIT's current asset base is located in France and Germany. Items included in the financial statements of each of the REIT's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the REIT's subsidiaries and joint ventures is the Euro, whereas the functional currency of the Trust, as well as its presentation currency, is the Canadian dollar. As such, although the REIT's main assets and liabilities are denominated in Euros, the REIT's financial results are translated into Canadian dollars for presentation purposes as follows:

- Assets and liabilities are converted to CAD$ at the closing rate at the date of the balance sheet;
- Items presented in the consolidated statement of earnings, consolidated statement of comprehensive income and consolidated statement of cash flows are translated at average exchange rates during the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income, expenses and cash flows are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognized in other comprehensive income and recognized as a cumulative translation adjustment account in "Accumulated other comprehensive income" in equity.

A change in the EUR/CAD foreign exchange rate therefore may have a material impact on the REIT's consolidated financial statements and results.

The exchange rate used throughout this MD&A for statement of earnings items is the average rate during the applicable period, which for the period ended September 30, 2021, and 2020, is CAD$1.4966 and CAD$1.5217, respectively.

For balance sheet items as at September 30, 2021, projections, or market data, the exchange rate used is CAD$1.4682 (CAD$1.5555 as at December 31, 2020).

Over the nine-month period ended September 30, 2021, the Canadian dollar strengthened by approximately 5.6% relative to the Euro.

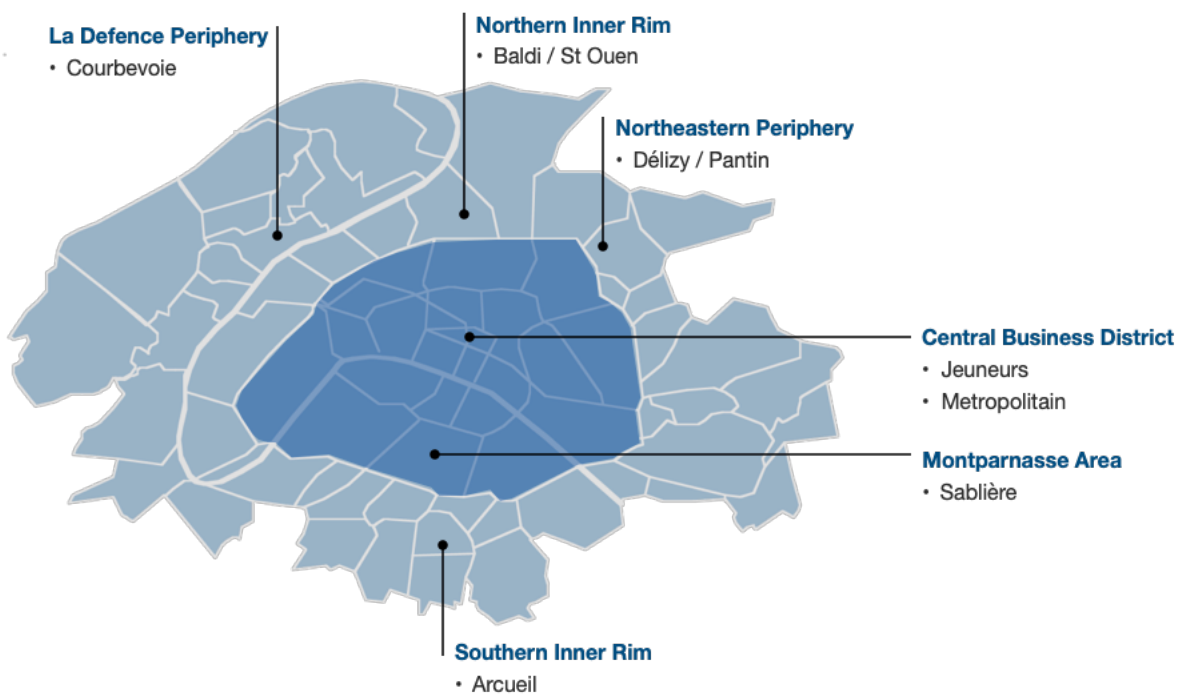
Business Environment[1]

Inovalis REIT owns varying interests in real estate entities which hold investment properties. Under IFRS, some of these interests are recorded as joint ventures in which the REIT holds equity. As at September 30, 2021, the REIT's property portfolio consists of ownership interest in eight properties that are consolidated and included in "Investment properties" ("IP") on the balance sheet, and partial ownership interests in five properties that are included within "Investments in joint ventures". As such, the results of these investments in joint ventures are not included in certain of our consolidated financial and operating metrics, unless specifically indicated that such metrics are presented on a "Total Portfolio" basis in which case such results are prepared on a proportionate share basis.

Together, the REIT's share of these 13 properties (7 located in France and 6 located in Germany) is approximately 1.5 million square feet of gross leasable area ("GLA")

France

Assets owned entirely by the REIT except where percentage or joint venture (JV) is noted



Financial rates are still low as the 10-year OAT government bond rate is only slightly above zero. Therefore, the risk/return ratio for commercial real estate remains attractive as a safe haven asset class.

After a Q2 decrease, the commercial investment market (office, retail, industrial and logistics) rebounded in Q3 due to the improved technical conditions for transactions. Investment over the first nine months of the year totaled €14 billion, down 20% compared to the same period in 2020, with the office market transactions accounting for two-thirds of the investment volume. The French office investment market is expected to be approximately CAD$16.5-$17 billion by the end of 2021 reflecting the scarcity of prime assets and willing sellers, a prevailing wait-and-see approach since Q2 2020, as investors struggle to assess the long-term impact of the pandemic, possible continuation of remote working, financial consequences of the application of ESG criteria and the green energy revolution. The downward trend could be reversed in 2022 as economic and public health conditions

[1] Sources: CBRE research and reports / BNP Real Estate research / JLL études et recherches.

improve leading to more favorable leasing markets, an abundance of capital ready for investment, favorable interest rates and the increased interest of foreign investors in the French commercial real estate market.

The decrease in investment activity is principally due to the small number of large transactions (> CAD$300 million). This segment totaled only CAD$5.5 billion in the first nine months of 2021, compared to CAD$11 billion for the same period in 2020. While the CAD$75-150 million segment has remained resilient, small transactions (< CAD$75 million) continue to drive the market, led by institutional investors, particularly SCPI-type funds.

As the demand is lower for second-hand assets and those located outside established business districts, these market segments represent opportunities for value-add asset managers.

The prime yield is now 2.60% in the Paris central business district ("CBD") and could fall below 3.50% in regional locations. For assets with uncertain leasing and/or environmental profiles and/or in secondary locations, yields are rising again. Upward yield correction is more acute for "at risk" or "secondary" assets.

Office Market in France

Confirming previous signs of recovery, leasing is up 32% year over year and totals 13 million sq. ft., including 4.4 million sq. ft. for Q3. Although leasing remains 26% below its long-term average, the gap is narrowing as the economic situation improves and tenants' confidence gradually returns. Performance over the first nine months has provided an optimistic outlook for the Paris region business sector, particularly Paris city, as well as peripheral business sectors such as the Western Crescent and La Défense.

The performance of the intermediate unit segment (10,000 sq. ft. – 50,000 sq. ft.) in which the REIT operates, rebounded in Q3 with 4.2 million sq. ft. leased in the first nine months of the year. The Paris Centre West performed well, as 3.2 million sq. ft. of space was leased in the above 50,000 sq. ft. segment. This success is explained by tenant preference for key business districts as strategic locations to attract and retain talent. The occupancy decrease in Paris city has allowed some tenants who were forced to find alternative locations three years ago, to relocate to Paris.

For the first time since the start of the COVID-19 pandemic, vacant space has stabilized just below the 40 million sq. ft. threshold. Approximately 30% of vacant space is new or recently refurbished, which makes it possible to offer more quality space compared to the pre-pandemic period. In Paris city, office occupancy increased by 8% in Q3, for an overall occupancy rate of 95.5%.

Face value of rents continue to rise across all Paris areas, which is correlated to the number of transactions in central, accessible, and high-quality areas. The average prime rent in Paris rose from CAD$1,335 to CAD$1,350 between Q2 and Q3 2021, due to transactions in the CBD and 7th district. Average prime rent in the Western Crescent decreased 2% between Q2 and Q3 2021, due to few new prime transactions. In La Défense, average prime rent rose slightly in Q3.

To maintain face values, owners are offering incentives which have generally increased by an average of 24.4% in the Paris region for transactions >10,000 sq. ft. (Q3 2021) since the start of the crisis. Incentives are tightly correlated to the available space in each sector of Paris, rising from 14% in Paris Centre West (excluding CBD) to 29.4% in La Défense.

The latest wave of the pandemic seems to be gradually giving way to an almost complete recovery of the national economy. The crisis has accelerated trends and reconfigured working modes and challenges in terms of work flexibility. Companies are revising their organizational models and search or office space to continue to attract employees.

The Paris region benefits from solid market fundamentals and offices still play a key role in corporate organizations. Tenants will continue to prioritize high quality space in attractive locations with good public transportation. Rents are therefore likely to increase in areas that meet these criteria.

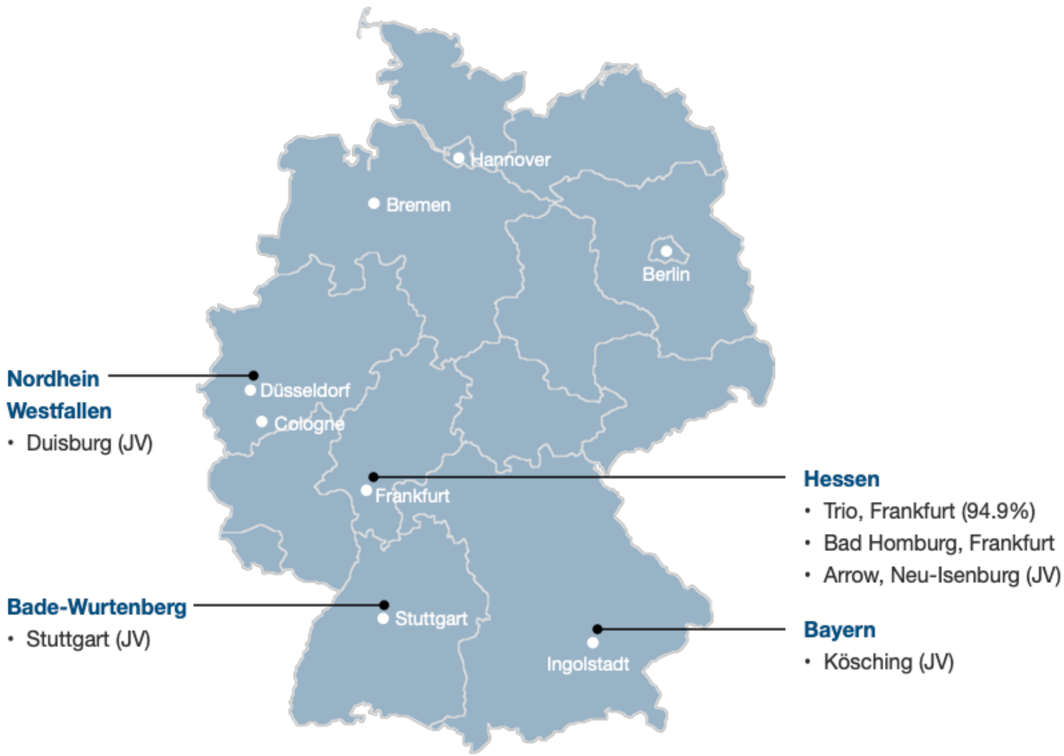
Suburban areas that are less easily accessible and/or have more vacant space continue to experience downward pressure. A change of use for some assets that are of lesser quality or located in secondary locations may be a consideration however transforming office buildings into residential units in particular, often involve legal, technical and financial challenges that compromise many projects.

The occupancy rate is increasing in suburban areas, particularly La Défense (<90% Q2/Q3 2021), as the completion of new and refurbished buildings is available to supply requirements faster than can be absorbed (Landscape, Alto, Emblem, Tour Trinity, etc.). As a result, the area's occupancy rate has declined to 86.4% although an improvement is expected as new transactions close in Q4. The occupancy rate is decreasing, but not significantly, in the Western Crescent (-0.3 pts; 88.8%) and the Inner Rim (-0.5 pts; 90.9%) due to the completion of several new and refurbished buildings (Workstation in Courbevoie, City Lights in Boulogne, CityLife in Nanterre, etc.).

Scheduled future supply of the ›50,000 sq. ft. segment within the year will be primarily located in the Inner Rim, Western Crescent and Paris Centre West. In line with market dynamics, Paris city, the Western Crescent and the Inner Rim will reflect the majority of new and refurbished supply.

Germany

Assets owned entirely by the REIT except where percentage or joint venture (JV) is noted



Investment Market in Germany

The transaction volume including residential segment amounted to a total of CAD$91.2 billion for the first nine months of 2021, an increase of 5% compared to 2020. The third quarter contributed almost CAD$41 billion or 44% to the result. Since 2016, there have only been three quarters with an even higher volume.

A number of high-priced single-asset transactions contributed to this development showing that there is still confidence in the German investment market and the office asset class in particular. The volume of single-asset transactions exceeded that of the previous year by 29%. No large portfolio asset transactions have taken place to date in 2021. Traditionally the fourth quarter is the most active time of the year, so a transaction volume of up to CAD$150 billion appears feasible.

Office properties have fallen further behind housing compared to the first half of the year and now account for of 27% (CAD$24.6 billion) of the volume. This segment continues to improve and as international investors re-enter the market, higher transaction volumes are anticipated.

