INOVALIS

REAL ESTATE INVESTMENT TRUST

CONTENTS

LETTER TO UNITHOLDERS

Building on the strong fundamentals of the German and French markets, Inovalis REIT's operational and financial performance have remained solid throughout Q3 2018. While delivering consistent returns to unitholders, management has been planning for continued organic growth of its portfolio by the end of the year.

On a per unit basis, fully diluted funds from operations ("FFO") were 20 cents in Q3 2018, and fully diluted adjusted funds from operations ("AFFO") were 21 cents.

At $5.8 M, Q3 2018 adjusted NOI for the REIT's wholly owned properties was slightly below the same quarter in 2017. NOI for the whole portfolio including the REIT's proportionate interest in properties held in partnership grew 9.5% to almost $ 9.0 M.

Overall in-place and committed occupancy of the entire portfolio was 93% at the end of Q3 2018. When calculated excluding assets held through joint-ventures, the occupancy rate is 88.6%.

For the 100% owned assets, the REIT's debt level, net of cash, is down slightly to 39.8% at the end of Q3 2018 from 40.6% at the end of Q3 2017.

The REIT's debt level for the entire portfolio, net of cash, is down slightly to 48.4% at the end of Q3 2018 from 49.2% at the end of Q3 2017, giving the REIT additional room for refinancing opportunities and organic growth. Additional liquidity also stems from the $22 million raised in a private placement in Q2, 2018. The proceeds from this private placement have also been used to fulfill this year's $2 million capital expenditure plan, thus improving our assets and maintaining a steady occupancy rate in excess of 90%.

The construction of the Rueil project, to which the REIT has extended a $25.7 M acquisition /construction loan, has officially commenced on October 1st, 2018, with completion currently anticipated for end of March 2020. Danone has committed to a 12-year lease for this property, which secures the estimated return on the loan, and shall move in by end of April 2020.

Market fundamentals in France and Germany continue to be strong with high employment demand, high occupancy levels and overall moderate supply of new office spaces. These factors, together with foreseeably low interest rates are conducive to increasing rental rates and compressing cap rates.

Finally, I would like to thank our Board of Trustees, colleagues, advisors, investors and lenders for helping us further expand Inovalis REIT, for showing such great confidence in us and for being extremely committed to our unique story. I look forward to your continued support as we grow our business together.

Stéphane Amine

President, Inovalis REIT

November 12, 2018

Management's discussion and analysis

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

OVERVIEW – GAAP and Non-GAAP

The table below presents a summary of both GAAP and Non-GAAP measures. For Non-GAAP, which include our proportionate share of income from investments in joint ventures, please refer to "*Non- GAAP Reconciliation*".

	September 30, 2018		December 31, 2017	
Operational information	GAAP Measures	NON-GAAP Measures (1)	GAAP Measures	NON-GAAP Measures (1)
Number of properties	7	14	7	13
Gross leasable area (sq.ft)	772,403	1,326,797	772,403	1,280,542
Occupancy rate (end of period) (2)	88.6%	93.0%	95.4%	97.0%
Weighted average lease term	5.2 years	4.7 years	5.3 years	5.1 years
Average capitalization rate (3)	5.5%	5.8%	5.7%	5.4%
Financing information				
Level of debt (debt-to-book value) (4)	42.3%	50.7%	42.7%	51.2%
Level of debt (debt-to-book value, net of cash) (4)	39.8%	48.4%	40.6%	49.2%
Weighted average term of principal repayments of debt	5.9 years	5.5 years	6.5 years	5.9 years
Weighted average interest rate (5)	2.15%	2.11%	2.16%	2.10%
Interest coverage ratio (6)	4.5 x	3.9 x	3.9 x	3.9 x

	Three months ended		Nine months ended	
(thousands of CAD$ except per Unit and other data)	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Operating results				
Rental income	6,142	6,323	19,395	18,565
Adjusted Rental income (1)	9,386	8,659	28,934	24,330
Net rental earnings	6,668	6,729	17,393	16,720
Adjusted net rental earnings (1)	10,013	9,012	26,243	21,906
Earnings for the period	2,456	2,216	5,517	5,516
Funds from Operations (FFO) (7) (8)	5,863	5,198	18,399	14,179
Adjusted Funds from Operations (AFFO) (7) (8)	5,682	5,561	18,274	15,420
FFO per Unit (diluted) (7) (8)	0.20	0.21	0.66	0.59
AFFO per Unit (diluted) (7) (8)	0.21	0.22	0.66	0.64
Distributions				
Declared distributions on Units and Exchangeable sec.	4,998	4,872	14,930	14,548
Declared distributions on Units and Exchangeable sec. & Promissory note	6,049	5,162	17,517	14,870
Declared distribution per Unit (diluted) (9)	0.21	0.21	0.62	0.62
FFO payout ratio (7)	102.8%	93.7%	93.5%	102.6%
AFFO payout ratio (7)	100.8%	87.6%	94.2%	94.3%

(1) Taking into account the interest the REIT has in joint venture partnerships.
(2) Calculated on weighted areas (activity, storage and inter-company restaurant areas being accounted for only a third of their effective areas), including vendor leases.
(3) Calculated on annualized net rental earnings (based on net rental earnings for the year-to-date period).
(4) The definition of *debt-to-book value* and of *debt-to-book value, net of cash* can be found under the section *Non-GAAP Financial Measures*. The figures presented for the period ended December 31, 2017 have been reclassified, when appropriate, in order to ensure comparability with the figures for the period ending September 30, 2018.
(5) Calculated as the weighted average interest rate paid on the finance leases and the mortgage loans (excluding derivatives)
(6) Calculated as net rental earnings plus interest expense, less administrative expenses, divided by interest expense on the financial leases and mortgage financings.
(7) The reconciliation of FFO and AFFO to earnings can be found under the section *Non-GAAP Reconciliation (FFO and AFFO).*
(8) Based on the fully diluted weighted average number of Units during the period including conversion of Private Placement Promissory Note.
(9) Based on the fully diluted weighted average number of Units during the period excluding conversion of Private Placement Promissory Note.

KEY FACTS

- Inovalis REIT ("Inovalis REIT", or the "REIT" or "we") is a Canadian TSX-listed REIT managed by Inovalis S.A. ("Inovalis SA"), a local cross-border French and German real estate asset manager, managing $10 billion of real estate and financial assets. As of September 30, 2018, Inovalis S.A. and its founding partners held a 10.8% interest in the REIT's equity (directly and indirectly).

The principal metrics relating to the REIT's performance for the quarter are highlighted below:

- FFO / AFFO

In the table below, FFO and AFFO for the three-month period ended September 30, 2018 are compared to the Q3 2017 and Management's guidance.

	Q3 2018 (1)	Q3 2017 (2)	Management's Guidance (3)
Including private placement in the form of a promissory note			
FFO per unit	0.20	0.21	0.21 - 0.24
FFO payout ratio	102.8%	93.7%	90% - 96%
AFFO per unit	0.21	0.22	0.22 - 0.25
AFFO payout ratio	100.8%	87.6%	88% - 94%

(1) $1.5196 C$/€ foreign exchange rate (Including FX impact of previous quarter)
(2) $1.4731 C$/€ foreign exchange rate
(3) $1.5542 C$/€ foreign exchange rate

The Q3 2018 FFO of $0.20 per unit is $0.01 lower than Q3 2017 FFO of $0.21. This FFO includes the impact of approximately $0.015 due to the delay in the investment of the proceeds raised through the Private Placement Promissory Note, which was completed in Q2 2018. Management is currently reviewing several proposed acquisitions, which are anticipated to be completed by the end of Q4 2018. The AFFO for Q3 2018 of $0.21 per unit is $0.01 lower than Q3 2017, has also been impacted by the aforementioned delay in the investment of the Private Placement Promissory Note and also the impact of an adjustment of $400 relating to improvement work completed on the REIT's portfolio. Since Q1 2018, AFFO has been adjusted by approximately $2,075 relating to improvements to the REIT's assets.

The Q3 2018 FFO payout ratio of 102.8% and the Q3 2018 AFFO payout ratio of 100.8% will return to the levels outlined in management's guidance following the investment of the proceeds from the Private Placement.

- NOI (GAAP)

In the table below is the NOI presentation prepared under GAAP. The REIT guidance includes the application of forecast indexation for French assets. Indexation has not been applied to the German asset forecast as it is not applied until the index increases exceed 5%. Between 2013 and 2016, on average, the German index increased 0.5% per year. In 2017, the index grew at a rate of 1.74% per year, indicating an accelerating trend. This trend continued in 2018 with the index expected to reach 2.5% for the year. This means that the indexation threshold of 5% has been reached in Q3 2018 and has been applied to the Hannover asset. These calculations include consideration of the contractual specificities of each lease. See the section Rental Indexation for details on French and German indices.

(in thousands of CAD$)	Q3 2018 (1)	Q3 2017 (2)	Management's Guidance (3)
NOI (GAAP)	6,668	6,729	
IFRIC 21 impact	(831)	(815)	
Adjusted NOI (excluding IFRIC 21 impact)	5,837	5,914	5,900 - 6,300

(1) $1.5196 C$/€ foreign exchange rate (Including FX impact of previous quarter)
(2) $1.4731 C$/€ foreign exchange rate
(3) $1.5542 C$/€ foreign exchange rate

The Q3 2018 NOI is $5,837. This figure includes the impact of approximately $540 that results from the departure of the tenant ADEME on June 30, 2018 from the Vanves property. Management is actively marketing the vacant space on a short-term lease to optimize the asset's rental yield while management considers the value-added redevelopment potential currently offered by this asset.

Management's guidance range for 2018 is based on the annualized NOI for the current portfolio. This guidance was developed anticipating the departure of a key tenant, ADEME, the French Environment and Energy Management Agency, from the Vanves property. The reader is cautioned that management's guidance information is forward-looking and actual results may vary from those reported.

The below table presents the REIT's NOI in Euro.

(in thousands of EUR)	Q3 2018	Q3 2017	Management's Guidance
NOI (GAAP)	4,378	4,582	
IFRIC 21 impact	(534)	(567)	
Adjusted NOI (excluding IFRIC 21 impact)	3,844	4,015	3,800 - 4,050

On a Euro basis, the REIT's NOI for the quarter in within the range provided by Management's Guidance. This guidance was developed anticipating the departure of a key tenant, ADEME, the French Environment and Energy Management Agency, from the Vanves property.

- NOI (Non-GAAP)

In the table below is NOI presentation for the whole portfolio including the REIT's proportionate interest in properties held in partnership. Management's guidance includes the application of 2018 forecast indexation for French assets. Between 2013 and 2016, on average, the German index increased 0.5% per year. In 2017, the index grew at a rate of 1.74% per year, indicating an accelerating trend. This trend continued in 2018 with the index expected to reach 2.5% for the year. This means that the indexation threshold of 5% has been reached in Q3 2018 and has been applied to the Hannover asset. See the section Rental Indexation for details on French and German indices.

(in thousands of CAD$)	Q3 2018 (1)	Q3 2017 (2)	Management's Guidance (3)
NOI (Non-GAAP)	10,013	9,012	
IFRIC 21 impact	(1,015)	(791)	
Adjusted NOI (excluding IFRIC 21 impact)	8,998	8,221	8,800 - 9,300

(1) $1.5196 C$/€ foreign exchange rate (Including FX impact of previous quarter)
(2) $1.4731 C$/€ foreign exchange rate
(3) $1.5542 C$/€ foreign exchange rate

The Q3 2018 NOI, excluding the impact of IFRIC21, was $8,998, in-line with management's guidance, despite the previously mentioned impact from the departure of ADEME from the Vanves asset.

The NOI for the REIT in Euro is presented in the table below.

(in thousands of EUR)	Q3 2018	Q3 2017	Management's Guidance
NOI (Non-GAAP)	6,574	6,139	
IFRIC 21 impact	(653)	(552)	
Adjusted NOI (excluding IFRIC 21 impact)	5,921	5,587	5,700 - 6,000

The year-over-year increase in NOI of €336 is attributable to the acquisitions of Delizy, Neu-Isenburg and Kösching properties €553, marginally offset by the sale of the Cologne asset (€123) and the departure of

ADEME (€360). Improved performance on a same-property basis resulted in an increase of €266 across the portfolio arising from indexation and the signing of new leases on existing assets.

- Occupancy

Q3 2018 saw the occupancy rates of 88.6% on a GAAP basis compared to 95.4% in Q4 2017. This reduction is a result of the departure of ADEME, who previously occupied approximately 50,000 sq. ft of the Vanves property. Management is currently considering value-add redevelopment projects for the property and is also seeking an interim tenant for the space while development plans are finalized.

At the Baldi property, Rue Du Commerce's tenancy of approximately 52,000 sq. ft. has been confirmed until 2021 at the earliest. This confirmation has enabled the REIT to access a cash-reserve of €900, which was previously classified as restricted cash. This reserve was required by the financing bank subject to the non-execution of the break option on the Rue Du Commerce lease.

The Metropolitain property has seen a change in tenants but remains fully let, allowing the REIT to access an additional cash reserve of €1,000, which was previously classified as restricted cash. This reserve was requested by the bank which facilitated the refinancing of the asset in Q1 2016, subject to the asset's occupancy rate.

