INOVALIS REAL ESTATE INVESTMENT TRUST
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Three-month period ended March 31, 2018

INOVALIS REIT
Interim Consolidated Balance Sheets
(Unaudited - All dollar amounts in thousands of Canadian dollars)

Assets	Note	As at March 31, 2018	As at December 31,2017
Non-current assets			
Investment properties	*4*	466,901	440,813
Investments accounted for using the equity method	*5*	91,916	79,094
Acquisition loan and deposit	*6*	27,282	27,035
Derivative financial instruments	*7*	104	59
Restricted cash		1,589	1,509
Total non-current assets		587,792	548,510
Current assets			
Trade and other receivables		5,771	5,192
Other current assets		1,804	1,395
Other financial current assets		-	1,267
Cash		16,964	20,345
Total current assets		24,539	28,199
Total assets		**612,331**	**576,709**

Liabilities and Unitholders' equity	Note	As at March 31, 2018	As at December 31,2017
Liabilities			
Non-current liabilities			
Mortgage loans	*10*	118,644	113,342
Finance lease liabilities	*10*	127,631	122,735
Lease equalization loans		3,070	3,196
Tenant deposits		2,450	2,292
Exchangeable securities	*11*	7,577	6,907
Derivative financial instruments	*7*	1,206	650
Deferred tax liabilities	*8*	8,415	3,059
Deferred income		-	3,260
Total non-current liabilities		268,993	255,441
Current liabilities			
Promissory Notes	*9*	23,980	23,789
Mortgage loans	*10*	3,521	2,660
Finance lease liabilities	*10*	6,435	6,014
Lease equalization loans		1,305	1,247
Tenant deposits		104	162
Exchangeable securities	*11*	6,242	9,836
Derivative financial instruments	*7*	2,616	1,316
Trade and other payables		11,469	6,341
Other current liabilities		901	431
Deferred income		9,381	4,195
Total current liabilities		65,954	55,991
Total liabilities		334,947	311,432
Equity			
Trust units		200,395	195,739
Retained earnings		38,091	44,749
Accumulated other comprehensive income	*15*	38,507	24,436
Total Unitholders' equity		276,993	264,924
Non-controlling interest		391	353
Total equity		277,384	265,277
Total liabilities and equity		**612,331**	**576,709**

See accompanying notes to condensed interim consolidated financial statements

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

Daniel Argiros
Chairman and Trustee

INOVALIS REIT

Interim Consolidated Statements of Earnings (Loss)

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

	Note	For the three months ended March 31, 2018	For the three months ended March 31, 2017
Rental income		6,714	5,970
Service charge income		2,146	1,850
Service charge expenses		(5,172)	(4,617)
Other revenues		244	85
Other property operating expenses		(90)	(41)
Net rental earnings		3,842	3,247
Administration expenses		(1,517)	(1,245)
Foreign exchange gain		55	-
Net change in fair value of investment properties	*4*	1,925	2,290
Acquisition costs		(20)	(37)
Share of net earnings from investments accounted for using the equity method	*5*	835	(724)
Operating earnings		5,120	3,531
Gain (Loss) on financial instruments at fair value through profit or loss		(983)	571
Finance income	*12*	3,363	1,783
Finance costs	*12*	(5,249)	(1,653)
Distributions on Exchangeable securities	*11*	(268)	(379)
Net change in fair value of Exchangeable securities	*11*	114	(664)
Net change in fair value of Promissory Notes		1,128	-
Earnings (Loss) before income taxes		3,225	3,189
Current income tax expense		(119)	(10)
Deferred income tax expense	*8*	(5,078)	(33)
Earnings (Loss) for the period		**(1,972)**	**3,146**
Earnings (Loss) for the period attributable to :			
Non-controlling interest		2	5
Unitholders' of the Trust		(1,974)	3,141
		(1,972)	**3,146**
Earnings (Loss) per unit attributable to unit holders:	*13*		
Basic earnings per unit		(0.08)	0.15
Diluted earnings per unit		(0.09)	0.15

See accompanying notes to condensed interim consolidated financial statements

INOVALIS REIT

Interim Consolidated Statements of Comprehensive Income

(Unaudited - All dollar amounts in thousands of Canadian dollars)

	For the 3 months ended March 31, 2018	For the 3 months ended March 31, 2017
Earnings (Loss) for the period	**(1,972)**	**3,146**
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net earnings (loss), net of tax :		
Derivatives designated as a hedge of the net investment in a foreign entity		
Net losses	(958)	(141)
Derivatives designated as cash flow hedges	177	271
Items that are not to be reclassified subsequently to net earnings (loss), net of tax :		
Change in cumulative translation adjustment account	14,888	1,513
Total other comprehensive income	14,107	1,643
Total comprehensive income for the period	**12,135**	**4,789**
Total comprehensive income for the period attributable to :		
Non-controlling interest	38	7
Unitholders of the Trust	12,097	4,782
Total comprehensive income for the period	**12,135**	**4,789**

See accompanying notes to condensed interim consolidated financial statements

Interim Consolidated Statements of changes in Unitholders' Equity

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

	Note	Number of Units issued and outstanding	Trust Units	Retained earnings	Accumulated other comprehensive income	Total attributable to the Unitholders' of the Trust	Non-controlling interest	Total equity
As at December 31, 2017		22,235,421	195,739	44,749	24,436	264,924	353	265,277
Issuance of units	*11*	419,059	3,939	-	-	3,939	-	3,939
Distributions earned by Unitholders	*14*	-	-	(4,684)	-	(4,684)	-	(4,684)
Distributions reinvestment Plan	*14*	75,606	717	-	-	717	-	717
Transactions with owners		494,665	4,656	(4,684)	-	(28)	-	(28)
Earnings (Loss) for the period		-	-	(1,974)	-	(1,974)	2	(1,972)
Other comprehensive income		-	-	-	14,071	14,071	36	14,107
As at March 31, 2018		**22,730,086**	**200,395**	**38,091**	**38,507**	**276,993**	**391**	**277,384**
As at December 31, 2016		21,525,775	189,158	43,455	8,395	241,008	121	241,129
Distributions earned by Unitholders	*14*	-	-	(4,444)	-	(4,444)	-	(4,444)
Distributions reinvestment Plan	*14*	38,797	350	-	-	350	-	350
Transactions with owners		38,797	350	(4,444)	-	(4,094)	-	(4,094)
Earnings for the period		-	-	3,141	-	3,141	5	3,146
Other comprehensive income		-	-	-	1,643	1,643	2	1,645
As at March 31, 2017		**21,564,572**	**189,508**	**42,152**	**10,038**	**241,698**	**128**	**241,826**

