NOTICE TO READERS

THE MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") OF INOVALIS REAL ESTATE INVESTMENT TRUST FOR THE YEAR ENDED DECEMBER 31, 2019 HAS BEEN REFILED FOR THE PURPOSE OF AMENDING PAGE 4 TO REFLECT THAT THE EFFECTIVE DATE OF INFORMATION AVAILABLE TO MANAGEMENT IS APRIL 9, 2020. BUT FOR THIS AMENDMENT, THE MD&A REMAINS UNCHANGED.

THIS MD&A OF INOVALIS REAL ESTATE INVESTMENT TRUST FOR THE YEAR ENDED DECEMBER 31, 2019 WHICH INCLUDES THE AMENDED EFFECTIVE DATE OF THE MD&A, REPLACES THE MD&A FILED ON APRIL 9, 2020.

INOVALIS

REAL ESTATE INVESTMENT TRUST

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Letter to Unitholders

The effect of COVID-19 on the global economy has eclipsed the REIT's very successful close of 2019. Despite the great concern and uncertainty at this time, I want to assure you that the REIT is in a strong financial position. The effects of this crisis may be felt for some time, but our real estate business model is robust and is defensive against economic and real estate cycles, which positions the REIT well.

Our portfolio is 89.4% leased on a long-term basis (remaining weighted average lease term of 4.2 years) to high-credit quality tenants. While many of those tenants may face financial difficulties in the coming months, we provide them with office spaces which still represent critical infrastructure for their businesses in the long term. Importantly, our business is funded almost exclusively with asset-level, non-recourse financing with an average term to maturity of 6.1 years and virtually no financial covenants. Only 5% of the value of the REIT's mortgages is due in 2020. While we expect some short-term impact on this business, particularly with respect to new leasing and renewals in 2020, we are well-protected against a downturn.

At the end of Q4, 2019, the REIT closed a fully subscribed $51.5 million equity offering which financed the execution of the acquisition of the €35.8 million joint venture equity interest in the Arcueil property finalized in January 2020. The equity offering, together with the proceeds of the disposition of the Vanves property leaves the REIT with $83 million in unrestricted cash on the balance sheet, which provides us with enviable liquidity. Our debt to equity ratio is 38.4% which is well below the 60% permitted by the Declaration of Trust. The REIT has sufficient cashflow to weather this global crisis.

Management of the REIT are meeting with the REIT's key tenants and bankers to understand how they will make adjustments together with governmental and European Central Bank support. We will then reassess the short and long-term effects of the COVID-19 pandemic on our business.

Prior to the onset of the pandemic, our core European investment markets, notably France and Germany, had been very active in terms of investment and leasing. We are confident that when the European region stabilizes in the coming months, there will be attractive investment opportunities for the REIT. Management will be poised to respond to them.

Our Unitholders are naturally concerned about monthly distributions and the Board of Trustees will be reviewing management's recommendations for cash distributions to Unitholders on a monthly basis going forward instead of a quarterly basis as has been past practice. We have also initiated a Normal Course Issuer Bid to buy back Units and will balance this undertaking with the need to preserve liquidity for unforeseen events in the future.

In the interim, we will carry on looking after our operating fundamentals, managing the properties and bank relationships and delivering results to our Unitholders. The strategic and operating decisions we have made across our businesses means that we are well-positioned for this volatility.

On behalf of our management team and our Board of Trustees, I would like to thank you for your continued support. As we are sure all investors can appreciate, this is a rapidly evolving situation, and we will endeavor to continue to keep you informed of material developments as they occur.

Stéphane Amine
President

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Dollar amounts in the MD&A are presented in thousands of Canadian dollars and Euros, except rental rates, per unit amounts or as otherwise stated). Information contained in this MD&A is based on information available to management as of April 9, 2020.

HIGHLIGHTS

- **$51.5 Million Public Offering of Equity**

In December 2019, the REIT closed a secondary offering of 4,835,110 trust units ("Units"), inclusive of 609,710 Units issued pursuant to the exercise of the 15% over-allotment option, on a bought deal basis, at a price of $10.65 per Unit for total gross proceeds to the REIT of $51.5 million. The REIT used the net proceeds of the offering to fund the purchase price for the remaining interest in the Arcueil property ("Arcueil") which was previously jointly held. See "Arcueil Joint Venture buyback" below. The remaining proceeds to be used to fund potential future acquisitions of office properties located in France and Germany and for potential capital expenditures relating to the re-positioning and/or re-development of currently owned properties.

- **Arcueil Joint Venture buyback**

On December 18th, 2019, the REIT has purchased the Arcueil property, previously held in a joint venture accounted for using the equity method. The winding up of the joint venture was completed on January 22, 2020. The property is located in the Vache Noire district of the southern rim of Paris and is fully leased to the Orange Group (formerly France Telecom) with the existing lease set to expire in March 2023. The property consists of 9 upper levels and 2 basement levels, with 253 parking spaces (40 outdoor and 213 indoor) and office floor plates of approximately 2,500 sq. m. and was acquired at an attractive capitalization rate of 7.7%, which will provide mid-single digit accretion to 2020 and 2021 AFFO per unit estimates

- **Rueil acquisition loan**

On December 19, 2019, the sale agreement for the underlying asset relating to the "Rueil development loan" was executed by the company which develops the project. The economics of this agreement confirm the budgetary assumptions applied by management in valuing the profit participation component of the loan since 2018 and allow management to forecast future (2020) fund inflows following the reimbursement of the loan, as per the initial loan plan. The gain in fair value of CAD$2.9 million was recognised in relation to the profit participation component for the year ended December 31, 2019 and CAD$9.5 million since the inception of the loan.

- **Sale of Vanves property**

The REIT closed the disposition of its Vanves property ("Vanves" or "Property") on December 16th, 2019 for net proceeds of €95 million (CAD$140.9 million). The Property was sold for €9 million (CAD$13.4 million) above the December 31st, 2018 asset valuation and represents a capitalization rate of approximately 6%. The sale crystalizes a substantial increase in the property's value for unitholders since acquisition in 2013 for €78 million, with the appreciation largely driven by capitalization rate compression and strong rental rate growth.

- **Leasing Operations**

Significant new leases and renewals were signed in December 2019 at the Duisburg property, confirming 100% committed occupancy for the 217,920 sq.ft building for the next seven years. Efforts continue to lease space to reduce the remaining portfolio vacancies, selectively complete CAPEX improvements on vacant areas to attract tenants and maximize rent.

- **Net Rental Income**

For the portfolio of properties owned by the REIT ("IP Portfolio"), net rental income for Q4 2019 (adjusted for IFRIC 21) was a CAD$5.52 million (EUR3.78 million), an increase over the CAD$5.24 million (EUR3.48 million) adjusted net rental income for the same period in 2018. The gain in adjusted net rental income is mainly due to the income contribution from the Trio property, partially offset by the sale of the Hanover property and the departure of Smart&Co tenant in Courbevoie.

In Q4 2019, for the portfolio that includes REIT's proportionate share in joint ventures ("Total Portfolio"), net rental income (adjusted for IFRIC 21) slightly declined by CAD$0.06 million (EUR0.13 million) compared to the same period in the previous year, due to the negative effect of foreign exchange.

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

In Q4 2019, the REIT reported Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO)" were of CAD$0.22 and CAD$0.26 per unit respectively. AFFO payout ratio improved, quarter to quarter, from 130.7% to 77.1%, mainly explained by less capital expenditure during the period, while the FFO pay-out ratio increased from 83.0% to 93.5%, still in line with REIT's expectations.

- **Financing Activity**

The weighted average interest rate across the portfolio is 2.06% and the debt ratio is 38.4% (30.3% net of cash), comfortably within its mandated threshold of 60%. After its full re-letting in December 2019, the Duisburg property is to be refinanced by end of Q2 2020.

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OVERVIEW – GAAP AND NON-GAAP

Key performance indicators are set out below. "Non-GAAP" and portfolio measures include the proportionate interest in joint ventures, see "*Non- GAAP Reconciliation*".

	December 31, 2019		December 31, 2018 as restated	
Operational information	IP Portfolio	Total Portfolio	IP Portfolio	Total Portfolio
Number of properties	7	14	7	15
Gross leasable area (sq.ft)	917,836	1,398,704	772,403	1,336,797
Weighted Occupancy rate (end of period) (2)	89.4%	92.1%	88.6%	93.0%
Weighted average lease term	4.2 years	4.5 years	4.9 years	4.5 years
Average capitalization rate (3)	5.0%	5.5%	5.8%	5.8%
Financing information				
Level of debt (debt-to-book value) (4)	38.4%	46.0%	39.2%	48.5%
Level of debt (debt-to-book value, net of cash) (4)	30.3%	39.0%	37.3%	46.6%
Weighted average term of principal repayments of debt	6.1 years	5.3 years	5.5 years	5.1 years
Weighted average interest rate (5)	2.06%	2.00%	2.15%	2.11%
Interest coverage ratio (6)	3.3 x	4.0 x	4.5 x	3.7 x

	Three months ended		Year ended	
(thousands of CAD$ except per Unit and other data)	December 31 2019	December 31 2018 as restated	December 31 2019	December 31 2018 as restated
Operating results				
Rental revenue	6,261	6,039	25,524	25,434
Rental revenue - Total Portfolio (1)	9,242	9,581	38,045	38,515
Net rental income	6,379	6,136	22,989	23,529
Net rental income - Total Portfolio (1)	9,146	9,246	34,783	35,489
Net income (loss) for the period, attributable to the Trust	30,094	14,235	36,449	15,461
Funds from Operations (FFO) (7)	6,744	7,125	24,372	27,133
Adjusted Funds from Operations (AFFO) (7)	8,176	4,524	25,542	23,814
FFO per Unit (diluted) (7) (8)	0.22	0.25	0.83	0.97
AFFO per Unit (diluted) (7) (8)	0.26	0.16	0.87	0.85
Distributions				
Declared distributions on Units and Exchangeable sec.	5,438	5,013	20,613	19,943
Declared distributions on Units and Exchangeable sec. & Promissory note	6,306	5,911	24,141	23,092
Declared distribution per Unit	0.21	0.21	0.83	0.83
FFO payout ratio (7)	93.5%	83.0%	99.1%	85.1%
AFFO payout ratio (7)	77.1%	130.7%	94.5%	97.0%

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

BASIS OF PRESENTATION

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of Inovalis Real Estate Investment Trust (the "REIT") should be read in conjunction with the REIT's consolidated financial statements for the twelve months period ended December 31, 2019, and the notes thereto.

The REIT has historically, within the MD&A, presented operating results based on financial information developed using proportionate consolidation for all the REIT's joint ventures, which are accounted for using the equity method, as required by IFRS 11 "Joint Arrangements". This manner of presentation provided current and prospective investors with, in management's view, the relevant information to assist them in understanding the REIT's financial performance, while providing for a reconciliation of such Non-Generally Accepted Accounting Principles ("GAAP") information to the REIT's financial statements as reported under International Financial Reporting Standards ("IFRS") in the relevant sections of the MD&A. The MD&A will begin with an Overview, providing a summary of the REIT's performance and operations for the period, including both GAAP and non-GAAP metrics. Management believes this presentation provides users of this MD&A additional information about the source of the revenue used by the REIT to pay distributions on its units, as joint venture structures represent significant equity investments (joint ventures account for 27% of the total value of all properties held by the REIT), are a significant component of the REIT's investments.

Financial information provided in the consolidated financial statements have been prepared in accordance with IFRS. All amounts in this MD&A are in thousands of Canadian dollars and Euro, except per unit amounts and where otherwise stated. Historical results, including trends which might appear in this MD&A, should not be taken as indicative of future operations or results. Additional information about Inovalis REIT has been filed with applicable Canadian securities regulatory authorities and is available at www.sedar.com. The exchange rate used throughout this MD&A for statement of earnings items is the average rate during the applicable period which for the twelve months ended December 31, 2019 and December 31, 2018 are CAD$1.4852 and CAD$1.5297, respectively. For balance sheet items as at December 31, 2019, projections or market data, the exchange rate used is CAD$1.4565 (CAD$1.5637 as at December 31, 2018).