Improvement works are currently underway at the Sablière and Veronese properties to further enhance the assets, enabling the REIT to lease the available space in a competitive market.

The Weighted Average Lease Term (WALT) for the wholly-owned assets increased, despite the passage of time, increased from 4.9 years in Q2 2018 to 5.2 years as at the end of September 30, 2018 due to renewals and the signing of new leases across the portfolio.

Including assets held through joint-ventures, the occupancy rate for Q3 2018 was 93.0% compared to 97.0% as at December 31, 2018. This reduction is also due to the departure of the tenant, ADEME, at the Vanves property. The impact is offset by high occupancy rates across the joint-venture properties.

- Debt to Book Value (GAAP)

The REIT's debt to book value, in accordance with GAAP, was 42.3% as at September 30, 2018, compared to 42.7% as at December 31, 2017. Net of cash available, the debt to book value was 39.8% as at September 30, 2018, compared to 40.6% as at December 31, 2017. The reduction in the debt to book ratio is notably linked to the amortization of debt throughout the nine-month period.

- Debt to Book Value (Non-GAAP)

The REIT's Non-GAAP debt to book value for the whole portfolio, including the REIT's proportional share in joint-ventures was 50.7% as at September 30, 2018, a decrease from 51.2% as at December 31, 2017. Net of cash available, the debt to book value was 48.4% as at September 30, 2018, compared to 49.2% as at December 31, 2017. The reduction in the debt to book ratio is notably linked to the amortization of debt throughout the nine-month period.

BASIS OF PRESENTATION

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of Inovalis REIT should be read in conjunction with the REIT's condensed interim consolidated financial statements for the period from January 1, 2018 to September 30, 2018, and the notes thereto.

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

This MD&A has been prepared considering material transactions and events up to and including November 12, 2018. Financial data provided in the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. All amounts in this MD&A are in thousands of Canadian dollars and Euro, except per unit amounts and where otherwise stated. Historical results, including trends which might appear, should not be taken as indicative of future operations or results. Additional information about Inovalis REIT has been filed with applicable Canadian securities regulatory authorities and is available at www.sedar.com. The exchange rate used throughout this MD&A for statement of earnings items is the average rate during the said period, i.e. $1.5371 Canadian dollars per Euro for the nine-month period ended September 30, 2018. In Q3 2018, this rate of $1.5459 includes the impact of the FX rate applied for the previous two quarters. For balance sheet items, projections or market data, the exchange rate used is $1.4979 (exchange rate as at September 30, 2018).

FORWARD-LOOKING INFORMATION

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

MARKET AND INDUSTRY DATA

This MD&A includes market and industry data and forecasts that were obtained from third-party sources, industry publications and publicly available information as well as industry data prepared by Inovalis SA based on its knowledge of the commercial real estate industry in which we operate (including Inovalis SA estimates and assumptions relating to the industry based on that knowledge). Inovalis SA's knowledge of the real estate industry has been developed through its 20 years of experience and participation in the industry. Inovalis REIT believes that its industry data is accurate and that its estimates and assumptions are reasonable, but there can be no assurance as to the accuracy or completeness of this data. Third-party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. Although Inovalis REIT believes it to be reliable, Inovalis REIT has not verified any of the data from third-party sources referred to in this MD&A or analyzed or verified the underlying studies or surveys relied upon or referred to by such sources, or ascertained the underlying assumptions relied upon by such sources.

BUSINESS OVERVIEW AND STRATEGY

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

Our long-term objectives are to:

- generate predictable and growing cash distributions on a tax-efficient basis from investments in income-producing office properties;

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

The REIT's Investment criteria encompasses office properties outside of Canada with an occupancy level above 80% (unless AFFO accretive), secured rental cash flows, a property value between €20 million ($29.96 million) to €60 million ($89.87 million) (unless AFFO accretive) and a potential future upside with respect to matters including rent and area development. According to management, the target investment size falls within a very liquid segment of the real estate market in Europe, and debt financing for such acquisitions is readily available from local lenders.

BUSINESS ENVIRONMENT

French commercial real estate investment market [1]

Investment

After excellent results in Q2 (€6.4 billion in investments) the Greater Paris Region investment market returned to more normal levels with €3.4 billion in investments recorded over the last three months. These results take the year-to date investment volume to €12.8 billion; this represents a 33% year-over-year increase and is 58% higher than the long-term average. Activity in the Greater Paris Region investment market remains very strong. These results are mainly due to exceptional performance in the major transactions segment; six transactions were recorded over the summer adding to the 29 recorded over the first half of 2018. The 35 transactions recorded since the beginning of the year constitute the third-best performance in this market segment and accounted for €8 billion in investment or almost 2/3 of activity in the Greater Paris Region. The quarter's largest transactions include Covéa Insurance's acquisition of the 26,500 sq. m "Néo" building on Boulevard Haussmann (Paris 9) which is mainly occupied by national newspaper Le Figaro and EMERIGE's sale to TH Real Estate of the tertiary part (26,100 sqm), of the "Morland Mixité Capitale" project (Paris 4), which was a winner of the 2016 "Réinventer Paris" call for projects that offered a €350 million prize. As for the other market segments, there was a 38% increase in transactions from €50 to €100 million, both by number and by volume, whereas those for lot sizes under €50 million posted an 8% decrease in number and a 7% reduction in investment volume.

Take-up

In Paris, the pace of leasing remains strong and suggests that 2018 will be another exceptional year, with take-up volume likely to exceed one million sq. m. A little over 780,000 sq. m of offices have already been let or sold to occupiers at the end of Q3 2018, an increase of 7% year-over-year and 41% of all areas let in the Greater Paris Region since January. Although leasing activity is down in the Paris South (- 10 %) and Paris North East (- 14 %) sectors, the last three months have confirmed the strength of the west of Paris. The Central Business District (**"CBD"**) and Paris Centre West show an increase of 22% year-over-year, related to the marked increase in leasing of intermediate sized areas and office space over 5,000 sq m. The latter market sector is particularly active, with 16 deals recorded since January, including seven during Q3. Take-up includes some second-hand or recently completed areas, however, pre-leasing remains one of the driving forces of leasing activity, as illustrated by the most significant deal of the summer: the leasing of the 16,600 sq m "Freedom" building in the 17th district of Paris to MUREX. Sectors other than those of tech and finance help to sustain demand; co-working accounts for 24% of the volume of large deals signed in the capital since the beginning of 2018.

Rents

The restricted number of opportunities, and the level of demand from prospective tenants, is pushing values upward in the new asset market sector, with the prime rent reaching €840 /sq. m./year in the CBD (+ 9% year-on-year), as well as in the older office building sector which saw an average rent increase of 4%. This trend has primarily been observed in Paris and the upward pressure is expected to continue over the coming months due to the progressive

[1] *Sources: Jones Lang LaSalle and Knight Frank*

decrease of available inventory. The volume of available inventory in the Greater Paris Region has once again fallen below the threshold of 3 million sq. m. – the first time since the start of 2009 – leading to a vacancy rate of 5.4% at the end of Q3. Available inventory in the region decreased by 5% over one quarter and 18% year-over-year. The situation is not expected to change much next year. Of the 1,320,000 sq. m. currently under construction in the Paris region with completion due by the end of 2019, only 44% is still available to let. This level of supply is insufficient to meet prospective tenant demand and is likely to encourage them to make decisions on assets that are to be developed or refurbished. It could also persuade to renegotiate existing leases or to move to quality assets in outlying sectors with good public transport links.

German Commercial Real Estate Market [1]

Investment Market:

In the third quarter, there was a consolidation of the investment trends seen in H1, and also an acceleration of this development - more than ever, investors are focusing on the "Big 7"[2]. While an aggregated volume of more than €26 billion (60% of the transaction volume of the first three quarters) was invested in all seven strongholds, corresponding to an increase of 27%, around €16 billion was invested outside these markets. This was around 13% below the previous year's volume. This reflects the dynamic development that is particularly evident in the office leasing markets in the Big 7. Investors are increasingly relying on rental growth in the face of declining yield compression to meet their return targets and generate value. This is one of the reasons why value-added properties with short remaining leases or properties with vacancies are currently in demand, as higher rents are most likely to be realized here through new contract agreements. When a large amount of capital is to be invested at once, there are very few alternatives to the Big 7. Of the 67 individual transactions in the three-digit million range that took place in the first three quarters, the Big 7 accounted for 62. In terms of the biggest individual transactions in the nine-month period, the largest deal outside the Big 7 is only ranked 37th with about €150 million. Office property remains the most popular asset class, accounting for around 45%. Approximately €19 billion was invested in this type of real estate from January to September. In the search for investment options, sub-markets outside city centers and CBDs in the Big 7 seem to be the preferred choice of investors ahead of smaller and therefore riskier markets. Here, it is possible to realize significantly higher rental increases on a selective basis than in the prime locations. Retail property is in second place, accounting for over 20% of the total due to the billion-Euro department store transaction. Otherwise, the focus of investors in the retail segment is predominantly on specialist retail products with anchor tenants from the food industry that have been relatively unaffected by online competition. This may be one of the reasons why very large transactions in the retail segment have become relatively rare. Most transactions range between €20 million and €60 million and, unlike in the office sector, are geographically more widely dispersed.

Take-up volume remains high – but not every user finds suitable premises

The continuing positive economic development accompanied by falling unemployment and growing levels of office-based employment are reflected by the robust demand for space. Office space take-up in the seven office property strongholds was at a high level in the first nine months of the year, even though it did not quite reach the previous year's result. In total, 2.84 million sq.m. was either rented or occupied by owners in the first three quarters of the current year. This equates to an annual decline of almost 6%. However, a longer-term view reveals the true extent of demand, with take-up 11% higher in a five-year comparison and 21% above the 10-year average. Lower take-up in four of the seven markets played a decisive role in the overall decline, with losses ranging from -10% in Hamburg through to -21% in each of Berlin and Cologne and -25% in Stuttgart. Munich had the largest take-up volume of 686,000 sq.m., and also recorded the highest year-on-year growth of 14%. Berlin is ranked in second place with a take-up volume of 575,000 sq.m. but suffered a 21% decline. Frankfurt remained a growth market. Companies are showing a continuing tendency to expand. Despite the general trend towards improving space efficiency, they often rent larger spaces than before due to workforce expansions and larger floor layouts for communal areas. Net absorption in the current year is correspondingly high at 653,000 sq.m. There should be continued strong unmet demand for space on the Big 7 office property market until the end of the year. Take-up on the office market in 2018 could be up to 10% below the record volume of the previous year – although this would still be 7% above the five-year average.

---

[1] *Source: Jones Lang LaSalle*

[2] Seven major cities in Germany: Berlin, Dusseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart

In Frankfurt, the third quarter take-up performance of 197,000 sq.m. was the second strongest since 1998. The overall space take-up of 456,000 sq.m. over the first three quarters of the year was almost as high as the 10-year full-year average.

Situation on the office property market:

The consistently high demand for space by companies is not being met due to the shortage of space. In central locations, the lack of space is causing rent increases. The low volume of completions in recent years has hardly helped improve the supply situation. This could change in the next few years owing to the rising level of construction activity. However, whether all planned project developments start on time remains questionable due to the high utilization of the construction industry. It is unlikely that rental prices will remain unchanged.

In Frankfurt, there has been a slight increase in prime rent to €39.00/sq.m./month and rents have continued to rise in several highly sought-after submarkets like Neu Isenburg. It is expected that rents will continue to rise, due to both the lack of supply and the significant increases in construction.

Ingolstadt, the fifth largest city in Bavaria, is one of the most dynamic economic locations in Germany. This can basically be attributed to the automotive industry, which is represented by Audi’s headquarters and its many local suppliers. Due to the increasing employment level, the office peak rent also increased, but the growth is still not stronger than other Bavarian economic locations.

REAL ESTATE MANAGEMENT AND ADVISORY SERVICES

Pursuant to a management agreement, Inovalis SA is the 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.

OUR OPERATIONS – GAAP and Non-GAAP

Performance indicators, incorporating both GAAP and Non-GAAP measures

As at	September 30, 2018		December 31, 2017	
	GAAP Measures	Non-GAAP Measures (1)	GAAP Measures	Non-GAAP Measures (1)
Gross leasable area (sq.ft)	772,403	1,326,797	772,403	1,280,542
Number of properties	7	14	7	13
Number of tenants	37	67	34	66
Occupancy rate (2)	88.6%	93.0%	95.4%	97.0%
Weighted average lease term (3)	5.2 years	4.7 years	5.3 years	5.1 years

(1) Taking into account the interest the REIT has in the properties held in partnerships.
(2) Calculated on weighted areas and including vendor leases (activity, storage and intercompany restaurant areas being accounted only for a third of their effective areas).
(3) Excluding early termination rights. Considering early termination rights, the weighted average lease term is 3.6 years as at September 30, 2018 compared to 3.8 years as at December 31, 2017 (3.6 years as compared to 4.0 years for Non-GAAP respectively)

The above performance indicators do not consider the redevelopment loan granted to the property in Rueil (Paris Western periphery).