Net initial yields in the prime office segment are continuing to decline. For the "Big 7" cities (Berlin, Hamburg, Düsseldorf, Cologne, Munich, Frankfurt, and Stuttgart.) the office prime yield decreased five basis points from the previous quarter to 2.69%. For properties of lower quality, with vacancies or located in sub-markets outside of the prime locations, a further slight yield compression is evident.

Office Market in Germany

At the end of the first nine months of 2021, office space leasing activity in the Big 7 cities amounted to 23.14 million sq. ft., which is at least 12% more than in the previous year. Yet, total occupancy in the Big 7 cities decreased by a third in a 12-month comparison. Approximately 46 million sq. ft. is currently immediately available, equating to an occupancy rate of 95.5%. In view of the expected new construction, it is expected that occupancy rates will decline further. It is forecast that occupancy by end of 2021 will be slightly above 95.0 % and remain approximately the same in 2022. Thus, the office market may be regarded as a lagging economic indicator. Leasing is expected to account for 31.2 million sq. ft. in 2021, 9% above 2020, but still 23% below the five-year average (2016-2020).

In the first nine months of 2021, just over 11 million sq. ft. of office space was completed or refurbished, approximately 25% more than in the same period last year which is testament to the optimism that is returning among office users. Project developers are also regaining confidence and reactivating plans had been postponed. However, construction sites are facing supply chain constraints causing delays which could translate into higher rents related to higher construction costs.

Completed office construction for 2021 will amount to 16.8 million sq. ft., which will be 7% more than in 2020. Between October 2021 to the end of 2024, more than 47 million sq. ft. of office space is slated for construction or renovation and approximately 47% if this space has already been leased or is allocated to owner-occupiers.

Climate consideration of energy footprints are a focal point, particularly as they relate to the renovation of existing buildings.

Prime rents showed signs of movement again during the third quarter in lockstep with leasing activity. Tenants are placing a very strong focus on the quality of fixtures and fittings, and increasingly on ESG-compliant aspects, when signing leases. This includes, for example, green outdoor areas, the overall energy consumption of the building or accessibility by bicycle and public transport. In the competition for skilled workers, the equipment of the workplace and the feel-good character of the office are becoming increasingly important and can become a differentiating feature.

The REIT's Position Within the French and German Business Environments

The value of the REIT's real estate assets and the strength of the office rental market in France and Germany remained consistent through the fiscal year 2020 and the nine months of 2021. While this underscores the premise for investing in office assets in the French (Paris) and German markets, it does not address the significant gap between the REIT's market price and the net asset value of the real estate, together with cash holdings. Much of the REIT sector has experienced similar compression on Unit price since the onset of the pandemic and volatility in the capital markets.

During the first three quarters of 2021, the markets in France and Germany maintained stability as investors viewed real estate as secure and a source of strong yields. These sentiments have been reinforced by the very low interest rate environment.

Real estate investors in the French and German markets may be generally categorized as either institutional secured investors or opportunistic funds. Institutional investors tend to seek low risk assets. They are present mostly in big cities and participate in straightforward transactions, often requiring little to no senior bank debt. Opportunistic funds are generally looking to capitalize on categories of assets that are in difficulty or on sellers that need to dispose of assets that are not considered as institutional grade assets.

Outlook

The benefits of the aggressive EU strategy to achieve a high level of vaccinations are evident as the regions return to normalcy. Tenants are returning to the office environment and re-initiating leasing plans that have been on hold since the onset of the COVID-19 pandemic. Management continues to monitor market conditions carefully and remains confident in the strength of its portfolio as indicated by Q3 2021 results, and its strong rent collections, in both France and Germany.

The conclusion of the REIT's strategic review in the last quarter, the ratification of its financial goals and objectives position, and the election of new trustees to the board, position the REIT capably for implementation of its growth and investment strategy.

Portfolio Overview

The REIT's portfolio by geography as at September 30, 2021 is as follows:

Asset	***% owned***	***Fair value***	***REIT's Total Portfolio Value***	***Gross Leaseable Area (GLA)***	***Contribution to Total Portfolio rental revenue***	***# of tenants***	***Occupancy rate***	***Weighted occupancy rate***	***WALT (end of lease)***
		(CAD)	*%*	*sq. ft.*	*%*		*%*	*%*	*Years*
Jeuneurs (2)	100%	104,571	15%	50,407	11%	1	100%	100.0%	1.9
Courbevoie	100%	33,881	5%	95,903	3%	5	33%	34.0%	4.8
Sablière	100%	34,266	5%	41,043	3%	6	59%	59.4%	3.1
Baldi	100%	33,166	5%	123,657	7%	10	76%	86.0%	2.2
Metropolitain	100%	96,911	14%	78,818	11%	6	91%	88.5%	5.9
Arcueil	100%	142,067	20%	334,521	28%	1	100%	100.0%	1.4
Délizy (1)	50%	19,092	2%	71,617	3%	19	70%	71.5%	4.4
Subtotal France		**463,954**	**66%**	**795,966**	**66%**	**48**	**82.5%**	**82.5%**	**2.6**
Trio	94,9%	68,271	10%	193,487	10%	7	87%	87.0%	3.8
Bad Homburg	100%	31,860	5%	109,104	4%	4	52%	56.2%	2.3
Duisburg (1)	50%	45,734	7%	108,960	6%	1	88%	87.5%	6.3
Stuttgart (1)	50%	35,035	5%	121,416	6%	5	99%	99.7%	3.0
Arrow - Neu-Isenburg (1)	50%	29,699	4%	67,334	5%	6	98%	97.8%	2.1
Kösching (1)	50%	21,390	3%	53,058	3%	1	100%	100.0%	6.2
Subtotal Germany		**231,989**	**34%**	**653,359**	**34%**	**24**	**85.7%**	**86.8%**	**3.9**
Total - France and Germany		**695,943**	**100%**	**1,449,325**	**100%**	**72**	**84.0%**	**84.9%**	**3.2**
IP Portfolio		**544,993**	**78%**	**1,026,940**	**71%**	**40**	**80.9%**	**82.2%**	**2.6**
JV Portfolio		**150,950**	**22%**	**422,385**	**29%**	**32**	**91.3%**	**91.1%**	**4.2**

(1) Represents investments that are classified as joint ventures and subject to equity-accounting. The results included in the table above (excluding number of tenants, occupancy metrics, and weighted average lease term) are presented on a proportionate share basis at the REIT's ownership percentage of the related investment.

(2) The Jeuneurs property is classified as held for sale as at September 30, 2021.

Of all of the REIT's assets, only the Metropolitain asset, which is principally occupied by small tenants, has had a negative impact from the business closures resulting from COVID-19. The effect, while challenging, does not have a material effect on the REIT's results. Credit notes have been issued as an incentive against lease maturity extensions, and an impairment of receivables have impacted the nine-month period 2021 net rental income. Two new higher rental value tenant leases at Metropolitain, signed at the end of 2020, forecast higher rental revenue. In addition, negotiations are underway with an existing tenant to expand its leased space in the building at higher rental value in Q4 2021 which, if successful, will raise the occupancy rate from 91% to 100%.

The portfolio asset value distribution is expected to become more evenly allocated between French and German investments as the REIT invests its available cash in the coming months with a focus on Germany, the pending sale of the Jeuneurs property, the expected buy-back of joint venture-held assets, and with the potential future sale of Courbevoie in France, in 2022. This rebalancing, when achieved, will have a diversifying effect by reducing the net asset value of the Arcueil asset below 20% of the Total Portfolio value.

Tenant Profile

As at September 30, 2021, the REIT had 40 tenants across the IP Portfolio compared to 43 tenants, as at December 31, 2020, and 72 tenants across the Total Portfolio, compared to 75, as at December 31, 2020.

All lease contracts have rental indexation based on the Construction Costs Index (Indice du Coût de la Construction – ICC), the average Tertiary Activities Rent Index (Indice des Loyers des Activités Tertiaires "ILAT") and the Consumer Price Index – CPI, or the German Consumer Price Index, as applicable.

IP Portfolio

The following table shows the five largest tenants relating to properties owned by the REIT, sorted by their occupied space in the IP Portfolio.

Tenant	Tenant Sector	% of annual contractual rental revenue	Occupied space (sq. ft.)	Weighted Areas (sq. ft.) (1)	% of Weighted Areas	Average remaining lease term (years)
Orange	Telecommunications	36%	334,521	284,958	31.4%	1.4
The Lorenz Bahlsen Snack-World	Food and beverage	8%	86,501	81,870	9.0%	4.3
Rue Du Commerce	E-commerce	5%	51,926	51,926	5.7%	0.1
CNAM	Education & Training	13%	50,407	49,543	5.5%	1.9
Fresenius	Health care	4%	44,942	41,611	4.6%	2.3
Top 5 tenants		**66%**	**568,297**	**509,908**	**56.2%**	**1.9**
Other tenants	Diversified	34%	262,856	236,667	26.1%	4.2
Vacant			195,787	160,808	17.7%	
IP Portfolio		**100%**	**1,026,940**	**907,383**	**100.0%**	**2.6**

(1) Activity, storage and shared-restaurant space, being usually rented at about a third of office areas, they are being accounted for a third of their effective areas in the weighted areas.

The tenant base is well diversified by industry segment, with many national and multinational tenants.

Total Portfolio

The REIT's five largest tenants across the Total Portfolio, including interests that the REIT has in properties held in joint ventures, are presented in the table below.

Tenant	Tenant Sector	% of annual contractual rental revenue	Occupied space (sq. ft.)	Weighted Areas (sq. ft.) (1)	% of Weighted Areas	Average remaining lease term (years)
Orange	Telecommunications	28%	334,521	284,958	22.0%	1.4
Daimler AG	Manufacturer	5%	109,136	100,486	7.8%	2.7
The Lorenz Bahlsen Snack-World	Food and beverage	6%	86,501	81,870	6.3%	4.3
Hitachi Power	Manufacturer	5%	82,800	78,138	6.0%	6.3
Arrow Central Europe	E-commerce	4%	55,639	51,717	4.0%	1.8
Top 5 tenants		**48%**	**668,597**	**597,169**	**46.1%**	**2.7**
Other tenants	Diversified	52%	548,076	500,647	38.8%	3.8
Vacant			232,652	195,155	15.1%	
Total Portfolio		**100%**	**1,449,325**	**1,292,971**	**100.0%**	**3.2**

(1) Activity, storage and shared-restaurant space are usually rented at about a third of the SF rate of office areas and thus they are being accounted for at a third of their effective areas in the weighted areas. The tenant base is well diversified by industry segment, with many national and multinational tenants.

Occupancy and Leasing Activity

The portfolio occupancy and leasing activity by geography, for the period ended September 30, 2021, was as follows:

	Occupied space (sq. ft.)									
Asset	***January 1, 2021***	***Acquisition / Disposition***	***New leases***	***Lease Expiries***	***Other changes***	***September 30, 2021***	***Occupancy rate***	***Committed space (sq. ft) (1)***	***Total space (sq. ft)***	***Committed occupancy***
France	633,263		6,900	(33,595)		606,568	83.7%	(51,926)	554,642	76.6%
Germany	270,442			(45,432)		225,010	74.3%	19,630	244,640	80.7%
Total IP Portfolio	**903,705**	**-**	**6,900**	**(79,027)**	**-**	**831,578**	**80.9%**	**(32,296)**	**799,282**	**77.8%**

Committed space relates mostly to the departure at the end of October of Baldi's main tenant in France, and the new lease of vacant space at the Bad Homburg property for the German portfolio starting in Q4 2021.

On a proportionate share basis, including joint ventures at our proportionate ownership interest, the operating metrics by geography as at September 30, 2021, are as follows:

	Occupied space (sq. ft.)									
Asset	***January 1, 2021***	***Acquisition / Disposition***	***New leases***	***Lease Expiries***	***Other changes***	***September 30, 2021***	***Occupancy rate***	***Committed space (sq. ft) (1)***	***Total space (sq. ft)***	***Committed occupancy***
France	690,189		6,900	(40,074)		657,015	82.5%	(51,926)	605,089	76.0%
Germany	607,582	(3,443)	5,443	(49,495)		560,087	85.7%	32,909	592,996	90.7%
Total Portfolio	**1,297,771**	**(3,443)**	**12,343**	**(89,569)**	**-**	**1,217,102**	**84.0%**	**(19,017)**	**1,198,085**	**82.6%**

The new 13,279 sq. ft. lease for the whole vacant floor at the Duisburg property started on November 3, 2021, positively impacting the Total Portfolio occupancy rate by 0.9%.

New Leases Signed During the Quarter:

- In the Bad Homburg property, management finalized a seven-year firm lease on 19,633 sq. ft. vacant area, effective Q4 2021. With this new lease, occupancy rate will come close to 80% and will allow management to work on the refinancing of this asset, which matures at the end of Q1 2022.
- In August 2021, management signed a significant lease for the entire vacant floor in the Duisburg property. The lease, effective November 3, 2021, has a five-firm year term (plus five optional) and will increase the occupancy of the Duisburg asset to 100%.

Lease Termination During the Quarter:

- In the Baldi property, management has negotiated the departure of the main tenant, two months before its lease maturity, and collected most of its unpaid receivables, avoiding a significant impairment of trade receivables with this tenant. As of the end of October 2021, the property is 34% occupied.
- On the Sablière property, located in downtown Paris, the main tenant vacated the property on July 1, and it is now 59% occupied.