FORWARD-LOOKING INFORMATION

Although we believe that the expectations reflected in the forward-looking information are reasonable, we can give no assurance that these expectations will prove to have been correct, and since forward-looking information inherently involves risks and uncertainties, undue reliance should not be placed on such information. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such forward-looking statements. The estimates and assumptions, which may prove to be incorrect, include, but are not limited to, the various assumptions set forth in this document as well as the following: (i) we will continue to receive financing on acceptable terms; (ii) our future level of indebtedness and our future growth potential will remain consistent with our current expectations; (iii) there will be no changes to tax laws adversely affecting our financing capability, operations, activities, structure or distributions; (iv) we will retain and continue to attract qualified and knowledgeable personnel as we expand our portfolio and business; (v) the impact of the current economic climate and the current global financial conditions on our operations, including our financing capability and asset value, will remain consistent with our current expectations; (vi) there will be no material changes to government and environmental regulations adversely affecting our operations; (vii) conditions in the international and, in particular, the French and German real estate markets, including competition for acquisitions, will be consistent with the current climate; and (viii) capital markets will provide us with readily available access to equity and/or debt financing; (ix) the impact the COVID-19 virus will have on the REIT's operations, the demand for the REIT's properties and global supply chains and economic activity in general. The forward-looking statements are subject to inherent uncertainties and risks, including, but not limited to, the factors listed under the Risk and Uncertainties section of this MD&A. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements.

FOREIGN CURRENCY ENVIRONMENT

Although the REIT's main assets and liabilities are denominated in Euro, the REIT's financial results are measured in Canadian dollars. Change in the EUR/CAD foreign exchange rate has therefore had a major impact on the REIT's financial statements. Over the year, the Canadian dollar strengthened by approximately 7% relative to the Euro. For the three-month period ending December 31st, 2019, the Canadian dollar weakened around 1% relative to the Euro.

These changes in the EUR/CAD foreign exchange rate have negatively impacted the REIT's equity through 'Other Comprehensive Income' by CAD$23.4 million for the year ended December 31, 2019 but positively for the current fourth quarter of 2019 (CAD$1.2 million). However, as the REIT's underlying real estate investment holdings are Euro-denominated, they have not been impacted by these fluctuations.

As the REIT's net income is calculated based on the average foreign exchange rates for the year-to-date, the negative impact is around 3%. In accordance with the REIT's hedging policy, a foreign currency hedge was established to provide coverage over the monthly distributions. The gains realized from this hedging program (CAD$1 million) have covered more than 90% of the negative impact on the REIT's portfolio revenue arising from the foreign exchange rate variations.

MARKET AND INDUSTRY DATA

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

BUSINESS OVERVIEW AND STRATEGY

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

The REIT's long-term objectives are to:

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

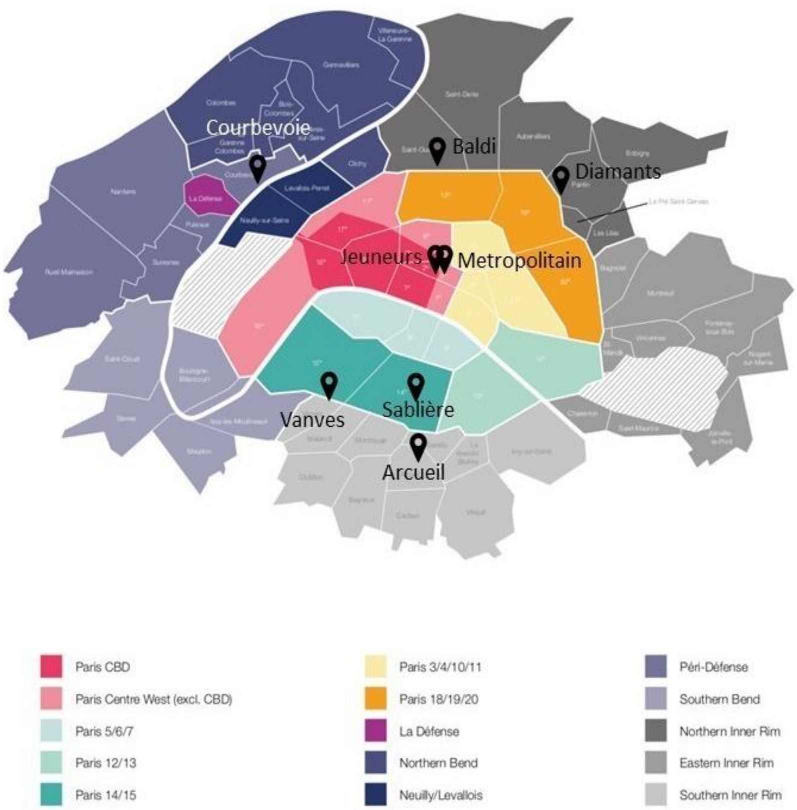
The REIT's investment criteria encompass office properties outside of Canada with an occupancy level above 80% (unless AFFO accretive), secured rental cash flows, a property value between EUR20 million (CAD$30 million) to EUR60 million (CAD$90 million), unless AFFO accretive and a potential future upside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

BUSINESS ENVIRONMENT[1]

Prior to the emergence of the COVID-19 pandemic and the impact on the global economy, the high level of investment volumes in 2019 pointed to another strong year in the Greater Paris Region investment market.

The French corporate real estate investment market reached new highs in 2019, continuing the phase of strong growth that began in 2014. 35.4 billion euros was invested in France in 2019, a 16% increase year-over-year and an all-time record. Real estate investment in France increased by almost 50% in five years. While France has many structural advantages, it has been benefitting from a favourable economic climate. The low interest rate contributed to the pace of asset diversification and placed greater emphasis on real estate.

<u>French commercial real estate investment market</u>



Inovalis REIT
Paris Property Locations

Central Business District
- Jeuneurs
- Metropolitain

Paris - Montparnasse Area
- Sablière

La Defence Periphery
- Courbevoie

Northeastern Periphery
- Délizy / Pantin

Northern Inner Rim of Paris
- Baldi / St Ouen

Southern Inner Rim of Paris
- Arcueil

Investments in the Greater Paris Region reached a record of €10.3 billion over Q4 2019, a similar level to 2018, taking the full-year volume to €26.9 billion - the highest level on record. This represents a 14% year-over-year increase and is 56% higher than the 10-year average. The investment volume for France as a whole is estimated at €38 billion, representing an 18% increase. Record inflows into real estate investment trusts (SCPI) and real estate collective investment undertakings (OPC) funds contributed to a high presence of French investors at around 65%. There was an important presence of Asian investors, mainly South Korean, which accounted for 8% of the investments made in France and a total amount of 2.9 billion euros. International investors have shifted focus from London because of the

[1] *Sources: Jones Lang LaSalle*

uncertainties associated with Brexit and are taking advantage of the current low interest rate and favourable exchange rate environment to acquire large-scale assets located in Paris or the Paris suburbs.

This record volume was largely driven by transactions in the >€100 million segment which included 3 transactions for lot sizes over €900 million: acquisitions of the TERREIS portfolio, the “Le Lumière” site and “Majunga” tower. These 3 transactions contrast with 2018 when no transactions on this scale were recorded.

A record investment volume was seen in the Inner Suburbs with over €3.6 billion. The overall volume in the Western Crescent also rose to record levels with €5.3 billion. The Paris real estate market had an all-time high level of transactions with €10.4 billion in investments in 2019, compared with €10.1 billion in 2018, mostly due to large scale transactions.

Notwithstanding the strength of the French commercial real estate market, it is too early to draw conclusions about the effect of the COVID-19 pandemic on transactions in 2020.

Office Market in France in 2019

Leasing stood at almost 6.9 million sq.ft in the Greater Paris Region office market over Q4 2019, following three quarters at an average of 6 million sq.ft. This resulted in a full-year take-up of over 24.8 million sq.ft, representing a 10% year-on-year decrease. However, these figures were better than expected and were still higher than the 10-year average. Shortage of quality supply is also contributing to slower leasing; some big companies had been holding off potential relocations in the search of big assets size well connected to transportation. A wider trend for workspace densification associated with changes in working practices and the increasing popularity of flexible and remote working has had its effect on leasing as well. The majority of large companies such as Danone, Orange, Total were moving toward office consolidations to improve synergies, corporate image or visibility and in some cases, for environmental improvements.

The actual number of real estate leasing transactions in Paris fell by 15% compared with 2018. This reduction was predominantly seen in Parisian markets outside of the Central Business District (“CBD”) (-17%) due to lack of stock. The Southern Bend and Péri-Défense areas accounted for over 80% of leasing activity. Leasing in these two markets accounted for almost 3 million sq.ft and 2.1 million sq.ft respectively. The highest year-over-year increase occurred in the Southern Bend (+48%) where there was strong activity in the large space segment. The largest transactions included CNP and CANAL+ with “Issy Cœur de Ville” and “Sways” in Issy-les-Moulineaux and BNP PRE with “57 Métal” in Boulogne-Billancourt. The Inner Suburbs, which had been attracting businesses due to its reasonable rents, also posted an 8% increase in year-over-year leasing with 4.7 million sq.ft in transactions. All markets achieved performances that were higher than their 10-year averages, but only the north Paris market posted a year-on-year increase in leasing (79%), while the east Paris region and the south Paris region (where supply is lower) posted decreases of 2% and 22% respectively.

Immediate supply in the Greater Paris Region was limited again over the last quarter, reaching 29.3 million sq.ft of available office space by the end of 2019. At 5%, the vacancy rate had therefore fallen to the lower end of the range for market fluidity (5-7%). Rates in all Parisian markets have been far below this threshold, ranging from 1% in Paris’ 5th, 6th and 7th arrondissements to 1.3% in Paris’ 14th and 15th arrondissements and Paris’ 18th, 19th and 20th arrondissements.

German Commercial Real Estate Market

The positive investment market concluded 2019 with a sharp increase in the number of transactions in a year-end rally.

The demand for German property had been very strong throughout the decade, despite the geopolitical conflicts, global trade dispute and Brexit. European investors were the most active, with a 19 % share of the total volume. The three most important countries were the United Kingdom (6 %), France (5 %) and Austria (just under 4 %). North American investors take second place, having increased their share compared to the previous year especially in portfolio segments. Asian investors and buyers from the Middle East each contribute shares in the order of 4 %, corresponding to an absolute investment volume of just under €3 billion. Like France and the rest of the world, the German economy will feel the effect of the COVID-19 pandemic.

Notwithstanding current events, over the next five years, German government bonds with a volume of over €800bn will expire and will have to be reinvested. The previous interest rate on these government bonds was around 3% on average, which is significantly higher than the current rate of return for bonds. Some of this capital may well be invested in real estate, meaning that demand on the German investment market will remain high in the next few years.

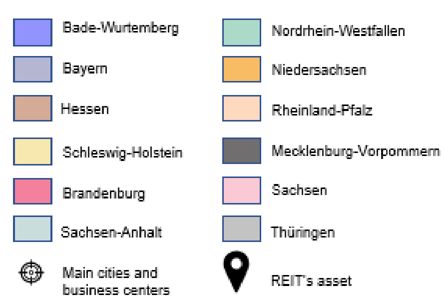
The very strong end to the year marked a new record. The fourth quarter alone registered an unprecedented €34bn. While the transaction volume was still broadly in line with the previous year at the end of the third quarter, by end of Q4 it had risen by a more significant rate of 16 % compared to 2018.

Office property in Germany has long attracted more demand than other classes, although alternative asset classes are becoming more desirable. The "Big 7" cities have consistently accounted for the majority of the transaction volume. Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, Munich and Stuttgart generated a total volume of €52.6bn, which was 14% higher compared to 2018. This volume also represented 58% of the capital invested in German property.

Inovalis REIT

Germany Property Locations

- Trio (Frankfurt)
- Duisburg (Düsseldorf)
- Bad Homburg (Frankfurt)
- Cologne
- Stuttgart
- Neu-Isenburg (Frankfurt)
  - Arrow
  - Trio
- Kösching (Ingolstadt)



Office Market in Germany

Office space leasing in the Big 7 slightly exceeded the 43 million sq.ft-mark by the end of 2019 (43.4 million sq.ft, an increase of 1.6% compared to 2018). With the exception of 2017, this means that 2019 recorded the strongest leasing results in recent years even though the traditionally strongest quarter of a year (from October to December) contributed less than a quarter of the overall volume. Until the COVID-19 pandemic, the leasing market was still very strong in Germany, even with a slowing local economy. Germany is increasingly an internationally competitive location for the tech industry. The automotive industry is another good example, of particular importance for the Stuttgart office market. Around 15% of Stuttgart leasing in the past five years was generated by this industry, including suppliers which is equivalent to the leasing by all industries in 2017.