Portfolio

The REIT has an interest in fourteen properties, of which seven are entirely owned by the REIT (Baldi, Courbevoie, Jeuneurs, Metropolitain, Sablière and Vanves in France and Hanover in Germany) and seven are held through partnerships with various global institutional funds (Arcueil and Pantin in France, Bad Homburg, Neu-Isenburg, Duisburg, Stuttgart and Kösching in Germany). Eight properties are in France and six properties are in Germany, excluding the residual interest in the Cologne asset.

Asset	% owned	REIT Ownership Valuation as at September 30, 2018	% of REIT's Portfolio Value	Gross Leaseable Area (GLA)	Contribution to GLA	# of tenants	Occupancy rate (including vendor leases)	WALT (end of lease)
		(CAD)	%	sq.ft	%		%	Years
Jeuneurs	100%	70,092	11%	50,407	4%	1	100%	2.25
Courbevoie	100%	41,174	7%	96,118	7%	7	86%	3.20
Vanves	100%	132,437	21%	258,672	19%	6	81%	3.19
Sablière	100%	35,404	6%	41,043	3%	7	93%	4.32
Saint Ouen	100%	36,707	6%	123,657	9%	8	72%	3.71
Metropolitain	100%	85,705	14%	72,014	5%	7	100%	6.75
Arcueil	25%	33,704	5%	83,633	6%	1	100%	4.45
Delizy	50%	19,636	3%	71,627	5%	16	100%	3.33
Subtotal France		**454,859**	**72%**	**797,171**	**60%**	**53**	**87%**	**3.80**
Hanover	100%	38,331	6%	124,076	9%	1	100%	11.25
Duisburg	50%	39,170	6%	108,959	8%	1	100%	2.25
Bad Homburg	50%	16,881	3%	54,552	4%	6	93%	4.55
Cologne	6%	1,859	0%					
Stuttgart	50%	32,280	5%	121,416	9%	4	96%	5.43
Neu-Isenburg	50%	28,685	5%	67,566	5%	4	100%	1.70
Kösching	50%	18,249	3%	53,058	4%	1	100%	9.17
Subtotal Germany		**175,455**	**28%**	**529,627**	**40%**	**17**	**98%**	**6.00**
Total - France and Germany		**630,314**	**100%**	**1,326,798**	**100%**	**70**	**92%**	**4.70**

Occupancy

The 88.6% weighted average occupancy rate at September 30, 2018 across the seven properties owned entirely by the REIT decreased from 95.4% as at December 31, 2017. The weighted average occupancy rate across the fourteen properties, including properties owned through joint-ventures and the vendor lease relating to the Delizy (Pantin) property, fell to 93.0% from 97% as at December 31, 2017. The decline in occupancy rates is predominantly due to the departure of tenants from the Vanves, Sablière, Courbevoie and Metropolitain properties.

During Q1 2018, the REIT completed the acquisition of the 100% occupied Kösching property, acquired as part of a joint-venture transaction. This acquisition accounts for the increase in gross leasable area under Non-GAAP measures from 1,280,542 sq. ft. as at December 31, 2017 to 1,326,797 sq. ft as at September 30, 2018.

The average lease term decreased to 5.0 years as at September 30, 2018 from 5.3 years as at December 31, 2017. The average lease term including properties held through joint-ventures decreased slightly to 4.6 years compared to 5.1 as at December 31, 2017.

Tenants

The tenant base in the portfolio is well diversified from an industry segment standpoint, with many national and multinational tenants. As at September 30, 2018, the REIT had thirty-four tenants across the seven properties owned entirely by the REIT, and sixty-seven tenants in aggregate including properties held through joint ventures.

Approximately 62.2% of quarter’s gross rental income is attributable to French public agency tenants, is guaranteed by large German or international banks, or from investment grade corporations or affiliates of investment grade corporations. This percentage, including properties held through joint-ventures, equates to 62.6%.

The following table shows our five largest tenants, sorted by contribution to gross leasable area (GLA) in the REIT's seven fully owned properties.

Tenant	Tenant Sector	GLA (sq.ft.) (1)	Weighted Areas (sq.ft) (1)	% of Weighted Areas
Orange (Formerly France Telecom)	Telecommunications	186,070	181,096	24.8%
Facility Services Hannover	Banking/ Real estate	124,074	124,074	17.0%
Rue Du Commerce	E-commerce	51,926	51,926	7.1%
CNAM	Education & Training	50,407	49,543	6.8%
SAS Smart & Co	Internet and direct marketing retail	43,481	39,796	5.4%
Top 5 tenants		**455,957**	**446,435**	**61.1%**
Other tenants	Diversified	215,665	201,524	27.6%
Vacant		100,781	83,266	11.4%
Total GAAP Measures		**772,403**	**731,225**	**100.0%**

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

The REIT's five largest tenants across the portfolio of fourteen properties which includes the seven fully owned properties plus the additional seven properties held through joint-ventures, are presented in the table below. As at September 30, 2018, the REIT held a 50% interest in the Duisburg, Walpur (Bad Homburg), Pantin, Stuttgart, Neu-Isenburg and Kösching properties and a 25% interest in the Arcueil property.

Tenant	Tenant Sector	GLA (sq.ft.) (1)	Weighted Areas (sq.ft) (1) (2)	% of Weighted Areas
Orange (Formerly France Telecom)	Telecommunications	269,703	198,907	20.6%
Facility Services Hannover	Banking/ Real estate	124,074	124,074	12.9%
Daimler AG	Manufacturer	109,136	50,243	5.2%
Hitachi Power	Manufacturer	108,959	52,023	5.4%
Arrow Central Europe	E-commerce	55,871	25,974	2.7%
Top 5 tenants		**667,743**	**451,221**	**46.8%**
Other tenants	Diversified	550,179	427,579	44.4%
Vacant		108,875	84,615	8.8%
Total Non-GAAP Measures		**1,326,797**	**963,415**	**100.0%**

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

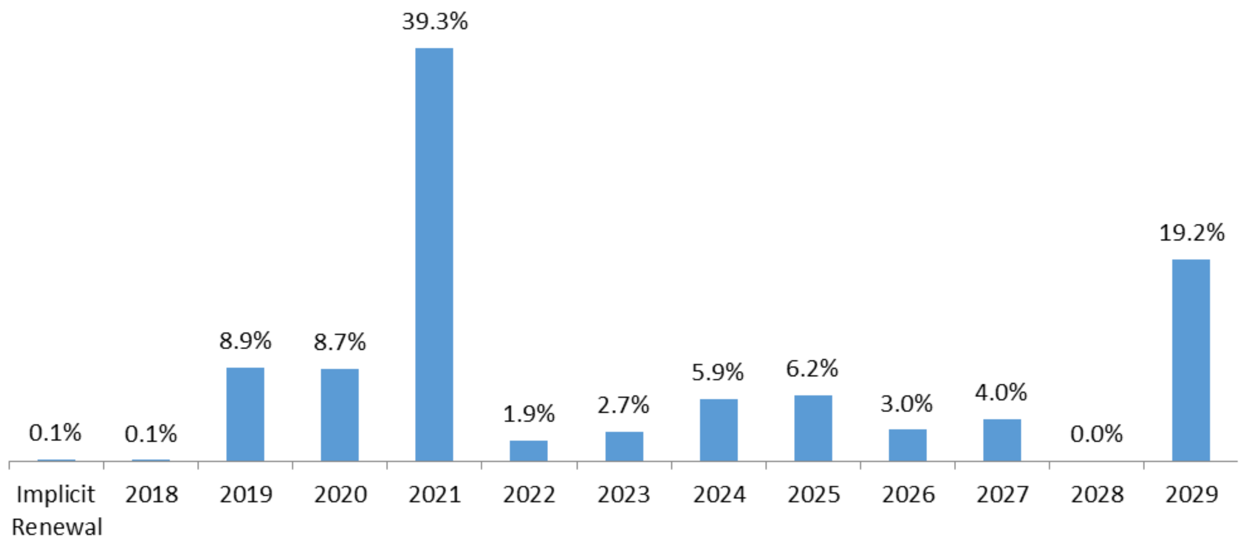
Our largest tenant, Orange (formerly France Telecom), is rated BBB+/Baa1/BBB+ by S&P/Moody's/Fitch and has leases in two of our properties, the Vanves property and the Arcueil property (held in partnership).

Leasing profile

Lease rollover profile

The REIT has an average remaining lease term of 5.0 years in the seven fully owned properties (not including tenant early termination rights). Assuming all tenants leave at the earliest possible early termination rights, which the REIT believes is unlikely, the average remaining lease term in our portfolio is 3.6 years. The following graph sets out the percentage of total GLA of the properties subject to leases expiring during the periods shown (excluding early lease terminations).

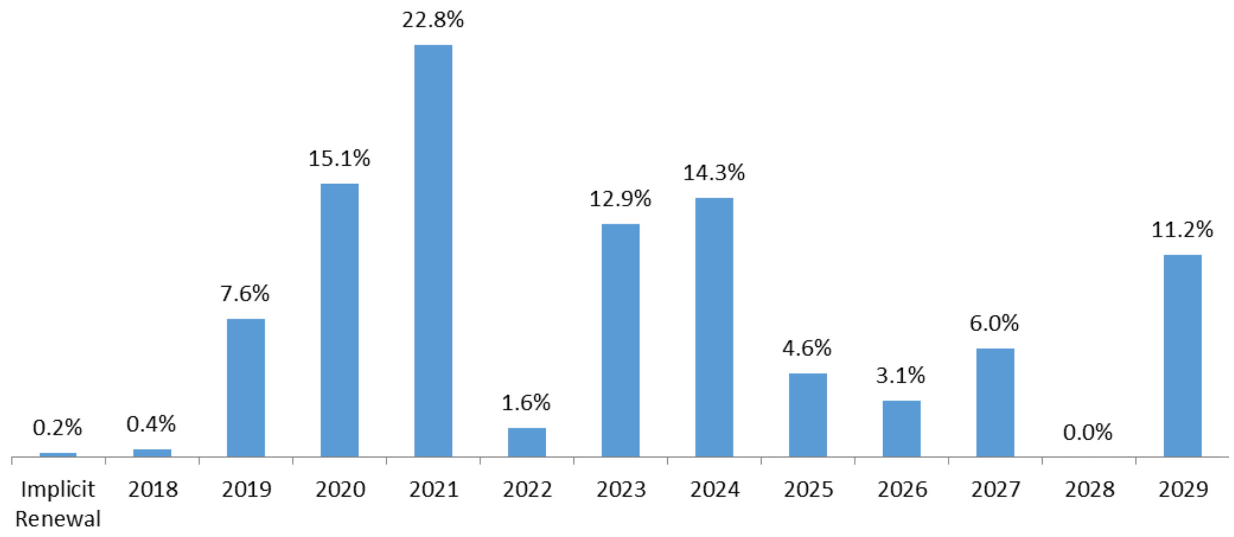
Lease Maturity Profile as at September 30, 2018
(% of total GLA)



Including properties held in joint-ventures, the average remaining lease term is 4.6 years (not including tenant early termination rights) and 3.6 years including early termination rights.

The following graph presents the percentage of total GLA expiring in the fourteen properties during the periods shown (excluding early lease terminations), including the vendor lease at the Delizy property (Pantin).

Lease Maturity Profile as at September 30, 2018
Entire portfolio including joint ventures
(% of total GLA)



Rental indexation

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

CONSOLIDATED FINANCIAL INFORMATION

Interim Consolidated Statements of Earnings

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

(in thousands of CAD$)	Three months ended September 30 2018	Three months ended September 30 2017	Nine months ended September 30 2018	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	(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	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	2,238	1,737	7,904	5,044
Finance costs	(2,750)	(1,900)	(7,971)	(4,957)
Distributions on Exchangeable securities	(265)	(411)	(819)	(1,187)
Net change in fair value of Exchangeable securities	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	(11)	18	(25)	(79)
Deferred income tax expense	(302)	(36)	(5,622)	(259)
Earnings for the period	**2,512**	**2,220**	**5,573**	**5,579**
Non-controlling interest	**(13)**	**4**	**(13)**	**63**
Earnings for the period (part attributable to the Trust)	**2,525**	**2,216**	**5,586**	**5,516**

Discussion of Consolidated Statement of Earnings

Net rental earnings

Net rental earnings (Ex-IFRIC) for the three-month period ended September 30, 2018 were €3,844 ($5,837) compared to €4,015 ($5,914) in Q3 2017. The €171 decrease in net rental earnings, was mainly due to a reduction in rental income resulting from the departure of ADEME from the Vanves property €361, offset by increases in rent of €190 through new leases and indexation.

Net rental earnings for the nine-month period ended September 30, 2018 were €11,897 ($18,287) compared to €12,066 ($17,553) in Q3 2017. The €169 decrease in net rental earnings, was mainly due to a reduction in rental income resulting from the departure of ADEME from the Vanves property €361, offset by increases in rent of €191 through new leases and indexation.