See accompanying notes to condensed interim consolidated financial statements

INOVALIS REIT
Interim Consolidated Statements of Cash Flows
(Unaudited - All dollar amounts in thousands of Canadian dollars)

	Note	For the three months ended March 31, 2018	For the three months ended March 31, 2017
Operating activities			
Earnings before income taxes for the period		3,225	3,189
Adjustments for non-cash items and other reconciling items	*19*	(241)	(404)
		2,984	2,785
Working capital adjustments	*19*	9,194	7,019
Net cash flows related to operating activities		12,178	9,804
Investing activities			
Acquisition costs		(20)	(37)
Distribution from joint ventures	*5*	-	618
Invesments in joint ventures	*5*	(9,743)	-
Investment properties (additions and capitalized letting fees)	*4*	(975)	(156)
Loan repayments received from joint ventures	*5*	462	-
Investment in acquisition loans and deposit	*6*	-	(10,326)
Decrease in financial current assets	*8*	1,165	20,492
Net cash flows related to investing activities		(9,111)	10,591
Financing activities			
Distributions on Units paid in cash	*14*	(3,933)	(4,091)
Distributions in respect of exchangeable securities paid in cash	*11*	(254)	(1,037)
Repayment of mortgage loans and finance lease liabilities	*10*	(2,207)	(1,922)
Repayment of lease equalization loans		(298)	(236)
Net cash flows related to financing activities		(6,692)	(7,286)
Net (decrease) increase in cash		(3,625)	13,108
Effects of foreign exchange adjustments on cash		244	326
Cash at the beginning of the period		20,345	11,074
Cash at the end of the period		**16,964**	**24,508**

See accompanying notes to condensed interim consolidated financial statements

Note 1 – Organization

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

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

The REIT's condensed interim consolidated financial statements for the three-month period ended March 31, 2018, were authorized for issuance by the Board of Trustees on May 14, 2018.

The REIT has hired Inovalis S.A. ("Inovalis"), a real estate asset manager having operations in France and Germany, to manage certain functions. Refer to Note 6 – Acquisition loans and deposit, and Note 11 – exchangeable securities, for more information about the relationship between Inovalis and the REIT, and to Note 16 – Transactions with related parties, for information regarding the services provided by Inovalis to the REIT.

Inovalis is considered as a related party of the REIT as they share the same management (Chairman of the Board, CIO and CEO).

Note 2 – Basis of preparation of condensed interim consolidated financial statements

Statement of compliance
These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. They are condensed and do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 2017 audited consolidated annual financial statements.

Basis of presentation
The unaudited condensed interim consolidated financial statements are prepared on a going concern basis. All financial information has been rounded to the nearest thousand (CAD$ 000 or EUR€ 000) except when otherwise indicated.

These unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for Investment properties, Exchangeable securities, Promissory Notes and Derivative financial instruments, which are measured at their fair values.

The figures presented for the period ended March 31, 2017 have been reclassified, when appropriate, in order to ensure comparability with the figures for the period ending March 31, 2018.

Note 3 – Significant accounting policies

The condensed interim consolidated financial statements have been prepared in accordance with the accounting policies adopted in the REIT's most recent annual financial statements for the year ended December 31, 2017, except for the fact that interest receivables from joint ventures are reclassified from "Other current assets" to "Trade and other receivables" for an amount of $ 626 as at December 31, 2017, and because of adoption of IFRS 9 Financial Instruments

Estimates
When preparing the condensed interim consolidated financial statements, management uses a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions used by management.

The judgements, estimates and assumptions used in the condensed interim consolidated financial statements including the key sources of estimation uncertainty are the same as those used in the preparation of the REIT's last audited annual consolidated financial statements for the year ended December 31, 2017.

Changes in accounting policies
The REIT has initially adopted IFRS 9 Financial Instruments from January 1, 2018. A number of other standards are effective from January 1, 2018 but they do not have material effect on the REIT'S consolidated financial statements.

IFRS 9 – Financial Instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after January 1, 2018, covering all three aspects of the accounting for financial assets and liabilities: classification and measurement, impairment and hedge accounting.
With the exception of hedge accounting, which the REIT applied prospectively, the REIT has applied IFRS 9 retrospectively, with the date of initial application of January 1, 2018 and without restating comparative periods with respect to classification and measurement (including impairment) requirements. Management performed an analysis of the carrying values of assets and liabilities held at January 1, 2018 to determine whether any impairments were necessary following the adoption of IFRS 9. Based on the results of this analysis, no impairments to the carrying vales of assets and liabilities held at January 1, 2018 have been deemed necessary.

(a) Classification and measurement

Similar to IAS 39, financial assets are classified under different categories, of which some are measured at amortized cost and others at fair value (recognized either in earnings or in other comprehensive income).
IFRS 9 is systematizing the use of the fair value for the measurement of financial assets. Indeed, under IFRS 9 a financial assets can be measured at amortized cost only in case both of the following criteria are met:

- The asset is held to collect its contractual cash flows; and
- The asset's contractual cash flows represent "solely payments of principal and interest" (SPPI criterion).

