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

Three-month and nine-month periods ended September 30, 2018

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

Assets	Note	As at September 30, 2018	As at December 31,2017
Non-current assets			
Investment properties	4	439,851	440,813
Investments accounted for using the equity method	5	90,504	79,094
Acquisition loan and deposit	6	25,713	27,035
Derivative financial instruments	7	881	59
Restricted cash		1,498	1,509
Total non-current assets		558,447	548,510
Current assets			
Trade and other receivables		4,567	5,192
Derivative financial instruments	7	273	-
Other current assets		1,815	1,395
Other financial current assets		-	1,267
Cash		24,746	20,345
Total current assets		31,401	28,199
Total assets		**589,848**	**576,709**

Liabilities and Unitholders' equity	Note	As at September 30, 2018	As at December 31,2017
Liabilities			
Mortgage loans		99,205	113,342
Finance lease liabilities		117,097	122,735
Lease equalization loans		2,332	3,196
Tenant deposits		2,074	2,292
Derivative financial instruments	7	772	650
Deferred tax liabilities	8	8,515	3,059
Exchangeable securities	9	2,647	6,907
Deferred income		-	3,260
Total non-current liabilities		232,642	255,441
Promissory Notes	10	47,055	23,789
Mortgage loans		14,837	2,660
Finance lease liabilities		6,259	6,014
Lease equalization loans		1,206	1,247
Tenant deposits		652	162
Derivative financial instruments	7	1,269	1,316
Exchangeable securities	9	7,978	9,836
Trade and other payables		8,224	6,341
Other current liabilities		623	431
Deferred income		3,709	4,195
Total current liabilities		91,812	55,991
Total liabilities		324,454	311,432
Equity			
Trust units		205,197	195,739
Retained earnings		36,224	44,749
Accumulated other comprehensive income	*14*	23,642	24,436
Total Unitholders' equity		265,063	264,924
Non-controlling interest		331	353
Total equity		265,394	265,277
Total liabilities and equity		**589,848**	**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
(Unaudited - All dollar amounts in thousands of Canadian dollars except per unit amount)

	Note	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Rental income		6,142	6,323	19,395	18,565
Service charge income		1,903	2,067	6,007	5,275
Service charge expenses		(1,635)	(1,622)	(8,528)	(7,404)
Other revenues		328	(19)	752	419
Other property operating expenses		(70)	(20)	(233)	(135)
Net rental earnings		6,668	6,729	17,393	16,720
Administration expenses		(1,125)	(1,301)	(4,153)	(3,873)
Foreign exchange gain		2	(178)	85	(241)
Net change in fair value of investment properties	*4*	(1,062)	(1,120)	276	(1,011)
Acquisition costs		(1)	(24)	(21)	(196)
Share of net earnings from investments accounted for using the equity method	*5*	924	(1,328)	2,499	(937)
Operating earnings		5,406	2,778	16,079	10,462
Loss on financial instruments at fair value through profit or loss		763	178	(399)	(1,602)
Finance income	*11*	2,238	1,737	7,904	5,044
Finance costs	*11*	(2,750)	(1,900)	(7,971)	(4,957)
Distributions on Exchangeable securities	*9*	(265)	(411)	(819)	(1,187)
Net change in fair value of Exchangeable securities	*9*	134	(144)	201	(1,843)
Net change in fair value of Promissory Notes		(2,701)	-	(3,775)	-
Earnings before income taxes		2,825	2,238	11,220	5,917
Current income tax (expense) income		(11)	18	(25)	(79)
Deferred income tax (expense)	*8*	(302)	(36)	(5,622)	(259)
Earnings for the period		**2,512**	**2,220**	**5,573**	**5,579**
Earnings (Loss) for the period attributable to :					
Non-controlling interest		(13)	4	(13)	63
Unitholders' of the Trust		2,525	2,216	5,586	5,516
		2,512	**2,220**	**5,573**	**5,579**
Earnings per unit attributable to unit holders:	*12*				
Basic and diluted earnings per unit		0.11	0.10	0.25	0.26