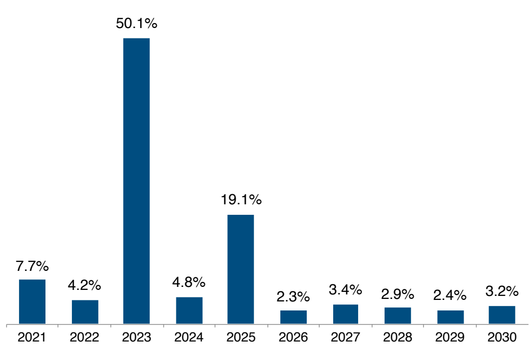
For each of the Baldi and Sablière assets, management is actively working on redevelopment projects and leasing options.

Lease Maturities

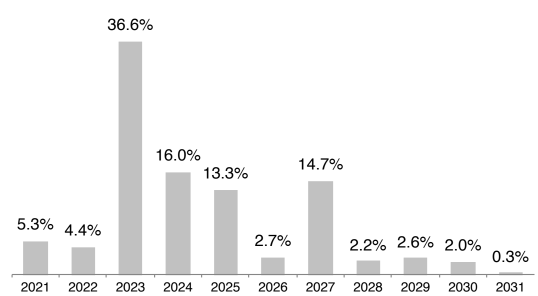
Lease Maturity Profile as at September 30, 2021

(% of total GLA)

IP Portfolio



Total Portfolio



The above graph sets out the percentage of total GLA of the IP Portfolio subject to leases expiring by year (excluding early lease terminations).

The average remaining lease term in the IP Portfolio is 2.6 years (not including tenant early termination rights). Assuming all tenants leave at the earliest possible, exercising their early termination rights, which the REIT believes is unlikely, the average remaining lease term in the portfolio is 2.3 years.

The above graph presents the percentage of total GLA expiring in the Total Portfolio by year (excluding early lease terminations). Including the joint venture properties, the average remaining lease term is 3.2 years (2.7 years including early termination rights).

Consolidated Financial Information

(in thousands of CAD$)	Three months ended September 30, 2021	2020	Nine months ended September 30, 2021	2020
Rental revenue	7,650	7,154	21,941	21,151
Property operating cost recoveries	1,506	1,790	5,134	4,915
Property operating costs	(1,872)	(1,569)	(8,126)	(7,019)
Other revenues	-	-	168	19
Other property operating expenses	(262)	(115)	(739)	(228)
Net rental income	**7,022**	**7,260**	**18,378**	**18,838**
General and Administration expenses	(1,695)	(1,457)	(6,260)	(5,741)
Foreign exchange gain (loss)	(49)	816	(989)	2,619
Net change in fair value of investment properties	25,933	(763)	34,457	(1,348)
Loss on sale of investment in joint venture	-	-	(108)	-
Share of net income (loss) from joint ventures	3,652	(1,176)	2,586	(1,843)
Operating earnings	**34,863**	**4,680**	**48,064**	**12,525**
Net change in fair value of financial derivatives	336	192	1,311	399
Net change in fair value of Exchangeable securities	318	96	(457)	2,675
Net change in fair value of Promissory Notes	-	449	-	14,152
Finance income	889	1,561	2,575	5,737
Finance costs	(1,703)	(2,486)	(4,963)	(7,562)
Distributions on Exchangeable securities	(579)	(209)	(1,032)	(602)
Income before income taxes	**34,124**	**4,283**	**45,498**	**27,324**
Current income tax recovery (expense)	(29)	33	(2,213)	(16)
Deferred income tax recovery (expense)	(1,873)	165	2,327	(119)
Total income tax expense	**(1,902)**	**198**	**114**	**(135)**
Net income	**32,222**	**4,481**	**45,612**	**27,189**
Non-controlling interest	71	36	50	42
Net income attributable to the Trust	**32,151**	**4,445**	**45,562**	**27,147**

Selected Three-Year Quarterly Information

(in thousands of CAD$)	For the nine months ended September 30, 2021	2020	2019	2021 vs. 2020	2020 vs. 2019
Rental revenue	21,941	21,151	19,263	790	1,888
Finance income	2,575	5,737	6,743	(3,162)	(1,006)
Net income	45,612	27,189	6,376	18,423	20,813
Net income attributable to the Trust	45,562	27,147	6,355	18,415	20,792

Discussion of Financial Performance

Net Rental Income

Net rental income for Q3 2021 was CAD$7,022, compared to CAD$7,260 for Q3 2020, impacted by a foreign exchange loss of CAD$120. The IP portfolio net rental income ("NOI") increase due to the full ownership of Bad Homburg as at Q4 2020, is offset by the departure of the main tenant in the Sablière property in Q3 2021.

For the nine months ended September 2021, net rental income was CAD$18,378, compared to CAD$18,838 for the same period last year. The decrease is mainly attributable to the departure of the main tenant in the Sablière property (CAD$380), added to a negative foreign exchange impact of CAD$310.

In accordance with IFRIC 21, the annual property taxes for the REIT's properties located in France are expensed in full in the first quarter of the fiscal year. Realty tax expenses for the year are approximatively CAD$2,950. These taxes are paid in the fourth quarter. This results in a reduction to net rental income in the first quarter of each year with relatively higher net rental income in the subsequent three quarters. The impact of IFRIC 21 on net rental income for the first three and nine months of 2021 and 2020 is set out below.

	Three months ended September 30			Nine months ended September 30		
In Canadian dollars (in thousands)	**2021**	**2020**	**Variance**	**2021**	**2020**	**Variance**
Net rental income	7,022	7,260	(238)	18,378	18,838	(460)
IFRIC 21 impact	(714)	(707)	(7)	735	651	84
Adjusted net rental income - IFRIC 21 (1)	6,308	6,553	(245)	19,113	19,489	(376)

	Three months ended September 30			Nine months ended September 30		
In Euros (in thousands)	**2021**	**2020**	**Variance**	**2021**	**2020**	**Variance**
Net rental income	4,692	4,771	(79)	12,280	12,380	(100)
IFRIC 21 impact	(477)	(464)	(14)	491	428	63
Adjusted net rental income - IFRIC 21 (1)	4,215	4,307	(93)	12,771	12,808	(37)

	Three months ended September 30			Nine months ended September 30		
In Canadian dollars (in thousands)	**2021**	**2020**	**Variance**	**2021**	**2020**	**Variance**
Net rental income	7,022	7,260	(238)	18,378	18,838	(460)
Net rental income - proportionate share of JVs	2,090	2,350	(260)	5,807	6,863	(1,056)
IFRIC 21 impact	(808)	(817)	9	832	747	85
Adjusted net rental income - IFRIC 21 - including proportionate share of JVs (1)	8,304	8,793	(489)	25,017	26,448	(1,431)

(1) Represents a non-GAAP financial measure that has no standardized meaning with IFRS and is not comparable to other companies.

General and Administrative Expenses

General and administration expenses ("G&A expenses") are comprised of Inovalis S.A.'s asset management fees and other G&A expenses such as trustee fees, directors' and officers' liability insurance, professional fees (including accounting fees), legal fees, filing fees, and unitholder related expenses.

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

	For the three months ended September 30			For the nine months ended September 30		
	2021	2020	Variance	2021	2020	Variance
Asset management fees – Inovalis SA	(712)	(786)	74	(2,089)	(2,310)	221
Less: amount reinvoiced to joint ventures	303	333	(30)	892	979	(87)
	(409)	**(453)**	**44**	**(1,197)**	**(1,331)**	**134**
Professional fees for accounting, tax and audit	(514)	(502)	(12)	(1,930)	(1,865)	(65)
Legal expenses	(174)	(111)	(63)	(467)	(1,074)	607
Other legal expenses related to strategic review & SIF conversion	(35)	(60)	25	(886)	(395)	(491)
Trustee fees	(172)	(109)	(63)	(603)	(428)	(175)
Travel expenses	-	-	-	(3)	(22)	19
Bank expenses	(110)	(38)	(72)	(211)	(101)	(110)
Other general and administrative expenses	(281)	(184)	(97)	(963)	(525)	(438)
Total G&A expenses	**(1,695)**	**(1,457)**	**(238)**	**(6,260)**	**(5,741)**	**(519)**

G&A expenses, excluding CAD$637 of non-recurring costs related to strategic review process and the terminated transactions in recent quarters, are in line with the budget approved and attached to the Management Agreement extension. The increase of CAD$519 for the nine-month period ended September 30, 2021, is mainly due to these non-recurring strategic review related costs.

Asset management fees, representing CAD$409 for the three months period ended September 30, 2021, decreased in line with the new Management Agreement, effective January 1, 2021.

Net Change in Fair Value of Investment Properties

The net change in fair value of CAD$25,933 in Investment Properties for Q3 2021 (compared to CAD$(763) for Q3 2020), is mainly related to the positive impact of the Jeuneurs property, the value of which has been adjusted by +CAD$25 following the waiver of the only condition for the signing of the sale. The property is now recorded at the sale price of CAD$104,500 (EUR€71,200), excluding closing costs estimated at CAD$4,900 (EUR€3,300). The asset is presented on a separate "Asset held for sale" line on the consolidated balance sheet, the closing being scheduled for December 15, at the latest.

Refer to the *"Investment Properties"* section in this document for further details on the valuation methodology.

Share of Net Income (Loss) From Joint Ventures

The performance of the investments in joint ventures includes the share of net income from joint ventures and the interest on loans granted to joint ventures (presented in the finance income line).

The share of net income from joint ventures was CAD$3,652 for the three months period ended September 30, 2021, compared to a loss of CAD$(1,176) for the same period in 2020. The fair value increase on the Duisburg property, following the leasing of the vacant space, led to a CAD$3,248 contribution of Duisburg to the REIT's share of net income from joint ventures over the quarter.

Net Change in Fair Value of Exchangeable Securities

Exchangeable securities are recorded at fair value based on the market price of the REIT's units. They are reflected as a liability on the REIT's consolidated balance sheets, and therefore a decrease of the REIT's unit price reduces the value of the liability. The closing price of a REIT unit on the Toronto Stock Exchange was CAD$9.34 on September 30, 2021, compared to $8.94 at close of December 31, 2020, resulting in a loss of CAD$457 in the net change in fair value of Exchangeable securities throughout the nine months of 2021.

Over the quarter, the REIT unit price slightly decreased, leading to a positive net change in fair value of Exchangeable securities of CAD$318.

Finance Income

In Q3 2021, finance income of CAD$889 (compared to CAD$1,561 in Q3 2020) consisted essentially of interest on loans granted to joint ventures. The negative variance of CAD$672 mainly corresponds to the interest on the Rueil acquisition loan (CAD$295), which was fully repaid in Q4 2020, and to the interest on joint-venture loans (CAD$181) following the buy-back of the Bad-Homburg 50% interest in October 2020, and progressive repayments of shareholder loans on the joint venture portfolio.

For the nine months ended September 30, 2021, finance income was CAD$2,575 compared to CAD$5,737 for the same period in 2020. The decrease is mainly attributable to the interest on Rueil acquisition loan (CAD$1,619), which was fully repaid in Q4 2020, and to the buy-back of a joint-venture (Bad Homburg) generating less interest on joint venture loans. In 2020, the REIT also benefited from a foreign exchange gain on the hedging contract of CAD$995.

Finance Costs

The finance costs in Q3 2021 were CAD$1,703 (compared to CAD$2,486 in Q3 2020), which included CAD$1,241 related to interest on mortgage loans and lease liabilities, and CAD$429 related to derivative interest and other financial costs. The variance with Q3 2020 consisted mainly in the interest recognized on Promissory Notes for CAD$933, which were fully converted to units in November 2020.

For the nine-month period ended September 30, 2021, finance costs were CAD$4,963, a decrease of CAD$2,599 over the same period last year, resulting mostly from the conversion of Promissory Notes as described above.

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 2021, the distributions on exchangeable securities were CAD$579, compared CAD$209 in Q3 2020, following the recognition of the participatory distribution in July 2021 (CAD$0.307 per unit).

For the nine-month period ended September 30, 2021, distributions on exchangeable securities were CAD$1,032, compared to CAD$602, following the allocation of the participatory distribution of CAD$0.307 per unit in July 2021.

Current and Deferred Income Tax Recovery (Expense)

The current income tax expense of CAD$2,213 for the nine-month period ended September 30, 2021, includes a provision of CAD$2,056 that represents management’s best estimate for the amount payable following a tax reassessment that is being disputed with the French tax authorities.

The REIT recorded a deferred income tax expense of CAD$1,873 in Q3 2021, compared to a small recovery of CAD$165 for Q3 2020. The income tax expense in Q3 2021 was a result of the CAD$25,000 increase in Jeuneurs’ fair value of investment property, arising from the expected sale closing in December 2021.

Selected Consolidated Balance Sheet Information

(in thousands of CAD$)	For the period ended Sept.30, 2021	Dec 31, 2020	Dec 31, 2019	2021 vs. 2020	2020 vs. 2019
Total assets	675,266	712,089	710,206	(36,823)	1,883
Fair value of investment properties - IP Portfolio	440,422	541,218	478,700	(100,796)	62,518
Asset classified as held for sale	104,571	-	-	104,571	-
Fair value of investment properties - Total Portfolio	591,372	701,458	652,013	(110,086)	49,445
Investment in joint ventures - carrying value	70,582	75,987	100,782	(5,405)	(24,795)
Total non-current liabilities	210,510	292,817	267,600	(82,307)	25,217
Total debt (1)	264,078	288,657	308,643	(24,579)	(19,986)
Number of outstanding Units	32,400,585	32,400,585	28,742,306	-	3,658,279

(1) Includes the current and non-current portion of interest-bearing loan, mortgage loans, lease liabilities, promissory notes (2019 only), and lease equalization loans.