The assessment of the REIT's business models was made as of the date of initial application, January 1, 2018, and then applied retrospectively to those financial assets that were not derecognized before January 1, 2018. The assessment of whether contractual cash flows on financial assets are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The new classification and measurement of the REIT's financial assets are as follows:
Financial assets at amortized cost comprise the REIT's Loans to joint ventures, Deposit, Trade and other receivables, Other financial current assets, Restricted cash and Cash. The new classification had no impact on the consolidated financial statements.

Financial assets at fair value through profit or loss (FVTPL) comprise Derivative financial instruments that are not designated as hedging instruments in hedge relationships, at initial recognition or transition. This category also includes the Acquisition loan whose cash flow characteristics fail the SPPI criterion. Under IAS 39, the Acquisition loan was classified as loans and receivables. Upon transition to IFRS 9, the change in classification of the Acquisition loan did not impact the consolidated financial statements as the carrying amount was approximately equal to its fair value as at January 1, 2018.
IFRS 9 essentially corresponds to IAS 39 in terms of financial liabilities. However, for liabilities designated at FVTPL, the portion of the change in fair value that is attributable to the credit risk of the liabilities recognized under other comprehensive income instead of earnings, provided that this does not cause inconsistencies in reporting. This guidance applies to the Promissory notes and Exchangeable securities. Transition to IFRS 9 did not affect other comprehensive income, because the fair value of these liabilities is based exclusively on the fair value of the REIT's units and the credit risk of these liabilities is not significant as the REIT can settle the liabilities through the issuance of units.

(b) Impairment of financial assets at amortized cost

IFRS 9 also introduces changes for the impairment of financial assets as it establishes a new model for loans and receivables.
The purpose of the new model includes the reporting of credit losses at an earlier stage than under IAS 39. Under the "expected credit loss" (ECL) model, an entity calculates the allowance for credit losses by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. The loss allowance is the sum of these probability-weighted outcomes. Because every debt instrument carries with it some risk of default, every such asset has an expected loss attached to it – from the moment of its origination or acquisition. In all cases, the loss allowance and any changes to it are recognized by recognizing impairment gains and losses in earnings. IFRS 9 establishes three separate approaches for measuring and recognizing expected credit losses, depending on the nature of the financial assets.

For Trade and other receivables, Other financial current assets, Restricted cash and Cash, the REIT has applied IFRS 9's simplified approach and has calculated ECLs based on lifetime expected credit losses.
For the Loans to joint ventures and Deposit, the ECL is based on the general approach. Under the general approach, the REIT determined the 12-month ECL that is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. In all cases, the REIT considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The REIT considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the REIT may also consider a financial asset to be in default when internal or external information indicates that the REIT is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the REIT.

(c) Hedge accounting

The REIT has elected to adopt the new general hedge accounting model in IFRS 9. This requires the REIT to ensure that hedge accounting relationships are aligned with its risk management objective and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The REIT applied hedge accounting prospectively. At the date of the initial application, the REIT's existing hedging relationship was eligible to be treated as continuing hedging relationship under IFRS 9.

Consistent with prior periods, the REIT uses foreign exchange contracts to hedge a portion of its net investment in its foreign operations. The REIT designates only the change in fair value of the spot element of the foreign exchange contracts as the hedging instrument in its net investment hedging relationships. The effective portion of changes in fair value of the hedging instruments is recognized in other comprehensive income.

Under IAS 39, the change in fair value of the forward element of the foreign exchange contracts ("forward points") was recognized immediately in profit or loss. Under IFRS 9, the REIT continues to recognize immediately in profit or loss the forward points. Accordingly, the adoption of the hedge accounting requirements of IFRS 9 had no significant impact on the REIT's consolidated financial statements.

In 2017, the REIT discontinue the application of hedge accounting to its interest rate swap and cap relationships. Accordingly, the REIT began in 2017 the reclassification of a portion of the cumulative gain or loss on the interest rate swaps or caps that were initially recognized in other comprehensive income through profit or loss. Since these hedging relationships were discontinued prior to the adoption of IFRS 9 and the accounting for the discontinuance of a cash flow hedging relationship in the same under IFRS 9, the adoption of IFRS 9 had no impact on the REIT's consolidated financial statements and the same method will be used under IFRS 9 for the reclassification of the cumulative loss from other comprehensive income through profit or loss.

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

Note 4 – Investment properties

	For the three months ended March 31, 2018	For the year ended December 31, 2017
Beginning of the period	**440,813**	**412,232**
Additions	975	1,616
Capitalized letting fees	-	120
Rent free periods	(329)	(893)
Net change in fair value of investment properties[1]	1,925	892
Foreign currency translation adjustment	23,517	26,846
End of the period	**466,901**	**440,813**

Note 1 : Including the increase of 2,602 K$ (nil as at December 31, 2017) related to the impact of IFRIC 21 for recoverable French property taxes, which has a similar impact on service charge expenses.

Note 5 – Investments accounted for using the equity method

Carrying amount of investment in joint ventures	CCD	Walpur	Arcueil[2]	Cologne	Stuttgart	Delizy	Neu Isenburg	Kösching	Total
Balance - December 31, 2016	**18,684**	**6,865**	**13,149**	**5,189**	**-**	**-**	**-**	**-**	**43,887**
Additional investment of the year	-	-	-	-	12,794	8,682	12,230	-	33,706
Share of net earnings from investments accounted for using the equity method [1]	388	1,432	(217)	21	2,390	(551)	(1,042)	-	2,421
Partial disposal	-	-	-	835	-	-	-	-	835
Loan repayments	-	-	-	(5,544)	-	-	-	-	(5,544)
Exchange differences	1,226	489	848	197	451	244	334	-	3,789
Balance - December 31, 2017[3]	**20,298**	**8,786**	**13,780**	**698**	**15,635**	**8,375**	**11,522**	**-**	**79,094**
Additional investment of the period	-	-	-	-	-	-	2,474	8,434	10,908
Share of net earnings (loss) from investments accounted for using the equity method [1]	25	70	(2,858)	1	(43)	(15)	900	(103)	(2,023)
Loan repayments	-	-	-	-	(462)	-	-	-	(462)
Exchange differences	1,081	469	669	37	821	445	689	188	4,399
Balance - March 31, 2018[3]	**21,404**	**9,325**	**11,591**	**736**	**15,951**	**8,805**	**15,585**	**8,519**	**91,916**

(1) The share of net earnings includes the interest expense to the shareholders in relation to the loans granted to joint venture. The interest earned by the REIT in relation to these loans amounts to $ 1,316 and are included in the item "Finance income".