See accompanying notes to condensed interim consolidated financial statements

INOVALIS REIT

Interim Consolidated Statements of Comprehensive Income (loss)

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

	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Earnings for the period	**2,512**	**2,220**	**5,573**	**5,579**
Other comprehensive income				
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 gains	832	(144)	874	1,146
Derivatives designated as cash flow hedges	166	195	514	667
Change in cumulative translation adjustment account	(7,047)	(1,348)	(2,191)	10,246
Total other comprehensive income (loss)	(6,049)	(1,297)	(803)	12,059
Total comprehensive income (loss) for the period	**(3,537)**	**923**	**4,770**	**17,638**
Total comprehensive income (loss) for the period attributable to :				
Non-controlling interest	(34)	1	(22)	82
Unitholders of the Trust	(3,503)	922	4,792	17,556
Total comprehensive income (loss) for the period	**(3,537)**	**923**	**4,770**	**17,638**

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	*9*	847,854	7,816	-	-	7,816	-	7,816
Distributions earned by Unitholders	*13*	-	-	(14,111)	-	(14,111)	-	(14,111)
Distributions reinvestment Plan	*13*	168,282	1,642	-	-	1,642	-	1,642
Transactions with owners		1,016,136	9,458	(14,111)	-	(4,653)	-	(4,653)
Earnings (Loss) for the period		-	-	5,586	-	5,586	(13)	5,573
Other comprehensive income		-	-	-	(794)	(794)	(9)	(803)
Comprehensive income		-	-	5,586	(794)	4,792	(22)	4,770
As at September 30, 2018		**23,251,557**	**205,197**	**36,224**	**23,642**	**265,063**	**331**	**265,394**
As at December 31, 2016		21,525,775	189,158	43,455	8,395	241,008	121	241,129
Distributions earned by Unitholders	*13*	-	-	(13,361)	-	(13,361)	-	(13,361)
Distributions reinvestment Plan	*13*	131,944	1,250	-	-	1,250	-	1,250
Transactions with owners		131,944	1,250	(13,361)	-	(12,111)	-	(12,111)
Earnings for the period		-	-	5,516	-	5,516	63	5,579
Other comprehensive income		-	-	-	12,040	12,040	19	12,059
Comprehensive income		-	-	5,516	12,040	17,556	82	17,638
As at September 30, 2017		**21,657,719**	**190,408**	**35,610**	**20,435**	**246,453**	**203**	**246,656**

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 September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Operating activities					
Earnings before income taxes for the period		2,824	2,238	11,220	5,917
Adjustments for non-cash items and other reconciling items	*17*	2,748	12,005	5,048	17,433
		5,572	14,243	16,268	23,350
Working capital adjustments	*17*	(600)	(8,476)	(1,547)	(1,411)
Net cash flows related to operating activities		4,972	5,767	14,721	21,939
Investing activities					
Acquisition costs		(1)	(24)	(21)	(196)
Investment properties (additions and capitalized letting fees)	*4*	(342)	(1,298)	(2,663)	(2,182)
Investments in joint ventures	*5*	1,118	(926)	(10,154)	(21,647)
Distribution from joint ventures	*5*	-	522	-	1,151
Loan repayments received from joint ventures	*5*	(620)	-	1,408	-
Investment in acquisition loans and deposit	*6*	-	-	-	(10,293)
Decrease in financial current assets		-	175	1,153	27,541
Net cash flows related to investing activities		155	(1,551)	(10,277)	(5,626)
Financing activities					
Distributions on Units paid in cash	*13*	(4,222)	(3,941)	(12,399)	(12,102)
Distributions in respect of exchangeable securities paid in cash	*9*	(180)	(592)	(814)	(1,861)
Proceeds from promissory notes net of transaction costs	*10*	(120)	84	20,881	13,305
Interest paid on promissory notes net of transaction costs		138	(1,027)	(567)	(482)
Repayment of mortgage loans and finance lease liabilities		(2,093)	(1,498)	(5,996)	(5,433)
Repayment of promissory notes		(132)	(640)	(132)	(640)
Repayment of lease equalization loans		(265)	(388)	(862)	(814)
Net cash flows related to financing activities		(6,874)	(8,002)	111	(8,027)
Net increase (decrease) in cash		(1,747)	(3,786)	4,555	8,286
Effects of foreign exchange adjustments on cash		(502)	224	(154)	597
Cash at the beginning of the period		26,995	23,519	20,345	11,074
Cash at the end of the period		24,746	19,957	24,746	19,957