Investment Properties

The fair value of the REIT's IP Portfolio as at September 30, 2021 was CAD$440,422 (EUR€299,971), compared to CAD$541,218 (EUR€347,938) as at December 31, 2020. The decrease of CAD$100,796 is mainly attributable to classification of the Jeuneurs property on the asset held for sale line for CAD$104,571, and to the foreign exchange adjustment (CAD$31,036), partially offset by the increase in fair value of the IP portfolio (of which CAD$35,413 is related to the Jeuneurs property).

Management uses the Direct Capitalization Method ("DCM") to determine the fair value of REIT's properties in France and Germany. Based on external appraisals of the total portfolio as at end Q3 2021, performed in conformity with the requirements of the *Royal Institution of Chartered Surveyors Standards*, and for the French properties, in conformity with the *Charte de l'expertise immobilière*, as well as *European Valuation Standards of TEGoVA (the European Group of Valuers' Association)* and IFRS 13 *Fair Value Measurement*, management updated internal valuations as at September 30, 2021, to include any major change in valuation parameters. On the Duisburg property, given that a significant new lease was arranged in Q3, a new external appraisal has been performed, resulting in a CAD$7.9 million (EUR€5.4 million) increase in the property fair value.

Investments in Joint Ventures

The investment in joint ventures encompasses the interest of the REIT (through five subsidiaries) in:

- the Duisburg property (CCD) (50%),
- the Stuttgart property (50%),
- the Delizy (Pantin) property (50%),
- the Arrow (Neu-Isenburg) property (50%),
- the Kösching property (50%).

The REIT's investment in joint ventures was CAD$70,582 as at September 30, 2021, compared to CAD$75,987 as at December 31, 2020. The decrease was mainly due to the foreign exchange difference of CAD$4,255, added to the disposition of the 6% interest in the Cologne property, for an amount of CAD$1,015, and declared distribution of the remaining profit from Rueil SCCV, for CAD$1,731.

Trade Receivables and Other Financial Assets

Trade receivables and other financial assets as at September 30, 2021 amounted to CAD$11,492, compared to the CAD$6,623 at December 31, 2020. The increase, as every year, is mainly due to service charge revenue arising from property taxes recognized in accordance with IFRIC 21, which amounted to an additional CAD$2,100 for the nine-month period ended September 30, 2021. The cash guarantee of CAD$1,300 for the Veronese sale and Bad Homburg cash reserve related to the financing covenant (CAD$880) are also presented in other financial assets. In addition, the other receivables item included the remaining unpaid dividend from Rueil SCCV for CAD$1,701.

Trade and Other Payables

Trade and other payables as at September 2021 amounted to CAD$11,088, stable compared to CAD$11,052 as at December 31, 2020.

Income Tax Payable

The income tax payable as at September 30, 2021, amounted to CAD$2,213, compared to CAD$4,069 as at December 31, 2020, which mostly represents management's best estimate for the amount payable following a CAD$2,056 tax reassessment that is being disputed with the French tax authorities. As at December 2020, the CAD$4,069 was reflecting the tax payable on the sale of SCCV Rueil property, which has been paid in May 2021.

Capital Management

Sources of Capital

The REIT's primary sources of capital are cash generated from operations, credit facilities, sharing the ownership of actual assets owned entirely, and equity issuances. The 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. The REIT expects to meet ongoing obligations through current cash, cash flows from operations, debt refinancing and, as growth requires and when appropriate, new equity or debt issues. Assets could be sold to access capital, but this action would be considered in the overall strategy of diversification of the portfolio.

Available Liquidity

The REIT's cash available was CAD$38,574 as at September 30, 2021. Available cash is a strength in the current economic conditions and management intends to use it primarily for future investments.

Management has determined that the REIT has the financial resources to sustain its operations for 12 months following the date of the balance sheet.

Capital Management Metrics

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

	Consolidated basis - IP Portfolio		Proportionate share basis - Total Portfolio	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
Capital management metrics				
Debt-to-book value	40.6%	42.3%	46.7%	48.3%
Debt-to-book value, net of cash	37.0%	35.0%	43.5%	42.3%
Debt due in the next 12 months	66,171	13,597	66,897	16,156
Weighted average term to maturity	4.1 years	5.4 years	3.7 years	4.9 years
Weighted average interest rate (1)	2.02%	2.03%	1.95%	1.95%
Interest coverage ratio (2)	2.62	3.46	3.00	3.68

(1) Includes lease liabilities and the mortgage financing.

(2) Calculated as net rental income plus interest income, less general and administrative expenses, divided by interest expense on lease liabilities and mortgage financing.

The Bad Homburg mortgage loan representing CAD$16,300, has a maturity date in March 2022 and has been classified as a current liability in the balance sheet as at September 30, 2021. Now that part of the leasing of vacant space has been achieved with an occupancy rate close to 80%, management is actively seeking to refinance this asset.

In addition, the decrease in average term of debt is related to Jeuneurs financing which will now be settled following the expected closing of the sale agreement in December 2021.

Debt-to-Book Value

The debt-to-book value ratio is calculated on a look-through basis and considers the REIT's apportioned amount of indebtedness at the joint venture 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 include certain liabilities as is the case for the Exchangeable securities and promissory notes (2020 only) and at the joint venture level for the contribution from the REIT and its partners.

Debt-to-book value	Consolidated basis - IP Portfolio		Proportionate share basis - Total Portfolio	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
Lease liabilities	118,015	130,287	128,764	142,066
Mortgage loans	145,661	157,489	208,475	225,349
Other long-term liabilities	341	474	341	474
Deferred tax liabilities	10,190	13,212	17,543	20,830
Total debt outstanding	**274,207**	**301,462**	**355,123**	**388,719**
Less : Cash	(38,574)	(80,376)	(42,624)	(84,189)
Debt net of cash	**235,633**	**221,086**	**312,499**	**304,530**
Gross book value	675,266	712,089	761,069	803,905
Gross book value, net of cash	636,692	631,713	718,445	719,716
Debt to gross book value	**40.6%**	**42.3%**	**46.7%**	**48.4%**
Debt to gross book value, net of cash	**37.0%**	**35.0%**	**43.5%**	**42.3%**

The debt ratio is 40.6% (37.0% net of cash), comfortably within the REITs mandated threshold of 60%. For the Total Portfolio, the weighted average interest rate is 1.95% and the debt ratio is 46.7% (43.5% net of cash).

Interest Coverage Ratio and Debt Ratio

Interest coverage ratio	Consolidated basis - IP Portfolio		Proportionate share basis - Total Portfolio	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
Net rental income	18,378	26,600	24,185	35,553
IFRIC 21 adjustment	735	-	832	-
Net rental income adjusted	**19,113**	**26,600**	**25,017**	**35,553**
Administration expense	(6,260)	(7,864)	(7,460)	(9,771)
Interest income	-	2,665	-	2,657
Total income	**12,853**	**21,401**	**17,557**	**28,439**
Interest expense [(1)]	(4,899)	(6,186)	(5,843)	(7,726)
Interest coverage ratio	**2.6**	**3.5**	**3.0**	**3.7**

(1) Includes interest on mortgage loans, leases liabilities, swap interest and amortization of financing costs.

The variance in the interest coverage ratio is mostly due to the decrease in finance income on the Rueil acquisition loan, following the full repayments in July and November 2020, and non-recurring administrative expenses of CAD$1.2 in 2021 (mostly for the strategic review process).

Weighted-Average Interest Rate

The weighted average interest rate across the IP portfolio debt is 2.02% and 1.95% for the Total Portfolio. Management is considering other refinancing opportunities to take advantage of historically low interest rates in Europe and anticipates being able to finance assets on a less costly basis than that offered by traditional financing in Canada.

Debt Profile

Debt profile as at September 30, 2021

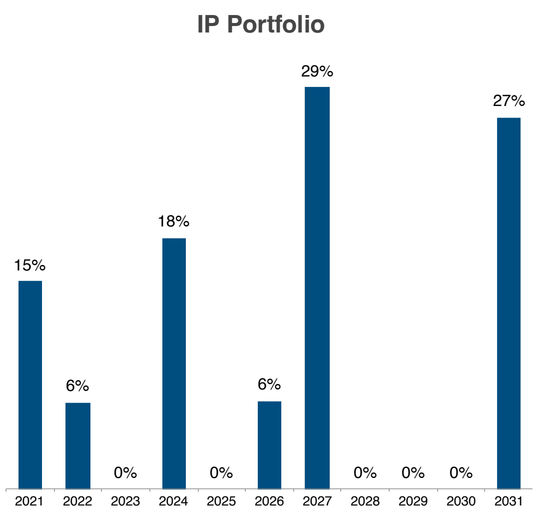
	IP Portfolio		Total Portfolio	
	Carrying value	**%**	**Carrying value**	**%**
Lease liabilities	118,015	45%	128,691	38%
Mortgage loans	145,661	55%	208,994	62%
of which : Amortized mortgage loan	*129,364*	*89%*	*139,915*	*67%*
Bullet mortgage loan	*16,297*	*11%*	*69,079*	*33%*
Total	**263,676**	**100%**	**337,685**	**100%**

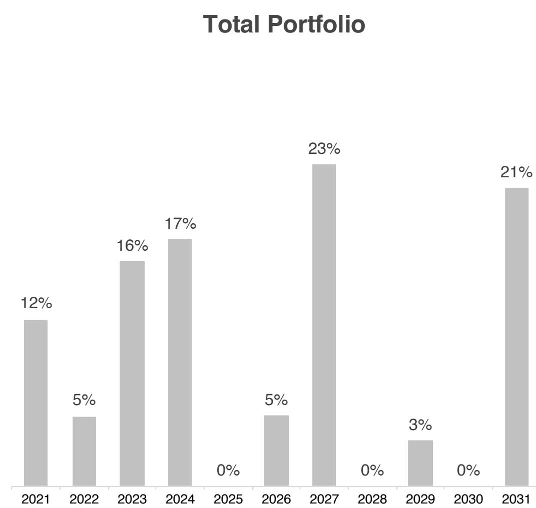
As at September 30, 2021, the REIT debt on its IP Portfolio is composed of 55% mortgage loans and 45% lease liabilities, under contracts expiring from 2022 to 2031.

Amortized loans, mostly on French assets (Jeuneurs, Baldi, Courbevoie, Sablière), represent 41% of the total financing in the REIT's Total Portfolio.

Leasehold and Mortgage Financing Maturity Profile

(% of amount outstanding as at September 30, 2021)





The graphs above do not include the impact of the annual amortization of outstanding debt.

Equity

Management's discussion about equity is inclusive of exchangeable securities. In the interim consolidated financial statements, the exchangeable securities are classified as current liabilities under IFRS because of the conversion feature that can be exercised by the holder of those securities at any time.

As at September 30, 2021, the REIT has 32,400,585 Units issued and outstanding, plus 1,113,663 Exchangeable securities.

	Three months period ended September 30, 2021	Nine months period ended September 30, 2021
Units		
Number at beginning of period	32,400,585	32,400,585
Decrease in number during the period	-	-
Increase in number during the period	-	-
Number at end of period	32,400,585	32,400,585
Weighted average number during the period	32,400,585	32,400,585
Exchangeable securities		
Number at beginning of period	1,113,663	1,113,663
Increase in number during the period	-	-
Number at end of period	1,113,663	1,113,663
Weighted average number during the period	1,113,663	1,113,663
Units and Exchangeable securities		
Number at beginning of period	33,514,248	33,514,248
Decrease in number during the period	-	-
Number at end of period	33,514,248	33,514,248
Weighted average number during the period	33,514,248	33,514,248

Unit-Based Compensation Plan

The REIT, through its Deferred Share Unit ("DSU") Plan, grants DSUs to its trustees and senior officers as non-cash compensation. These DSUs are measured at fair value at the grant date and compensation expense is recognized, consistent with the vesting features of the plan. The DSU plan is accounted for as a cash-settled award as the underlying REIT units are redeemable at the sole discretion of the unitholders for cash at market value of the units. For cash-settled awards, the REIT recognizes a liability measured at its fair value. At each reporting date until the liability is settled, the fair value of the liability is remeasured, with any changes in fair value 30recognized as compensation expense for the same period. Upon settlement of a DSU, the liability balance is reduced, and the resulting Trust Unit is recorded in equity.

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

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

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

As of September 30, 2021, 31,697 DSUs are outstanding and 168,303 DSUs are available for grant under the DSU Plan. A total of 22,303 DSUs were exercised during the nine months ended September 30, 2021, which resulted in a decrease in the DSU plan liability.

For the nine months ended September 30, 2021, the REIT recorded an expense of CAD$98 and an increase to the liability for the same amount. The total liability related to the DSU plan as of September 30, 2021, was CAD$127 (CAD$433 as of June 30, 2021) and was included in Trade and other payables.

Cash Flows

	Nine months ended September 30,		
	2021	**2020**	**Variance**
Cash provided by (used in):			
Operating activities	(916)	(9,512)	8,596
Investing activities	2,192	21,395	(19,203)
Financing activities	(38,971)	(27,252)	(11,719)
Net change during the period	**(37,695)**	**(15,369)**	**(22,326)**

Analysis of Distributed Cash

The Trust is considered a mutual fund trust for income tax purposes in Canada. In Canada, mutual fund trusts are not taxed on income earned in a taxation year, to the extent that such income has been distributed to unitholders prior to the end of the taxation year. Pursuant to the REIT's Amended and Restated Declaration of Trust, dated April 9, 2020, the trustees shall make payable to unitholders a distribution of sufficient net realized capital gains and income that the Trust shall not be liable to pay taxes under Part 1 of the Tax Act.