Low inventories of office space continue. At the end of 2019, only 30.68 million sq.ft was available to companies seeking premises in the Big 7, which translates in a vacancy of 3%, and might go as low as 2.3% in some of the cities such as Stuttgart and 1.8% in Berlin, an all-time record low. The Munich region had also shown a positive trend in vacancy rates, declining from 2.9% to 2.3%. From an office leasing perspective, Dusseldorf and Stuttgart had been, until recently, showing exceptional performance this year, with 48% year-on-year increase for Stuttgart and 32.5% on Dusseldorf. Under normal circumstances, this would have an immediate and encouraging effect on the periphery markets of those core locations such as Leinfelden and Duisburg. For the first time since 2007, leasing exceeded 5.4 million sq.ft in Dusseldorf, the bulk of this, 5.3 million sq.ft, was located in the Dusseldorf urban area. Four large deals comprising more than 215,000 sq.ft units contributed to this record figure. In 2019, the Stuttgart office market recorded a leasing volume of around 3.4 million sq.ft, almost twice as much office space as in the same period of the previous year. The five- year average was exceeded by around 11%.

The strong demand for space combined with a further decline in supply had caused office rents to rise in the Big 7 between 2010 and end of last year. In 2019, the aggregate prime rent increased by 5.4%. The market leaders were Cologne (+11%) and Berlin (+9%).

Portfolio

The REIT has an interest in fourteen properties, (the “Total Portfolio”), of which seven are entirely owned by the REIT (the “IP Portfolio") and seven are held through partnerships with various global institutional funds, (the “JV Portfolio”). Seven properties are located in France and seven properties are in Germany.

The JV portfolio information is presented based on proportionate consolidation (see “*Non-Gaap reconciliation*” section)

Asset	% owned	REIT Ownership Valuation as at December 31, 2019	% of REIT's Portfolio Value	Gross Leaseable Area (GLA)	Contribution to GLA	# of tenants	Occupancy rate (including vendor leases)	Weighted occupancy rate (including vendor leases)	WALT (end of lease)
		(CAD)	%	sq. ft.	%		%	%	Years
Jeuneurs	100%	70,160	11%	50,407	4%	1	100%	100.0%	3.7
Courbevoie	100%	35,393	5%	95,903	7%	5	41%	43.2%	4.9
Sablière	100%	35,830	5%	41,043	3%	7	100%	100.0%	3.4
Baldi	100%	33,645	5%	123,657	9%	8	70%	79.2%	3.9
Metropolitain	100%	94,579	15%	78,818	6%	7	100%	100.0%	5.5
Arcueil	100%	140,637	22%	334,521	24%	1	100%	100.0%	3.2
Délizy	50%	19,890	3%	71,617	5%	17	91%	91.0%	4.1
Subtotal France		**430,134**	**66%**	**795,966**	**58%**	**46**	**86.0%**	**87.4%**	**3.8**
Trio	94,9%	68,456	10%	193,487	13%	6	93%	92.4%	5.6
Duisburg	50%	46,012	7%	108,960	8%	1	100%	100.0%	7.2
Bad Homburg	50%	16,968	3%	54,553	4%	6	93%	97.3%	3.5
Cologne	6%	2,080	0%	3,930	0%	1	100%	100.0%	6.4
Stuttgart	50%	36,649	6%	121,416	9%	6	100%	99.9%	4.1
Arrow - Neu-Isenburg	50%	30,347	5%	67,334	5%	3	92%	91.9%	3.8
Kösching	50%	21,367	3%	53,058	3%	1	100%	100.0%	7.9
Subtotal Germany		**221,879**	**34%**	**602,738**	**42%**	**24**	**96.0%**	**96.3%**	**5.4**
Total - France and Germany		**652,013**	**100%**	**1,398,704**	**100%**	**70**	**91.1%**	**92.1%**	**4.5**
IP Portfolio		**478,700**	**73%**	**917,836**	**66%**	**35**	**88.2%**	**89.4%**	**4.2**
JV Portfolio		**173,313**	**27%**	**480,868**	**34%**	**35**	**96.8%**	**97.1%**	**5.2**

In January 2019 the REIT sold the 124,076 square foot Hanover property and in March 2019, it acquired the 203,886 square foot Trio property. In December 2019, the REIT both sold the 258,673 square foot property located in Vanves, which was 80% occupied and acquired the remaining 75% of Arcueil property held jointly with investors, representing 250,891 sq.ft additional area. The IP Portfolio weighted occupancy at December 31, 2019 was thus 89.4%, compared to 88.6 % at December 31, 2018. While the weighted occupancy rate across the Total Portfolio declined from 93.0% as at December 31, 2018 to 92.1% as at end of December 2019, the occupancy rate for Q4 2019 represents an improvement of 0.2% over the rate for Q3 2019.

The average lease term for JV Portfolio increased to 5.2 years at December 31, 2019 from 4.5 years at December 31, 2018, mainly due to new long-term leases or renewals in the Duisburg property. The average lease term for the Total Portfolio decreased to 4.5 years at December 31, 2019 compared to 4.9 as at December 31, 2018.

Tenants

The tenant base in the Total Portfolio is well diversified by industry segment, with many national and multinational tenants. As at December 31, 2019, the REIT had 35 tenants across the IP Portfolio and 70 across the Total Portfolio.

All leases contracts have rental indexation based on the Construction Costs Index (indice du coût de la construction – ICC), the average Tertiary Activities Rent Index (indice des loyers des activités tertiaires) and the Consumer Price Index – CPI) – ILAT, or the German Consumer Price Index, as applicable.

The following table shows the five largest tenants relating to properties owned by the REIT, sorted by contribution to gross leasable area ("GLA") in the IP Portfolio.

Tenant	Tenant Sector	GLA (sq.ft.)	Weighted Areas (sq.ft) (1)	% of Weighted Areas
Orange (Formerly France Telecom)	Telecommunications	334,521	290,218	35.0%
The Lorenz Bahlsen Snack-World GmbH & Co. KG Germany	Food and beverage	86,501	81,870	9.9%
Rue Du Commerce	E-commerce	51,926	51,926	6.3%
CNAM	Education & Training	50,407	49,543	6.0%
Time:matters	Logisitics	34,772	33,607	4.0%
Top 5 tenants		**558,127**	**507,164**	**61.2%**
Other tenants	Diversified	251,698	235,276	28.3%
Vacant		108,011	87,592	10.6%
IP Portfolio		**917,836**	**830,032**	**100.0%**

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

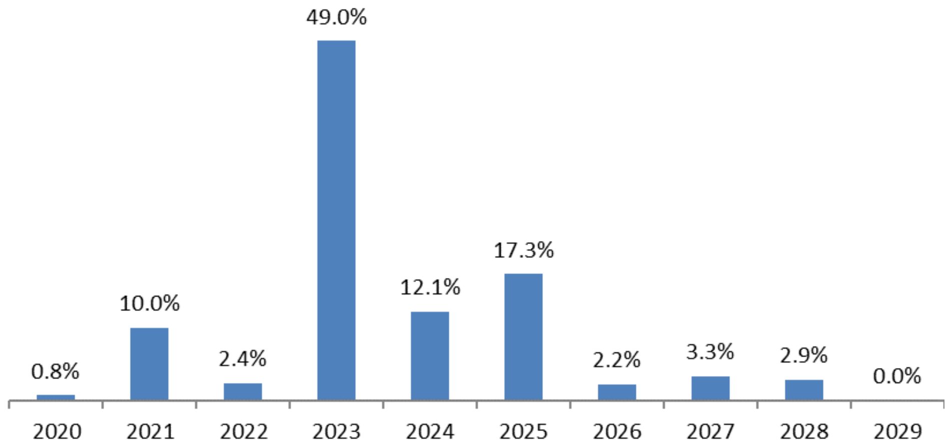
The REIT's five largest tenants across the Total Portfolio, including interests that the REIT has in properties held in joint ventures, are presented in the table below.

Tenant	Tenant Sector	GLA (sq.ft.)	Weighted Areas (sq.ft) (1)	% of Weighted Areas
Orange (Formerly France Telecom)	Telecommunications	334,521	290,218	23.0%
Daimler AG	Manufacturer	109,136	100,486	7.9%
Hitachi Power	Manufacturer	82,800	78,138	6.2%
The Lorenz Bahlsen Snack-World GmbH & Co. KG Germany	Food and beverage	86,501	81,870	6.5%
Arrow Central Europe	E-commerce	55,639	51,717	4.1%
Top 5 tenants		**668,597**	**602,429**	**47.7%**
Other tenants	Diversified	606,753	561,888	44.4%
Vacant		123,354	99,997	7.9%
Total Portfolio		**1,398,704**	**1,264,314**	**100.0%**

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

Lease profile

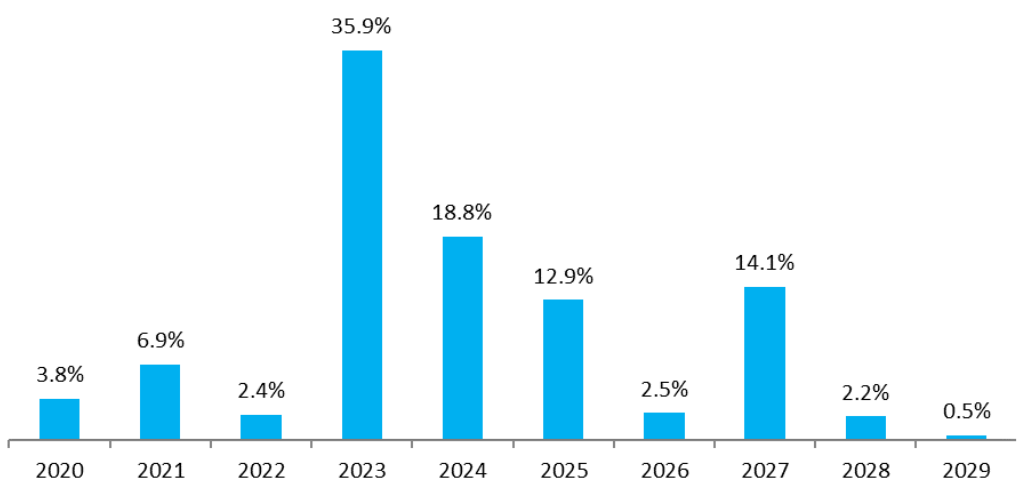
Lease Maturity Profile as at December 31, 2019
(% of total GLA)



The average remaining lease term in the IP Portfolio is 4.2 years (not including tenant early termination rights). Assuming all tenants leave at the earliest possible early termination rights, which the REIT believes is unlikely, the average remaining lease term in the portfolio is 3.4 years. The following graph sets out the percentage of total GLA of the IP Portfolio subject to leases expiring by year (excluding early lease terminations).

At the Délizy property (held in JV), the rental guarantee (9,723 sq.ft of GLA) expired on December 31, 2019 and will negatively impact the Q1 2020 occupancy rates. In January 2020, a new lease has been signed on this property for total GLA of 1,829 sq.ft. The REIT should benefit from recent capex works (financed by the seller) to re-let remaining vacant spaces.

Lease Maturity Profile as at December 31, 2019
Total Portfolio including joint ventures
(% of total GLA)



Including the JV Properties, the average remaining lease term is 4.5 years and 4.0 years including early termination rights. The above graph presents the percentage of total GLA expiring in the Total Portfolio by year (excluding lease early terminations). 0.7% of GLA maturing in 2019 corresponds to Délizy rental guarantee, terminating December 31, 2019.

New leases signed during the quarter

- In Duisburg property, the REIT completed the extension of a lease with Hitachi and signed a new lease for a total period of ten years, including a firm period of seven years. In December 2019 Regus signed a twelve-year firm lease, occupying the remaining vacant space. These two leases increase the weighted average lease term in the property from 1.3 in Q3 2019 to 7.2 as at end of December 2019 and secure occupancy for the entire 217,919 sq.ft of the building.

- As for the Délizy property, a new 9-year lease effective December 1st, 2019, with a break option every 3 years was signed in November 2019 for 7,642 sq.ft of office space (5.6% of weighted average area). This new tenant brings the Q4 2019 weighted average occupancy to 91% following on the departure of the Ministry of Justice in that same area.