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 nine-month period ended September 30, 2018, were authorized for issuance by the Board of Trustees on November 12, 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 9 – exchangeable securities, for more information about the relationship between Inovalis and the REIT, and to Note 15 – 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 (President of the REIT, 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 information per unit.

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

The figures presented for the period ended September 30, 2017 have been reclassified, when appropriate, in order to ensure comparability with the figures for the period ending September 30, 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

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 a 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 values 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 financial assets can be measured at amortized cost only when 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 own credit risk is recognized under other comprehensive income. 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 and Other financial current assets, 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 discontinued 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.

Note 4 – Investment properties

	For the nine months ended September 30, 2018	For the year ended December 31, 2017
Beginning of the period	**440,813**	**412,232**
Additions	2,500	1,616
Capitalized letting fees	163	120
Rent free periods	(600)	(893)
Net change in fair value of investment properties[1]	276	892
Foreign currency translation adjustment	(3,301)	26,846
End of the period	**439,851**	**440,813**

Note 1 : The increase in 'Net change of fair value of investment properties' include the impact of IFRIC 21 for recoverable French property taxes for 894 $ (nil as at December 31, 2017), which has a similar impact on service charge expenses. According to IFRIC 21, the French property tax for the entire year for each asset must be recognized in full in the first quarter of each fiscal year, even though payment is required in the fourth quarter. This results in a reduction in net rental earnings in the first quarter (and corresponding increase in Trade and other payables) and a corresponding increase in the net change in fair value of investment properties (and corresponding increase in the carrying value of the investment properties as the property tax is recoverable from the tenants). In the subsequent quarters, this is reversed on a proportional basis, which results in an increase of the Q2, Q3 and Q4 net rental earnings, and a corresponding decrease in the value of the investment properties.

Note 5 – Investments accounted for using the equity method

Carrying amount of investment in joint ventures	CCD	Walpur	Arcueil²	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 (loss) 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	**20,298**	**8,786**	**13,780**	**698**	**15,635**	**8,375**	**11,522**	**-**	**79,094**
Additional investment of the period	-	-	-	-	-	-	2,425	8,883	11,307
Share of net earnings (loss) from investments accounted for using the equity method ¹	45	272	666	2	155	(15)	1,109	266	2,499
Loan repayments	-	-	-	-	(749)	-	(461)	(198)	(1,408)
Exchange differences	(151)	(72)	(119)	(5)	(100)	(61)	(163)	(319)	(988)
Balance - September 30, 2018	**20,192**	**8,986**	**14,327**	**695**	**14,941**	**8,299**	**14,432**	**8,632**	**90,504**

(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 $ 4,012 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 $ 666 share of net earnings regarding Arcueil property includes the loss from the foreign exchange hedge for $96. As at September 30, 2018 the fair value of the forward is $(2,063).