(in thousands)	3 months ended Q3 2018 (1)	3 months ended Q3 2017 (2)	9 months ended Q3 2018 (3)	9 months ended Q3 2017 (4)
Net rental earnings (Excluding IFRIC 21) - CAD	5,837	5,914	18,287	17,553
Net rental earnings (Excluding IFRIC 21) - EUR	3,844	4,015	11,897	12,066

(1) $1.5184 C$/€ foreign exchange rate
(2) $1.4731 C$/€ foreign exchange rate
(3) $1.5371 C$/€ foreign exchange rate
(4) $1.4547 C$/€ foreign exchange rate

According to IFRIC 21 (Ex-IFRIC), 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 to NOI in the first quarter and a corresponding increase in the carrying value of the investment properties as the property tax is recoverable from the tenants. In the subsequent three quarters, this provision is reversed on a proportional basis, which results in an increase of the Q2, Q3 and Q4 NOI and a corresponding decrease in the value of the investment properties as the provision is reversed.

Administration expenses

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

Administration expenses for the quarter ended September 30, 2018 amounted to $1,125 as compared to $1,301 for the same quarter in 2017. During the current quarter, $364 related to the asset management fees paid to Inovalis SA as compared to $699 for the quarter ended September 30, 2017 and $761 to other expenses as compared to $602 for the quarter ended September 30, 2017. The overall decrease in management fees of $335, despite the positive movement in foreign exchange of $39, is the result of the lower management fees in the agreement applicable from April 1, 2018, signed in Q2 2018, and the sale of the Cologne property. Under the terms of the new management fee agreement, management fees decreased from 75bps to 50bps, this average rate of 50bps has been applied across the entire portfolio. Other expenses increased $159 year over year, of which $34 is attributable to foreign exchange movement, the remaining increase of $125 is related to the increased activity at the Luxembourg holding company level and the increase in costs related to the Canadian structure.

Administration expenses for the nine-month period ended September 30, 2018 amounted to $4,152 as compared to $3,873 for the same period in 2017. $1,689 of this expense related to the asset management fees paid to Inovalis SA as compared to $2,068 for the nine-month period ended September 30, 2017 and $2,463 to other expenses as compared to $1,805 for the nine-month period ended September 30, 2017. The overall reduction in management fees of $379 despite the negative movement in foreign exchange of $117 and a reduction of $496 attributable mainly to the new management agreement terms and the sale of the Cologne property. Other expenses increased $658 year over year, of which $102 is attributable to foreign exchange movement. The remaining $556 increase related to the increased activity at the Luxembourg holding company level and the increase in costs related to the Canadian structure.

Net change in fair value of investment properties

During the quarter ended September 30, 2018, the net change in fair value of investment properties recognized in earnings was a loss of $1,062. The decrease was largely due to the IFRIC 21 impact for the quarter. This figure compares to the $1,120 loss in the quarter ended September 30, 2017.

Gain (loss) on financial instruments at fair value through profit and loss

The REIT recognized a gain on financial instruments for the quarter of $763 compared to a gain of $178 for the same period in 2017. The loss for the quarter corresponds to changes in value in the interest rate derivatives held by the REIT.

Finance income

For the three-month period ended September 30, 2018, finance income of $2,238 consists predominantly of $899 in interest on the acquisition loans related to the Rueil property, with $1,325 of finance income arising from joint ventures. The increase of $501 for the quarter from $1,737 in Q3 2017 corresponds mainly to the increase in interest income from the Rueil loan and the new joint ventures.

For the nine-month period ended September 30, 2018, finance income of $7,904 consists predominantly of $3,851 in interest on the acquisition loans related to the Rueil property and $4,012 of finance income arising from joint ventures. The increase of $2,860 from $5,044 for the nine-month period ended Q3 2018 corresponds mainly to the increase in interest income from the Rueil loan and the new joint ventures.

Finance income for the nine-month period ended September 30, 2017 of $5,044 consisted of $1,162 in interest on the acquisition loan related to the Rueil property $3,337 in revenue from both the exchange hedging program and interest on cash deposit and $41 in finance income from new joint ventures.

As at September 30, 2018, the REIT had deployed €17.2 million ($25.7 million) of the €21.8 million ($34.5 million) acquisition and redevelopment loan to a company 80%-owned by Inovalis SA, related to the Rueil property, in the

Paris Western periphery. The loan bears an annual interest rate of 8.5%, with an effective interest rate of 14.0% which incorporates the 20% of the profit that will accrue to the REIT upon the sale of the property to a third party. The final portion of the loan commitment of €4.6 million ($6.9 million) is expected to be deployed in Q4 2018.

Finance costs

For the three-month period ended September 30, 2018, the finance costs amounted to $2,750 as compared to $1,900 for the same period in 2017 including $1,198 for interest costs related to finance leases, mortgage loans and the lease equalization loans, $1,051 of interest costs on the promissory note, $461 of interest related to SWAP contracts and $39 of other finance costs (including amortization of fair value adjustment on finance leases assumed at a discount at the time of a business acquisition, amortization of transaction costs on mortgage loans and other miscellaneous costs).The increase of $849 year on year is largely attributable to finance expenses associated with joint ventures and also to promissory note interest paid on the notes issued in 2017 and 2018.

For the nine-month period ended September 30, 2018, the finance costs amounted to $7,971 as compared to $4,957 for the same period in 2017 including $3,627 for interest costs related to finance leases, mortgage loans and the lease equalization loans, $2,587 of interest costs on the promissory note, $1,123 of interest related to SWAP contracts and $634 of other finance costs (including amortization of transaction costs on mortgage loans and other miscellaneous costs). The increase of $3,014 year on year is largely attributable to promissory note interest paid on the notes issued in 2017 and 2018 and also to increased interest on bank loans.

Distributions on Exchangeable securities

Distributions to the holders of Exchangeable securities (see Note 9 in Condensed Interim Consolidated Financial Statements as at September 30, 2018) are calculated in a manner to provide a return that is economically equivalent to the distributions received by the Unitholders. During the three-month period ended September 30, 2018 the distributions recognized on Exchangeable securities were $265 compared to $411 for the same period in 2017. The year-over-year decrease arises from the reduction in the number of Exchangeable securities in issuance following the conversion by Inovalis S.A. of 500,014 Exchangeable securities into Units in December 2017, a conversion of 419,059 Exchangeable securities in January 2018 and a conversion of 428,795 Exchangeable securities in September 2018, partially offset by the increase due to the additional Exchangeable securities received by Inovalis SA in lieu of cash payment of asset management fees.

Net change in fair value of Exchangeable securities

The net change in value of the Exchangeable securities, as well as the cost of distributions recognized on Exchangeable securities, are recognized in profit and loss because, for financial reporting purposes, the Exchangeable securities have been classified as a liability at fair value through profit or loss.

For the three-month period ended September 30, 2018, the REIT reported a gain of $134 which is the result of the increase in the closing price of the units which was $10.46 on September 28, 2018 compared to $10.10 on June 29, 2018, offset by the FX rate impact for the period.

For the nine-month period ended September 30, 2018, the REIT reported a gain of $201 which is the result of the increase in the closing price of the units which was $10.46 on September 28, 2018 compared to $9.97 on December 29, 2018 and the impact of the conversion of 419,059 Exchangeable securities in January 2018 and a further conversion of 428,795 Exchangeable securities in September 2018, offset by the FX rate impact for the period.

Current income tax expense

The current income tax expense of ($11) for the quarter ended September 30, 2018 and ($25) for the nine-month period ended September 30, 2018 corresponds to the adjustment between estimated and final tax for 2016 for REIT's Luxembourg holding entity.

Deferred tax expense

The deferred income tax expense (and deferred income tax liabilities) corresponds to the origination of temporary differences arising from investment properties located in France and Germany.

The governments of France and Luxembourg signed a new Double Taxation Treaty and accompanying Protocol on March 20, 2018. The DTT is currently pending ratification before it comes into force. If the DTT is ratified before

December 31, 2018 by both parties it will come into effect in 2019. Should ratification by both parties occur after that date, the changes will not come into effect until 2020.

Under the current DTT, the REIT, through its subsidiary located in Luxembourg, incurs French withholding tax at the 5% treaty rate on the dividend received from French OPCI[1]. Under the anticipated DTT, such dividend distributions would be subject to withholding tax at a substantively enacted rate of 30% rate which can potentially be reduced to 15% 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. In the Q1, Q2 and Q3 financial statements, 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 during the period ending September 30, 2018. However, the impact on the operating structure has not yet been determined.

Last 24 Months – Key Financial Information

The information provided in the table below has been calculated in accordance with GAAP.

	3-month period ended							
(in thousands of CAD$)	Sept. 30, 2018	June 30, 2018	March 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	March 31, 2017	Dec. 31, 2016
Rental income	6,142	6,539	6,714	6,381	6,323	6,271	5,970	6,706
Net rental earnings	6,668	6,882	3,842	7,411	6,729	6,610	3,247	7,023
Earnings for the period	2,456	5,034	(3,604)	13,651	2,216	159	3,141	2,984
Earnings per Unit (CAD$)	0.09	0.18	(0.08)	0.63	0.10	0.01	0.15	0.14

PROPERTY CAPITAL INVESTMENTS

Fair value

The fair value of the REIT's investment property portfolio as at September 30, 2018 was $439.8 million (as compared to $440.8 million as at December 31, 2017). The fair value of the French properties was $401.5 million (91% of investment properties value) and the fair value of the German property was $38.3 million (9 % of investment properties value).

	Excluding assets held through joint ventures		
	CAD $	EUR €	%
Paris	191,201	127,646	43%
Greater Paris Region	210,318	140,409	48%
Germany	38,331	25,590	9%
Total	439,851	293,645	

The decrease of $1 million is accounted for by ($3.3) million increase due to foreign exchange fluctuations, rent free periods of ($0.6) million, capitalized leasing fees of $0.2 million, capital expenditure expenses of $2.5 million and the net change in fair value of $0.3 million. Further details of the revaluation on the investment portfolio have been included in 'Net change in fair value of investment properties'.

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

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

Building improvements

The REIT is committed to improving its operating performance by incurring appropriate capital expenditures to replace and maintain the productive capacity of its property portfolio to sustain its rental income generating potential over the portfolio's useful life.

For the year to date, $2,500 has been spent on works completed across the portfolio.

Guarantees, commitments and contingencies

The REIT and its subsidiaries have provided guarantees in connection with the finance lease liabilities and the mortgage loans, including pledge of affiliates of the REIT, first mortgages and assignment of receivables and future receivables. As at September 30, 2018, guarantees provided by the REIT with respect to its long-term debts include a preferential claim held by mortgage lenders on the Jeuneurs, Baldi, Veronese, Sablière and Hanover properties in the amount of $93.2 million. The REIT has also an undrawn commitment of $6.74 million (€4.5 million) relating to the Rueil acquisition loan.

OTHER SIGNIFICANT ASSETS

Investments accounted for using the equity method

This section encompasses the 50% interest the REIT (through its subsidiaries) has in the Duisburg property, the 50% interest in the Walpur (Bad Homburg) property, the 25% interest in the Arcueil property, the 50% interest in the Neu-Isenburg property, 50% in the Stuttgart property and 50% in the Kösching property. The REIT's share of fair value of the investment properties accounted for using the equity method was $90,504 as at September 30, 2018 compared to $79,094 as at December 31, 2017. This increase is due to $11,307 related to the acquisition of Kösching and refinancing of Neu-Isenburg, loan repayments on the Stuttgart, Neu-Isenburg and Kösching properties of ($1,408), the REIT's share of net losses from investments accounted for using the equity method of $2,499 and foreign exchange differences of $987.

Acquisition loans and deposit

As at September 30, 2018, acquisition loans and deposit of $25.7 million consisted of the loan for the Rueil project.

Trade and other receivables

Trade and other receivables as at September 30, 2018 amounted to $4,567, compared to the $5,192 Trade and other receivables balance as at December 31, 2017. As discussed in Note 3 of the financial statements, 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.

Other current assets

Other current assets as at September 30, 2018 amounted to $1,815 compared to $1,395 as at December 31, 2017. This $206 decrease is attributable to foreign exchange movements of $15 and a decrease in VAT receivables. As discussed in Note 3 of the financial statements, 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.

PRESENTATION OF OUR CAPITAL

Liquidity and capital resources

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

The REIT's cash available was $24.7 million as at September 30, 2018 compared to $20.3 million as at December 31, 2017. The cash held as at December 31, 2017 was used to fund the acquisition of the Kösching asset in Q1, 2018. The increase in this cash balance is a result of the private placement completed during the Q2 2018, which will be used to fund future acquisitions.

Financing activities

Our debt strategy is to have secured mortgage financing with a term to maturity that is appropriate in relation to the lease maturity profile of our portfolio and then to put in place, when appropriate, interest-only financings. We intend to search for fixed rate financings or floating rate financings with a cap. As such, 91.1% of the REIT's senior debt benefits from an interest rate protection (67.8% in the form of a swap and 23.3% in the form a cap). Management's preference is to have staggered debt maturities to mitigate interest rate risk and limit refinancing exposure in any particular period. With no financial institution representing more than 31% of our senior debt commitment, we also make sure that the REIT has a diversified base of senior debt providers. Our debt to book value stands at 42.3% and net of the $24.7 million of cash available (including financial current assets) as at September 30, 2018 (including the REIT's interest in the joint ventures), debt to book value stands at 39.8%.