- The REIT has extended a lease in Arrow property (Neu-Isenburg), signing in December 2019 a 5-year lease effective June 2020 on 13,163 sq.ft of office space (10.2% of weighted occupancy average rate, representing additional areas of 2,519 sq.ft)

- At the Baldi property, a new 9-year lease was signed in November 2019, effective December 1, 2019 for 947 sq.ft of office space (0.9% of surface area). The lease has a break option after six years.

RESTATEMENT OF THE 2018 CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended December 31, 2018 have been restated to recognize an increase of 10% in the withholding tax rate used for the calculation of the deferred income tax liability as at December 31, 2018 following the Double Taxation Treaty (the "New Treaty") ratified by France in March 2018 and Luxembourg on July 2, 2019, and effective as of January 1, 2020. As disclosed in Note 4, Critical Accounting judgement, an increase in the withholding tax rate in Luxembourg could have a significant impact in the calculation of the deferred income tax liability for the REIT and management is in the process of reviewing the legal status of its corporate structure in Luxembourg, namely CanCorpEurope ("CCEU"), to transform it into a regulated eligible entity, known as a Specialized investment fund ("SIF"), to benefit from a reduced withholding rate of 15%, on the basis of the provisions of the New Treaty.

Management had considered that it was probable as at December 31, 2018 that CCEU would obtain the necessary authorization allowing the conversion of CCEU into a SIF, which would result in the application of a reduced effective tax rate of 15%. Given that the regulatory approval required to convert to a SIF is considered a substantive process, the reduced effective tax rate should not have been considered in measuring the REIT's deferred taxes until such time as the regulatory approval is obtained. The application process to convert to a SIF is still ongoing to the date of these consolidated financial statements.

Consequently, the REIT retrospectively corrected its consolidated financial statements as at December 31, 2018 in order to apply the withholding tax rate of 25% applicable to non-regulated entities by increasing its deferred tax expense by $5,615 and by decreasing its share of net income in joint ventures by ($1,076) for the year ended December 31, 2018.

Certain comparative figures have been reclassified in order to conform with presentation adopted in the current year.

Balance sheet reconciliation - restated

Assets	As at December 31, 2018 As restated			As at December 31, 2018 As previously reported			As at December 31, 2018 Restatement		
	As per REIT's financial statements (1)	Share from investments in joint-ventures	Proportionate Consolidation	As per REIT's financial statements (1)	Share from investments in joint-ventures	Proportionate Consolidation	As per REIT's financial statements (1)	Share from investments in joint-ventures	Proportionate Consolidation
Non-current assets									
Investment properties	421,937	207,752	**629,689**	421,937	207,752	**629,689**	-	-	-
Investments accounted for using the equity method	97,604	(97,604)	-	98,703	(98,703)	-	(1,099)	1,099	-
Acquisition loans	25,719	-	25,719	25,719	-	**25,719**	-	-	-
Derivative financial instruments	306	28	**334**	306	28	**334**	-	-	-
Restricted cash	1,644	280	**1,924**	1,644	280	**1,924**	-	-	-
Total non-current assets	547,210	110,456	**657,666**	548,309	109,357	**657,666**	(1,099)	1,099	-
Current assets									
Trade and other financial assets	4,000	1,126	**5,126**	4,000	1,126	**5,126**	-	-	-
Derivative financial instruments	64	20	**84**	64	20	**84**	-	-	-
Call option related to the acquisition loan	6,750	-	**6,750**	6,750		**6,750**	-	-	-
Other current assets	1,080	1,166	**2,246**	1,080	1,166	**2,246**	-	-	-
Restricted cash	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	19,110	6,444	**25,554**	19,110	6,444	**25,554**	-	-	-
Total current assets	31,004	8,756	**39,760**	31,004	8,756	**39,760**	-	-	-
Assets classified as held for sale	40,027	-	**40,027**	40,027	-	**40,027**	-	-	-
Total assets	618,241	119,212	**737,453**	619,340	118,113	**737,453**	(1,099)	1,099	-
Liabilities and Unitholders' equity									
Liabilities									
Non-current liabilities									
Mortgage loans	83,391	76,850	**160,241**	83,391	76,850	**160,241**	-	-	-
Finance lease liabilities	120,547	28,442	**148,989**	120,547	28,442	**148,989**	-	-	-
Other long-term liabilities	-	638	**638**	-	638	**638**	-	-	-
Lease equalization loans	2,130	-	**2,130**	2,130	-	**2,130**	-	-	-
Tenant deposits	2,180	134	**2,314**	2,180	134	**2,314**	-	-	-
Exchangeable securities	4,779	-	**4,779**	4,779	-	**4,779**	-	-	-
Derivative financial instruments	1,396	107	**1,503**	1,396	107	**1,503**	-	-	-
Deferred tax liabilities	14,169	7,640	**21,809**	8,428	7,274	**15,702**	5,741	366	**6,107**
Deferred income	1,099	-	**1,099**	1,099	-	**1,099**	-	-	-
Total non-current liabilities	229,691	113,811	**343,502**	223,950	113,445	**337,395**	5,741	366	**6,107**
Current liabilities									
Interest-bearing loan	-	-	-	-	-	-	-	-	-
Promissory Notes	42,471	-	**42,471**	42,471	-	**42,471**	-	-	-
Mortgage loans	14,588	35	**14,623**	14,588	35	**14,623**	-	-	-
Finance lease liabilities	6,637	1,313	**7,950**	6,637	1,313	**7,950**	-	-	-
Lease equalization loans	1,185	-	**1,185**	1,185	-	**1,185**	-	-	-
Tenant deposits	687	23	**710**	687	23	**710**	-	-	-
Exchangeable securities	3,203	-	**3,203**	3,203	-	**3,203**	-	-	-
Derivative financial instruments	1,207	-	**1,207**	1,207	-	**1,207**	-	-	-
Trade and other payables	7,145	3,775	**10,920**	7,145	3,042	**10,187**	-	733	**733**
Deferred income	4,394	255	**4,649**	4,394	255	**4,649**	-	-	-
Total current liabilities	81,517	5,401	86,918	81,517	4,668	86,185	-	733	733
Liabilities directly associated with assets classified as held for sale	21,792	-	**21,792**	21,792		**21,792**	-	-	-
Total liabilities	333,000	119,212	**452,212**	327,259	118,113	**445,372**	5,741	1,099	**6,840**
Equity									
Trust units	207,442	-	**207,442**	207,442	-	**207,442**	-	-	-
Retained earnings	41,283	-	**41,283**	47,974	-	**47,974**	(6,691)	-	**(6,691)**
Accumulated other comprehensive income	35,997	-	**35,997**	36,146	-	**36,146**	(149)	-	**(149)**
	284,722	-	**284,722**	291,562	-	**291,562**	(6,840)	-	**(6,840)**
Non-controlling interest	519	-	**519**	519	-	**519**	-	-	-
Total liabilities and equity	618,241	119,212	**737,453**	619,340	118,113	**737,453**	(1,099)	1,099	-

Consolidated statement of earning – restated

	Three months ended			Twelve months ended		
(in thousands of CAD$)	2018 As restated	2018 As previously reported	2018 Restatement	2018 As restated	2018 As previously reported	2018 Restatement
Rental income	9,581	9,581	-	38,515	38,515	-
Service charge income	1,608	1,608	-	10,289	10,289	-
Service charge expenses	(1,763)	(1,763)	-	(13,459)	(13,459)	-
Other revenues	(66)	(66)	-	506	506	-
Other property operating expenses	(114)	(114)	-	(362)	(362)	-
Net rental earnings	**9,246**	**9,246**	-	**35,489**	**35,489**	-
Administration expenses	(1,635)	(1,656)	21	(7,236)	(7,236)	-
Foreign exchange gain (loss)	35	35	-	120	120	-
Net change in fair value of investment properties	1,385	1,385	-	2,194	2,194	-
Gain on bargain purchase	-	-	-	-	-	-
Loss on disposal of investment properties	-	-	-	-	-	-
Gain resulting from exercice of the purchase option	-	21	(21)	-	-	-
Acquisition costs	-	-	-	467	467	-
Share of profit of an investment (equity method)						
Operating earnings	**9,031**	**9,031**	-	**31,034**	**31,034**	-
Gain (loss) on financial instruments at fair value through P&L	1,423	4,750	(3,327)	4,347	4,347	-
Loss on exercise of early payment option on finance leases	-	-	-	-	-	-
Gain on disposal on investment	-	-	-	-	-	-
Loss on refinancing of a debt	-	-	-	-	-	-
Finance income	2,206	463	1,743	4,316	4,316	-
Finance costs	(3,533)	(4,056)	523	(13,210)	(13,733)	523
Badwill recovery	1,339	1,339	-	1,339	1,339	-
Additionnal income (loss) from Arcueil's JV	206	206	-	(112)	605	(717)
Distributions on Exchangeable securities	(197)	(197)	-	(1,016)	(1,016)	-
Net change in fair value of Exchangeable securities	1,281	1,281	-	1,482	1,482	-
Net change in fair value of Promissory notes	4,316	5,318	(1,002)	1,020	1,543	(523)
Earnings before income taxes	**16,072**	**18,135**	**(2,063)**	**29,200**	**29,917**	**(717)**
Current income tax expense	(158)	(158)	-	(242)	(242)	-
Deferred income tax expense	(1,522)	(1,254)	(268)	(13,353)	(7,379)	(5,974)
				-		
Earnings for the period	**14,392**	**16,723**	**(2,331)**	**15,605**	**22,296**	**(6,691)**
Non-controlling interest	157	157	-	144	144	-
Earnings for the period (part attributable to the Trust)	**14,235**	**16,566**	**(2,331)**	**15,461**	**22,152**	**(6,691)**

(1) Income statement amounts presented for the REIT were taken from the audited consolidated financial statements as at December 31, 2019 and December 31, 2018.

Consolidated statement of earning – restated (Cont'd)

	Twelve months ended								
	December 31,2018 As restated			December 31,2018 As previously reported			December 31,2018 Restatement		
(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**	**Amounts per REIT's financial statements (1)**	**Share of earnings from investments in joint ventures**	**Total**
Rental income	25,434	13,081	**38,515**	25,434	13,081	**38,515**	-	-	-
Service charge income	7,248	3,041	**10,289**	7,248	3,041	**10,289**	-	-	-
Service charge expenses	(9,668)	(3,791)	**(13,459)**	(9,668)	(3,791)	**(13,459)**	-	-	-
Other revenues	804	(298)	**506**	804	(298)	**506**	-	-	-
Other property operating expenses	(289)	(73)	**(362)**	(289)	(73)	**(362)**	-	-	-
Net rental earnings	**23,529**	**11,960**	**35,489**	**23,529**	**11,960**	**35,489**	**-**	**-**	**-**
Administration expenses	(5,223)	(2,013)	**(7,236)**	(5,223)	(2,013)	**(7,236)**	-	-	-
Foreign exchange gain	120	-	**120**	120	-	**120**	-	-	-
Net change in fair value of investment properties	335	1,859	**2,194**	335	1,859	**2,194**	-	-	-
Acquisition costs	-	467	**467**	-	467	**467**	-	-	-
Share of profit of an investment (equity method)	5,850	(5,850)	-	6,926	(6,926)	-	(1,076)	1,076	-
Operating earnings	**24,611**	**6,423**	**31,034**	**25,687**	**5,347**	**31,034**	**(1,076)**	**1,076**	**-**
Gain (loss) on financial instruments at fair value through P&L	4,372	(25)	**4,347**	4,372	(25)	**4,347**	-	-	-
Finance income	7,775	(3,459)	**4,316**	7,775	(3,459)	**4,316**	-	-	-
Finance costs	(10,274)	(2,936)	**(13,210)**	(10,797)	(2,936)	**(13,733)**	523	-	**523**
Badwill recovery	-	1,339	**1,339**	-	1,339	**1,339**	-	-	-
Additionnal income (loss) from Arcueil's JV	-	(112)	**(112)**	-	605	**605**	-	(717)	**(717)**
Distributions on Exchangeable securities	(1,016)	-	**(1,016)**	(1,016)	-	**(1,016)**	-	-	-
Net change in fair value of Exchangeable securities	1,482	-	**1,482**	1,482	-	**1,482**	-	-	-
Net change in fair value of Promissory notes	1,020	-	**1,020**	1,543	-	**1,543**	(523)	-	**(523)**
Earnings before income taxes	**27,970**	**1,230**	**29,200**	**29,046**	**871**	**29,917**	**(1,076)**	**359**	**(717)**
Current income tax expense	(131)	(111)	**(242)**	(131)	(111)	**(242)**	-	-	-
Deferred income tax expense	(12,234)	(1,119)	**(13,353)**	(6,619)	(760)	**(7,379)**	(5,615)	(359)	**(5,974)**
Earnings for the period	**15,605**	**-**	**15,605**	**22,296**	**-**	**22,296**	**(6,691)**	**-**	**(6,691)**
Non-controlling interest	144	-	144	144	-	144	-	-	-
Earnings for the period (part attributable to the Trust)	**15,461**	**-**	**15,461**	**22,152**	**-**	**22,152**	**(6,691)**	**-**	**(6,691)**

(1) Income statement amounts presented for the REIT were taken from the audited consolidated financial statements as at December 31, 2019 and December 31, 2018.