(3) The balance of the investments accounted for using the equity method as at September 30, 2018 includes loans to Joint Ventures for an amount of $ 64,102 which can be detailed as follows:

Loans to joint ventures	CCD	Walpur	Arcueil	Cologne	Stuttgart	Delizy	Neu Isenburg	Kösching	Total
Balance - September 30, 2018	14,909	4,943	14,979	798	12,473	8,875	4,539	2,586	64,102
Balance - December 31, 2017	15,020	4,980	15,090	797	13,300	8,941	3,515	-	61,643

Kösching (Ingolstadt)

On February 28, 2018, the REIT, through its subsidiary CCE, completed the acquisition of its 50% interest in the Kösching (Ingolstadt) investment, a joint venture which built an office property located in Germany, for a total cash consideration of €5,389 ($8,283). This total consideration is composed of a cash consideration paid of € 3,437 ($5,283) for the equity interest, €426 ($ 655) of acquisition costs and a 6.5% interest-bearing loan of € 1,531 ($2,353), repayable the date the Joint Venture Agreement terminates. A drawdown of €325 ($500) occurred in May 2018 and a repayment of €129 ($198) occurred in July 2018.

Neu Isenburg

On March 15, 2018, the REIT, through its subsidiary CCE contributed an additional cash consideration of €1,000 ($1,537) through an additional drawdown under the interest bearing loan facility. The total investment in 2018 of €1,576 ($2,425) also includes the investments costs for an amount of €576 ($882). Repayments of €189 ($290) and €111 ($171) occurred in May 2018 and July 2018 respectively.

Note 6 –Acquisition loan and deposit

	As at September 30, 2018	As at December 31, 2017
Ingolstadt deposit	0	1,132
Rueil loan (1)	25,713	25,903
Acquisition loan and deposit	**25,713**	**27,035**

(1) The decrease of $190 for the period from December 31, 2017 to September 30, 2018 corresponds to foreign currency translation adjustments.

Kösching (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 TK Bau Verwaltung GmbH the entity holding the Kösching (Ingolstadt) property (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% 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 20% of the property once it meets the REIT's investment criteria. These features result in an effective interest rate of 13.89%.

To date, €17.2 million ($25.7 million) was funded by the REIT as a loan. The loan is secured by a share pledge that would enable the REIT to obtain 80% of the shares of Rueil SCCV which is developing the project.

Advance payments have been received by the REIT. These advance payments cover accrued interest at 8.5% due on the loan for subsequent financial periods ending with the loan's maturity in December 2019. Advance payments related to the accrued interests have been classified as deferred income. As at September 30, 2018 and December 31, 2017, advance payments related to accrued interest for future periods amount respectively to $ 1,669 and $ 5,462.

Note 7 – Financial derivatives and hedging activities

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 April 5th, 2018, the REIT entered into 18 new monthly foreign currency hedge contracts whereby the REIT will purchase $1,300 each month at a weighted average exchange rate of 1.6412 Canadian dollars per euro. The new contracts cover the period from May 10, 2019 to October 9, 2020. These contracts have been designated as hedges of the REIT'S net investment in a foreign operation.

On July 1st, 2017, the REIT discontinued the application of the hedge accounting to its interest rate swap and cap relationships. In Q3-2018, an amount of $ 166 was reclassified from Other comprehensive income to Consolidated statements of earnings. The remaining amount to be reclassified in future periods amounts to $ 563 (amounted initially to $ 1,459 at July 1st, 2017). This amount will be fully amortized by Q3 2019.

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.

The current Double Taxation Treaty (DTT) in force between France and Luxembourg require that the REIT should incur French withholding tax of 5% on the dividend received from their France based OPCI*. On March 20, 2018 the Governments of France and Luxembourg signed a new DTT and accompanying Protocol. The revised DTT is currently pending ratification before it comes into force. If the DTT is ratified by both parties before December 31, 2018 it will come into effect in 2019. Should ratification occur after that date, the changes will not come into effect until 2020. Management believes the DTT to be substantively enacted as of March 20, 2018

The revised DTT requires that these dividend distributions be subject to a withholding tax rate of as much as 30% which can potentially be reduced to a 15% withholding tax in some specific cases.

Management believes that the increase in tax rates can have a significant impact on the REIT as such, management is currently implementing a structure that will allow the REIT to benefit from a reduced rate of 15% once the DTT comes into effect. Management has accounted for the deferred income tax liabilities based on the reduced rate of 15% and the assumption of the distribution of 50% of the OPCIs' net profits arising from capital gains upon disposition.