(2) The REIT is entitled to receive a 25% share of the net earnings and, upon asset disposal, 75% of the variance of fair value of investment properties, reduced by 100% of foreign exchange derivative costs. The ($2,858) share of net earnings regarding the Arcueil property includes a $1,024 loss from the foreign exchange hedge, a $2,029 loss on deferred tax arising from the new Double Taxation Treaty between France and Luxembourg (see Note 8) and $205 net profit allocated to the REIT under the terms of the joint venture agreement. As at March 31, 2018 the fair value of the forward is $(4,131). Considering the specific features of the transaction Arcueil, share of net earnings from investments in Arcueil is included in the item Finance cost (Note 12) of the consolidated statement of earnings (loss).

(3) The balance of the investments accounted for using the equity method as at March 31, 2018 includes loans to Joint Ventures for an amount of $ 68,474 which can be detailed as follows :

Loans from joint ventures	CCD	Walpur	Arcueil	Cologne	Stuttgart	Delizy	Neu Isenburg	Kösching	Total
Balance - March 31, 2018	15,819	5,245	15,893	839	13,536	9,417	5,292	2,433	**68,474**
Balance - December 31, 2017	15,020	4,980	15,090	797	13,300	8,941	3,515	-	**61,643**

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

2018

TK BAU Verwaltung GmbH - Kösching

On February 28, 2018, the REIT, through its subsidiary CCE, completed the acquisition of its 50% interest in TK BAU Verwaltung GmbH ("Kösching Investment"), a joint venture which built an office property located in Germany, for a total cash consideration of €5,427 ($8,434). This total consideration is composed of a cash consideration paid of € 3,437 ($5,342) for the equity interest, €459 ($ 713) of acquisition costs and a 6.5% interest-bearing loan of € 1,531 ($2,379), repayable the date the Joint Venture Agreement terminates.

Neu Isenburg

On March 15, 2018, the REIT, through its subsidiary CCE contributed an additional cash consideration of €1,000 ($1,555) through an additional drawdown under the interest bearing loan facility. The additional cash contribution also includes refinancing costs for an amount of €591 ($919).

2017

Stuttgart

On June 9, 2017, the REIT, through its subsidiary CCE, purchased a 50% interest in TFI Cancorp Stuttgart, a joint venture which owns an office property located in Germany, for a total consideration of € 8,844 ($12,959).

SCI Delizy Diamants ("Pantin Investment")

On August 29, 2017, the REIT, through its subsidiary INOPCI 1, completed for a total cash consideration of €5,926 ($8,682) its 50% interest in SCI Delizy Diamants ("Pantin Investment"), a joint venture which acquired an office property located in France.

Neu Isenburg

On June 9, 2017, the REIT, through its subsidiary CCE, purchased a 50% interest in Neu Isenburg, a joint venture which owns an office property located in Germany, for a total consideration of € 8,347 ($12,230).

Cologne

On December 31, 2017, the REIT sold 43% of the shares held in Cologne and 43% of the interest-bearing loan to the joint venture partner for a total consideration of € 3,789 ($ 5,552). The transaction generated a gain of € 575 ($ 843) recognised in the consolidated statement of earnings as "Gain on partial disposal of investment in joint venture".

Note 6 –Acquisition loan and deposit

	As at March 31, 2018	As at December 31, 2017
Ingolstadt deposit	-	1,132
Rueil loan	27,282	25,903
Acquisition loan and deposit	**27,282**	**27,035**

Ingolstadt deposit

On September 15, 2016, the REIT and a co-investor entered into an agreement with a third-party for the forward purchase of an office property to be developed in Ingolstadt, Germany. A deposit of €1.5 million ($ 2.2 million) has already been paid upon signature of the forward purchase agreement. The share of the deposit of €750 ($ 1,063) of the co-investor has been paid by the REIT on behalf of the co-investor. This advance to the co-investor was disclosed under the caption "Other financial current assets". On February 28, 2018, the REIT has finalised the acquisition of the shares of the property holding entity, TK Bau Verwaltung GmbH and the amount of the deposit has been repaid by the partner.

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

On February 28, 2018, the REIT has finalised the acquisition of the shares of the property holding entity, TK Bau Verwaltung GmbH (see note 5) and the amount of the deposit has been deducted against the acquisition price.

Rueil loan

During the year 2016, the REIT has committed to fund a €21.7 million ($34.5 million) acquisition and redevelopment loan to a company 80% owned by Inovalis related to a property located in Rueil, in Paris Western periphery. The facility amount will be drawn in several instalments until the completion of the project in 2020. The loan bears an annual interest rate of 8.50%, with an effective interest rate of 13.89% and gives the REIT 20% of the profit generated upon the sale of the underlying investment property and also gives the REIT an option for the purchase of up to 50% of the property once it meets the REIT's investment criteria.

To date, €17.2 million ($27.282 million) was funded by the REIT as a loan. The loan is secured by a share pledge.

Advance payments have been received by the REIT. These advance payments cover accrued interests due on the loan for subsequent financial periods. Advance payments related to the accrued interests have been classified as deferred income. As at March 31, 2018 and December 31, 2017, advance payments related to accrued interest for future periods amount respectively to $ 3,680 and $ 5,462.