Pursuant to the requirement of National Policy 41-201, Income Trusts and Other Indirect Offerings, the table below outlines the differences between cash flow from operating activities and cash distributions as well as the differences between income (loss) before income taxes and cash distributions, in accordance with the policy guidelines.

Distributions Funding Sources

	For the three months ended September 30		For the nine months ended September 30	
	2021	2020	2021	2020
Net cash flows related to operating activities (A)	(488)	2,650	(916)	(9,512)
Income before income taxes (B)	34,124	4,283	45,498	27,324
Declared distribution on Units (C) (1)	6,684	5,799	29,996	17,678
Shortfall of cash flows from operating activities over cash distributions paid (A-C)	(7,172)	(3,149)	(30,912)	(27,190)
Excess (shortfall) of profit over cash distributions paid (B - C) funded by the sale of Vanves and the profit on Rueil transaction	27,440	(1,516)	15,502	9,646

(1) Including Participatory Distribution on June dividend for CAD$9,947.

The shortfall was funded from the sale of the Vanves property in December 2019 and cash generated on Rueil transaction. No material contract was amended to fund the shortfall and there are no risks or implications over the sustainability of future distributions.

As quantified in the FFO and AFFO calculations, the funds required to make the distributions on Units, for the three months ended September 30, 2021, i.e., CAD$6,683, were above the FFO (CAD$4,157) for the quarter.

		Note	**Year 2020**	**For the nine months ended September 30, 2021**
Weighted average number of units (diluted)		*(1)*	33,957,066	33,514,248
Theoretical distribution per unit (in CAD)		*(2)*	0.83	0.62
Theoretical distribution (in '000 CAD)	(1) x (2)	*(3)*	28,017	20,737
Actual FFO per units (in CAD)		*(4)*	0.68	0.38
Distribution funded by FFO (in '000 CAD)	**(1) x (4)**	***(5)***	**23,049**	**12,592**
Shortfall over distribution	**(3) – (5)**		**(4,968)**	**(8,145)**
Participatory distribution paid in July				**(9,947)**
Excess cash generated by sale of Vanves and the profit on Rueil transaction			**21,987**	
Distribution funded by excess cash (in '000 CAD)			**4,968**	**18,092**
Cumulative remaining Vanves and Rueil excess cash (shortfall)			**17,019**	**(1,073)**

As at September 30, 2021, the shortfall of CAD$8,145 over the quarterly FFO, as well as the shortfall of CAD$4,968 for the year 2020, was funded out of the CAD$21,987 excess cash corresponding to the price portion in excess of the fair market value on Vanves sale in December 2019, and the profit sharing component on the Rueil acquisition loan in 2020.

Contractual Obligations

	Contractual Cash Flows (1)	2021	2022	2023	2024	2025	Thereafter
Interest-bearing loan	402	61			341		
Mortgages – principal payments	23,790	3,484	3,498	3,669	3,498	3,558	6,082
Mortgages -maturities	121,871	39,011	16,297		43,517		23,046
Lease liabilities	118,015	6,365	6,415	6,016	6,405	6,465	86,350
Exchangeable securities	10,402	10,402					
Accounts payable	11,088	11,088					
Income tax payable	2,213	2,213					
Total	**287,781**	**72,624**	**26,210**	**9,685**	**53,761**	**10,023**	**115,478**

(1) Contractual cash flows do not include interest and do not account for any extension options.

Financial Instruments

The REIT has the following financial assets and liabilities as at September 30, 2021

	Classification
Financial assets	
Loans to joint ventures	Amortized cost
Derivative financial instruments	FVTPL
Trade receivables and other Financial assets	Amortized cost
Restricted cash	Amortized cost
Cash	Amortized cost
Financial liabilities	
Mortgage loan	Amortized cost
Lease equalization loans	Amortized cost
Tenant deposits	Amortized cost
Exchangeable securities	FVTPL
Derivative financial instruments	FVTPL
Trade and other payables	Amortized cost

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

- Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 unobservable inputs for the asset or liability.

There were no transfers between levels of the fair value hierarchy during the three months period ended September 30, 2021.

Due to their short-term nature, the carrying value of the following financial instruments measured at amortized cost approximates their fair value at the balance sheet date:

- Trade receivables and other financial assets
- Cash and restricted cash
- Trade and other payables

The following table summarizes the estimated fair value of other financial instruments which have a fair value different from their carrying value:

	September 30, 2021		December 31, 2020	
	Fair Value	**Carrying Value**	**Fair Value**	**Carrying Value**
Financial assets				
Loans to joint ventures	35,689	35,689	40,531	40,531
Financial liabilities				
Mortgage loan	158,172	145,661	159,462	157,489
Lease equalization loans	-	-	371	371
Tenant deposits	1,563	1,563	2,499	2,499

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

- The fair values of mortgage loans, lease equalization loans and tenant deposits, are estimated using the nominal amounts expected to be repaid at maturity, and a discount rate based on prevailing market interest rates, adjusted by an internally determined credit spread.
- The fair value of derivative financial instruments is determined based on discounted cash flows using interest rate yield curves and volatility that are observable on an active market, as at the balance sheet date.
- The fair value of the Exchangeable securities is based on the quoted price of the REIT's Units, on the basis that they are exchangeable on a one-to-one basis.

The REIT is exposed to a number of financial risks, including those associated with financial instruments, which have the potential to affect its operating and financial performance. These risks include interest rate risk, currency risk, credit risk and liquidity risk.

Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The REIT's exposure to the risk of changes in market interest rates relates to the long-term debt obligations with floating interest rates related to leases and mortgage loans. The interest rate risk is mitigated by the REIT's strategy using derivative financial instruments on mortgage loans and on the lease liabilities. As at September 30, 2021, after taking into consideration the effect of interest rate swap (35%) and interest rate cap (26%), as well as fixed interest rates (17%), 78% of the REIT's long-term debt obligation has no exposure to interest rate risk (2020 – 78%).

As at September 30, 2021, a 50-basis point increase in interest rates would decrease the REIT's annualized profit by CAD$303 (2020 – a decrease of CAD$321).

Currency Risk

The REIT operates in France and Germany, and the functional currency for these operations is the Euro. The REIT's distributions are paid to unitholders in Canadian dollars. Thus, the cash available for distribution to unitholders could be adversely impacted by currency variations. To mitigate the risk of foreign exchange fluctuations on the distributions to our unitholders, management has established an active foreign exchange hedging program.

To take advantage of improved exchange rates, a new two-year hedging program was put in place in Q3 2021 with Banque Palatine, which will take over the existing contract starting October 2022. As such, the exchange rate relating to 100% of the REIT's current distributions are secured by these foreign currency forward contracts, until October 2024.

Financial institution	Contracts Maturing by Quarter	Hedge Value ('000 EUR)	Weighted average hedging rate
CADIFF	Q4 2021	3,566	1.514
	Q1 2022	3,553	1.520
	Q2 2022	3,542	1.525
	Q3 2022	3,526	1.531
	Q4 2022	1,170	1.539
BANQUE PALATINE	Q1 2023	4,344	1.519
	Q2 2023	4,332	1.524
	Q3 2023	4,317	1.529
	Q4 2023	4,305	1.533
	Q1 2024	4,291	1.538
	Q2 2024	4,279	1.542
	Q3 2024	4,269	1.546
		45,494	

As at September 30, 2021, under the new forward currency exchange contract, the REIT was committed to sell EUR€1,190 at rate of 1.5122, and to receive CAD$1,800 for October 2021. This two-year hedging program in place will secure the REIT to receive CAD$1,800 on a monthly basis, at an average rate of 1.5238, until October 2022.

The hedging contract secures a CAD$2,200 monthly conversion at an average rate of 1.5315 for two years, ending October 2024.

As at September 30, 2021 and December 31, 2020, a 10% change in the value of the Euro relative to the Canadian dollar would have the following impact on financial results:

September 30, 2021	**% change**	**Net income**	**OCI**	**Total**
Impact in the event of an increase in the value of the Euro/CAD$	10%	82	(22,751)	(22,669)
Impact in the event of a decrease in the value of the Euro/CAD$	(10%)	(82)	22,751	22,669
December 31, 2020				
Impact in the event of an increase in the value of the Euro/CAD$	10%	1,852	(21,263)	(19,411)
Impact in the event of a decrease in the value of the Euro/CAD$	(10%)	(1,852)	21,263	19,411

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The REIT is directly exposed to credit risk from its leasing activities and its investing activities, including the acquisition loans, trades and other receivables, loans in other current financial assets, derivatives, deposits with banks and financial institutions. The REIT's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized on September 30, 2021.

Loan to joint ventures: Credit risk relating to loan to joint ventures is mitigated through recourse against such parties and/or the underlying real estate. These financial instruments are considered to have low credit risk. The REIT monitors the debt service ability of the properties underlying the loans to assess for changes in credit risk.

Accounts Receivable: Credit risk is managed by requiring tenants to pay rentals in advance. Also, in certain cases, deposits are obtained from tenants. Accounts receivables are presented on the consolidated balance sheet, net of allowance for credit losses determined using the simplified method as allowed per IFRS 9. This provision is based on the expected recovery percentage of amounts receivable from each tenant and various other indicators, such as a deterioration of the credit situation of a given tenant. Management regularly reviews accounts receivable and monitors past due balances.

Cash deposit and derivatives: The credit risk for cash and derivative financial instruments is considered negligible since the counterparties are reputable banks with high quality external credit ratings.

Liquidity Risk

The REIT's objective is to maintain a balance between continuity of funding and flexibility using bank deposits and loans. Liquidity risk inherent to the financial structure of the business is mainly managed through quarterly updates of short-term cash flow forecasts, follow-up of availability of funding through an adequate amount of committed credit facilities, as well as the status of the maturity of financial assets and liabilities. Refer to "*Contractual Obligations*" section above for further details.

Quarterly Information – Last Eight Quarters

	As at and for the three months ended							
	Sept. 30 2021	June 30 2021	March 31 2021	Dec. 31 2020	Sept. 30 2020	Jun. 30 2020	Mar. 31 2020	Dec. 31 2019
Rental revenue	7,650	6,871	7,420	7,706	7,154	7,119	6,878	6,261
Rental revenue - Total Portfolio (1)	9,773	8,967	9,531	9,941	9,606	9,525	9,238	9,242
Net rental income	7,022	6,918	4,438	7,761	7,260	7,399	4,250	6,379
Net rental income - Total Portfolio (1)	9,112	8,976	6,096	9,851	9,610	9,786	6,304	9,146
Net income attributable to Unitholders	32,151	9,247	4,166	(8,952)	4,445	(9,385)	32,088	30,094
FFO (1)	4,157	4,295	4,265	5,631	6,393	5,418	5,484	6,744
AFFO (1)	3,816	4,327	2,986	4,955	5,984	5,210	4,143	8,176
FFO per Unit (diluted) (1) (2)	0.12	0.13	0.13	0.17	0.19	0.16	0.16	0.22
AFFO per Unit (diluted) (1) (2)	0.11	0.13	0.09	0.15	0.18	0.15	0.12	0.26
Declared distribution per Unit	0.21	0.51	0.21	0.21	0.21	0.21	0.21	0.21
FFO payout ratio (2)	174.7%	160.7%	167.0%	129.2%	108.6%	130.0%	127.7%	93.5%
AFFO payout ratio (2)	190.3%	159.5%	184.6%	146.8%	116.0%	135.2%	169.1%	77.1%

(1) See the section "Non-GAAP Financial Measures" on page 36 (below) for more information on the REIT's non-GAAP financial measures and reconciliations thereof. Non-GAAP measures do not have standardized meaning under IFRS. These measures as computed by the REIT may differ from similar computations as reported by other entities and, accordingly, may not be comparable to other entities.

(2) Excluding Participatory Distribution. Based on the diluted weighted average number of Units, Exchangeable securities and the conversion of promissory notes in 2020.

Non-GAAP Financial Measures

There are financial measures included in this MD&A that do not have a standardized meaning under IFRS. These measures include funds from operations, adjusted funds from operations, and other measures presented on a proportionate share basis. Management includes these measures as they represent key performance indicators to management, and it believes certain investors use these measures as a means of assessing relative financial performance. These measures, as computed by Inovalis REIT, may differ from similar computations as reported by other entities and, accordingly, may not be comparable to other such entities.

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 consolidated financial statements, are presented below using the proportionate consolidation method at the REIT's ownership percentage of the related investment. Management views this method as relevant in demonstrating the Trust's ability to manage the underlying economics of the related investments, including the financial performance and the extent to which the underlying assets are leveraged, which is an important component of risk management.

For the purpose of the proportionate consolidation, the initial investment of both partners in the joint ventures were considered as being equity investments as opposed to a combination of equity and loans and accordingly, the related proportionate consolidation balance sheet items were eliminated as well as the associated finance income and finance costs.