$ 4,825 of the deferred tax liabilities recorded in the nine-month period 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 tax exempt vehicles as long as they distribute 50% of their net profit.*

Note 9 – Exchangeable securities

	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	189,895	1,974
Conversion of Exchangeable securities into units of the REIT	(847,854)	(7,816)
Redemption of Exchangeable securities	(6,531)	(75)
Net change in fair value of Exchangeable securities	-	(201)
Balance - September 30, 2018	**1,014,880**	**10,625**

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 $ 10,625 ($ 16,743 as at December 31, 2017) are presented as non-current for $ 2,647 ($ 6,907 as at December 31, 2017) and current for $7,978 ($ 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 September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Amount payable at the beginning of the period	182	489	262	982
Declared and recognized in earnings during the period	265	411	819	1,187
Distribution on exchangeable securities paid in cash	(180)	(592)	(814)	(1,861)
Amount payable at the end of the period	**267**	**308**	**267**	**308**
Weighted average number of Exchangeable securities outstanding	1,336,001	1,992,199	1,358,426	1,900,322
Distributions paid per unit (based on weighted average Exchangeable securities outstanding)	0.1347	0.2972	0.5992	0.9793
Distributions paid per unit (based on three-month)	0.2063	0.2063	0.6188	0.6188

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

Note 10 – Promissory notes – Private Placement

On June 22, 2017, the REIT entered into a private placement in the form of a Euro denominated promissory note (hereafter "Promissory Note 1") through its subsidiary CCE to a single non-Canadian investor "the Investor" for € 9,146 ($ 13,305) paying interest at 8.18%. The Promissory Note 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 and on July 31, 2018, partial repayments of the Promissory Note 1 were done for € 440 ($ 640) and € 86 ($ 132) respectively.

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

On April 19, 2018, the REIT issued a third Euro denominated promissory note (hereafter "Promissory Note 3") through its subsidiary CCE to the Investor for € 13,584 ($ 20,881) paying interest at 7.95%. The Promissory Note 3 matures on April 19, 2021, and includes a prepayment option allowing the REIT to repay all or any portion of the Promissory Note 3 as from April 19, 2019.

Concurrent with the issuance of Promissory Note 1, Promissory Note 2 and Promissory Note 3 (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 Note 1, October 7, 2018 for Promissory Note 2 and April 19, 2019 for Promissory Note 3 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 exercise its call option.

Note 11 – Finance costs and finance income

	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Interest costs related to mortgage loans	(539)	(413)	(1,616)	(1,192)
Interest costs related to finance leases	(615)	(672)	(1,867)	(1,998)
Interest costs related to lease equalization loans	(44)	(66)	(144)	(187)
Interest costs related to promissory notes	(1,051)	(290)	(2,587)	(322)
	(2,249)	(1,441)	(6,214)	(3,699)
Interest SWAP	(461)	(313)	(1,123)	(919)
Other finance costs	32	(111)	(413)	(189)
	(2,678)	(1,865)	(7,750)	(4,807)
Amortization of fair value adjustment on finance leases assumed at a discount at the time of a business acquisition	-	(19)	-	(63)
Amortization of transaction costs on mortgage loans	(72)	(16)	(221)	(87)
Finance costs	**(2,750)**	**(1,900)**	**(7,971)**	**(4,957)**
Finance income from Inovalis relating to the acquisition loan	899	188	3,851	1,162
Finance income from joint ventures[1]	1,325	1,187	4,012	3,337
Other finance income	14	362	41	545
Finance income	**2,238**	**1,737**	**7,904**	**5,044**

[1] see note 5

Note 12 – 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 September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Earnings attributable to unitholders	2,525	2,216	5,586	5,516
Weighted average number of units outstanding	22,874,939	21,627,530	22,734,089	21,585,811
Basic earnings per unit	**0.11**	**0.10**	**0.25**	**0.26**

(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 two categories of dilutive potential Units: the exchangeable securities (refer to Note 9) and the promissory notes (refer to Note 10).
All exchangeable securities and promissory notes were not included in the calculation of the diluted EPS because they are anti-dilutive.