Note 7 – Financial derivatives and hedging activities

		Period covered		Conversion from/to			As at March 31, 2018		As at December 31, 2017	
Classification and type	**Number of contracts**	**From**	**To**	**Euros or rate**	**$ or rate**	**Rate**	**Total notional amount**	**Fair value**	**Total notional amount**	**Fair value**
Derivatives classified for hedge accounting										
Foreign exchange	13	12-Apr-18	12-Apr-19	662	1,000	1.5101	13,000	(863)	16,000	(189)
Foreign exchange	13	12-Apr-18	10-Apr-19	204	300	1.4672	3,900	(382)	4,800	(200)
Other derivatives										
Interest rate SWAP	1	1-Apr-18	1-Jul-19	Variable	Fixed	0.685%	80,017	(956)	77,141	(1,070)
Interest rate CAP	2	31-Mar-18	5-May-19	Variable	Capped	2.000%	54,036	0	51,306	-
Interest rate SWAP	1	1-Apr-18	23-Dec-21	Variable	Fixed	0.394%	20,329	(239)	19,455	(244)
Interest rate SWAP	1	1-Apr-18	10-Jan-23	Variable	Fixed	0.282%	55,289	(183)	52,774	(204)
Interest rate CAP	2	29-Mar-18	31-Dec-24	Variable	Capped	1.000%	70,347	(1,095)	-	-
								(3,718)		**(1,907)**

Following the completion of the refinancing of the Baldi and Jeuneurs properties on October 26, 2017, two interest rate cap arrangements were contracted by the REIT at the beginning of 2018. These arrangements are settled on a net basis at every interest payment date. These contracts are not designated as part of a hedging relationship. Accordingly, they are classified as financial instruments at fair value through profit or loss, with changes in fair value recognized in profit or loss.

On July 1st, 2017, the REIT discontinued the application of the hedge accounting to its interest rate swap and cap relationships. In Q1-2018, an amount of $ 177 was reclassified from Other comprehensive income to the net loss. The remaining amount to be reclassified in future periods amounts to $ 900 (amounted initially to $ 1,459 at July 1st, 2017). This amount will be fully amortized by Q3-2019.

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

Note 8 – Deferred tax liabilities

The deferred income tax liabilities correspond to the deferred income tax expense relating to the origination of temporary differences arising from the unrealized gains on investment properties located in France and Germany.

On 20 March 2018, the Luxembourg and French Governments signed a new Double Tax Treaty (DTT), together with an accompanying Protocol. The tax treaty will enter into force once both parties complete the ratification process.

Under the current DTT, the REIT, through its subsidiary located in Luxembourg, should suffer French withholding tax at the 5% treaty rate on the dividend received from French OPCI*.

Under the new DTT, such dividend distributions would be subject to withholding tax at a 30% rate which can potentially be reduced to 15% in some specific cases.

The management has estimated that the REIT should benefit from the reduced rate of 15%. Thus, the management has reassessed the amount of the deferred income tax liabilities on that basis during the period ending March 31, 2018.

$5,054 of the deferred tax liabilities recorded in the quarter results in a one-time charge due to the change in the DTT.

*"OPCI" refers to Organisme de placement collectif en immobilier which refers to French real estate collective investment undertakings. OPCIs are they are tax exempt vehicles as long as they distribute 50% of their net profit.

Note 9 – Promissory Notes

On June 22, 2017, the REIT issued a Euro denominated promissory note (hereafter "Promissory Notes 1") through its subsidiary CCE. to a single non-Canadian investor "the Investor" for € 9,146 ($ 13,801) paying interest at 8.18%. The Promissory Notes 1 matures on June 22, 2020 and includes a prepayment option allowing the REIT to repay all or any portion of the Promissory Notes 1 as from June 22, 2018. On August 11, 2017, a partial repayment of the Promissory Notes 1 was done for € 440 ($ 664).

On October 4, 2017, the REIT issued a second Euro denominated promissory note (hereafter "Promissory Notes 2") through its subsidiary CCE. to the same investor "the Investor" for € 7,262 ($ 10,958) paying interest at 8.13%. The Promissory Notes 2 matures on October 4, 2020 and includes a prepayment option allowing the REIT to repay all or any portion of the Promissory Notes 2 as from October 4, 2018.

Concurrent with the issuance of Promissory Notes 1 and Promissory Notes 2 (together referred as "the Notes"), the Investor and the REIT entered into put/call agreements. Pursuant to the call option, the REIT can satisfy its obligation to the Investor at any time by delivering a fixed number of units of the REIT determined at the issuance of the Notes ("Conversion Prices"). Pursuant to the put option, at any time after June 25, 2018 for Promissory Notes 1 and October 7, 2018 for Promissory Notes 2 the Investor can transfer all or any portion of the Notes to the REIT in consideration for cash, in which case the REIT has the option to exercice its call option.

The carring value of the Promissory Notes (including the put-call and prepayment options) is estimated to CAD 23,980 as at March 31, 2018.