Debt-to-book value

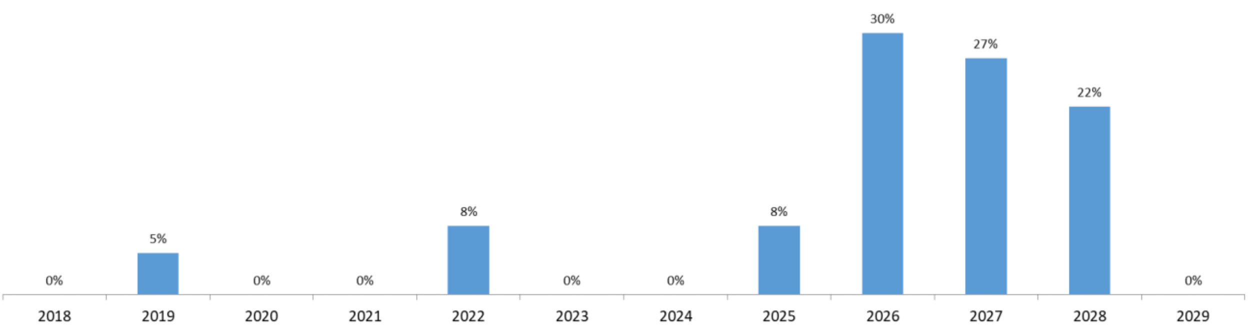
Indebtedness is calculated as the sum of (i) finance lease liabilities, (ii) mortgage loans, (iii) lease equalization loans, (iv) other long-term liabilities and (v) deferred tax liabilities. Indebtedness does not include the contribution from Unitholders that is recorded as a liability, as is the case at the REIT level for the Exchangeable securities, Private Placement Promissory Note and at the partnership level for the contribution from the REIT and its partners.

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

	As at September 30, 2018	As at December 31, 2017
Weighted average interest rate (1)	2.15%	2.16%
Debt-to-book value (2)	42.3%	42.7%
Debt-to-book value, net of cash (2)	39.8%	40.6%
Interest coverage ratio (3)	4.5 x	3.9 x
Debt due in next 12 months in thousand of CAD$	22,302	9,921
Weighted average term to maturity of debt (4)	5.9 years	6.5 years

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

Leasehold and Mortgage Financing Maturity Profile
(% of amount outstanding as at September 30, 2018)



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

ANALYSIS OF DISTRIBUTED CASH

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Cash flows from operating activities (A)	4,972	5,767	14,721	21,939
Earnings before income taxes (B)	2,824	2,238	11,220	5,917
Declared distribution on Units (C)	4,733	4,461	14,111	13,361
Excess (shortfall) of cash flows from operating activities over cash distributions paid (A-C)	239	1,306	610	8,578
Excess (shortfall) of profit or loss over cash distributions paid (B - C)	(1,909)	(2,223)	(2,891)	(7,444)

As shown in the table above, the cash flows related to operating activities as reported in the REIT's consolidated statement of cash flows exceeded the distributions declared for the three and nine-month periods ended September 30, 2018.

Every quarter, the REIT ensures that sufficient funds were being generated from rental operations to continue making distributions at the planned rate. To perform this assessment, management uses the FFO and AFFO measures presented in the section entitled Non-GAAP reconciliation (FFO and AFFO). These measures are used to determine the amount of funds generated by ongoing rental operations that are available for distribution. These measures remove from consideration, those gains and losses that are recognized for accounting purposes but that do not impact cash flow. They also remove from consideration various revenues and expenses that are recognized in profit or loss for accounting purposes, but which do not arise from ongoing rental operations, for example because they were incurred to acquire revenue generating assets.

As quantified in the FFO and AFFO calculations, the funds used to make the distributions during the current quarter were generated through the REIT's ongoing rental operations.

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

RISKS AND UNCERTAINTIES

We are exposed to various risks and uncertainties, many of which are beyond our control, the occurrence of which could materially and adversely affect our investments, prospects, cash flows, results of operations or financial condition and our ability to make cash distributions to Unitholders. We believe the risk factors described below are the most material risks that we face, however they are not the only ones. Additional risk factors not presently known to us or that we currently believe are immaterial could also materially and adversely affect our investments, prospects, cash flows, results of operations or financial condition and our ability to make cash distributions to Unitholders and negatively affect the value of the Units.

Risks relating to the REIT and its business

Risks inherent in the real estate industry may adversely affect our financial performance

Real estate ownership is generally subject to numerous factors and risks, including changes in general economic conditions, local economic conditions, the attractiveness of properties to potential tenants or purchasers, competition with other landlords with similar available space, and the ability of the owner to provide adequate maintenance at competitive costs.

The properties generate income through rent payments made by our tenants. Upon the expiry of any lease, there can be no assurance that the lease will be renewed, or the tenant replaced. Furthermore, the terms of any subsequent lease may be less favorable than the existing lease. Our cash flows and financial position would be adversely affected if our tenants were to become unable to meet their obligations under their leases or if a significant amount of available space in our properties could not be leased on economically favorable lease terms. In the event of default by a tenant, we may experience delays or limitations in enforcing our rights as sub-lessor and incur substantial costs in protecting our investment. Furthermore, at any time, a tenant may seek the protection of bankruptcy, insolvency or similar laws, which could result in the rejection and termination of the lease of the tenant and, thereby, cause a reduction in the cash flows available to us.

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

Concentration of tenants may result in significant vacancies on the Properties

Five of our largest tenants, by percentage of total GLA, occupy approximately 61% of the total weighted areas. Although all five tenants are committed to multi-year leases, which are set to expire gradually between 2018 and 2029, there is no assurance that such tenants will continue to occupy such premises for the remainder of their lease terms. Some of them have break options before the end of their leases, and the earliest dates on which those five largest tenants may effectively move range between 2018 and 2021. To minimize this risk of vacancy, Inovalis REIT will continue to closely monitor all leases and ensure that they work with the current tenants to determine their future leasing plans, which would allow Inovalis REIT to source tenants in advance of the current tenants vacating the property.

Lease renewals, rental increases, lease termination rights and other lease matters

Expiries of leases for our properties will occur from time to time over the short and long-term. No assurance can be provided that we will be able to renew any or all of the leases upon their expiration or that rental rate increases will occur or be achieved upon any such renewals. The failure to renew leases or achieve rental rate increases may adversely impact our financial condition and results of operations and decrease the amount of cash available for distribution.

Although certain, but not all, leases contain a provision requiring tenants to maintain continuous occupancy of leased premises, there can be no assurance that such tenants will continue to occupy such premises which may have an adverse effect on us and could adversely impact our financial condition and results of operations and decrease the amount of cash available for distribution. In addition, certain leases contain a provision which gives tenants the right to terminate their leases upon payment of a penalty.

Moreover, pursuant to the lease agreement with the National Conservatory of Arts and Crafts, none of the value-added taxes on expenses legally due by the REIT are recoverable. However, property taxes and office taxes are recoverable. Similarly, pursuant to the Fresh & Co. lease agreement, several forms of taxes, including but not limited to, property taxes, household refuse taxes and annual office taxes will be borne by the REIT. As a result, we will bear the economic cost of increases to these taxes.

Head Lease for properties

According to the head leases for certain of the properties, the owners of such properties have certain participation rights with respect to such properties pursuant to which a French dedicated SPV (a “French SPV”) or the German SPV, as the case may be, would need to obtain written consent from the respective owner prior to taking certain actions with respect to such property, including cancelling or amending lease agreements for such property. If the owner does not give its prior consent to such actions, it may terminate the applicable head lease.

Environmental contamination on properties may expose us to liability and adversely affect our financial performance

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

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

We have insurance in place to protect against certain environmental liabilities in respect of certain of the properties, with limits, which are customary and available for portfolios similar to ours.

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

We may incur significant capital expenditures and other fixed costs

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

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

Financing risks, leverage and restrictive covenants may limit our ability for growth

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

A high level of indebtedness increases the risk that we may default on our debt obligations. Our ability to make scheduled payments of the principal of, or interest on, and to otherwise satisfy our debt obligations depends on future performance, which is subject to the financial performance of our properties, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond our control.

Changes in government regulations may affect our investment in our properties

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

Failure to receive deductions for interest payments may adversely affect our cash flows, results of operations and financial condition

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

Changes in currency exchange rates could adversely affect our business

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

Changes in interest rates could adversely affect our cash flows and our ability to pay distributions and make interest payments

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

We rely on Inovalis SA for management services

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

While the Trustees have similar oversight responsibility with respect to the services provided by Inovalis SA pursuant to the management agreement, the services provided by Inovalis SA are not performed by employees of the REIT, but by Inovalis SA directly and through entities to which it may subcontract. On April 1, 2018, the extension of the management agreement became effective for an initial term of three years, not to exceed April 1, 2021 and will be automatically renewed for an additional two years if the REIT's AFFO per unit for the year ended December 31, 2020 is greater than 115% of the AFFO per unit of the REIT as at December 31, 2017.

Investments in, and profits and cash flows from, properties may be lost in the event of uninsured or underinsured losses to properties or losses from title defects

We carry general liability, umbrella liability and excess liability insurance with limits that are typically obtained for similar real estate portfolios in France and Germany and otherwise acceptable to the Trustees. For the property risks we intend to carry "Multi-Risk" property insurance including but not limited to, natural catastrophic events and loss of rental income insurance (with at least a 12 to 18-month indemnity period). We also carry boiler and machinery insurance covering all boilers, pressure vessels, HVAC systems and equipment breakdown. There are, however, certain types of risks (generally of a catastrophic nature such as from war or nuclear accident) that are uninsurable under any insurance policy. Furthermore, there are other risks that are not economically viable to insure at this time. We partially self-insure against terrorism risk for our entire portfolio. We have insurance for earthquake risks, subject to certain policy limits, deductibles and self-insurance arrangements. Should an uninsured or underinsured loss occur, we could lose our investment in, and anticipated profits and cash flows from, one or more of our properties, but we would continue to be obligated to repay any recourse mortgage indebtedness on such properties. We do not carry title insurance on the properties. If a loss occurs resulting from a title defect with respect to a property where there is no title insurance, or the loss is in excess of insured limits, we could lose all or part of our investment in, and anticipated profits and cash flows from, such property.

GAAP reporting may result in our consolidated statement of financial position and consolidated statement of earnings being subject to volatility as the fair value of our portfolio changes.

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

Reliance on partnerships

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

Income taxes

Canadian income taxes

The Trust is considered a mutual fund trust for income tax purposes in Canada. In Canada, mutual fund trusts are not taxed on income earned in a taxation year, to the extent that such income has been distributed to Unitholders prior to the end of the taxation year. Indeed, according to Article 11 of the REIT's Amended and Restated Declaration of Trust, dated April 10, 2013, the trustees shall make payable to Unitholders a distribution of sufficient net realized capital gains and income that the Trust shall not be liable to pay taxes under Part 1 of the Tax Act. As a result, there is generally little possibility of the Trust being taxable on ordinary income under Part 1 of the Income Tax Act. Consequently, the Trust does not recognize Canadian income taxes under IAS 12 Income taxes because it has an "in-substance" exemption.

Foreign income taxes

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

The REIT's subsidiaries that hold the leasehold rights on the properties located in France are established in France and should therefore be considered as tax residents in France. Under current French tax legislation, income derived from the French REIT's subsidiaries, incorporated under the form of Société Civile Immobilière subject to article 8 of the French Tax Code, and allocated to INOPCI 1[1] should be corporate income tax exempt in the hands of INOPCI 1 on the basis that INOPCI 1 complies with its distribution obligations. A withholding tax should be levied in France on dividend distributions made by INOPCI 1 which is an OPCI (a collective undertaking for real estate investment) to CCE. CCE, CCH, Arcueil SI Sarl, CanCorpCologne Sarl, TFI CanCorp Isenburg S.à.r.l and TFI CanCorp Kosching S.à.r.l are established in Luxembourg as fully taxable companies, subject to annual corporate income, municipal business and net wealth taxes. There is a minimum net wealth tax and corporate income tax in Luxembourg under certain condition. Dividends and liquidation dividends derived by CCE from the French OPCI may be tax exempt in Luxembourg for corporate income tax and municipal business tax purposes. CCE will benefit from the Luxembourg participation exemption on any dividend income or liquidation proceeds received from CCH, Arcueil SI Sarl and CanCorpCologne Sarl.

Arceuil SCS is a Luxembourg partnership that is tax transparent for Luxembourg corporate income tax purposes, i.e. all the income and expenses are deemed to be realized directly by the partners. As CCE holds 25% of the partnership interest, 25% of the income and expenses will be allocated to the latter from a Luxembourg tax perspective.

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

The current Double Taxation Treaty ("DTT") in force between France and Luxembourg require that the REIT incurs 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 which represents additional risk to the REIT. See the section of the MD&A *"Deferred Tax Expense"*.

Since 2016, CCH holds 94% of Hannover CanCorp GmbH & KG ("HCC"), investment property holding a building in Germany. The latter is considered a tax transparent entity from a German as well as Luxemburgish tax perspective.