Note 13 – Distributions

	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Amount payable at the beginning of the period	1,566	1,486	1,529	1,479
Declared and recognised during the period	4,733	4,461	14,111	13,361
Distributions paid in units (Distribution Reinvestment Plan)	(479)	(518)	(1,642)	(1,250)
Paid in cash	(4,222)	(3,941)	(12,399)	(12,102)
Paid by way of reinvestment in Units				
Amount payable at the end of the period	**1,598**	**1,488**	**1,599**	**1,488**
Distributions paid per unit (based on weighted average number of units outstanding)	0.2055	0.2062	0.6176	0.6186
Distributions paid per unit (based on an annual basis)	0.2063	0.2063	0.6188	0.6188

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

Distributions in respect of exchangeable securities are detailed in Note 9 – exchangeable securities.

Note 14 – Accumulated other comprehensive income

	As at September 30, 2018	As at December 31,2017
Net unrealized gains on derivatives designated as a hedge of the net investment in a foreign entity	2,036	1,162
Net unrealized losses on interest rate derivatives designated as a cash flow hedge	(563)	(1,077)
Cumulative translation adjustment account	22,169	24,351
Accumulated other comprehensive income	**23,642**	**24,436**

Note 15 – 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 were settled quarterly through the issuance of exchangeable securities until Q1 2018 included. The new management agreement define that the management fees can be settled quarterly through the issuance of either exchangeable securities or in cash. In Q2 and Q3 2018, the management fees were settled half in exchangeable securities and half in cash based on the REIT's projected cash requirements and following the approval of the Board of Trustees.

Inovalis and its subsidiaries	Financial statement line item	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Revenues			
Service charge income	Service charge income		10
Other revenues	Other revenues	710	407
Interest income from acquisition loan	Finance income	3,851	1,434
		4,561	1,851
Expenses			
Asset management fees [1]	Administration expenses	(2,901)	(2,695)
Facilities management fees	Service charge expenses	(352)	(374)
Property management fees	Service charge expenses	(1,039)	(1,118)
Letting fees invoiced	Service charge expenses	(229)	(89)
less portion accounted for over the lease term	Service charge expenses	163	38
Reimbursment of travel expenses	Acquisition costs	(20)	(58)
Reimbursment of travel expenses	Administration expenses	(146)	(85)
Reimbursment of travel expenses	Finance costs	(84)	(96)
Interest expense on lease equalization loans	Finance costs	(144)	(187)
Trustee fees	Administration expenses	(211)	(215)
		(4,963)	(4,879)
Unitholders' Equity			
Conversion of Exchangeable securities into units of the REIT		7,816	
Total distributions on Exchangeable securities		7,816	

(1) Asset management fees of $2,901 and $2,695 for the nine months ended September 30, 2018 and September 30, 2017 respectively, correspond to the asset management fees earned for the entire portfolio, including $1,213 and $522 attributable to assets held through joint-ventures and recharged to those JVs for the nine months ended September 30, 2018 and September 30, 2017 respectively. Since April 1, 2018 asset management fees have been reduced from 0.75% to 0.50% and calculated based on the book value of assets. Fees are payable in cash and/or exchangeable securities, the exact composition of which is determined by the Board annually based on the REIT's cash resources.