Consolidated Statement of Earnings Reconciliation to Consolidated Financial Statements

	Three months ended					
	September 30, 2021			September 30, 2020		
(in thousands of CAD$)	**Amounts per REIT's financial statements (1)**	**Share of net 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	7,650	2,123	**9,773**	7,154	2,452	**9,606**
Property operating cost recoveries	1,506	719	**2,225**	1,790	802	**2,592**
Property operating costs	(1,872)	(751)	**(2,623)**	(1,569)	(834)	**(2,403)**
Other revenues (expenses)	-	(36)	**(36)**	-	(68)	**(68)**
Other property operating expenses	(262)	35	**(227)**	(115)	(2)	**(117)**
Net rental income	**7,022**	**2,090**	**9,112**	**7,260**	**2,350**	**9,610**
General and administrative expenses	(1,695)	(369)	**(2,064)**	(1,457)	(434)	**(1,891)**
Foreign exchange gain (loss)	(49)	-	**(49)**	816	-	**816**
Net change in fair value of investment properties	25,933	3,812	**29,745**	(763)	(1,995)	**(2,758)**
Loss on sale of investment in joint venture	-	-	**-**	-	-	**-**
Share of net income (loss) from joint ventures	3,652	(3,652)	**-**	(1,176)	1,176	**-**
Operating income	**34,863**	**1,881**	**36,744**	**4,680**	**1,097**	**5,777**
Net change in fair value of financial derivatives	336	3	**339**	192	1	**193**
Net change in fair value of Exchangeable securities	318	-	**318**	96	-	**96**
Net change in fair value of Promissory notes	-	-	**-**	449	-	**449**
Finance income	889	(794)	**95**	1,561	(1,051)	**510**
Finance costs	(1,703)	(394)	**(2,097)**	(2,486)	(344)	**(2,830)**
Distributions on Exchangeable securities	(579)	-	**(579)**	(209)	-	**(209)**
Income (loss) before income taxes	**34,124**	**696**	**34,820**	**4,283**	**(297)**	**3,986**
Current income tax recovery (expense)	(29)	(54)	**(83)**	33	50	**83**
Deferred income tax recovery (expense)	(1,873)	(642)	**(2,515)**	165	247	**412**
Total income tax recovery (expense)	**(1,902)**	**(696)**	**(2,598)**	**198**	**297**	**495**
Net income	**32,222**	**-**	**32,222**	**4,481**	**-**	**4,481**
Non-controlling interest	71	-	71	36	-	36
Net income attributable to the Trust	**32,151**	**-**	**32,151**	**4,445**	**-**	**4,445**

(1) Consolidated statement of earnings amounts presented for the REIT were taken respectively from interim consolidated financial statements as at September 30, 2021 and 2020.

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

	Nine months ended					
	September 30, 2021			September 30, 2020		
(in thousands of CAD$)	**Amounts per REIT's financial statements (1)**	**Share of net earnings from investments in joint ventures**	**Total**	**Amounts per REIT's financial statements (1)**	**Share of earnings from investments in joint ventures**	**Total**
Rental revenue	21,941	6,329	**28,270**	21,151	7,218	**28,369**
Property operating cost recoveries	5,134	2,110	**7,244**	4,915	2,178	**7,093**
Property operating costs	(8,126)	(2,637)	**(10,763)**	(7,019)	(2,647)	**(9,666)**
Other revenues	168	-	**168**	19	123	**142**
Other property operating expenses	(739)	5	**(734)**	(228)	(9)	**(237)**
Net rental income	**18,378**	**5,807**	**24,185**	**18,838**	**6,863**	**25,701**
General and administrative expenses	(6,260)	(1,200)	**(7,460)**	(5,741)	(1,536)	**(7,277)**
Foreign exchange gain (loss)	(989)	(1)	**(990)**	2,619	-	**2,619**
Net change in fair value of investment properties	34,457	1,729	**36,186**	(1,348)	(3,208)	**(4,556)**
Loss on sale of investment in joint venture	(108)	(1)	**(109)**	-	-	**-**
Share of net income (loss) from joint ventures	2,586	(2,586)	**-**	(1,843)	1,843	**-**
Operating income	**48,064**	**3,748**	**51,812**	**12,525**	**3,962**	**16,487**
Net change in fair value of financial derivatives	1,311	(8)	**1,303**	399	8	**407**
Net change in fair value of Exchangeable securities	(457)	-	**(457)**	2,675	-	**2,675**
Net change in fair value of Promissory notes	-	-	**-**	14,152	-	**14,152**
Finance income	2,575	(2,524)	**51**	5,737	(3,081)	**2,656**
Finance costs	(4,963)	(1,031)	**(5,994)**	(7,562)	(1,123)	**(8,685)**
Distributions on Exchangeable securities	(1,032)	1	**(1,031)**	(602)	-	**(602)**
Income before income taxes	**45,498**	**186**	**45,684**	**27,324**	**(234)**	**27,090**
Current income tax expense	(2,213)	(58)	**(2,271)**	(16)	34	**18**
Deferred income tax recovery (expense)	2,327	(128)	**2,199**	(119)	200	**81**
Total income tax recovery (expense)	**114**	**(186)**	**(72)**	**(135)**	**234**	**99**
Net income	**45,612**	**-**	**45,612**	**27,189**	**-**	**27,189**
Non-controlling interest	50	-	50	42	-	42
Net income attributable to the Trust	**45,562**	**-**	**45,562**	**27,147**	**-**	**27,147**

(1) Consolidated statement of earnings amounts presented for the REIT were taken respectively from interim consolidated financial statements as at September 30, 2021 and 2020.

Balance Sheet Reconciliation to Consolidated Financial Statements

	As at September 30, 2021			As at December 31, 2020		
Assets	**As per REIT's financial statements (1)**	**Share from investments in joint-ventures**	**Proportionate Consolidation**	**As per REIT's financial statements (1)**	**Share from investments in joint-ventures**	**Proportionate Consolidation**
Non-current assets						
Investment properties	440,422	150,950	**591,372**	541,218	160,240	**701,458**
Investments in joint ventures	70,582	(70,582)	**-**	75,987	(75,987)	**-**
Financial assets	753	(740)	**13**	-	-	**-**
Derivative financial instruments	53	-	**53**	-	-	**-**
Restricted cash	5,071	-	**5,071**	4,874	-	**4,874**
Total non-current assets	**516,881**	**79,628**	**596,509**	**622,079**	**84,253**	**706,332**
Current assets						
Trade receivables and other financial assets	11,492	657	**12,149**	6,623	2,756	**9,379**
Derivative financial instruments	523	-	**523**	15	19	**34**
Other current assets	3,172	1,468	**4,640**	2,444	975	**3,419**
Restricted cash	53	-	**53**	552	-	**552**
Cash	38,574	4,050	**42,624**	80,376	3,813	**84,189**
Total current assets	**53,814**	**6,175**	**59,989**	**90,010**	**7,563**	**97,573**
Assets classified as held for sale	104,571	-	**104,571**	-	-	**-**
Total assets	**675,266**	**85,803**	**761,069**	**712,089**	**91,816**	**803,905**
Liabilities and Unitholders' equity						
Liabilities						
Non-current liabilities						
Interest-bearing loan	341	-	**341**	474	-	**474**
Mortgage loans	87,158	62,585	**149,743**	152,737	67,620	**220,357**
Lease liabilities	110,347	10,252	**120,599**	121,813	9,460	**131,273**
Tenant deposits	1,240	121	**1,361**	1,490	162	**1,652**
Derivative financial instruments	1,234	-	**1,234**	3,091	-	**3,091**
Deferred tax liabilities	10,190	7,353	**17,543**	13,212	7,618	**20,830**
Total non-current liabilities	**210,510**	**80,311**	**290,821**	**292,817**	**84,860**	**377,677**
Current liabilities						
Interest-bearing loan	61	-	**61**	36	-	**36**
Mortgage loans	58,503	229	**58,732**	4,752	240	**4,992**
Lease liabilities	7,668	497	**8,165**	8,474	2,319	**10,793**
Lease equalization loans	-	-	**-**	371	-	**371**
Tenant deposits	323	33	**356**	1,009	35	**1,044**
Exchangeable securities	10,402	-	**10,402**	9,945	-	**9,945**
Derivative financial instruments	1,153	-	**1,153**	2,382	-	**2,382**
Trade and other payables	11,088	4,180	**15,268**	11,052	3,755	**14,807**
Income tax payable	2,213	-	**2,213**	4,069	-	**4,069**
Deferred income	569	553	**1,122**	521	599	**1,120**
Total current liabilities	**91,980**	**5,492**	**97,472**	**42,611**	**6,948**	**49,559**
Total liabilities	**302,490**	**85,803**	**388,293**	**335,428**	**91,808**	**427,236**
Equity						
Trust units	286,975	-	**286,975**	286,975	-	**286,975**
Retained earnings	68,919	-	**68,919**	53,350	1	**53,351**
Accumulated other comprehensive income	15,472	-	**15,472**	34,913	7	**34,920**
	371,366	**-**	**371,366**	**375,238**	**8**	**375,246**
Non-controlling interest	1,410	-	**1,410**	1,423	-	**1,423**
Total liabilities and equity	**675,266**	**85,803**	**761,069**	**712,089**	**91,816**	**803,905**

(1) Balance sheet amounts presented for the REIT were taken respectively from interim consolidated financial statements as at September 30, 2021, and audited consolidated financial statements as at December 31, 2020.

Funds From Operations and Adjusted Funds From Operations

FFO and AFFO are non-GAAP 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, dated February 2019, and as subsequently amended (''White Paper'').

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

As an exception, considering the significant amount of cash held in Euros in Canada and the volatility of the Canadian dollar against the Euro, the unrealized gain (loss) recognized in the nine months period ended September 30, 2021, and for all four quarters of 2020, have been excluded from the FFO calculation. Finally, non-recurring administrative expenses relating to items that are not reasonably likely to occur within two years prior to, or following the disclosure, are adjusted have also been excluded from FFO.

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 income 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 notes in 2020, (v) finance costs related to distribution on Exchangeable securities and promissory notes in 2020, (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, (xiii) gains or losses from non-recurring items, (xiv) additional non-recurring income (loss) from JVs, (xv) minority interest, and (xvi) goodwill / bargain purchase gains upon acquisition. 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 promissory notes (*2020 only*) are recorded as liabilities. Exchangeable securities and promissory notes 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.

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, and (vi) amortization of transaction costs on mortgage loans.

The REIT's method of calculating FFO and AFFO may differ from other issuers' methods, and accordingly may not be comparable to measures used by them.

The reconciliation of FFO and AFFO for the three- and nine-month periods ended September 30, 2021 and 2020, based on proportionate consolidation figures, is as follows:

(in thousands of CAD$)	Three months ended September 30 2021	Three months ended September 30 2020	Nine months ended September 30 2021	Nine months ended September 30 2020
Net income attributable to the Trust	32,151	4,445	45,562	27,147
Add/(Deduct):				
Net change in fair value of investment properties	(29,745)	2,758	(36,186)	4,556
Net change in fair value of financial derivatives	(339)	(189)	(1,370)	(103)
Net change in fair value of derivative on acquisition loan	-	(2)	33	(152)
Loss on sale of investment in joint venture	1	-	109	-
Adjustment for property taxes accounted for under IFRIC 21	(809)	(817)	832	747
Interest on promissory notes	-	932	-	2,711
Distributions on Exchangeable securities	579	209	1,031	602
Net change in fair value of Exchangeable securities	(318)	(96)	457	(2,675)
Net change in fair value of Promissory Notes	-	(449)	-	(14,152)
Foreign exchange loss (gain) (3)	49	(82)	1,037	(1,885)
Income tax adjustment	-	-	2,056	-
Deferred income tax recovery (expense)	2,516	(412)	(2,198)	(81)
Other adjustments (2)	-	61	1,179	536
Minority interest	72	35	50	42
FFO	**4,157**	**6,393**	**12,592**	**17,293**
Add/(Deduct):				
Non-cash effect of straight line rents	146	(674)	35	(1,291)
Cash effect of the lease equalization loans	(179)	(110)	(357)	(1,656)
Amortization of transaction costs on mortgage loans	25	64	73	223
Non-cash part of asset management fees paid in Exchangeable securities (1)	-	393	-	1,155
Capex net of cash subsidy	(333)	(82)	(453)	(388)
AFFO	**3,816**	**5,984**	**11,890**	**15,336**
FFO / Units (diluted) *(in CAD$)*	**0.12**	**0.19**	**0.38**	**0.51**
AFFO / Units (diluted) *(in CAD$)*	**0.11**	**0.18**	**0.35**	**0.45**

(1) For purposes of this presentation, 50% of the asset management fee is included in the AFFO reconciliation. 50% of the asset management fees were paid in Exchangeable securities in 2020. For Q1, Q2, and Q3 2021, asset management fees have been fully paid in cash.

(2) Other adjustments line refers non-recurring administrative expenses related to Strategic review, aborted asset acquisitions and SIF conversion. Due to their specific nature, management has decided to exclude these expenses from the FFO calculation, although REALPAC does not expressively provide guidance on such exclusion.

(3) REALPAC guidance suggest that the FX gain or loss be included in the FFO calculation. However, due to the volatility of the Canadian dollar against the Euro, the REIT has elected to exclude from the FFO calculation the unrealized gain or loss on the cash held in Canada in Euro.

Risks and Uncertainties

The REIT is exposed to various risks and uncertainties, many of which are beyond the control of management, the occurrence of which could materially and adversely affect investments, prospects, cash flows, results of operations or financial condition and management's ability to make cash distributions to unitholders. Management believes the risk factors described below are the most material risks to the REIT, however they are not the only ones. Additional risk factors not presently known to us, or that management currently believes are immaterial, could also materially and adversely affect investments, prospects, cash flows, results of operations or financial condition and management's ability to make cash distributions to unitholders, and negatively affect the value of the Units.