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

OUTLOOK

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

CRITICAL ACCOUNTING POLICIES

The preparation of the REIT's audited consolidated financial statements in conformity with GAAP requires management to make judgments and estimates affecting the reported amounts of revenues and investment properties owned directly and indirectly at the reporting date. However, uncertainty about these estimates could result in outcomes requiring a material adjustment to the carrying amount of the asset or liability affected in future periods.

We consider the following policies and estimates to be the most critical in understanding the assumptions and judgments that are involved in preparing our financial statements and the uncertainties that could affect our financial results, financial condition and cash flows: (i) recognition and valuation of investment properties; (ii) distinction between business combinations or asset acquisitions and (iii) classification of and accounting for joint arrangements.

A more detailed description of significant accounting policies and critical accounting judgment and estimates that we apply under GAAP is provided in notes 3 and 4 of the consolidated financial statements as at December 31, 2017.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The REIT's Chief Executive Officer (the **"CEO"**), and the Chief Financial Officer (the **"CFO"**) of the REIT are responsible for establishing and maintaining the REIT's disclosure controls and procedures (**"DCP"**) including adherence to the Disclosure Policy adopted by the Board of Trustees. The Disclosure Policy requires all staff and certain other personnel providing services to the REIT to keep senior management fully apprised of all material information affecting the REIT so that they may evaluate and discuss this information and determine the appropriateness and timing for public release.

The REIT's CEO and the CFO are also responsible for the design of internal controls over financial reporting (**"ICFR"**). Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the REIT, (2) provide reasonable assurance that all transactions are recorded as necessary to permit the preparation of financial statements in accordance with International Financial Reporting Standards, and that receipts and expenditures of the REIT are being made only in accordance with authorizations of the management and Trustees of the REIT, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the REIT's assets that could have a material effect on the REIT's financial statements.

The CEO and CFO have evaluated the effectiveness of the Company's DCP and ICFR as required by National Instrument 52-109F2 issued by the Canadian Securities Administrators.

A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that Management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors. Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by Management override. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals.

Discussion of Non-GAAP metrics

NON-GAAP FINANCIAL MEASURES

Funds from Operations and Adjusted Funds from Operations

FFO and AFFO are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. FFO and AFFO are supplemental measures of performance for real estate businesses. We believe that AFFO is an important measure of economic performance and is indicative of our ability to pay distributions, while FFO is an important measure of operating performance and the performance of real estate properties. The IFRS measurement most directly comparable to FFO and AFFO is net earnings. See the *Non-IFRS Reconciliation (FFO and AFFO)* section for reconciliation of FFO and AFFO to net earnings.

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

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

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

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

AFFO is defined as FFO subject to certain adjustments, including adjustments for: (i) the non-cash effect of straight line rents, (ii) the cash effect of the lease equalization loans (equalizing the rent payments, providing the REIT with stable and predictable monthly cash flows over the term of the France Telecom leases in the Vanves property, the Smart & Co. lease in the Courbevoie property and the Rue du Commerce leases in the Baldi property (iii) amortization of fair value adjustment on assumed debt, (iv) the non-cash portion of the asset management fees paid in Exchangeable securities, (v) capital expenditures, calculated based on the projected capital expenditure for the ensuing 30 months, apportioned equally across the 30 month period and adjusted on an annual basis based on the expenditures incurred and (vi) amortization of transaction costs on mortgage loans.

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

Debt-to-book value

Our debt-to-book value ratio is calculated on a look-through basis and takes into account the REIT apportioned amount of indebtedness at the partnership level. Indebtedness at the REIT level, as well as at the different partnership levels is calculated as the sum of (i) finance lease liabilities, (ii) mortgage loans, (iii) lease equalization loans, (iv) other long-term liabilities and (v) deferred tax liabilities. Indebtedness does not take into account the contribution from Unitholders that is recorded as a liability, as is the case at the REIT level for the Exchangeable securities, Private placement promissory note and at the partnership level for the contribution from the REIT and its partners.

CONSOLIDATED FINANCIAL INFORMATION

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

	Three months ended		Nine months ended	
(in thousands of CAD$)	**2018**	**2017**	**2018**	**2017**
Rental income	9,386	8,659	28,934	24,330
Service charge income	2,825	2,848	8,681	6,775
Service charge expenses	(2,460)	(2,454)	(11,696)	(9,123)
Other revenues	339	(20)	572	60
Other property operating expenses	(77)	(20)	(248)	(136)
Net rental earnings	**10,013**	**9,012**	**26,243**	**21,906**
Administration expenses	(1,667)	(1,613)	(5,628)	(4,609)
Foreign exchange gain (loss)	2	(178)	85	(241)
Net change in fair value of investment properties	(1,282)	(2,171)	810	855
Gain on bargain purchase	-	1,445	-	1,445
Acquisition costs	62	(93)	(1,049)	(1,208)
Operating earnings	**7,128**	**6,402**	**20,461**	**18,148**
			-	-
Gain (loss) on financial instruments at fair value through P&L	784	259	(403)	(1,478)
Loss on exercise of early payment option on finance leases	-	(443)	-	(443)
Finance income	859	554	3,853	1,711
Finance costs	(3,364)	(2,759)	(9,676)	(6,703)
Additionnal income (loss) from Arcueil's JV	311	(1,179)	399	(1,920)
Distributions on Exchangeable securities	(265)	(411)	(819)	(1,187)
Net change in fair value of Exchangeable securities	134	(144)	201	(1,843)
Net change in fair value of Promissory notes	(2,701)	-	(3,775)	-
Earnings before income taxes	**2,886**	**2,280**	**10,241**	**6,285**
Current income tax expense	10	18	(84)	(108)
Deferred income tax expense	(382)	(79)	(6,125)	(598)
Earnings for the period	**2,514**	**2,219**	**4,032**	**5,579**
Non-controlling interest	(13)	4	(13)	63
Earnings for the period (part attributable to the Trust)	**2,527**	**2,216**	**4,045**	**5,516**

Net rental earnings

Adjusted net rental earnings for the entire portfolio for the three-month period ended September 30, 2018 were €5,922 ($8,998) compared to €5,587 ($8,221) in Q3 2017. The year-over-year increase in NOI of €334 is attributable to the acquisitions of Delizy, Neu-Isenburg and Kösching properties (€553), marginally offset by the sale of the Cologne asset (€123) and the departure of ADEME (€361). Improved performance on a same-property basis resulted in an increase of €265 across the portfolio arising from indexation and the signing of new leases on existing assets.

Adjusted net rental earnings for the entire portfolio for the nine-month period ended September 30, 2018 were €17,775 ($27,322) compared to €15,739 ($22,896) in Q3 2017. The year-over-year increase in NOI of €2,035 is attributable to the acquisitions of Delizy, Neu-Isenburg and Kösching properties (€2,455), marginally offset by the sale of the Cologne asset (€370) and the departure of ADEME (€361). Improved performance on a same-property basis resulted in an increase of €311 across the portfolio arising from indexation and the signing of new leases on existing assets.

(in thousands)	3 months ended Q3 2018 (1)	Q3 2017 (2)	9 months ended Q3 2018 (3)	Q3 2017 (4)
Net rental earnings (Excluding IFRIC 21) - CAD	8,998	8,221	27,322	22,896
Net rental earnings (Excluding IFRIC 21) - EUR	5,922	5,587	17,775	15,739

Administration expenses

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

Administration expenses for the quarter ended September 30, 2018 amounted to $1,667 as compared to $1,613 for the same quarter in 2017. $816 of the current quarter's administration expenses related to asset management fees paid to Inovalis SA as compared to $967 for the quarter ended September 30, 2017 and $851 to other expenses as compared to $645 for the quarter ended September 30, 2017. The overall decrease in management fees of $151 despite the negative movement in foreign exchange of $55, is a net decrease of $206 due to the overall reduction in asset management fees and the sale of the Cologne asset. This reduction is slightly offset by an increase of $119 from new acquisitions. Other expenses increased $206 year over year, of which $36 is attributable to foreign exchange movement, the remaining increase of $170 is related to the new acquisitions, increased activity at the Luxembourg holding company level and the increase in costs related to the Canadian structure.

Administration expenses for the nine-month period ended September 30, 2018 amounted to $5,628 as compared to $4,609 for the same period in 2017. $2,901 is related to the asset management fees paid to Inovalis SA for the nine months ended September 30, 2018 compared to $2,695 for the nine-month period ended September 30, 2017. $2,726 relates to other expenses as compared to $1,915 for the nine-month ended September 30, 2017. The overall increase in management fees of $206 is driven by the movement in foreign exchange of $153, an increase of $328 attributable to new acquisitions and a reduction of $275 attributable mainly to the new management agreement terms and the sale of the Cologne property. Other expenses increased $811 year over year, of which $108 is attributable to foreign exchange movement. The remaining $702 includes exceptional fees of approximately $200 relating to listing costs and a $502 increase related to the new acquisitions, increased activity at the Luxembourg holding company level and the increase in costs related to the Canadian structure.

Net change in fair value of investment properties

During the quarter ended September 30, 2018, the net change in fair value of investment properties recognized in earnings was a loss of $1,282. The loss was chiefly the result of the IFRIC 21 impact for the quarter of $1,015. This figure compares to the $2,171 loss in the quarter ended September 30, 2017.

Acquisition costs

Acquisition costs were ($62) for the quarter ended September 30, 2018, relating to a reimbursement to the acquisition costs incurred in Q1 2018. This compares to acquisition costs of $93 for the quarter ended September 30, 2017.

For the nine-month period ended September 30, 2018 acquisition costs were $1,049 corresponding mainly to the acquisition of the Kösching asset. This compares with acquisition costs of $1,208 for the nine-month period ended September 30, 2017.

Gain (loss) on financial instruments at fair value through profit and loss

For the quarter ended September 30, 2018, the REIT recognized a loss of $784 on financial instruments at fair value through profit and loss compared to a gain of $259 for the same period in 2017. This loss is mostly the result of the variation in value realized on the interest rate derivative contracts. For the nine-month period ended September 30, 2018, the REIT recognized a loss of $403 compared to a loss of $1,478 for the same period in 2017.

Finance income

For the three-month period ended September 30, 2018, finance income of $859 consists chiefly of interest on the acquisition loans related to the Rueil property.

As at September 30, 2018, the REIT had deployed €17.2 million ($21.76 million) of the €21.75million ($32.58 million) acquisition and redevelopment loan to a company 80%-owned by Inovalis SA, related to the Rueil property, in the Paris Western periphery. The loan bears an annual interest rate of 8.5%, with an effective interest rate of 14.0% which incorporates the 20% of the profit that will accrue to the REIT upon the sale of the property to a third party. The final portion of the loan commitment of €4.55 million ($6.82 million) is expected to be deployed in 2018.

Finance costs

For the three-month period ended September 30, 2018, the finance costs amounted to $3,364 as compared to $2,759 for Q3 2018, a year-over-year increase of $605. The $3,364 includes $1,198 of interest costs related to finance leases, mortgage loans, the lease equalization loans, $461 of interests related to SWAP contracts, $1,051 relating to the promissory note and $39 of other finance costs corresponding mainly to amortization of transaction costs on mortgage loans and promissory notes and the foreign exchange hedge maintained on the Arcueil property in line with the Arcueil JV agreement. The interest on promissory notes, which were issued during 2017 and 2018, and new loans related to JV acquisitions (Stuttgart, Delizy, Neu-Isenburg and Kösching (Ingolstadt)) were chiefly responsible for the year-over-year increase of $605.

For the nine-month period ended September 30, 2018, the finance costs amounted to $9,676 as compared to $6,703 for Q3 2017, an increase of $2,973. The $9,676 includes $3,627 of interest costs related to finance leases, mortgage loans, the lease equalization loans, $1,123 of interests related to SWAP contracts, $2,587 relating to the promissory note and $633 of other finance costs corresponding mainly to amortization of transaction costs on mortgage loans and promissory notes and the foreign exchange hedge maintained the monthly distribution. The interest on promissory notes, which were issued during 2017 and 2018, and new loans related to JV acquisitions (Neu-Isenburg and Kösching) were chiefly responsible for the year-on-year increase.

Additional income (loss) from Arcueil JV

For the Arcueil joint venture, the consolidation presentation reflects a 25% proportionate share of results which aligns with the REIT 25% ownership interest. Per the joint venture agreement, and as reflected in the condensed interim consolidated financial statements, the REIT is entitled to receive a 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. This additional gain from the Arcueil joint venture is $311 for the three-month period ended September 30, 2018 compared to a loss of ($1,179) in Q3 2017.

Distributions on Exchangeable securities

Distributions to the holders of Exchangeable securities (see note 9 in Condensed Interim Consolidated Financial Statements as at September 30, 2018) are calculated in a manner to provide a return that is economically equivalent to the distributions received by the Unitholders. During the three-month period ended September 30, 2018 the distributions recognized on Exchangeable securities were $265 compared to $411 for the same period in 2017. The year-over-year decrease arises from the reduction in the number of Exchangeable securities in issuance following the conversion by Inovalis S.A. of 500,014 Exchangeable securities into Units in December 2017, a conversion of 419,059 Exchangeable securities in January 2018 and a conversion of 428,795 Exchangeable securities in September 2018, partially offset by the increase due to the additional Exchangeable securities received by Inovalis SA in lieu of cash payment of asset management fees.