	Due from (to) Inovalis	
	As at September 30, 2018	As at December 31,2017
Trade and other receivables	318	588
Trade and other payables	(1,049)	(1,366)
Acquisition loan	25,713	25,903
Distributions payable	(267)	(262)
Lease equalization loans	(3,538)	(4,443)
	21,177	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 nine months ended September 30, 2018	For the nine months ended September 30, 2017
Management fees invoiced to joint ventures	Administration expenses	1,213	(522)
Finance income	Finance income	4,012	3,337
		5,225	2,815

		Due from joint ventures	
		As at September 30, 2018	As at December 31,2017
Loan receivable	Investments accounted for using the equity method	64,102	61,643
Interest receivables	Other current assets	348	626
Accounts receivable	Trade and other receivables	-	61
		64,450	62,330

Note 16 – Fair value measurements

Fair value hierarchy

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

	As at September 30, 2018			
	Level 1	Level 2	Level 3	Total
Investment properties	-	-	439,851	439,851
Acquisition loan	-	-	25,713	25,713
Derivative financial instruments - assets	-	1,154	-	1,154
Derivative financial instruments - liabilities	-	(2,041)	-	(2,041)
Exchangeable securities	-	(10,625)	-	(10,625)
Promissory notes	-	(47,055)	-	(47,055)

	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 September 30, 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 for investment properties owned through OPCIs, 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 and in Note 6 – Acquisition loan and deposit. 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.
- 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 is estimated using the nominal amounts and an interest rate based on prevailing market interest rates adjusted by an internally determined credit spread.

	As at September 30, 2018			As at December 31, 2017		
	France	Germany	Total	France	Germany	Total
Fair value of investment properties for financial reporting purposes						
Market value (in Euros) as estimated by external appraisers	269,470	25,590	295,060	268,400	25,590	293,990
Option costs and other costs	(1,415)	-	(1,415)	(1,867)	-	(1,867)
Adjusted market value in Euros	268,055	25,590	293,645	266,533	25,590	292,123
Exchange adjustment	133,465	12,741	146,206	135,665	13,025	148,690
Adjusted market value in CAD$	401,520	38,331	439,851	402,198	38,615	440,813
Net leasable area in Square feet	405,191	124,076	529,267	405,191	124,076	529,267
Impact on the fair value of investment properties of :						
an increase of 20 bps in discount rates	(15,243)	(1,460)	(16,704)	(14,187)	(1,514)	(15,701)
a decrease of 20 bps in discount rates	16,482	1,357	17,839	14,187	1,514	15,701

Significant increases (decreases) in the estimated in discount rate would result in a significantly lower (higher) fair value measurements.

Note 17 – Cash flow information

	Note	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Adjustments for non-cash items and other reconciling items:					
Rent free period	*4*	(49)	323	600	628
Management fees paid in Exchangeable securities	*9*	408	634	1,974	2,072
Net change in fair value of investment properties	*4*	1,062	1,120	(276)	1,011
Net change in fair value of financial instruments at fair value through profit or loss		(763)	(179)	399	1,602
Distributions recognized on Exchangeable securities	*9*	265	411	819	1,187
Net change in fair value of Exchangeable securities	*9*	(134)	144	(201)	1,843
Net change in fair value of Promissory notes		2,701	-	3,775	-
Finance income	*11*	(2,238)	(1,737)	(7,904)	(5,044)
Finance costs	*11*	2,750	1,900	7,971	4,957
Other items		-	(30)	-	(30)
Share of net earnings from investments accounted for using the equity method	*5*	(924)	1,328	(2,499)	937
Net unrealized exchange loss (gain)		(2)	178	(85)	241
Cash items					
Interest received		2,544	9,550	8,184	11,568
Interest paid (on mortgage, lease liabilities and lease equalization loans)		(2,862)	(1,679)	(7,705)	(3,656)
Income tax paid		(11)	18	(25)	(79)
Acquisition costs classified as investing activities		1	24	21	196
		2,748	12,005	5,048	17,433
Working capital adjustments					
Increase in trade and other receivables		1,207	1	19	(1,935)
Increase in tenant deposits		228	93	254	69
(Decrease) Increase in trade and other payables		(2,035)	(8,570)	(1,820)	455
		-			
		(600)	(8,476)	(1,547)	(1,411)

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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