Consolidated statement of earning – restated (Cont'd)

	Three months ended								
	December 31,2018 As restated			December 31,2018 As previously reported			December 31,2018 Restatement		
(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**	**Amounts per REIT's financial statements (1)**	**Share of earnings from investments in joint ventures**	**Total**
Rental income	6,039	3,542	**9,581**	6,039	3,542	**9,581**	-	-	**-**
Service charge income	1,241	367	**1,608**	1,241	367	**1,608**	-	-	**-**
Service charge expenses	(1,140)	(623)	**(1,763)**	(1,140)	(623)	**(1,763)**	-	-	**-**
Other revenues	52	(118)	**(66)**	52	(118)	**(66)**	-	-	**-**
Other property operating expenses	(56)	(58)	**(114)**	(56)	(58)	**(114)**	-	-	**-**
Net rental earnings	**6,136**	**3,110**	**9,246**	**6,136**	**3,110**	**9,246**	**-**	**-**	**-**
Administration expenses	(1,049)	(586)	**(1,635)**	(1,070)	(586)	**(1,656)**	21	-	**21**
Foreign exchange gain	35	-	**35**	35	-	**35**	-	-	**-**
Net change in fair value of investment properties	59	1,326	**1,385**	59	1,326	**1,385**	-	-	**-**
Acquisition costs	-	-	**-**	21	-	**21**	(21)	-	**(21)**
Share of profit of an investment (equity method)	4,427	(4,427)	**-**	4,427	(4,427)	**-**	-	-	**-**
Operating earnings	**9,608**	**(577)**	**9,031**	**9,608**	**(577)**	**9,031**	**-**	**-**	**-**
Gain (loss) on financial instruments at fair value through P&L	1,444	(21)	**1,423**	4,771	(21)	**4,750**	(3,327)	-	**(3,327)**
Finance income	1,614	592	**2,206**	(129)	592	**463**	1,743	-	**1,743**
Finance costs	(2,668)	(865)	**(3,533)**	(2,826)	(1,230)	**(4,056)**	158	365	**523**
Badwill recovery	-	1,339	**1,339**	-	1,339	**1,339**	-	-	**-**
Additionnal income (loss) from Arcueil's JV	-	206	**206**	-	206	**206**	-	-	**-**
Distributions on Exchangeable securities	(197)	-	**(197)**	(197)	-	**(197)**	-	-	**-**
Net change in fair value of Exchangeable securities	1,281	-	**1,281**	1,281	-	**1,281**	-	-	**-**
Net change in fair value of Promissory notes	4,681	(365)	**4,316**	5,318	-	**5,318**	(637)	(365)	**(1,002)**
Earnings before income taxes	**15,763**	**309**	**16,072**	**17,826**	**309**	**18,135**	**(2,063)**	**-**	**(2,063)**
Current income tax expense	(106)	(52)	**(158)**	(106)	(52)	**(158)**	-	-	**-**
Deferred income tax expense	(1,265)	(257)	**(1,522)**	(997)	(257)	**(1,254)**	(268)	-	**(268)**
Earnings for the period	**14,392**	**-**	**14,392**	**16,723**	**-**	**16,723**	**(2,331)**	**-**	**(2,331)**
Non-controlling interest	157	-	157	157	-	157	-	-	-
Earnings for the period (part attributable to the Trust)	**14,235**	**-**	**14,235**	**16,566**	**-**	**16,566**	**(2,331)**	**-**	**(2,331)**

(1) Income statement amounts presented for the REIT were taken from the audited consolidated financial statements as at December 31, 2019 and December 31, 2018.

CONSOLIDATED FINANCIAL INFORMATION

Consolidated Statements of Earnings

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

(in thousands of CAD$)	Three months ended December 31, 2019	Three months ended December 31, 2018 as restated	Twelve months ended December 31, 2019	Twelve months ended December 31, 2018 as restated
Rental income	6,261	6,039	25,524	25,434
Property operating cost recoveries	1,843	1,241	7,966	7,248
Property operating costs	(1,706)	(1,140)	(10,586)	(9,668)
Other revenues	38	52	447	804
Other property operating expenses	(57)	(56)	(362)	(289)
Net rental earnings	6,379	6,136	22,989	23,529
Administration expenses	(1,789)	(1,049)	(6,548)	(5,223)
Foreign exchange gain	5	35	-	120
Net change in fair value of investment properties	12,233	59	16,722	335
Loss on disposal of investment properties	-	-	(56)	-
Share of net earnings from investments accounted for using the equity method	10,897	4,427	11,782	5,850
Operating earnings	27,725	9,608	44,889	24,611
Loss on financial instruments at fair value through profit or loss	2,358	1,444	815	4,372
Finance income	2,105	1,614	8,848	7,775
Finance costs	(2,416)	(2,668)	(10,191)	(10,274)
Distributions on Exchangeable securities	(180)	(197)	(708)	(1,016)
Net change in fair value of Exchangeable securities	(174)	1,281	(871)	1,482
Net change in fair value of Promissory Notes	(944)	4,681	(5,438)	1,020
Earnings before income taxes	28,474	15,763	37,344	27,970
Current income tax expense	(1,543)	(106)	(1,733)	(131)
Deferred income tax expense	3,224	(1,265)	920	(12,234)
Earnings for the period	**30,155**	**14,392**	**36,531**	**15,605**
Non-controlling interest	61	157	82	144
Earnings for the period (part attributable to the Trust)	**30,094**	**14,235**	**36,449**	**15,461**

DISCUSSION OF STATEMENT OF CONSOLIDATED EARNINGS

Net rental earnings

Net rental income for the three months ended December 31, 2019 (“Q4 2019”) was CAD$6,379 compared to CAD$6,136 for the three months ended December 31, 2018 (“Q4 2018”).

In accordance with IFRIC 21, the annual property taxes for the REIT’s properties located in France are expensed in full in the first quarter of the fiscal year. Realty tax expenses for the year are CAD$3.6 million. These taxes are paid in the fourth quarter. This results in a reduction to net rental income in the first quarter of each year with relatively higher net rental income in the subsequent three quarters. The impact of IFRIC 21 on net rental income for Q4 2019 and Q4 2018 is set out below.

	CAD		EUR	
	Q4 2019	**Q4 2018**	**Q4 2019**	**Q4 2018**
Net rental income	6,379	6,136	4,356	4,066
IFRIC 21 impact	861	895	577	582
Adjusted net rental income - IFRIC 21	5,518	5,241	3,779	3,484

Excluding negative FX impact of CAD$187, the Q4 2019 net rental income earnings have increased by CAD$429 when compared with Q4 2018 earnings. The gain in rental income is mainly due to the contribution from the Trio property, partially offset by the sale of the Hanover property.

For the year, the decrease of CAD$541 is attributable to negative foreign exchange impact of CAD$684. Excluding this impact, net rental earnings continued to grow due to the income of the newly acquired Trio property (March 2019) despite the sale of Hanover property (January 2019).

	CAD		EUR	
	YTD Q4 2019	**YTD Q4 2018**	**YTD Q4 2019**	**YTD Q4 2018**
Net rental income	22,989	23,529	15,479	15,381
IFRIC 21 impact	0	0	0	0
Adjusted net rental income - IFRIC 21	22,989	23,529	15,479	15,381

Administration expenses

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

Administration expenses for the quarter ended December 31, 2019 was CAD$1,789 compared to CAD$1,049 in Q4 2018. Asset management fees increased by CAD$185. Other general and administration expenses increased by CAD$555 attributable to CAD$344 non-recurring costs, CAD$193 related to the reorganisation of the finance function, and CAD$151 engaged for the transfer of the Trio registered office from Germany to Luxembourg.

Administration expenses for the year ended December 31, 2019 amounted to CAD$6,548, an increase of CAD$1,325 compared to Q4 2018. Asset management fees were CAD$341 lower, which was offset by approximately CAD$1,454 of non-recurring costs associated with accounting services and internal controls over financial reporting matters.

Net change in fair value of investment properties

The positive net change in fair value of the investment properties entirely owned by the REIT (the “IP Portfolio") for the quarter of CAD$12,233 relates principally to an increase in portfolio valuation.

The net change in fair value of investment properties entirely owned by the REIT (the “IP Portfolio") for the year to date amounts to CAD$16,722 mainly attributable to the Arcueil (CAD$7,172) and Vanves (CAD$11,177) properties partially offset by the negative impact of the Courbevoie property.

Share of net income from joint ventures

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

The share of net income from joint ventures were CAD$10,897 for Q4 2019 compared to CAD$4,427 for same period in 2018. Growth in earning from joint ventures is mainly attributable to Duisburg (CAD$7,185) following increase in the latest appraisal, due to the extension of the lease with Hitachi and the signing of a new lease with Regus.

In addition, interest on loans granted to joint ventures were CAD$4,866 and CAD$5,091 for 2019 and 2018, respectively.

Share of net income from joint ventures was CAD$11,782 for the year ended December 31, 2019 compared to CAD$5,850 for same period in 2018, the increase being mainly attributable to the gain on Duisburg property valuation (CAD$7,273).

Finance income

In addition to interest on loans granted to joint ventures, in Q4 2019 and Q4 2018, finance income of CAD$2,105 and CAD$1,614 respectively consisted mainly of interest earned with respect to the Rueil acquisition loan granted to an Inovalis SA subsidiary for the development of the Rueil property. The acquisition loan interest was CAD$664 in Q4 2019 compared to CAD$600 in Q4 2018. This variance is primarily due to income on a foreign exchange hedge contract for CAD$434 in the quarter, compared to a small loss of CAD$10 for Q4 2018 also due to foreign exchange.

In 2019, finance income was CAD$8,848 including foreign exchange hedging contract income (CAD$963), compared to CAD$7,775 for 2018.

Finance costs

The finance costs in Q4 2019 were CAD$2,416 compared to CAD$2,668 in Q4 2018, which include CAD$1,243 related to interest on loans and lease liabilities, CAD$868 related to promissory notes and CAD$306 due to derivative interest and other financial costs.

The finance costs year to date were CAD$10,191 compared to CAD$10,274 for 2018. The finance costs for 2019 include CAD$4,875 related to interests on loans and lease liabilities, CAD$3,528 related to promissory notes and CAD$1,788 due to derivative interest and other financial costs.

Distributions on Exchangeable Securities

Distributions to the holders of exchangeable securities are calculated in a manner to provide a return that is economically equivalent to the distributions received by the Unitholders. In Q4 2019 the distributions on exchangeable securities were CAD$180 compared to CAD$197 in Q4 2018 as fewer exchangeable securities were outstanding due to three conversions of exchangeable securities into units in Q3 2018, Q4 2018 and Q2 2019.

Net change in fair value of Exchangeable securities

Exchangeable securities are a liability recorded at fair value based on the market price of the REIT Units, thus an increase of the REIT unit price increase the value of the liability. The closing price was CAD$10.66 on December 31, 2019 compared to CAD$9.45 at close of December 31, 2018, explaining the loss in the net change in fair value of exchangeable securities.

Net change in fair value of Promissory Notes

Promissory notes are a liability recorded at fair value based on the market price of the REIT Units, thus an increase of the REIT unit price increase the value of the liability (see above unit price at period ends).

Deferred tax expenses

The Double Taxation Treaty between France and Luxembourg was ratified on July 2, 2019. As the instruments of ratification have been exchanged between the two countries, the new DTT came into effect on January 1, 2020. See section *Restatement of the 2018 consolidated financial statements* in this MD&A and in the 2019 Financial Statements for a detailed description of the effect on 2018 results.

The TRIO acquisition includes an unrecognized deferred tax liability of €1,991 ($3,007) in relation to the IAS 12 recognition exemption on acquisition of assets.