Risks Relating to the REIT and its Business

Risks Inherent in the Real Estate Industry May Adversely Affect our Financial Performance

The REIT is subject to risks involving the economy in general, including inflation, deflation or stagflation, unemployment, geopolitical issues and a local, regional, national or international outbreak of a contagious disease, including COVID-19. Poor economic conditions could adversely affect the REIT's ability to generate revenues, thereby reducing its operating income and earnings. It could also have an adverse impact on the ability of the REIT to maintain occupancy rates, which could harm the REIT's financial condition. In weak economic environments, the REIT's tenants may be unable to meet their rental payments and other obligations due to the REIT, which could have a material and adverse effect on the REIT.

In addition, fluctuation in interest rates or other financial market volatility may adversely affect the REIT's ability to refinance existing indebtedness on its maturity, or on terms that are as favourable as the terms of the existing indebtedness, which may impact negatively on AFFO, may restrict the availability of financing for future prospective purchasers of the REIT's investments, and could potentially reduce the value of such investments, or may adversely affect the ability of the REIT to complete acquisitions on financially desirable terms.

An investment in real estate is relatively illiquid. Such illiquidity will tend to limit our ability to vary our portfolio promptly in response to changing economic or investment conditions. The costs of holding real estate are considerable and during an economic recession, the REIT may be faced with ongoing expenditures with a declining prospect of incoming receipts. In such circumstances, it may be necessary for us to dispose of properties at lower prices to generate sufficient cash for operations and making distributions and interest payments.

Public Health Crises / COVID-19

COVID-19 is a global pandemic that has necessitated restrictive measures to combat the spread of the virus. These measures, which include the implementation of travel restrictions, quarantine periods and social distancing, have caused material disruptions to businesses globally, resulting in an economic slowdown. Global equity and capital markets have also experienced significant volatility. Governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

Vaccination programs and other measures to combat COVID-19 are in place across European countries, including in the cities and regions where the REIT's assets are located. The REIT has proactively taken actions in response to, or in furtherance of, these measures and currently has in place, in response to such measures and local conditions, where applicable, measures such as: protocols for social distancing, hand sanitization and the wearing of facemasks, closure of certain non-essential indoor common areas, and conducting tours for prospective tenants on an appointment-only basis, which actions the REIT may continue to take.

Notwithstanding the COVID 19 pandemic, such measures have not had a material impact on the REIT, and management believes that the REIT's performance will continue to be stable or strengthen in the foreseeable future, and over the longer term. Nonetheless, given the unpredictable nature of the COVID-19 pandemic, any continuation or intensification of such pandemic or related government measures could in the future have an adverse effect (which effect could be material) on the REIT's financial condition, results of operations, and cash flows, due to the following factors, or others:

- Weaknesses in national, regional, or local economies may prevent tenants from paying rent in full or on a timely basis.
- A reduction in tenant demand for space due to a general decline in business activity and discretionary spending could adversely affect the value of the REIT's assets. This could lead to an impairment of the REIT's real estate investments. In addition, the REIT may be unable to complete planned development of land for expansion or other capital improvement projects on a timely basis, or at all, or the inability of third-party contractors to continue to work on construction projects.
- A general decline in business activity or demand for real estate transactions could adversely affect the REIT's ability or desire to acquire additional assets.
- The financial impact of the COVID-19 pandemic could negatively impact the REIT's ability to comply with financial covenants in its credit arrangements and result in a default, and potentially an acceleration of indebtedness. Such noncompliance could negatively impact the REIT's financial position and its ability to make additional borrowings under its credit facilities.
- A severe disruption and instability in the global financial markets or deteriorations in credit and financing conditions may affect the REIT's ability to access capital necessary to fund business operations, including the acquisition or expansion of investment assets, or replace or renew maturing liabilities on a timely basis, on attractive terms, or at all, and may adversely affect the valuation of financial assets and liabilities.
- An outbreak of COVID-19 or other contagious illness in an asset, or the market in which an asset operates, could negatively impact its occupancy, reputation, or attractiveness.
- The COVID-19 pandemic could negatively affect the health, availability and productivity of Inovalis S.A.'s personnel. It could also affect Inovalis S.A.'s ability to recruit and attract new employees or retain current employees. An outbreak that directly affects, or threatens to directly affect, any of the assets could also deter or prevent Inovalis S.A.'s on site personnel from reporting to work. The effects of shelter in place orders could strain the REIT's business continuity plans, introduce operational risk, including but not limited to cybersecurity risks, and impair the REIT's ability to manage its business.
- Governmental agencies that permit and approve the REIT's projects, suppliers, builders, and other business partners and third parties, may be prevented from conducting business activities in the ordinary course for an indefinite period of time, which could in turn negatively affect the REIT's business.
- Disruptions caused by COVID-19 may negatively impact the market price for the equity securities of the REIT and may, in the short or long term, materially adversely impact the REIT's tenants and/or the debt and equity markets, both of which could materially adversely affect the REIT's operations and financial performance and ability to pay distributions.

Other risks, including those described elsewhere in this MD&A related to changes to applicable laws and regulations, economic downturn in markets, debt financing, financing renewal, access to capital and the REIT's reliance on information technology infrastructure, and the effects of these risks on the REIT's financial condition, results of operations, cash flows, ability to make cash distributions, operations and the market price of its securities, could be exacerbated by the effects of the COVID-19 pandemic and government measures to control it, any intensification of such pandemic or measures, or any other outbreak of contagious disease.

The extent to which the COVID-19 pandemic impacts the REIT's operations, financial condition and financial results will depend on future developments, which are highly uncertain and cannot be predicted with confidence. Such future developments include the severity and duration of the pandemic, any intensification of the pandemic, the actions by governments and others taken to contain the pandemic or mitigate its impact, changes in the preferences of tenants and prospective tenants, and the direct and indirect economic effects of the pandemic and containment measures, among others. The rapid development and fluidity of this situation impedes the REIT's ability to predict the ultimate adverse impact of the COVID-19 pandemic. Nevertheless, the COVID-19 pandemic and the current financial, economic and capital markets environment, and future developments in these and other areas, present material uncertainty and risk with respect to the REIT's performance, consolidated financial condition, results of operations and cash flows.

Concentration of Tenants May Result in Significant Vacancies on the Properties

Five of the REIT's largest tenants, by percentage of total GLA, occupy 46% of the total weighted areas. Although all five tenants are committed to multi-year leases, which are set to expire gradually between 2023 and 2027, there is no assurance that such tenants will continue to occupy such premises for the remainder of their lease terms. Some of them have break options before the end of their leases, and the earliest dates on which those five largest tenants may effectively move range between 2023 and 2027. To minimize this risk of vacancy, the REIT will continue to closely monitor all leases and ensure that they work with the current tenants to determine their future leasing plans, which would allow the REIT to source tenants in advance of the current tenants vacating the property.

Lease Renewals, Rental Increases, Lease Termination Rights and Other Lease Matters

Leases for tenants of the REIT properties will mature or expire from time to time. There can be no assurance that tenants will renew leases upon the expiration or that rental rate increases will be achieved upon such renewal. The failure to renew leases or achieve rental rate increases may adversely impact our financial condition and results of operations and decrease the amount of cash available for distribution.

Despite management's objective to maintain continuous occupancy of leased premises, tenants may fall into financial difficulty from time to time, and there can be no guarantee that tenants will continue to occupy such premises, nor be able to fully pay rent. In addition, certain leases contain a provision which gives tenants the right to terminate their leases upon payment of a penalty.

Environmental Contamination on Properties May Expose Us to Liability and Adversely Affect Financial Performance

The properties may contain ground contamination, hazardous substances, wartime relics (including potentially unexploded ordnance) and/or other residual pollution and environmental risks. Buildings and their fixtures might contain asbestos or other hazardous substances above the allowable or recommended thresholds, or the buildings could bear other environmental risks. Prior to acquiring the interests in the properties (including the leasehold interests), management undertook environmental studies on each property. No sign of pollution was evidenced on any of the properties.

The REIT is subject to various federal, state, and municipal laws relating to environmental matters. Such environmental laws impose actual and contingent liabilities on the REIT to undertake remedial action on contaminated sites and in contaminated buildings. The costs of any removal, investigation, or remediation of any residual pollution on such sites or in such buildings as well as costs related to legal proceedings, including potential damages, regarding such matters may be substantial.

The REIT has insurance in place to protect against certain environmental liabilities in respect of certain of the properties, with limits, which are customary and available for portfolios like ours.

Necessary capital and operating expenditures are made to ensure compliance with environmental laws and regulations. Although there can be no assurance, management does not believe that costs relating to environmental matters will have a material adverse effect on our investments, financial condition, results of operations, or distributions or cash interest payments.

The REIT May Incur Significant Capital Expenditures

Certain significant expenditures must be made throughout the period of ownership of real property, regardless of whether the property is producing sufficient income to pay such expenses. To retain desirable rentable space and to generate adequate revenue over the long term, we must maintain or, in some cases, improve each property's condition to meet market demand, which can entail significant costs we may not be able to pass on to our tenants.

Any failure by the REIT to undertake appropriate maintenance and refurbishment work in response to the factors described above could entitle tenants to withhold or reduce rental payments, or even to terminate existing leases. Any such event could have a material adverse effect on our cash flows, financial condition and results of operations, and our ability to make distributions on the Units.

Financing Risks, Leverage and Restrictive Covenants May Limit the Ability for Growth

The real estate industry is capital intensive. The REIT requires access to capital to maintain our properties, as well as to fund our growth strategy, and significant capital expenditures from time to time. There is no assurance that capital will be available when needed, or on favorable terms. Failure to access required capital could adversely impact investments, cash flows, operating results or financial condition, the ability to make distributions on the Units and the ability to implement the REIT's growth strategy.

As indebtedness increases, there is risk that the REIT may default on its debt obligations. The ability to make scheduled payments on the principal of, or interest on, and to otherwise satisfy the REIT's debt obligations depends on future performance, which is subject to the financial performance of the properties, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond the REIT's control.

Changes in Government Regulations May Affect Our Investment in Our Properties

The REIT is subject to laws and regulations governing the ownership, leasing or operations of real property, employment standards, environmental and energy efficiency matters, taxes and other matters. It is possible that future changes in applicable federal, state, local or common laws or regulations or changes in their enforcement or regulatory interpretation could result in changes in the legal requirements affecting us (including with retroactive effect). This may include sudden regulatory changes required for the safe occupancy of buildings during the COVID-19 pandemic. In addition, the political conditions in the jurisdictions in which the REIT operates are also subject to change. Any changes in investment policies or shifts in political attitudes may adversely affect our investments. Any changes in the laws to which the REIT is subject in the jurisdictions in which it operates could materially affect the rights and title to the properties. All the properties are in France and Germany. Although the governments in France and Germany are stable and friendly to foreign investments, there are still political risks. It is not possible to predict whether there will be any further changes in the regulatory regime(s) to which the REIT is subject or the effect of any such change on investments.

Failure to Receive Deductions for Interest Payments May Adversely Affect Our Cash Flows, Results of Operations and Financial Condition

During the acquisition of the properties, the REIT entered into financing transactions with third parties and affiliates. These financing agreements will require payment of principal and interest. There are several rules in German tax laws restricting the tax deductibility of interest expenses for corporate income and municipal trade tax purposes. Such rules have been changed considerably on several occasions in recent past. As a result, major uncertainties exist as to the interpretation and application of such rules, which are not yet clarified by the tax authorities and the tax courts. The tax deductibility of interest expenses depends on, among other things, the details of the security structure for debt financings, the annual amount of tax net-debt interest, the amounts and terms of unitholder or affiliate financings, and our general tax structure. There is a risk of additional taxes being triggered on the rental income and capital gains in case the tax authorities or the tax courts adopt deviating views on the above. If this were the case, this would result in a higher tax burden and, consequently, could have a material adverse effect on cash flows, financial condition and results of operations and ability to pay distributions on the Units.

Changes in Currency Exchange Rates Could Adversely Affect Our Business

Substantially, all of the REIT's investments and operations are conducted in currencies other than Canadian dollars; however, distributions to unitholders are paid in Canadian dollars. The REIT also raises funds primarily in Canada from the sale of securities in Canadian dollars and invests such funds indirectly through its subsidiaries in currencies other than Canadian dollars. As a result, fluctuations in such foreign currencies against the Canadian dollar could have a material adverse effect on financial results, which are denominated and reported in Canadian dollars, and on the ability to pay cash distributions to Unitholders. Active hedging programs have been implemented to offset the risk of revenue losses and to provide more certainty regarding the payment of distributions to unitholders if the Canadian dollar increases in value compared to foreign currencies.

Changes in Interest Rates Could Adversely Affect Cash Flows and the REIT's Ability to Pay Distributions and Make Interest Payments

When concluding financing agreements or extending such agreements, management's objective is to agree on terms for interest payments that will not impair desired profit, and on amortization schedules that do not restrict the ability to pay distributions. In addition to the variable rate portion of the leaseholds in respect of the properties, management may enter into financing agreements with variable interest rates if the current historical low level of interest rates continues. There is a risk that interest rates will increase, which would result in a significant increase in the amount paid by the REIT and its subsidiaries to service debt, resulting in a decrease in distributions to unitholders, and could impact the market price of the Units.

Dependence on Inovalis S.A. for Management Services

The REIT is dependent on Inovalis S.A. with respect to the asset management of properties and the property management of the properties. Consequently, the REIT's ability to achieve our investment objectives depends in large part on Inovalis S.A. and its ability to provide advice. This means that the REIT's investments are dependent upon Inovalis S.A.'s business contacts, its ability to successfully hire, train, supervise and manage its personnel and its ability to maintain its operating systems. If the REIT were to lose the services provided by Inovalis S.A. or its key personnel, our investments and growth prospects may decline.