				As at March 31, 2018		As at December 31, 2017	
Entity	**Nominal value (in 000's of €)**	**Nominal value (in 000's of $)**	**Interest rate**	**Maturity**	**Carrying value of the Promissory Notes**	**Maturity**	**Carrying value of the Promissory Notes**
Promissory Notes 1	8,706	13,836	8.18%	22/06/2020	13,015	22/06/2020	12,911
Promissory Notes 2	7,262	11,541	8.13%	04/10/2020	10,965	04/10/2020	10,878
Total Promissory Notes	**15,968**	**25,377**			**23,980**		**23,789**

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

Note 10 – Mortgage loans and finance lease liabilities

As at March 31, 2018

Entity	Nominal value (in 000's of €)	Nominal value (in 000's of $)	Interest rate	Maturity	Total	Non-current	Current
Mortage loan - Véronèse SCI	7,675	12,198	Euribor 3M + 1.75%[1]	05/05/2019	12,263	12,210	53
Mortgage loan - Sablière SCI	12,791	20,329	Euribor 3M + 1.59%[2]	23/12/2025	20,204	19,553	651
Mortgage loan - CanCorpHanover GmbH KG[3]	12,600	20,025	Euribor 3M + 1.45%	31/12/2022	19,903	19,716	187
Mortgage loan - Jeûneurs SCI	29,850	47,441	Euribor 3M + 1.75%[1]	26/10/2027	47,024	45,368	1,656
Mortgage loan - SCI Baldi	14,413	22,907	Euribor 3M + 1.75%[1]	26/10/2027	22,771	21,797	974
Mortgage loans	**77,329**	**122,900**			**122,165**	**118,644**	**3,521**
Finance lease liabilities - BBA SCI	49,567	78,776	Euribor 3M + 2.00%[2]	20/06/2026	78,776	73,562	5,214
Finance lease liabilities - Metropolitain SCI	34,788	55,290	Euribor 3M + 1.85%[2]	20/03/2028	55,290	54,069	1,221
Finance lease liabilities	**84,355**	**134,066**			**134,066**	**127,631**	**6,435**
Total mortgage loans and finance lease liabilities	**161,684**	**256,966**			**256,231**	**246,275**	**9,956**

As at December 31, 2017

Entity	Nominal value (in 000's of €)	Nominal value (in 000's of $)	Interest rate	Maturity	Total	Non-current	Current
Mortage loan - Véronèse SCI	7,675	11,582	Euribor 3M + 1.75%[1]	05/05/2019	11,592	11,592	-
Mortgage loan - Sablière SCI	12,893	19,455	Euribor 3M + 1.59%[2]	23/12/2025	19,327	18,737	590
Mortgage loan - CanCorpHanover GmbH KG[3]	12,600	19,013	Euribor 3M + 1.45%	31/12/2022	18,798	18,798	-
Mortgage loan - Jeûneurs SCI	30,000	45,270	Euribor 3M + 1.75%[1]	26/10/2027	44,778	43,352	1,427
Mortgage loan - Baldi SCI	14,500	21,881	Euribor 3M + 1.75%[1]	26/10/2027	21,506	20,863	643
Mortgage loans	**77,668**	**117,201**			**116,001**	**113,342**	**2,660**
Finance lease liabilities - BBA SCI	50,348	75,975	Euribor 3M + 2.00%[2]	20/06/2026	75,975	71,102	4,873
Finance lease liabilities - Metropolitain SCI	34,973	52,774	Euribor 3M + 1.85%[2]	20/03/2028	52,774	51,633	1,141
Finance lease liabilities	**85,321**	**128,749**			**128,749**	**122,735**	**6,014**
Total mortgage loans and finance lease liabilities	**162,989**	**245,950**			**244,750**	**236,077**	**8,674**

Note 1 : Interest rate is subject to a CAP - see note 9 *Financial derivatives and hedging activities*
Note 2 : Interest rate is subject to SWAP - see note 9 *Financial derivatives and hedging activities*
Note 3 : The morgage loan - Cancorp Hanover GmbH KG is in fine

In these leases, the REIT has the option to purchase each of the properties at the end of their respective leases. The fixed price of the option to purchase is expected to be lower than the fair value at the date the option becomes exercisable.

2017

On October 26, the REIT completed the refinancing of the Baldi and Jeuneurs properties, securing loans of €44.5 million ($65.6 million). After the reimbursement of the existing loans amounting to €39.0 million ($57.5 million), which includes a €6.9million ($10.2 million) partial early repayment of the loan associated with the Courbevoie property, the proceeds from refinancing were €4.8 million ($7.1 million) before a cash reserve of €0.9 million ($1.3 million) and associated refinancing costs.

The impact of the derecognition of the initial finance lease amounting to $193 (132€) was recognized in the consolidated statement of earnings under the caption "Loss recognized on exercise of early payment option on finance lease".

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

Note 11 – Exchangeable securities

Exchangeable securities issued and outstanding	Number of Exchangeable securities	Carrying amount of Exchangeable securities
Balance - December 31, 2016	**1,808,051**	**16,598**
Transactions in 2017		
Asset management fees paid in Exchangeable securities	375,824	3,711
Distribution in respect of Exchangeable securities		
Conversion of Exchangeable securities into units of the REIT	(500,014)	(4,426)
Redemption of Exchangeable securities	(4,491)	(44)
Net change in fair value of Exchangeable securities	-	904
Balance -December 31, 2017	**1,679,370**	**16,743**
Transactions in 2018		
Asset management fees paid in Exchangeable securities	114,798	1,129
Conversion of Exchangeable securities into units of the REIT	(419,059)	(3,939)
Net change in fair value of Exchangeable securities	-	(114)
Balance - March 31, 2018	**1,375,109**	**13,819**

The exchangeable securities represent a financial liability and were designated at fair value through profit or loss. The exchangeable securities of a total amount of $13,819 ($ 16,743 as at December 31, 2017) are presented as non-current for $7,577 ($ 6,907 as at December 31, 2017) and current for $6,242 ($ 9,836 as at December 31, 2017).

Distributions in respect of exchangeable securities:

The exchangeable securities entitle the holders to cash distributions from CanCorpEurope S.A., a subsidiary of the Trust, equal, on a per unit basis, to the distributions paid to holders of units by the REIT.