Following the sale of the Vanves property, deferred income tax for the three months ended December 31, 2019 is recorded as a gain of CAD$3,224 compared to a CAD$1,265 expense for the same period last year.

The year to date deferred income tax liability for the year ended December 31, 2018 resulted in an expense of CAD$12,234 compared to a recovery of CAD$920 for the year ended December 31, 2019.

INVESTMENT PROPERTIES

Fair value

The fair value of the REIT's Investment Property Portfolio as at December 31, 2019 was CAD$478,700 (EUR 328,665) compared to CAD$421,937 (EUR 269,833) at December 31, 2018. The increase of CAD$56,763 includes foreign exchange adjustments of CAD$31,037. The portfolio value has been mostly impacted by the acquisition of the Trio property for CAD$71,443, the buyback of the Arcueil property in December 2019 (now fully consolidated for CAD$134,005) and Vanves property disposition for CAD$136,330.

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

Building improvements

The REIT is committed to improve its operating performance by incurring appropriate capital expenditures to replace and maintain the productive capacity of its Total Portfolio to sustain its rental income generating potential over the portfolio's useful life. Over CAD$500 of capital expenditures has been completed during Q4 2019 and CAD$1,545 during all of 2019 compared to CAD$3,858 in the previous year. In 2018, important improvement works have been completed on Courbevoie and Metropolitain properties

OTHER SIGNIFICANT ASSETS

Investments accounted for using the equity method

Investments accounted for using the equity method encompasses the interest the REIT (through its subsidiaries) has in the Duisburg property (50%), the Walpur (Bad Homburg) property (50%), the Stuttgart property (50%), the Délizy property (50%), the Arrow (Neu-Isenburg) property (50%), the Kösching property (50%) and the Cologne property (6%).

The REIT's investment in joint ventures accounted for using the equity method was CAD$100,782 on December 31, 2019 compared to CAD$97,604 on December 31, 2018. The increase of CAD$3,178 is mainly due to the share of net profit of the year for CAD$11,782 coming principally from Duisburg property, explained by a gain of CD$7,273 on the fair value of the property following two new leases extension or signature. The impact of the positive results of the year was partially offset by the exchange rate fluctuation of CAD$6,881 and repayments of loans for CAD$1,723.

Acquisition loan

As at December 31, 2019, acquisition loan of CAD$24,744 (EUR 16,989), now classified at current assets, consists of loan granted in Euro to an Inovalis SA's subsidiary for the development of the Rueil property.

Trade and other receivables

Trade and other receivables as at December 31, 2019 amounted to CAD$4,437, stable over the year compared to the CAD$4,000 at December 31, 2018.

Trade and other payables

Trade and other payables as at December 31, 2019 amounted to CAD$34,336 compared to the CAD$7,145 at December 31, 2018. The increase is mainly due to the debt to joint venture on acquisition of Arcueil property (CAD$13,841) and to VAT payable on Vanves sale (CAD$9,603), both paid in January 2020.

PRESENTATION OF CAPITAL

Liquidity and capital resources

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

The REIT's cash available was CAD$83,409 as at December 31, 2019 compared to CAD$19,110 as at December 31, 2018, following the sale of the Vanves property and the equity offering in December 2019.

Financing activities

The debt strategy is to have secured mortgage financing with a term to maturity commensurate with the profile of the REIT's portfolio and to put in place, where appropriate, interest-bearing financings using fixed rate or floating rate financings with a cap. As such, 82.5% of the REIT's senior debt benefits from an interest rate protection (54,2% in the form of a swap and 28.3% 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. The REIT has a diversified base of senior debt providers with no financial institution representing more than 25% of the senior debt commitment.

Debt-to-book value

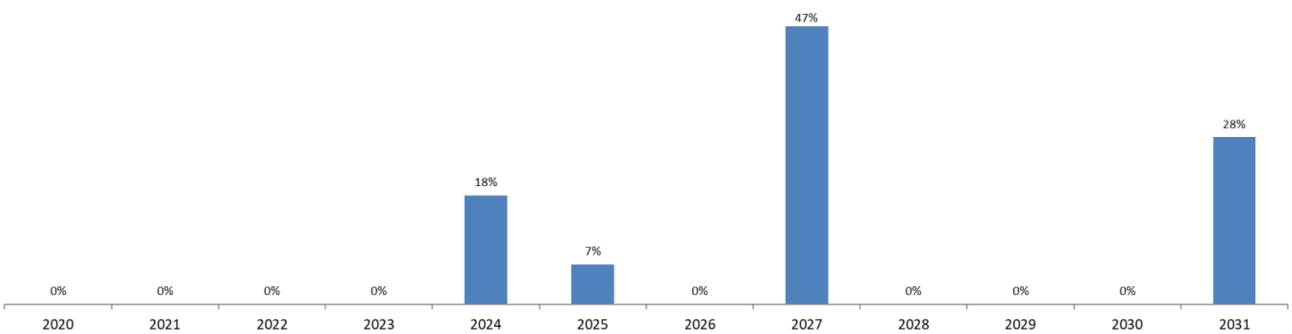
The debt-to-book value ratio is calculated on a look-through basis and considers the REIT's apportioned amount of indebtedness at the partnership level. Indebtedness at the REIT level, as well as at the different partnership levels is calculated as the sum of (i) lease liabilities, (ii) mortgage loans,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

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

Total Portfolio incorporating interest in joint ventures	As at December 31, 2019	As at December 31, 2018 as restated
Weighted average interest rate (1)	2.00%	2.11%
Debt-to-book value (2)	46.0%	48.5%
Debt-to-book value, net of cash (2)	39.0%	46.6%
Interest coverage ratio (3)	4.0 x	3.7 x
Debt due in next 12 months in thousand of CAD$	29,531	22,573
Weighted average term to maturity of debt (4)	5.3 years	5.1 years

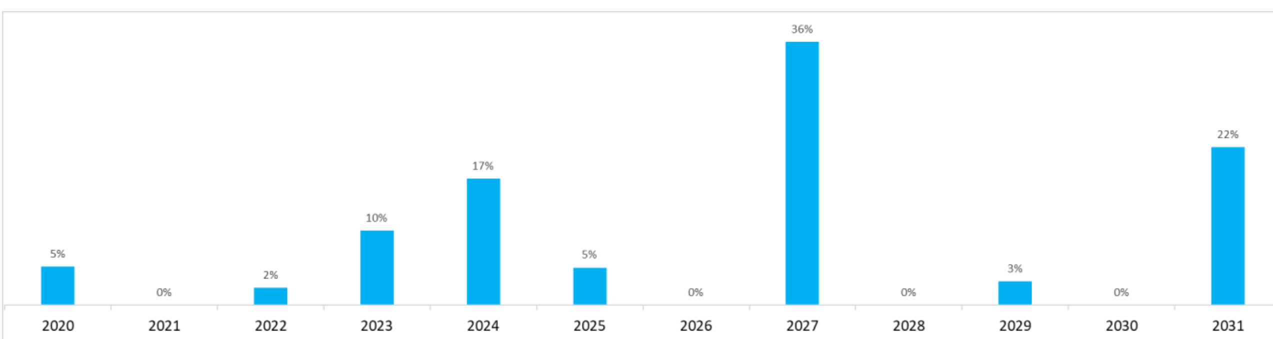
(1) Calculated as the weighted average interest rate paid on lease liabilities and the mortgage financing.
(2) The definition of *debt-to-book value* and of *debt-to-book value, net of cash* can be found in the *Debt-to-book value* note above.
(3) Calculated as net rental earnings plus interest, less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

Leasehold and Mortgage Financing Maturity Profile
(% of amount outstanding as at December 31, 2019)



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

Leasehold and Mortgage Financing Maturity Profile
(Total Portfolio including joint ventures)
(% of amount outstanding as at December 31, 2019)



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

ANALYSIS OF DISTRIBUTED CASH

	For the three months ended December 31		For the year ended December 31	
	2019	2018 as restated	2019	2018 as restated
Cash flows from operating activities (A)	5,668	5,474	23,494	19,361
Earnings before income taxes (B)	28,474	15,763	37,344	27,970
Declared distribution on Units (C)	5,258	4,816	19,905	18,927
Excess of cash flows from operating activities over cash distributions paid (A-C)	410	658	3,589	434
Excess of profit over cash distributions paid (B - C)	23,216	10,947	17,439	9,043

Cash flows from operating activities is one of the measures of the REIT's ability to pay distributions.

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

As quantified in the FFO and AFFO calculations, the funds required to make the distributions on Units, exchangeable securities and promissory notes for the three months ended December 31, 2019, i.e. CAD$5,668, were less than the FFO (CAD$6,744) and AFFO (CAD$8,176) for the said quarter.

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

The REIT is subject to risks involving the economy in general, including inflation, deflation or stagflation, unemployment, geopolitical issues and a local, regional, national or international outbreak of a contagious disease, including coronavirus. Poor economic conditions could adversely affect the REIT’s ability to generate revenues, thereby reducing its operating income and earnings. It could also have an adverse impact on the ability of the REIT to maintain occupancy rates which could harm the REIT’s financial condition. In weak economic environments, the REIT’s tenants may be unable to meet their rental payments and other obligations due to the REIT, which could have a material and adverse effect on the REIT. In addition, fluctuation in interest rates or other financial market volatility may adversely affect the REIT's ability to refinance existing Indebtedness on its maturity or on terms that are as favourable as the terms of the existing Indebtedness, which may impact negatively on AFFO, may restrict the availability of financing for future prospective purchasers of the REIT’s investments and could potentially reduce the value of such investments, or may adversely affect the ability of the REIT to complete acquisitions on financially desirable terms. With respect to the coronavirus outbreak, Management is monitoring the situation closely and has proactively raised its level of preparedness planning to adapt more quickly should risk levels rise. Management has developed a business continuity plan and will continue to monitor and adjust its plans as the coronavirus outbreak evolves.

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.

Public Health Crises

A local, regional, national or international pandemic, epidemic or outbreak of a contagious disease, including the COVID-19 coronavirus, could result in a general or acute decline in economic activity in the regions the REIT holds assets, a decrease in the willingness of the general population to travel, staff shortages, mobility restrictions, supply shortages, increased government regulation, and the quarantine or contamination of one or more of the REIT's assets or offices. Contagion in a REIT building, office or market in which the REIT operates could negatively impact the REIT's business, its tenants, results of operations or reputation.

Concentration of tenants may result in significant vacancies on the Properties

Five of the REIT's largest tenants, by percentage of total GLA, occupy approximately 50% of the total weighted areas. Although all five tenants are committed to multi-year leases, which are set to expire gradually between 2020 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 2023 and 2027. 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

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

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

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"), 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.

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

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

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

The REIT may incur significant capital expenditures

Certain significant expenditures must be made throughout the period of ownership of real property, regardless of whether the property is producing sufficient income to pay such expenses. 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 the REIT to undertake appropriate maintenance and refurbishment work in response to the factors described above could entitle tenants to withhold or reduce rental payments or even to terminate existing leases. Any such event could have a material adverse effect on our cash flows, financial condition and results of operations and our ability to make distributions on the Units.

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

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

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

Changes in government regulations may affect our investment in our properties

The REIT is subject to laws and regulations governing the ownership 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 the REIT operates are also subject to change. Any changes in investment policies or shifts in political attitudes may adversely affect our investments. Any changes in the laws to which the REIT is subject in the jurisdictions in which it operates could materially affect the rights and title to the properties. All 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 the REIT is subject or the effect of any such change on investments.

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

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

Changes in currency exchange rates could adversely affect our business

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

Changes in interest rates could adversely affect cash flows and the REIT's ability to pay distributions and make interest payments

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

Dependence on Inovalis SA for management services

The REIT is dependent on Inovalis SA with respect to the asset management of properties and the property management of the properties. Consequently, the REIT's ability to achieve our investment objectives depends in large part on Inovalis SA and its ability to provide advice. This means that the REIT's 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 the REIT 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

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

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

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

Reliance on partnerships

The REIT has a material non-controlling interest in partnerships with several institutional investors. These arrangements create a risk as the business objectives or economic interests of the partner, as in any joint business arrangement, may not be aligned with those of the REIT. The partner may want to make decisions that negatively affect the value of its real estate assets or income of the REIT. Such investments may involve risks 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 January 20, 2016, 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 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 and INOPCI2 which are OPCI (collective undertaking for real estate investment) to CanCorpEurope ("CCEU") and Arcueil SI Sarl, respectively.