Net change in fair value of Exchangeable securities

The net change in value of the Exchangeable securities, as well as the cost of distributions recognized on Exchangeable securities, are recognized in profit and loss because, for financial reporting purposes, the Exchangeable securities have been classified as a liability at fair value through profit or loss.

For the three-month period ended September 30, 2018, the REIT reported a gain of $134 which is the result of the increase in the closing price of the units which was $10.46 on September 30, 2018 compared to $10.10 on June 30, 2018, offset by the change FX impact for the period.

Current income tax expense

The current income tax expense of $10 for the quarter ended September 30, 2018 is mainly due to a withholding tax paid by the REIT's Luxembourg holding company on the dividends it received from affiliates and tax paid by the REIT's Luxembourg entities.

Deferred tax expense

The deferred income tax expense of ($382) (and deferred income tax liabilities) corresponds to the origination of temporary differences arising from investment properties located in France and Germany. The increase of $303 results principally from the anticipated change in the withholding tax rate between France and Luxembourg. Please refer to Income Tax for further details.

Last 24 Months – Key Financial Information

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

	3-month period ended							
(in thousands of CAD$)	Sept. 30, 2018	June 30, 2018	March 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	March 31, 2017	Dec. 31, 2016
Rental income	6,142	6,539	6,714	6,381	6,323	6,271	5,970	6,706
Adjusted rental income	***9,386***	***9,830***	***9,718***	***8,977***	***8,659***	***8,100***	***7,571***	***8,188***
Net rental earnings	6,668	6,882	3,842	7,411	6,729	6,610	3,247	7,023
Adjusted net rental earnings	***10,013***	***10,314***	***5,915***	***9,891***	***9,012***	***8,292***	***4,601***	***8,698***
Adjusted Earnings for the period	2,456	5,034	(3,604)	13,651	2,216	159	3,141	2,984
Adjusted Earnings per Unit (CAD$)	0.09	0.18	(0.08)	0.63	0.10	0.01	0.15	0.14

NON-GAAP RECONCILIATION

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

The REIT presents its FFO and AFFO calculations in accordance with the Real Estate Property Association of Canada ("REALPAC") *White Paper on FFO & AFFO for IFRS* issued in February 2017.

Investments in joint ventures

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

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

For the three-month and nine-month periods ended September 30, 2018, the proportional financial results include the following proportion of the revenues and expenses of each one of the joint ventures: 50% respectively for Duisburg, Walpur (Bad Homburg), Stuttgart, Pantin, Neu-Isenburg and Kösching and 25% for Arcueil.

FFO and AFFO

(in thousands of CAD$)	Three months ended September 30 2018	Three months ended September 30 2017	Nine Months ended September 30 2018	Nine Months ended September 30 2017
Earnings for the period	2,528	2,216	4,045	5,516
Add/(Deduct):				
Adjustment to related acquisition costs	(62)	93	1,049	1,208
Gain on bargain purchase and option costs	-	(1,445)	-	(1,445)
Loss recognized on exercise of early payment option on finance leases	-	443	-	443
Net change in fair value of investment properties	1,282	2,171	(810)	(855)
(Gain) loss on financial instruments at fair value through profit and loss	(784)	(259)	403	1,478
Adjustment for property taxes accounted for under IFRIC 21	(1,015)	(791)	1,079	990
Additional income (loss) from Arcueil's JV	(311)	1,179	(399)	1,920
Interest on promissory notes	1,051	322	2,587	322
Distributions on Exchangeable securities	265	411	819	1,187
Change in fair value of Exchangeable securities	(134)	144	(201)	1,843
Change in fair value of Promissory Notes	2,701	-	3,775	-
Foreign exchange (loss) gain	(2)	178	(85)	241
Other non-recurring finance costs	(25)	455	25	671
Deferred income tax expense	382	79	6,125	598
Minority interest	(13)	4	(13)	63
FFO	**5,863**	**5,198**	**18,399**	**14,179**
Add/(Deduct):				
Non-cash effect of straight line rents	(69)	323	580	628
Cash effect of the lease equalization loans	(299)	(389)	(895)	(814)
Amortization of fair value adjustment on assumed debt	-	19	-	63
Amortization of transaction costs on mortgage loans	71	26	220	116
Non-cash part of asset management fees paid in Exchangeable securities (1)	816	484	2,345	1,347
Capex net of cash subsidy	(400)	(100)	(2,075)	(100)
AFFO	**5,982**	**5,561**	**18,574**	**15,420**
FFO / Units (diluted) *(in CAD$)* (2)	**0.20**	**0.21**	**0.66**	**0.59**
AFFO / Units (diluted) *(in CAD$)* (2)	**0.21**	**0.22**	**0.67**	**0.64**

(1) For purposes of this presentation, 50% of the asset management fee is included in the AFFO reconciliation. 50% of the asset management fees for Q2 2018 and Q3 2018 were paid in Exchangeable securities. 100% of the asset management fee for Q1 2018, Q1 2017, Q2 2017 and Q3 2017 were paid in Exchangeable securities.

(2) Based on the weighted average number of Units (fully diluted, including promissory notes issued in June and October 2017), i.e. 28,709,557 and 24,944,609 for the 3-month periods ended September 30, 2018 and September 30, 2017 respectively and 27,757,684 and 23,952,564 for the 9-month periods ended September 30, 2018 and September 30, 2017 respectively.

Management believes FFO is an important measure of our operating performance and is indicative of our ability to pay distributions. However, it does not represent cash flow from operating activities as defined by IFRS and is not necessarily indicative of cash available to fund Inovalis REIT's needs. This non-IFRS measurement is commonly used for assessing real estate performance. Our FFO and AFFO calculations are based on the average foreign exchange rate for the period (1.5371 Canadian dollars per Euro for the period ended September 30, 2018).

Balance sheet reconciliation to consolidated financial statements

Assets	As at September 30, 2018 As per REIT's financial statements [(1)]	As at September 30, 2018 Share from investments in joint-ventures	As at September 30, 2018 Proportionate Consolidation	As at December 31, 2017 As per REIT's financial statements [(1)]	As at December 31, 2017 Share from investments in joint-ventures	As at December 31, 2017 Proportionate Consolidation
Non-current assets						
Investment properties	439,851	190,463	**630,314**	440,813	173,256	**614,069**
Investments accounted for using the equity method	90,504	(90,504)	-	79,094	(79,094)	-
Acquisition loans and deposit	25,713	353	**26,066**	27,035	334	**27,369**
Derivative financial instruments	881	-	**881**	59	90	**149**
Restricted cash	1,498	(1,061)	**437**	1,509	797	**2,306**
Total non-current assets	558,447	99,251	**657,698**	548,510	95,383	**643,893**
Current assets						
Trade and other receivables	4,567	3,112	**7,679**	5,192	1,157	**6,349**
Derivative financial instruments	273	74	**347**	-	20	**20**
Other current assets	1,815	1,564	**3,379**	1,395	1,261	**2,656**
Financial current assets	-	-	-	1,267	-	**1,267**
Cash and cash equivalents	24,746	6,816	**31,562**	20,345	5,305	**25,650**
Total current assets	31,401	11,566	**42,967**	28,199	7,743	**35,942**
Total assets	589,848	110,817	**700,665**	576,709	103,126	**679,835**
Liabilities and Unitholders' equity						
Liabilities						
Non-current liabilities						
Mortgage loans	99,205	73,368	**172,573**	113,342	62,113	**175,455**
Finance lease liabilities	117,097	27,568	**144,665**	122,735	28,714	**151,449**
Other long-term liabilities	-	773	**773**	-	754	**754**
Lease equalization loans	2,332	-	**2,332**	3,196	-	**3,196**
Tenant deposits	2,074	110	**2,184**	2,292	105	**2,397**
Exchangeable securities	2,647	-	**2,647**	6,907	-	**6,907**
Derivative financial instruments	772	110	**882**	650	148	**798**
Deferred tax liabilities	8,515	2,649	**11,164**	3,059	2,175	**5,234**
Deferred income	-	-	-	3,260	-	**3,260**
Total non-current liabilities	232,642	104,577	**337,220**	255,441	94,009	**349,450**
Current liabilities						
Promissory Notes	47,055	-	**47,055**	23,789	-	**23,789**
Mortgage loans	14,837	381	**15,218**	2,660	590	**3,250**
Finance lease liabilities	6,259	1,235	**7,494**	6,014	1,180	**7,194**
Lease equalization loans	1,206	-	**1,206**	1,247	-	**1,247**
Tenant deposits	652	70	**722**	162	67	**229**
Exchangeable securities	7,978	-	**7,978**	9,836	-	**9,836**
Derivative financial instruments	1,269	1	**1,270**	1,316	1	**1,317**
Trade and other payables	8,222	4,274	**12,496**	6,341	6,308	**12,649**
Other current liabilities	623	1,328	**1,951**	431	683	**1,114**
Deferred income	3,709	490	**4,199**	4,195	290	**4,485**
Total current liabilities	91,810	7,780	**99,590**	55,991	9,119	**65,107**
Total liabilities	324,452	112,357	**436,810**	311,432	103,126	**414,558**
Equity						
Trust units	205,197	(1)	**205,196**	195,739	-	**195,739**
Retained earnings	36,224	(1,541)	**34,683**	44,749	-	**44,749**
Accumulated other comprehensive income	23,642	1	**23,643**	24,436	-	**24,436**
	265,063	(1,540)	**263,523**	264,924	-	**264,924**
Non-controlling interest	331	1	**332**	353	-	**353**
Total liabilities and equity	589,848	110,818	**700,665**	576,709	103,126	**679,835**

(1) Balance sheet amounts presented for the REIT were taken from the condensed interim consolidated financial statements as at September 30, 2018 and audited financial statements as at December 31, 2017.

Consolidated statement of earnings reconciliation to consolidated financial statements

	Three months ended					
	As at September 30, 2018			As at September 30, 2017		
(in thousands of CAD$)	**Amounts per REIT's financial statements (1)**	**Share of net earnings from investments in joint ventures**	**Total**	**Amounts per REIT's financial statements (1)**	**Share of earnings from investments in joint ventures**	**Total**
Rental income	6,142	3,244	**9,386**	6,323	2,336	**8,659**
Service charge income	1,903	922	**2,825**	2,067	782	**2,848**
Service charge expenses	(1,635)	(825)	**(2,460)**	(1,622)	(832)	**(2,454)**
Other revenues	328	11	**339**	(19)	(2)	**(20)**
Other property operating expenses	(70)	(7)	**(77)**	(20)	-	**(20)**
Net rental earnings	**6,668**	**3,345**	**10,013**	**6,729**	**2,284**	**9,012**
Administration expenses	(1,125)	(542)	**(1,667)**	(1,301)	(312)	**(1,613)**
Foreign exchange gain	2	-	**2**	(178)	-	**(178)**
Net change in fair value of investment properties	(1,062)	(220)	**(1,282)**	(1,120)	(1,052)	**(2,171)**
Gain on bargain purchase	-	-	-	-	1,445	**1,445**
Acquisition costs	(1)	63	**62**	(24)	(69)	**(93)**
Share of profit of an investment (equity method)	924	(924)	-	(1,328)	1,328	-
Operating earnings	**5,406**	**1,722**	**7,128**	**2,777**	**3,625**	**6,402**
Gain (loss) on financial instruments at fair value through P&L	763	21	**784**	178	81	**259**
Loss on exercise of early payment option on finance leases	-	-	-	-	(443)	**(443)**
Finance income	2,238	(1,379)	**859**	1,737	(1,182)	**554**
Finance costs	(2,750)	(614)	**(3,364)**	(1,900)	(859)	**(2,759)**
Additionnal income (loss) from Arcueil's JV	-	311	**311**	-	(1,179)	**(1,179)**
Distributions on Exchangeable securities	(265)	-	**(265)**	(411)	-	**(411)**
Net change in fair value of Exchangeable securities	134	-	**134**	(144)	-	**(144)**
Net change in fair value of Promissory notes	(2,701)	-	**(2,701)**	-	-	-
Earnings before income taxes	**2,826**	**61**	**2,886**	**2,238**	**43**	**2,280**
Current income tax expense	(11)	21	**10**	18	-	**18**
Deferred income tax expense	(302)	(80)	**(382)**	(36)	(43)	**(79)**
Earnings for the period	**2,513**	**2**	**2,514**	**2,220**	**-**	**2,219**
Non-controlling interest	(13)	-	**(13)**	4	-	**4**
Earnings for the period (part attributable to the Trust)	**2,526**	**2**	**2,527**	**2,216**	**-**	**2,216**

(1) Income statement amounts presented for the REIT were taken from the condensed interim consolidated financial statements as at September 30, 2018 and September 30, 2017.
(2) Includes the REIT's share of the hedging cost of associated with the Arcueil joint-venture partnership.
(3) Reflects the additional loss assumed by the REIT in reference to its 75% right to the net profit/loss of the Arcueil joint venture.