The following table breaks down distribution payments:

	For the three months ended March 31, 2018	For the three months ended March 31, 2017
Amount payable at the beginning of the period	262	982
Declared and recognized in earnings during the period	268	379
Distribution on exchangeable securities paid in cash	(254)	(1,037)
Amount payable at the end of the period	**276**	**324**
Weighted average number of Exchangeable securities outstanding	1,364,023	1,809,036
Distributions paid per unit (based on weighted average Exchangeable securities outstanding)	0.1862	0.5732
Distributions paid per unit (based on three-month)	0.2063	0.2063

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

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

Note 12 – Finance costs and finance income

	For the three months ended March 31, 2018	For the three months ended March 31, 2017
Interest costs related to mortgage loans	(540)	(384)
Interest costs related to finance leases	(630)	(648)
Interest costs related to lease equalization loans	(52)	(60)
Interest costs related to promissory notes	(578)	-
	(1,800)	(1,092)
Interest SWAP	(320)	(290)
Finance costs from joint ventures [1]	(2,858)	-
Other finance costs	(196)	(208)
	(5,174)	(1,590)
Amortization of fair value adjustment on finance leases assumed at a discount at the time of a business acquisition	-	(22)
Amortization of transaction costs on mortgage loans	(75)	(41)
Finance costs	**(5,249)**	**(1,653)**
Finance income from Inovalis relating to the acquisition loan	2,026	362
Finance income from joint ventures	1,316	1,226
Other finance income	21	195
Finance income	**3,363**	**1,783**

(1) see Note 5

Note 13 – Earnings per Unit

The REIT has classified the Units that it issued as equity pursuant to the provisions of IAS 32, *Financial Instruments*: Presentation, on the basis that the Units meet all of the criteria in IAS 32 for such classification, also referred to as the "puttable exemption".

(a) Basic earnings per Unit

Basic earnings per unit is calculated by dividing the profit attributable to the Unitholders of the REIT by the weighted average number of Units outstanding during the period.¨

Basic earnings per unit	For the three months ended March 31, 2018	For the three months ended March 31, 2017
Earnings attributable to unitholders	(1,974)	3,141
Weighted average number of units outstanding	26,329,203	21,544,979
Basic earnings per unit	**(0.08)**	**0.15**

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

Note 13 – Earnings per Unit (cont.)

(b) Diluted earnings per Unit

Diluted earnings per unit is calculated by adjusting the weighted average number of Units outstanding to assume conversion of all dilutive potential Units. The REIT has one category of dilutive potential Units: the exchangeable securities. Refer to Note 11 - exchangeable securities for the number of exchangeable securities outstanding.

Diluted earnings per unit	**For the three months ended March 31, 2018**	**For the three months ended March 31, 2017**
Earnings attributable to unitholders	(1,974)	3,141
Distributions recognized on Exchangeable securities	268	379
Net change in fair value of Exchangeable securities	(114)	664
Interest on Promissory Notes	578	-
Net change in fair value of Promissory Notes	(1,128)	-
Earnings attributable to diluted unitholders	**(2,370)**	**4,184**
Weighted average number of units outstanding	22,579,076	21,544,979
Weighted average number of Exchangeable securities outstanding	1,364,023	1,809,036
Weighted average number of Promissory Notes outstanding	2,386,104	-
Weighted average number of units used for diluted earnings per unit	26,329,203	23,354,015
Diluted earnings per unit	**(0.09)**	**0.18**

When dilution does not result in a reduction in earnings per unit, the diluted earnings per share is identical to basic earnings per unit.

Note 14 – Distributions

	For the three months ended March 31, 2018	**For the three months ended March 31, 2017**
Amount payable at the beginning of the period	1,529	1,479
Declared and recognised during the period	4,684	4,444
Distributions paid in units (Distribution Reinvestment Plan)	(717)	(350)
Paid in cash	(3,933)	(4,091)
Amount payable at the end of the period	**1,563**	**1,482**
Distributions paid per unit (based on weighted average number of units outstanding)	0.2063	0.2063
Distributions paid per unit (based on an annual basis)	0.2063	0.2063

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

Distributions in respect of exchangeable securities are detailed in Note 11 – exchangeable securities.

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

Note 15 – Accumulated other comprehensive income

	As at March 31, 2018	As at December 31, 2017
Net unrealized gains on derivatives designated as a hedge of the net investment in a foreign entity	204	1,162
Net unrealized losses on interest rate derivatives designated as a cash flow hedge	(900)	(1,077)
Cumulative translation adjustment account	39,203	24,351
Accumulated other comprehensive income	**38,507**	**24,436**

Note 16 – Transactions with related parties

Inovalis Asset manager

Pursuant to the Management agreement, Inovalis 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.

Unless otherwise stated, none of these transactions incorporated special terms and conditions. Outstanding balances are usually settled in cash, with the exception of management fees to Inovalis that are settled quarterly through the issuance of exchangeable securities. No guarantees were given.

		Period to date	
Inovalis and its subsidiaries	**Financial statement line item**	**For the three months ended March 31, 2018**	**For the three months ended March 31, 2017**
Revenues			
Interest income from acquisition loan	Finance income	2,026	362
Other revenues	Other revenues	244	40
		2,270	402
Expenses			
Asset management fees	Administration expenses	(1,129)	(838)
Facilities management fees	Service charge expenses	(107)	(117)
Property management Fees	Service charge expenses	(492)	(327)
Letting fees invoiced	Service charge expenses	(17)	-
Reimbursment of travel expenses	Acquisition costs	(20)	(37)
Interest expense on lease equalization loans	Finance costs	(52)	(60)
Reimbursment of travel expenses	Administration expenses	(35)	(22)
Trustee fees	Administration expenses	(74)	(62)
		(1,926)	(1,463)
Unitholders' Equity			
Conversion of Exchangeable securities into units of the REIT		3,942	-

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

Note 16 – Transactions with related parties (cont.)