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

Arcueil SCS is a Luxembourg partnership (société en commmandite simple) 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. Although CCEU holds 25% of the partnership interest, the income and expenses will be allocated to CCEU from a Luxembourg tax perspective pursuant the terms of the joint venture agreement.

The Double Taxation Treaty ("DTT") applicable in 2019 between France and Luxembourg requires that the REIT incurs French withholding tax of 5% on the dividend received from their France based OPCI. In 2018, the Governments of France and Luxembourg signed a new DTT (the "New Treaty") and accompanying Protocol entered in force as of January 1, 2020. As of January 1, 2020, dividends paid by OPCI will be progressively subject to tax at a rate of 25% (28% in 2020; 26.5% in 2021 and 25% in 2022). The conversion of LuxCo into a regulated eligible entity known as Specialized investment fund ("SIF") benefits from a reduced withholding rate of 15% on the basis of the provisions of the New Treaty.

CanCorp Duisburg ("CCD"), Trio and TFI CC are Luxembourg limited liability companies that are managed in Luxembourg and, therefore, should not be considered tax resident of Germany for German tax purposes. Similarly, Cologne is an SCI and should not be considered tax resident of Germany for German tax purposes (CCD, TFI CC, Trio, and Cancorp Cologne are collectively called the ("German Co"). However, the German Co would be subject to corporate income tax ("CIT") in Germany on their German source 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.

Luxco Conversion of corporate status

The REIT is in the process of having Luxco applying for the SIF status, within the meaning of the Luxembourg law of 13 February 2007, with multiple compartments and variable capital ("Société d'Investissement à Capital Variable") subject to a tax of 0.01% (so called “taxe d’abonnement”) per annum of its Net Asset Value, which will incidentally make it also eligible for a dividend withholding tax at a reduced rate of 15%. Eligibility for the reduced 15% dividend withholding tax is conditional upon the completion of certain formalities with the Commission de Surveillance du Secteur Financier, the Luxembourg Financial Regulatory Authority. The restructuring is not expected to result in material Canadian or foreign tax consequences; however, no assurance can be given that the CRA or a foreign tax authority will not challenge certain positions taken by the REIT and the REIT’s subsidiaries in connection with the restructuring of Luxco.

OUTLOOK

What cannot be verily factored into the outlook is the Black Swan event that has emerged in Q1 2020: the virtual shut down of the worldwide economy and trade due to the COVID-19 (coronavirus) outbreak. It is impossible to know the full economic impact of this yet but a serious impact on the French and German economies seems inevitable.

Management remains focused on fundamentals such as actively managing properties and continuously assessing potential acquisitions in target markets with a focus on the ones offering value and stability. The REIT’s long-term credit worthy tenants, low cost of debt with staggered maturities and the foreign exchange rate contracts for distributions in place until October 2020 and renewed until Q4 2022, provide predictable cash flows and serve as a basis for future growth.

CRITICAL ACCOUNTING POLICIES

The preparation of the REIT's consolidated financial statements in conformity with GAAP requires management to make judgments, estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities. Management basis its judgements, estimates and assumptions on experience and other factors it believes to be reasonable under the circumstances. However, uncertainty about these judgements, estimates and assumptions could result in outcomes requiring a material adjustment to the carrying amount of the asset or liability affected in future periods. Critical accounting judgements estimates and assumptions in applying accounting policies are described in Note 4 to the annual audited consolidated financial statements of the REIT for the year ended December 31, 2019.

A description of significant accounting policies is provided in note 3 of the consolidated financial statements as at December 31, 2019.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

<u>Disclosure Controls and Procedures (“DCP”)</u>

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

The CEO and CFO concluded that such disclosure controls and procedures were not fully effective as at December 31, 2019 as a result of material weaknesses in the REIT’s internal control over financial reporting, as further described below.

Notwithstanding the material weaknesses identified, the REIT has concluded that the financial statements, as at December 31, 2019, are fairly represented in all material respects, in accordance with IFRS.

Internal Controls over Financial Reporting ("ICFR")

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

- Non-performance of a fraud risk assessment and resulting mitigation program;
- Incomplete design and assessment of business process controls and information technology general controls;
- Inadequate accounting policies related to complex transactions, certain new accounting pronouncements and complex financial instruments;
- Inadequate accounting for deferred income taxes;
- Inadequate evidence of review and approval over source documentation and financial statement preparation.

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

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

Notwithstanding the material weaknesses identified, the REIT has concluded that the financial statements, as at December 31, 2019, are fairly represented in all material respects, in accordance with IFRS.

Remediation Plans and Actions Undertaken

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

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

As part of its remediation plan, the REIT is acting on the recommendations of an independent consulting firm that was engaged in June 2019 to identify and articulate opportunities to improve the efficiency and effectiveness of the financial close, consolidate and reporting ("CCR"). In Q4 2019, management enhanced the REIT's financial reporting processes in asset valuation, improved the documentation of complex transactions and codified internal control processes. Management expects to have all process-level and entity-level internal controls validated and effective by the end of Q2 2020. Management is also finalizing recruitment of a senior finance executive to be located in Canada and who will have responsibility for the oversight of financial reporting for the REIT.

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

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

Inherent Limitations

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

SELECTED FINANCIAL INFORMATION

	For the year ended December 31,			
(in thousands of CAD$)	2019	2018 as restated	2017	2016
Revenue (excluding finance income)	33,937	33,486	32,688	31,120
Revenue (including finance income)	42,785	41,261	39,506	35,464
Net income attributable to Unitholders	36,449	15,461	19,167	23,284
Net income	36,531	15,605	19,364	23,405
Assets	710,206	618,241	576,709	510,125
Non-current liabilities	267,600	229,691	255,441	219,573
Distribution per unit	$ 0.825	$ 0.825	$ 0.825	$ 0.825

NON-GAAP FINANCIAL MEASURES

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

(in thousands of CAD$)	Three months ended 2019	Three months ended 2018 as restated	Twelve months ended 2019	Twelve months ended 2018 as restated
Rental income	9,242	9,581	38,045	38,515
Property operating cost recoveries	2,351	1,608	10,908	10,289
Property operating costs	(2,482)	(1,763)	(14,270)	(13,459)
Other revenues	98	(66)	533	506
Other property operating expenses	(63)	(114)	(433)	(362)
Net rental earnings	**9,146**	**9,246**	**34,783**	**35,489**
Administration expenses	(2,425)	(1,635)	(8,722)	(7,236)
Foreign exchange gain (loss)	5	35	-	120
Net change in fair value of investment properties	27,566	1,385	31,323	2,194
Loss on disposal of investment properties	(2,606)	-	(2,663)	-
Acquisition costs	-	-	-	467
Operating earnings	**31,686**	**9,031**	**54,721**	**31,034**
Gain (loss) on financial instruments at fair value through P&L	2,379	1,423	834	4,347
Finance income	1,071	2,206	3,903	4,316
Finance costs	(2,583)	(3,533)	(12,193)	(13,210)
Badwill recovery	-	1,339	-	1,339
Additionnal income (loss) from Arcueil's JV	(1,379)	206	(1,365)	(112)
Distributions on Exchangeable securities	(180)	(197)	(708)	(1,016)
Net change in fair value of Exchangeable securities	(174)	1,281	(871)	1,482
Net change in fair value of Promissory notes	(944)	4,316	(5,438)	1,020
Earnings before income taxes	**29,876**	**16,072**	**38,883**	**29,200**
Current income tax expense	(1,645)	(158)	(1,851)	(242)
Deferred income tax expense	1,924	(1,522)	(501)	(13,353)
Earnings for the period	**30,155**	**14,392**	**36,531**	**15,605**
Non-controlling interest	61	157	82	144
Earnings for the period (part attributable to the Trust)	**30,094**	**14,235**	**36,449**	**15,461**

LAST 24 MONTHS – KEY FINANCIAL INFORMATION

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

	Three month period ended							
(in thousands of CAD$)	**Dec. 31, 2019**	**Sept. 30, 2019**	**June 30, 2019**	**March 31, 2019**	**Dec. 31, 2018 as restated**	**Sept. 30, 2018 as restated**	**June 30, 2018 as restated**	**March 31, 2018 as restated**
Rental income	6,261	6,627	6,593	6,043	6,039	6,142	6,539	6,714
Rental income - Total Portfolio	***9,242***	***9,750***	***9,794***	***9,259***	***9,581***	***9,386***	***9,830***	***9,718***
Net rental earnings	6,379	6,980	6,726	2,904	6,136	6,669	6,882	3,842
Net rental earnings - Total Portfolio	***9,146***	***10,173***	***9,937***	***5,527***	***9,246***	***10,013***	***10,315***	***5,915***
Net income (loss) for the period	30,155	5,396	3,056	(2,076)	14,392	3,365	6,342	(8,495)

NON-GAAP RECONCILIATION

Investments in joint ventures

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

For the Arcueil joint venture, the consolidation presentation reflects a 25% proportionate share of results from January 1 to December 18, 2019 which aligns with the REIT 25% ownership interest before buyback transaction. Per the joint venture agreement, and as reflected in the condensed interim consolidated financial statements, the REIT was 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 twelve-month periods ended December 31, 2019, the proportional financial results include the following proportion of the revenues and expenses of each one of the joint ventures: 50% respectively for Duisburg, Walpur (Bad Homburg), Stuttgart, Délizy, Arrow (Neu-Isenburg) and Kösching , 25% for Arcueil from January 1 to December 18, 2019, and 6% for Cologne.

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

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

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

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

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

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

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

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

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

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

FFO and AFFO

(in thousands of CAD$)	Three months ended December 31, 2019	Three months ended December 31, 2018 as restated	Twelve months ended December 31, 2019	Twelve months ended December 31, 2018 as restated
Earnings for the period	30,094	14,235	36,449	15,461
Add/(Deduct):				
Adjustment to related acquisition costs	-	-	-	(467)
Badwill	-	(1,339)	-	(1,339)
Net change in fair value of investment properties	(27,566)	(1,385)	(31,323)	(2,194)
(Gain) loss on financial instruments at fair value through profit and loss	773	5,352	4,950	(4,347)
Net change in fair value of derivative on acquisition loan	(1,576)	(5,051)	(2,892)	5,051
Loss on disposal of investment properties	2,606	-	2,663	-
Adjustment for property taxes accounted for under IFRIC 21	(1,033)	(1,079)	-	-
Additional income (loss from Arcueil's JV)	1,379	(206)	1,365	112
Interest on promissory notes	868	518	3,528	3,105
Distributions on Exchangeable securities	180	198	708	1,016
Change in fair value of Exchangeable securities	174	(1,281)	871	(1,482)
Change in fair value of Promissory Notes	944	(4,316)	5,438	(1,020)
Foreign exchange (loss) gain	(5)	(35)	-	(120)
Other non-recurring finance costs	(155)	(165)	108	(141)
Tax on gains or losses on disposals of properties	1,773	-	1,773	-
Deferred income tax expense	(1,924)	1,522	501	13,354
Others adjustments	151	-	151	-
Minority interest	61	157	82	144
FFO	**6,744**	**7,125**	**24,372**	**27,133**
Add/(Deduct):				
Non-cash effect of straight line rents	1,696	276	2,186	857
Cash effect of the lease equalization loans	(246)	(366)	(1,090)	(1,261)
Amortization of transaction costs on mortgage loans	78	69	305	289
Non-cash part of asset management fees paid in Exchangeable securities (1)	404	289	1,569	1,740
Capex net of cash subsidy	(500)	(2,869)	(1,800)	(4,944)
AFFO	**8,176**	**4,524**	**25,542**	**23,814**
FFO / Units (diluted) *(in CAD$)*	**0.22**	**0.25**	**0.83**	**0.97**
AFFO / Units (diluted) *(in CAD$)*	**0.26**	**0.16**	**0.87**	**0.85**