While the trustees have similar oversight responsibility with respect to the services provided by Inovalis S.A. pursuant to the Management Agreement, the services provided by Inovalis S.A. are not performed by employees of the REIT, but by Inovalis S.A. directly and through entities to which it may subcontract. The Fourth Amended and Restated Management Agreement has an initial term of two years, expiring on March 31, 2023, but may be extended for an additional one-year term based on mutual agreement of Inovalis S.A. and the REIT.

Investments in, and Profits and Cash Flows From, Properties May Be Lost in the Event of Uninsured or Underinsured Losses to Properties or Losses From Title Defects

The REIT carries general liability, umbrella liability and excess liability insurance with limits that are typically obtained for similar real estate portfolios in France and Germany and otherwise acceptable to the trustees. For the property risks the REIT intends to carry "Multi-Risk" property insurance, including but not limited to, natural catastrophic events and loss of rental income insurance (with at least a 12 to 18-month indemnity period). The REIT also carries boiler and machinery insurance covering all boilers, pressure vessels, HVAC systems and equipment breakdown. There are, however, certain types of risks (of a catastrophic nature such as from pandemics, war, or nuclear accidents) that are uninsurable under any insurance policy. Furthermore, there are other risks that are not economically viable to insure currently. The REIT partially self-insures against terrorism risk for the entire portfolio. The REIT has insurance for earthquake risks, subject to certain policy limits, deductibles and self-insurance arrangements. Should an uninsured or underinsured loss occur, the REIT could lose the investment in, and anticipated profits and cash flows from, one or more of its properties, but it would continue to be obligated to repay any recourse mortgage indebtedness on such properties. The REIT does not carry title insurance on the properties. If a loss occurs resulting from a title defect with respect to a property where there is no title insurance, the REIT could lose all or part of its investment in, and anticipated profits and cash flows from, such property. The REIT does not carry pandemic insurance on the properties. If a loss occurs resulting from the inability of a tenant to pay rent, or a restriction on the operation of a property due to government regulation related to the COVID-19 pandemic, the REIT could lose all or part of its investment in, and anticipated profits and cash flows from, such property.

IFRS Reporting May Result in Our Consolidated Statement of Financial Position and Consolidated Statement of Earnings Being Subject to Volatility as the Fair Value of Portfolio Changes

The fair value of the REIT's properties is dependent upon, among other things, rental income from current leases, assumptions about rental income from future leases reflecting market conditions, expected future cash outflow in respect of such leases, the demand for properties such as the properties, the availability and cost of financing and general economic conditions. A change in one or a combination of these factors, many of which are not controlled by the REIT, may have a material impact to the fair value of its properties. The REIT's chosen accounting policy under IFRS requires that real estate assets be recorded at "fair value", with changes in fair value being recorded in earnings in the period of change. Accordingly, the statement of financial position and the statement of earnings are subject to volatility, as the fair value of its real estate portfolio changes and these changes may be material.

Reliance on Partnerships

The REIT has a material non-controlling interest in partnerships with several institutional investors. These arrangements create a risk as the business objectives or economic interests of the partner, as in any joint business arrangement, may not be aligned with those of the REIT. The partner may want to make decisions that negatively affect the value of its real estate assets or income of the REIT. Such investments may involve risks that are not present in investments where a third party is not involved, including the possibility that a partner may have financial difficulties, resulting in a negative impact on the investment, or be liable for the actions of its third-party partner. Although the REIT may not have control over these investments and therefore may have a limited ability to protect its position, such partnership arrangements contain terms and conditions which, in the opinion of the independent trustees, are commercially reasonable, including without limitation such terms and conditions relating to restrictions on the transfer, acquisition and sale of the REIT's and any joint venture partner's interest in the joint venture arrangement, provisions to provide liquidity to the REIT, provisions to limit the liability of the REIT and its unitholders to third parties, and provisions to provide for the participation of the REIT in the management of the joint venture arrangements. The REIT's investment in properties through joint arrangements is subject to the investment guidelines set out in the Declaration of Trust.

Income Taxes

Taxation of Trusts

The REIT qualifies as a "unit trust" and a "mutual fund trust" for purposes of the Tax Act. There can be no assurance that Canadian federal income tax laws and the administrative policies and assessing practices of the CRA respecting mutual fund trusts will not be changed in a manner that adversely affects unitholders. Should the REIT cease to qualify as a mutual fund trust under the Tax Act, the income tax consequences to the REIT and its unitholders would be materially and adversely different in certain respects.

Application of the SIFT Rules

Certain rules (the "SIFT Rules") apply to a trust that is a "SIFT trust" as defined in the Tax Act. Provided that a trust does not own "non-portfolio property" (as defined in the Tax Act), it will not be subject to the SIFT Rules. Based on the investment restrictions of the REIT, the REIT may not acquire any non-portfolio property and, therefore, is not subject to the SIFT Rules. However, there can be no assurance that the SIFT Rules, or the administrative policies or assessing practices, of the CRA will not be changed in a manner that adversely affects the REIT and unitholders.

FAPI

The REIT's "participating percentage" (as defined in the Tax Act) of "foreign accrual property income" ("FAPI") earned by any controlled foreign affiliate ("CFA") of the REIT must be included in computing the income of the REIT for the fiscal year of the REIT in which the taxation year of such CFA ends, subject to a deduction for grossed-up "foreign accrual tax", as computed in accordance with the Tax Act. The deduction for grossed-up "foreign accrual tax" may not fully offset the FAPI realized by the REIT, thereby increasing the allocation of income to the REIT and, therefore, the allocation of income by the REIT to unitholders.

In addition, as FAPI generally must be computed in accordance with Part I of the Tax Act as though the CFA were a resident of Canada and in Canadian currency (subject to the detailed rules contained in the Tax Act), income or transactions may be taxed differently under foreign tax rules, as compared to the FAPI rules and, accordingly, may result in additional income being allocated to unitholders.

Foreign Currency

For purposes of the Tax Act, the REIT is required to compute its Canadian tax results using Canadian currency, including for purposes of computing FAPI earned by CFAs of the REIT. Where an amount that is relevant in computing a taxpayer's Canadian tax results is expressed in a currency other than Canadian currency, such amount must be converted to Canadian currency using the rate of exchange quoted by the Bank of Canada on the day such amount first arose or using such other rate of exchange as is acceptable to the CRA. As a result, the REIT may realize gains and losses for tax purposes by virtue of the fluctuation of the value of foreign currencies relative to Canadian dollars.

Change of Tax Law

There can be no assurance that Canadian or foreign income tax laws, the judicial interpretation thereof, the terms of any income tax treaty applicable to the REIT or its affiliates, or the administrative policies and assessing practices and policies of the CRA, the Department of Finance (Canada), and any foreign tax authority or tax policy agency, will not be changed in a manner that adversely affects the REIT, its affiliates or unitholders.

Non-Residents of Canada

The Tax Act may impose additional withholding or other taxes on distributions made by the REIT to unitholders who are Non-Residents. These taxes, and any reduction thereof under a tax treaty between Canada and another country, may change from time to time.

Taxation of the REIT and the REIT's Subsidiaries

Although the REIT and its subsidiaries have been structured with the objective of maximizing after-tax distributions, taxes (including corporate, withholding, land transfer, and other taxes) in the various jurisdictions in which the REIT invests will reduce the amount of cash available for distribution to the REIT by its subsidiaries and, therefore, reduce the amount of cash available for distribution by the REIT to unitholders. No assurance can be given as to the future level of taxation suffered by the REIT or its subsidiaries. In addition, certain tax positions adopted by the REIT and its subsidiaries may be challenged by the CRA or a foreign taxing authority. This could materially increase the taxable income of, and taxes payable by, the REIT and its subsidiaries, and thereby increase taxable income of unitholders and/or adversely affect the REIT's financial position and cash available for distribution to unitholders.

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

Qualified Investments

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

German Taxes

The Luxembourg SPV and Walpur-Four would be subject to municipal trade tax ("TT") if acting through a German permanent establishment. Management of the REIT have assumed that the Luxembourg SPV and Walpur-Four will not be subject to TT based on the REIT's current understanding of the structure. However, no assurances can be given that the Luxembourg SPV and Walpur-Four will not be subject to TT.

Foreign Income Taxes

The REIT's subsidiaries are subject to tax either on their taxable income or on a withholding basis under applicable legislation in France, Germany, Luxembourg and the United States. These subsidiaries account for their current or recovered taxes at the current enacted and substantively enacted tax rates and use the liability method to account for deferred taxes. The tax expense related to taxable subsidiaries for the period comprises current and deferred taxes.

The REIT's subsidiaries that hold the leasehold rights on the properties located in France are established in France and should therefore be considered as tax residents in France. Under current French tax legislation, income derived from the French REIT's subsidiaries, incorporated under the form of Société Civile Immobilière subject to article 8 of the French Tax Code, and allocated to INOPCI 1, should be corporate income tax exempt in the hands of INOPCI 1 on the basis that INOPCI 1 complies with its distribution obligations. A withholding tax should be levied in France on dividend distributions made by INOPCI 1 which is OPCI (collective undertaking for real estate investment) to CCE.

TFI CanCorp Isenburg, TFI CanCorp Kosching, TFI CanCorp Stuttgart ("TFI CC"), CanCorp Cologne and Trio are established in Luxembourg as fully taxable companies, subject to annual corporate income, municipal business and net wealth taxes. There is a minimum net wealth tax and corporate income tax in Luxembourg under certain condition. Dividends and liquidation distributions derived by CCE from the French OPCI may be tax exempt in Luxembourg for corporate income tax and municipal business tax purposes. CCE will benefit from the Luxembourg participation exemption on any dividend income or liquidation proceeds received from CanCorp Duisburg, Trio, CanCorp Cologne, TFI CC and Arcueil SCS.

Arcueil SCS is a Luxembourg partnership (société en commmandite simple), fully owned by CCE, that is tax transparent for Luxembourg corporate income tax purposes, i.e., all the income and expenses are deemed to be realized directly by the sole partner.

CanCorp Duisburg ("CCD"), Trio and TFI CC are Luxembourg limited liability companies that are managed in Luxembourg and, therefore, should not be considered tax resident of Germany for German tax purposes. CCD, TFI CC, Trio, and Cancorp Cologne are collectively called the ("German Co"). However, the German Co would be subject to corporate income tax ("CIT") in Germany on their German source of income (or in case German Co is a partnership and therefore transparent for CIT purposes its partners). As the German Co's rental revenues would be German source income, such (net) income would be subject to CIT, even if the German Co (and their shareholders) are not German tax residents. This is true irrespective of whether German Co is a corporation or a partnership and therefore transparent. The right to tax such income by Germany should not be waived under the double tax treaty between Germany and Luxembourg and the double tax treaty between Germany and France because the German Co's properties are located in Germany and income from German real estate is taxed in the country where the real estate is located. To determine taxable income for CIT purposes, a taxpayer may deduct certain expenses incurred in connection with its German source income (e.g., with respect to the acquisition and ownership of real property (in particular depreciation) and certain operating expenses) provided that such costs are incurred on arm's length terms.

Critical Accounting Policies and Estimates

The preparation of the REIT's consolidated financial statements in conformity with GAAP requires management to make judgments, estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities. Management bases its judgements, estimates and assumptions on experience and other factors that it believes to be reasonable under the circumstances. However, uncertainty about these judgements, estimates and assumptions could result in outcomes requiring a material adjustment to the carrying amount of the asset or liability affected in future periods. Critical accounting judgements estimates and assumptions in applying accounting policies are described in Note 4 to the annual audited consolidated financial statements of the REIT for the year ended December 31, 2020.

A description of significant accounting policies is provided in Note 3 of the annual audited consolidated financial statements of the REIT for the year ended December 31, 2020. On January 1, 2021, the REIT adopted Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, which addresses the accounting issues that arise upon the replacement of an Interbank Offered Rate (“IBOR”) with a Risk-Free Rate (“RFR”). The amendments had no impact on the REIT’s Condensed Interim Consolidated Financial Statements for the three months ended September 30, 2021 (Refer to “Note 3” in the September 30, 2021, interim FS).

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

Related Party Transactions

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

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

Extension of Management Agreement, Effective April 1, 2021

The Management Agreement between the REIT and Inovalis S.A. was extended for two years, effective April 1, 2021.

See “*Related Party Transactions - Extension of Management Agreement effective April 1, 2021*” in this MD&A, and a full copy of the Fourth Amended and Restated Management Agreement is available on SEDAR.com.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

Disclosure Controls and Procedures (“DCP”)

The CEO and CFO of the REIT have designed or caused to be designed under their direct supervision the REIT’s DCP to provide reasonable assurance that: i) material information relating to the REIT is made known to management by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the REIT in its annual and interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. The CEO and CFO are assisted in this responsibility by management.

The CEO and CFO concluded that such disclosure controls and procedures were effective, as at September 30, 2021.

Internal Controls Over Financial Reporting (“ICFR”)

During the quarter ended September 30, 2021, no changes were made to the REIT's system of disclosure controls and procedures and internal controls over financial reporting.

Management is responsible for establishing and maintaining adequate ICFR to provide reasonable assurance regarding the reliability of the REIT’s financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

An evaluation of the adequacy of the design and effective operation of the REIT’s ICFR was conducted under the supervision of management, including the CEO and CFO, as at September 30, 2021.

The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate. Based on that evaluation, the CEO and the CFO have concluded that the design of ICFR was complete as at September 30, 2021. These controls, although implemented, were not fully assessed for operating effectiveness, as at September 30, 2021.

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.