	Due from (to) Inovalis	
	As at March 31, 2018	As at December 31, 2017
Trade and other receivables	651	588
Trade and other payables	(1,031)	(1,366)
Acquisition loan	27,282	25,903
Distributions payable	(276)	(262)
Lease equalization loans	(4,375)	(4,443)
	22,251	20,420

Joint ventures

The transactions and balances with entities accounted for using the equity method are summarized below:

Joint ventures	Financial statement line item	For the three months ended March 31, 2018	For the three months ended March 31, 2017
Management fees invoiced to joint ventures	Administration expenses	367	138
Earnings from joint ventures	Share of net earnings from investments accounted for using the equity method	835	(724)
Finance income	Finance income	1,316	1,226
Finance costs	Finance costs	(2,858)	-
		(340)	640

		Due from joint ventures	
		As at March 31, 2018	As at December 31, 2017
Loan receivable	Investments accounted for using the equity method	68,474	61,643
Interest payables	Other current assets	367	626
Accounts receivable	Trade and other receivables	90	61
		68,931	62,330

Note 17 – Geographical information

Total revenue by geographic region	Rental Income	Service Charge Income	As at March 31, 2018	As at December 31, 2017
France	6,161	2,142	8,303	29,645
Germany	553	4	557	2,209
Total revenue	**6,714**	**2,146**	**8,860**	**31,854**

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

Investment properties, investments in joint ventures by geographic region	As at March 31, 2018	As at December 31, 2017
France	446,627	424,353
Germany	112,190	95,554
	558,817	**519,907**

Note 18 – Fair value measurements

Fair value hierarchy
The following table shows an analysis of the fair values of financial instruments (including exchangeable securities) and non-financial assets measured at fair value on a recurring basis recognized on the consolidated balance sheet by level of the fair value hierarchy:

	As at March 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment properties	-	-	466,901	466,901
Acquisition loan	-	-	27,282	27,282
Derivative financial instruments - assets	-	104	-	104
Derivative financial instruments - liabilities	-	(3,822)	-	(3,822)
Exchangeable securities	-	(13,819)	-	(13,819)
Promissory notes	-	(23,980)	-	(23,980)

	As at December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment properties	-	-	440,813	440,813
Derivative financial instruments - assets	-	59	-	59
Derivative financial instruments - liabilities	-	(1,966)	-	(1,966)
Exchangeable securities	-	(16,743)	-	(16,743)
Promissory notes	-	(23,789)	-	(23,789)

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 - use of a model with inputs (other than quoted prices included in Level 1) that are directly or indirectly observable market data.
- Level 3 - use of a model with inputs that are not based on observable market data.

There were no transfers between Level 1 and Level 2 during the period ended March 31, 2018 (none in 2017).

The REIT's management is responsible for determining fair value measurements included in the condensed interim consolidated financial statements, including Level 3 fair values. The inputs, processes and results for recurring measurements, including those valuations calculated by an independent appraiser every semester, are reviewed each quarter by senior management to ensure conformity with IFRS.

The reconciliation of the carrying amounts of non-financial assets classified within Level 3 is in Note 4 – Investment properties. The gains or losses relating to the investment properties are recognized in profit or loss on the income statement line entitled "Net change in fair value of investment properties". The entire amount of the gain or loss reported on this line in the reporting period is unrealized.

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

- The fair value of derivative financial instruments is determined based on discounted cash flows using interest rate yield curves and volatilities that are observable on an active market, as at the balance sheet date.

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

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

- The fair value of the promissory notes is based on the quoted price of the REIT's own units, on the basis that they are exchangeable for a fixed number of units throughout their life at the request of the unit holders, and upon maturity of the underlying notes, at the request of the REIT. Other features of the exchangeable securities have no significant impact on their fair value.

- The fair value of the acquisition loans and deposit is estimated using the nominal amounts expected to be received plus any interest and a discount rate based on prevailing market interest rates adjusted by an internally determined credit spread. The fair value approximates its carrying amount as there were no material changes during the period in the assumptions used for fair value determination at inception.

Note 19 – Cash flow information

CASH FLOW INFORMATION

	Note	March 31, 2018	March 31, 2017
Adjustments for non-cash items and other reconciling items:			
Rent free period	*4*	329	79
Management fees paid in Exchangeable securities	*16*	1,129	838
less portion reinvoiced to joint-ventures	*16*	(367)	(138)
Net change in fair value of investment properties	*4*	(1,925)	(2,290)
Net change in fair value of financial instruments at fair value through profit or loss		983	(571)
Distributions recognized on Exchangeable securities	*11*	268	379
Net change in fair value of Exchangeable securities	*11*	(114)	664
Net change in fair value of Promissory Notes		(1,128)	-
Finance income	*12*	(3,363)	(1,783)
Finance costs	*12*	5,249	1,653
Share of net earnings from investments accounted for using the equity method	*5*	(835)	724
Net unrealized exchange gain		(55)	-
Cash items classified as operating activities			
Interest received		1,259	1,035
Interest paid		(1,689)	(1,021)
Income tax paid		(2)	(10)
Acquisition costs classified in investing activities		20	37
		(241)	(404)
Working capital adjustments			
Decrease (increase) in trade and other receivables		765	(996)
Decrease in tenant deposits		(122)	(7)
Increase in trade and other payables		8,551	8,022
		9,194	7,019

Note 20 – Subsequent events

On April 19, 2018, the REIT raised an additional €13.6 million ($22.0 million) private placement structured as convertible promissory notes on the same terms as the promissory note issued in June and October 2017 (see note 9). The convertible promissory note has a fixed interest rate of 7.95%.

Corporate information

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Stock exchange listing

The Toronto Stock Exchange
Listing symbol: INO.UN

Distribution Reinvestment Plan

Inovalis has implemented a Distribution Reinvestment Plan ("**DRIP**"). By participating in the Plan, Unitholders have cash distributions from Inovalis REIT reinvested in additional Units as and when cash distributions are made with a "bonus" distribution of Units equal to 3% of the amount of the cash distribution reinvested pursuant to the Plan.

INOVALIS

REAL ESTATE INVESTMENT TRUST

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