Consolidated statement of earnings reconciliation to consolidated financial statements - Continued

	Nine months ended					
	September 30, 2018			September 30, 2017		
(in thousands of CAD$)	Amounts per REIT's financial statements (1)	Share of net earnings from investments in joint ventures	Total	Amounts per REIT's financial statements (1)	Share of earnings from investments in joint ventures	Total
Rental income	19,395	9,539	**28,934**	18,565	5,766	**24,331**
Service charge income	6,007	2,674	**8,681**	5,275	1,501	**6,776**
Service charge expenses	(8,528)	(3,168)	**(11,696)**	(7,404)	(1,720)	**(9,124)**
Other revenues	752	(180)	**572**	419	(359)	**60**
Other property operating expenses	(233)	(15)	**(248)**	(135)	(2)	**(137)**
Net rental earnings	**17,393**	**8,850**	**26,243**	**16,720**	**5,186**	**21,906**
Administration expenses	(4,153)	(1,476)	**(5,629)**	(3,873)	(736)	**(4,609)**
Foreign exchange gain	85	-	**85**	(241)	-	**(241)**
Net change in fair value of investment properties	276	534	**810**	(1,011)	1,867	**856**
Gain on bargain purchase	-	-	-	-	1,445	**1,445**
Acquisition costs	(21)	(1,028)	**(1,049)**	(196)	(1,013)	**(1,209)**
Share of profit of an investment (equity method)	2,499	(2,499)	-	(937)	937	-
Operating earnings	**16,079**	**4,381**	**20,460**	**10,462**	**7,685**	**18,147**
Gain (loss) on financial instruments at fair value through P&L	(399)	(4)	**(403)**	(1,602)	124	**(1,478)**
Loss on exercise of early payment option on finance leases	-	-	-	-	(443)	**(443)**
Finance income	7,904	(4,051)	**3,853**	5,044	(3,333)	**1,711**
Finance costs	(7,971)	(1,705)	**(9,676)**	(4,957)	(1,745) (2)	**(6,702)**
Additionnal income (loss) from Arcueil's JV	-	399	**399**	-	(1,920)	**(1,920)**
Distributions on Exchangeable securities	(819)	-	**(819)**	(1,187)	-	**(1,187)**
Net change in fair value of Exchangeable securities	201	-	**201**	(1,843)	-	**(1,843)**
Net change in fair value of Promissory notes	(3,775)	-	**(3,775)**	-	-	-
Earnings before income taxes	**11,220**	**(980)**	**10,240**	**5,917**	**368**	**6,285**
Current income tax expense	(25)	(59)	**(84)**	(79)	(29)	**(108)**
Deferred income tax expense	(5,622)	(503)	**(6,125)**	(259)	(339)	**(598)**
Earnings for the period	**5,573**	**(1,542)**	**4,031**	**5,579**	**-**	**5,579**
Non-controlling interest	(13)	-	(13)	63	-	63
Earnings for the period (part attributable to the Trust)	**5,586**	**(1,542)**	**4,044**	**5,516**	**-**	**5,516**

(1) Income statement amounts presented for the REIT were taken from the condensed interim consolidated financial statements as at September 30, 2018 and September 30, 2017.
(2) Includes the REIT's share of the hedging cost of associated with the Arcueil joint-venture partnership.
(3) Reflects the additional loss assumed by the REIT in reference to its 75% right to the net profit/loss of the Arcueil joint venture.

PROPERTY CAPITAL INVESTMENTS

Fair value

The fair value of the REIT's investment property portfolio as at September 30, 2018 was $630.3 million including the REIT's interests in the properties held in partnerships (as compared to $614.1 million as at December 31, 2017). The fair value of the French properties was $454.9 million (72% of total asset value) and the fair value of the German properties was $175.4 million (28% of total asset value).

The $16.2 million increase is principally due to a $18.2 million increase due to the Kösching asset acquisition, a $4.5 million decrease attributable to foreign exchange and a $2.5 million increase due to overall increases in portfolio valuations, IFRIC 21, capitalized leasing fees and rent-free periods.

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

	Including assets held through joint ventures		
	CAD $	**EUR €**	**%**
Paris	191,201	127,646	30%
Greater Paris Region	244,022	162,910	39%
Germany	195,090	130,242	31%
Total	630,314	420,798	

Building improvements

The REIT is committed to improving its operating performance by incurring appropriate capital expenditures to replace and maintain the productive capacity of its property portfolio to sustain its rental income generating potential over the portfolio's useful life.

Since the IPO in April 2013, a total of $1.7 million has been spent on the three initial French properties (Jeuneurs, Courbevoie, Vanves), funded by a reserve that was set aside by the vendors of the four initial properties. In 2017, $1.62 million was spent on additional building improvements, principally for the Courbevoie and Metropolitain properties. For the year to date, $2,500 has been spent on works completed across the portfolio.

Guarantees, commitments and contingencies

The REIT and its subsidiaries have provided guarantees in connection with the finance lease liabilities and the mortgage loans, including pledge of affiliates of the REIT, first mortgages and assignment of receivables and future receivables. As at September 30, 2018, guarantees provided by the REIT with respect to its long-term debts include a preferential claim held by mortgage lenders on the Jeuneurs, Baldi Veronese, Sablière and Hanover properties in the amount of $96.1 million. Including the REIT's interest in the properties held in partnerships, preferential claim held by mortgage lenders on the properties totals $147.2 million. The REIT has also an undrawn commitment of $6.9 million (€4.5 million) relating to the Rueil development loan.

OTHER SIGNIFICANT ASSETS

Investments accounted for using the equity method

This section encompasses the 50% interest the REIT (through its subsidiaries) has in the Duisburg property, the 50% interest in the Walpur (Bad Homburg) property, the 25% interest in the Arcueil property, the 50% interest in the Neu-Isenburg property, 50% in the Stuttgart property and 50% in the Kösching property. Our share of fair value of the investment properties accounted for using the equity method was $90,504 as at September 30, 2018 compared to $79,094 as at December 31, 2017. This increase is due to $11,307 related to the acquisition of Kösching and refinancing of Neu-Isenburg, loan repayments on the Stuttgart, Neu-Isenburg and Kösching properties of ($1,408), the REIT's share of net losses from investments accounted for using the equity method of $2,499 and foreign exchange differences of $987.

Acquisition loans and deposit

As at September 30, 2018, Acquisition loans and deposit of $26.1 million consisted of the loan for the Rueil project.

Trade and other receivables

Trade and other receivables as at September 30, 2018 amounted to $7,679 including the REIT's interests in the properties held in partnerships compared to $6,349 as at December 31, 2017. The difference of $1,330, in spite of ($47) due to foreign exchange movements, includes balances to be recharged related to the acquisitions of Neu-Isenburg and Kösching and has increased in size in accordance with the growth of the joint venture portfolio.

Other current assets

Other current assets as at September 30, 2018 amounted to $3,379 compared to $2,656 as at December 31, 2017. The increase of $723, which includes a negative exchange impact of $20, includes VAT receivable relating to improvement works that will be reimbursed by tax authorities in Q4 2018.

PRESENTATION OF OUR CAPITAL

Liquidity and capital resources

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

Including the REIT's interest in the joint ventures, cash available totals $31.6 million as at September 30, 2018, compared to $25.7 million as at December 31, 2017.

Financing activities

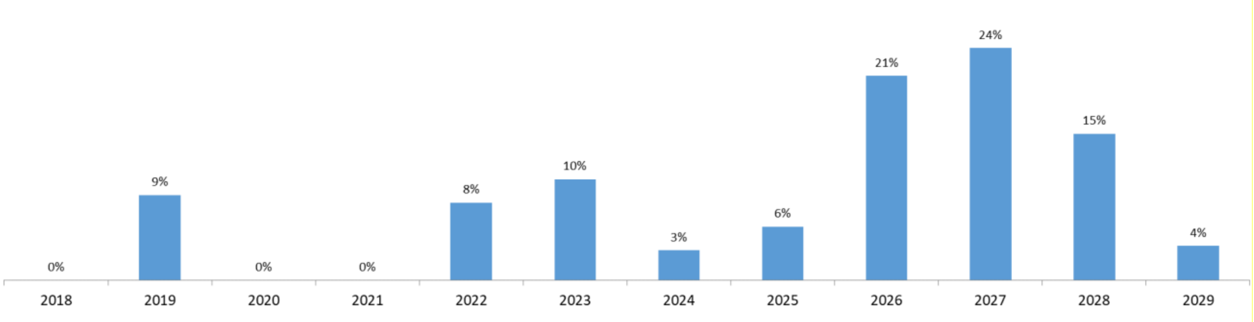
Our debt strategy is to have secured mortgage financing with a term to maturity that is appropriate in relation to the lease maturity profile of our portfolio and then to put in place, when appropriate, interest-only financings. We intend to search for fixed rate financings or floating rate financings with a cap. As such, 93.8% of the REIT's senior debt benefits from an interest rate protection (77.5% in the form of a swap and 16.3% in the form a cap). Our preference is to have staggered debt maturities to mitigate interest rate risk and limit refinancing exposure in any particular period. With no financial institution representing more than 22% of our senior debt commitment, we also make sure that the REIT has a diversified base of senior debt providers. Our debt to book value stands at 50.7% and net of the $31.6 million of cash available (including financial current assets) as at September 30, 2018 (including the REIT's interest in the joint ventures), this debt to book value stands at 48.4%.

Key performance indicators in the management of our debt are summarized in the following table, which also considers the interests the REIT has in all assets held in partnerships.

Entire portfolio incorporating interest in joint-ventures	As at September 30, 2018	As at December 31, 2017
Weighted average interest rate (1)	2.11%	2.10%
Debt-to-book value (2)	50.7%	51.2%
Debt-to-book value, net of cash (2)	48.4%	49.2%
Interest coverage ratio (3)	3.9 x	3.9 x
Debt due in next 12 months in thousand of CAD$	23,918	11,690
Weighted average term to maturity of debt (4)	5.5 years	5.9 years

(1) Calculated as the weighted average interest rate paid on the finance leases and the mortgage financing.
(2) The definition of *debt-to-book value* and of *debt-to-book value, net of cash* can be found under the section *Non-GAAP Financial Measures*
(3) Calculated as net rental earnings plus interest, less general and administrative expenses, divided by interest expense on the financial leases and mortgage financings.
(4) Calculated as the weighted average term on all the financial leases and mortgage financings.

Leasehold and Mortgage Financing Maturity Profile
(Entire portfolio including joint-ventures)
(% of amount outstanding as at September 30, 2018)



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

Equity

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

	3-month period ended September 30, 2018	9-month period ended September 30, 2018
Units		
Number at beginning of period	22,774,885	22,235,421
Increase/(Decrease) in number during the period	428,795	847,854
Units issued pursuant to the DRIP	47,877	168,282
Number at end of period	23,251,557	23,251,557
Weighted average number during the period	22,874,939	22,734,089
Exchangeable securities		
Number at beginning of period	1,416,214	1,679,370
Increase/(Decrease) in number during the period	(401,334)	(664,490)
Number at end of period	1,014,880	1,014,880
Weighted average number during the period	1,336,001	1,358,426
Promissory notes		
Number at beginning of period	4,507,112	2,386,104
Increase/(Decrease) in number during the period	(12,811)	2,108,197
Number at end of period	4,494,301	4,494,301
Weighted average number during the period	4,498,618	3,665,169
Units, Exchangeable securities and Promissory notes		
Number at beginning of period	28,698,211	26,300,895
Increase/(Decrease) in number during the period	62,527	2,459,843
Number at end of period	28,760,738	28,760,738
Weighted average number during the period	28,709,557	27,757,684

Further to the Distribution Reinvestment Plan (“DRIP”), 47,877 Units were issued to Unitholders during Q3 2018. As at September 30, 2018, 10.6% of the Units were enrolled in the DRIP.

Distribution and management of foreign exchange risk

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

Contracts Maturing by Quarter	Hedge Value (EUR)	Weighted average hedging rate
Q4 2018	2,597,262	1.502
Q1 2019	2,588,582	1.507
Q2 2019	2,468,780	1.580
Q3 2019	2,400,448	1.625
Q4 2019	2,387,176	1.634
Q1 2020	2,373,135	1.643
Q2 2020	2,360,637	1.652
Q3 2020	2,348,270	1.661
Q4 2020	780,312	1.666
	20,304,603	1.603

To ensure the predictability of distributions to our Unitholders, we have established an active foreign exchange hedging program. As at September 30, 2018, the REIT was committed to sell €812 (on average) at an average rate of 1.603 and to receive $1,300 on a monthly basis until October 2020 (included).

	Three months ended September 30		**Nine months ended September 30**	
(in thousands of CAD$ except for per Unit amounts)	**2018**	**2017**	**2018**	**2017**
Declared distributions on Units	4,733	4,461	14,111	13,361
Declared distributions on Exchangeable securities	265	411	819	1,187
Total declared distributions	**4,998**	**4,872**	**14,930**	**14,548**
Distribution per Unit (diluted)	$ 0.20625	$ 0.20625	$0.61875	$0.61875

We currently pay monthly distributions to Unitholders of $0.06875 per Unit, or $0.825 per Unit on an annual basis.

****