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

Balance sheet reconciliation to consolidated financial statements

Assets	As at December 31,2019			As at December 31, 2018 as restated		
	As per REIT's financial statements (1)	Share from investments in joint-ventures	Proportionate Consolidation	As per REIT's financial statements (1)	Share from investments in joint-ventures	Proportionate Consolidation
Non-current assets						
Investment properties	478,700	173,313	**652,013**	421,937	207,752	**629,689**
Investments accounted for using the equity method	100,782	(100,782)	**-**	97,604	(97,604)	**-**
Acquisition loans	-	-	**-**	25,719	-	**25,719**
Derivative financial instruments	10	-	**10**	306	28	**334**
Restricted cash	4,705	-	**4,705**	1,644	280	**1,924**
Total non-current assets	584,197	72,531	**656,728**	547,210	110,456	**657,666**
Current assets						
Trade and other financial assets	4,437	269	**4,706**	4,000	1,126	**5,126**
Derivative financial instruments	1,704	19	**1,723**	64	20	**84**
Call option related to the acquisition loan	9,124	-	**9,124**	6,750		**6,750**
Acquisition loan	24,744	-	**24,744**	-	-	**-**
Other current assets	2,093	968	**3,061**	1,080	1,166	**2,246**
Restricted cash	498		**498**	-	-	**-**
Cash and cash equivalents	83,409	7,639	**91,048**	19,110	6,444	**25,554**
Total current assets	126,009	8,895	**134,904**	31,004	8,756	**39,760**
Assets classified as held for sale	-	-	**-**	40,027	-	**40,027**
Total assets	710,206	81,426	**791,632**	618,241	119,212	**737,453**
Liabilities and Unitholders' equity						
Liabilities						
Non-current liabilities						
Interest-bearing loan	473	-	**473**	-	-	**-**
Mortgage loans	130,162	53,714	**183,876**	83,391	76,850	**160,241**
Finance lease liabilities	116,968	10,730	**127,698**	120,547	28,442	**148,989**
Other long-term liabilities	-	-	**-**	-	638	**638**
Lease equalization loans	343	-	**343**	2,130	-	**2,130**
Tenant deposits	1,930	142	**2,072**	2,180	134	**2,314**
Exchangeable securities	2,695	-	**2,695**	4,779	-	**4,779**
Derivative financial instruments	2,734	-	**2,734**	1,396	107	**1,503**
Deferred tax liabilities	12,295	8,519	**20,814**	14,169	7,640	**21,809**
Deferred income	-	-	**-**	1,099	-	**1,099**
Total non-current liabilities	267,600	73,105	**340,705**	229,691	113,811	**343,502**
Current liabilities						
Interest-bearing loan	4	-	**4**	-	-	**-**
Promissory Notes	47,909	-	**47,909**	42,471	-	**42,471**
Mortgage loans	4,198	17,988	**22,186**	14,588	35	**14,623**
Finance lease liabilities	6,910	435	**7,345**	6,637	1,313	**7,950**
Lease equalization loans	1,676	-	**1,676**	1,185	-	**1,185**
Tenant deposits	577	22	**599**	687	23	**710**
Exchangeable securities	6,867	-	**6,867**	3,203	-	**3,203**
Derivative financial instruments	1,494	1	**1,495**	1,207	-	**1,207**
Trade and other payables	34,336	(10,338)	**23,998**	7,145	3,775	**10,920**
Deferred income	5,491	213	**5,704**	4,394	255	**4,649**
Total current liabilities	109,462	8,321	117,783	81,517	5,401	**86,918**
Liabilities directly associated with assets classified as held for sale	-	-	-	21,792	-	**21,792**
Total liabilities	377,062	81,426	**458,488**	333,000	119,212	**452,212**
Equity						
Trust units	259,526	-	**259,526**	207,442	-	**207,442**
Retained earnings	57,827	-	**57,827**	41,283	-	**41,283**
Accumulated other comprehensive income	14,591	-	**14,591**	35,997	-	**35,997**
	331,944	-	**331,944**	284,722	-	**284,722**
Non-controlling interest	1,200	-	**1,200**	519	-	**519**
Total liabilities and equity	710,206	81,426	**791,632**	618,241	119,212	**737,453**

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

Consolidated statement of earnings reconciliation to consolidated financial statements

	Three months ended					
	As at December 31,2019			December 31, 2018 as restated		
(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	6,261	2,981	**9,242**	6,039	3,542	**9,581**
Property operating cost recoveries	1,843	508	**2,351**	1,241	367	**1,608**
Property operating costs	(1,706)	(776)	**(2,482)**	(1,140)	(623)	**(1,763)**
Other revenues	38	60	**98**	52	(118)	**(66)**
Other property operating expenses	(57)	(6)	**(63)**	(56)	(58)	**(114)**
Net rental earnings	**6,379**	**2,767**	9,146	**6,136**	**3,110**	9,246
Administration expenses	(1,789)	(636)	**(2,425)**	(1,049)	(586)	**(1,635)**
Foreign exchange gain	5	-	**5**	35	-	**35**
Net change in fair value of investment properties	12,233	15,333	**27,566**	59	1,326	**1,385**
Loss on disposal of investment properties	-	(2,606)	**(2,606)**		-	
Share of profit of an investment (equity method)	10,897	(10,897)	**-**	4,427	(4,427)	**-**
Operating earnings	**27,725**	**3,961**	**31,686**	**9,608**	**(577)**	**9,031**
Gain (loss) on financial instruments at fair value through P&L	2,358	21	**2,379**	1,444	(21)	**1,423**
Finance income	2,105	(1,034)	**1,071**	1,614	592	**2,206**
Finance costs	(2,416)	(167)	**(2,583)**	(2,668)	(865)	**(3,533)**
Badwill recovery	-	-	**-**	-	1,339	**1,339**
Additionnal income (loss) from Arcueil's JV	-	(1,379)	**(1,379)**	-	206	**206**
Distributions on Exchangeable securities	(180)	-	**(180)**	(197)	-	**(197)**
Net change in fair value of Exchangeable securities	(174)	-	**(174)**	1,281	-	**1,281**
Net change in fair value of Promissory notes	(944)	-	**(944)**	4,681	(365)	**4,316**
Earnings before income taxes	**28,474**	**1,402**	**29,876**	**15,763**	**309**	**16,072**
Current income tax expense	(1,543)	(102)	**(1,645)**	(106)	(52)	**(158)**
Deferred income tax expense	3,224	(1,300)	**1,924**	(1,265)	(257)	**(1,522)**
Earnings for the period	**30,155**	**-**	**30,155**	**14,392**	**-**	**14,392**
Non-controlling interest	61	-	61	157	-	157
Earnings for the period (part attributable to the Trust)	**30,094**	**-**	**30,094**	**14,235**	**-**	**14,235**

(1) Income statement amounts presented for the REIT were taken from the audited consolidated financial statements as at December 31, 2019 and December 31, 2018.

Consolidated statement of earnings reconciliation to consolidated financial statements - Continued

(in thousands of CAD$)	Twelve months ended December 31, 2019 Amounts per REIT's financial statements (1)	 December 31, 2019 Share of net earnings from investments in joint ventures	 December 31, 2019 Total	 December 31, 2018 as restated Amounts per REIT's financial statements (1)	 December 31, 2018 as restated Share of earnings from investments in joint ventures	 December 31, 2018 as restated Total
Rental income	25,524	12,521	**38,045**	25,434	13,081	**38,515**
Property operating cost recoveries	7,966	2,942	**10,908**	7,248	3,041	**10,289**
Property operating costs	(10,586)	(3,684)	**(14,270)**	(9,668)	(3,791)	**(13,459)**
Other revenues	447	86	**533**	804	(298)	**506**
Other property operating expenses	(362)	(71)	**(433)**	(289)	(73)	**(362)**
Net rental earnings	**22,989**	**11,794**	**34,783**	**23,529**	**11,960**	**35,489**
Administration expenses	(6,548)	(2,174)	**(8,722)**	(5,223)	(2,013)	**(7,236)**
Foreign exchange gain	-	-	**-**	120	-	**120**
Net change in fair value of investment properties	16,722	14,601	**31,323**	335	1,859	**2,194**
Loss on disposal of investment properties	(56)	(2,607)	**(2,663)**	-	-	-
Acquisition costs	-	-	**-**	-	467	**467**
Share of profit of an investment (equity method)	11,782	(11,782)	**-**	5,850	(5,850)	**-**
Operating earnings	**44,889**	**9,832**	**54,721**	**24,611**	**6,423**	**31,034**
Gain (loss) on financial instruments at fair value through P&L	815	19	**834**	4,372	(25)	**4,347**
Finance income	8,848	(4,945)	**3,903**	7,775	(3,459)	**4,316**
Finance costs	(10,191)	(2,002)	**(12,193)**	(10,274)	(2,936)	**(13,210)**
Badwill recovery	-	-	**-**	-	1,339	**1,339**
Additionnal income (loss) from Arcueil's JV	-	(1,365)	**(1,365)**	-	(112)	**(112)**
Distributions on Exchangeable securities	(708)	-	**(708)**	(1,016)	-	**(1,016)**
Net change in fair value of Exchangeable securities	(871)	-	**(871)**	1,482	-	**1,482**
Net change in fair value of Promissory notes	(5,438)	-	**(5,438)**	1,020	-	**1,020**
Earnings before income taxes	**37,344**	**1,539**	**38,883**	**27,970**	**1,230**	**29,200**
Current income tax expense	(1,733)	(118)	**(1,851)**	(131)	(111)	**(242)**
Deferred income tax expense	920	(1,421)	**(501)**	(12,234)	(1,119)	**(13,353)**
Earnings for the period	**36,531**	**(0)**	**36,531**	**15,605**	**-**	**15,605**
Non-controlling interest	82	-	82	144	-	144
Earnings for the period (part attributable to the Trust)	**36,449** -	**(0)** -	**36,449**	**15,461**	**-**	**15,461**

(1) Income statement amounts presented for the REIT were taken from the audited consolidated financial statements as at December 31, 2019 and December 31, 2018.

Equity

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

As at December 31, 2019 the REIT has 28,742,306 Units issued and outstanding.

80,235 Units were issued pursuant to the Distribution Reinvestment Plan ("DRIP") in Q4 2019. As at December 31, 2019, 16.2% of the Units were enrolled in the DRIP.

	Three month period ended December 31, 2019	Twelve month period ended December 31, 2019
Units		
Number at beginning of period	23,826,961	23,513,652
Increase/(Decrease) in number during the period	4,835,110	4,925,610
Units issued pursuant to the DRIP	80,235	303,044
Number at end of period	28,742,306	28,742,306
Weighted average number during the period	25,503,384	24,113,497
Exchangeable securities		
Number at beginning of period	862,551	844,673
Increase in number during the period	34,531	52,409
Number at end of period	897,082	897,082
Weighted average number during the period	897,082	856,855
Promissory notes		
Number at beginning of period	4,494,301	4,494,301
Number at end of period	4,494,301	4,494,301
Weighted average number during the period	4,494,301	4,494,301
Units, Exchangeable securities and Promissory notes		
Number at beginning of period	29,183,813	28,852,626
Increase/(Decrease) in number during the period	4,949,876	5,281,063
Number at end of period	34,133,689	34,133,689
Weighted average number during the period	30,894,767	29,464,653

Distribution and management of foreign exchange risk

The Declaration of Trust provides the REIT's 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 the REIT's distribution policy, it is not considered by trustees in determining distributions.

Contracts Maturing by Quarter	Hedge Value (EUR)	Weighted average hedging rate
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
	7,862,354	

To mitigate risk of foreign exchange fluctuations on the distributions to our Unitholders, we have established an active foreign exchange hedging program. As at December 31, 2019, the REIT was committed to sell EUR786 (on average) at an average rate of 1.653 and to receive CAD$1,300 on a monthly basis until October 2020 (included).

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

SUBSEQUENT EVENTS

Covid-19 outbreak

The recent outbreak of a novel and highly contagious from of coronavirus ("COVID19"), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous deaths, adversely impacted global commercial activity and contributed to significant volatility in certain equity and debt markets. The global impact of the outbreak is rapidly evolving, and many countries have reacted by instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues. Businesses are also implementing similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of COVID-19, are creating significant disruption in supply chains and economic activity and are having a particularly adverse impact on transportation, hospitality, tourism, entertainment and other industries. The impact of COVID-19 has led to significant volatility and declines in the global public equity markets and it is uncertain how long this volatility will continue. As COVID-19 continues to spread, the potential impacts, including a global, regional or other economic recession, are increasingly uncertain and difficult to assess. Any public health emergency, including any outbreak of COVID-19 or other existing or new epidemic diseases, or the threat thereof, and the resulting financial and economic market uncertainty could have a significant adverse impact on the REIT, including the fair value of its assets and the availability of competitive financings. The financial statements of the REIT are as of, and for the year ended December 31, 2019 and the effects, directly or indirectly, resulting from COVID-19 are not reflected in such financial statements.

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