INOVALIS

REAL ESTATE INVESTMENT TRUST

CONTENTS

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 November 12, 2020.

Letter to Unitholders

As most countries face the second wave of the COVID-19 pandemic, Inovalis REIT has continued to demonstrate the resilience of its defensive business model by collecting rents and retaining its tenants throughout the global crisis. To date, 88.4% of the REIT's wholly controlled properties and 90.1% of the total portfolio are leased on a long-term basis to high-credit quality tenants and now, following months of uncertainty, leasing inquiries are being made from prospective lessees. For the three months ended September 30, 2020, 94% of rent due was paid by French tenants and nearly 100% was paid by German tenants. Quarterly FFO was CAD$6,393 (or CAD$0.19 per unit) and AFFO was CAD$5,984 (or CAD$0.18 per unit), with payout ratios slightly improving over the last quarter.

The REIT is financed almost exclusively with asset-level, non-recourse financing with an average term to maturity of 5.1 years. The REIT's debt to equity ratio is currently 47.6% for the total portfolio and 40.7% only for the wholly controlled properties by the REIT (the "IP Portfolio"). Thus far, in France and Germany, most banks continue to provide financing on terms similar to the pre-COVID period.

The REIT has reliably maintained returns to Unitholders, continuing to pay a stable, attractive distribution. The present trading price provides a very attractive investment opportunity for investors who understand the long-term value of quality real estate in strategic European locations. Investor uncertainty in the global public markets since Q1 2020 has led to price volatility. The REIT's Unit price, which was trading above CAD$11.00 in mid-February declined significantly during the drop in the public markets and is now trading just above CAD$8.00. The current Unit price still represents a significant discount of the underlying net asset value. The REIT's net asset value on September 30, 2020 was CAD$357,038, which implies a Unit price at that date of CAD$12.75/Unit or $11.88/Unit on a fully diluted basis[1].

Adding to the proceeds of last December's transactions, the partial repayment to the REIT of the Rueil acquisition loan principal in July provides the REIT with a total of CAD$73,300 in available cash on the balance sheet as at September 30, 2020. Subsequent to the end of Q3, the REIT completed the acquisition of its JV partner's 50% stake in the Bad Homburg asset, exercised its option to acquire a 20% interest in the company that has developed the Rueil property, and has updated its pipeline of opportunities. By having retained its substantial cash reserve, the REIT is well positioned to opportunistically invest in new assets as the real estate sector stabilizes. The REIT maintained a conservative approach to new investment activity throughout the chaotic months of the pandemic until there was greater clarity on economic fundamentals and governments supports.

Management remains focused on operating fundamentals, managing the properties, supporting tenants, maintaining bank relationships, and delivering results to our Unitholders.

I would like to acknowledge our Board of Trustees and management team for demonstrating extraordinary capabilities, resilience and commitment as we manage our way through the historic and unprecedented circumstances of the first three quarters of 2020. I was moved by the depth of humanity that was felt for our tenants, our Unitholders and each other. I remain confident in our capacity to manage any challenges and opportunities ahead of us. The REIT is investing this same bench strength in our recently established Special Committee that is reviewing and evaluating a wide range of strategic alternatives with the intent of enhancing Unitholder value. I look forward to sharing the outcome of this process early in 2021.

Stéphane Amine

President and Trustee

[1] The fully diluted basis Includes the fair value of the promissory notes and the exchangeable securities under not-current and current liabilities in the REIT's financial statements and considers the total number of Units and other Units eligible for conversion: Exchangeable securities (1,066,925) and promissory notes (4,492,319).

MANAGEMENT'S DISCUSSION AND ANALYSIS

HIGHLIGHTS

Net Rental Income

For the IP Portfolio, net rental income for the three months ended September 30, 2020 ("Q3 2020"), adjusted for IFRIC 21 – Levies ("IFRIC 21")[1], was CAD$6,553 (EUR4,162), compared to CAD$6,101 (EUR4,151) adjusted net rental income for the three months ended September 30, 2019 ("Q3 2019"). The year-over-year increase is mainly due to the impact of foreign exchange coupled with the net impact of the acquisition of Arcueil and the sale of Vanves (+CAD$2,036), the acquisition of Trio property (+CAD$828), offsetting the Courbevoie vacancy since Q3 2019 (-CAD$1,335).

In Q3 2020, for the portfolio that includes the REIT's proportionate share in joint ventures ("Total portfolio"), net rental income adjusted for IFRIC 21 was CAD$8,793 (EUR5,641), compared to CAD$9,119 (EUR6,208) for Q3 2019, the decrease is mainly attributable to the Q3 2019 departure of a principal tenant in the Courbevoie property which is currently being marketed for sale.

COVID-19 Related Business Update

The REIT is reporting near-normal quarterly rent collection for Q3 2020 and will focus on providing support to tenants throughout the coming months. Management continues to monitor and assess market conditions and adapt its strategy to address the impact of measures taken by government and health officials to protect public health.

The REIT is confident in the strength of its portfolio, as indicated by the solid Q3 2020 results. While current results are strong, the REIT continues to monitor market conditions to formulate the outlook for the remainder of 2020 and ahead in 2021. It is possible that downward pressure on rental revenue may occur in the short-term as a result of the second wave of the COVID-19 pandemic, partial lockdown measures, and consequent economic disruption.

Rent collection

Rent collection for the French assets is recorded on a quarterly basis and 94% of rent has been received for Q3 2020. This is generally in line with the timing and percentage of pre-COVID-19 rent collection levels with a few minor exceptions.

For the REIT's German properties, rents are collected on a monthly basis and nearly 100% of rent was received in Q3 2020.

Management is actively monitoring rent payment deferral requests to maintain consistent rent collection while supporting tenant needs.

Leasing Operations

About 10,500 sq. ft. of incremental space was leased during Q3. Efforts continue to lease unoccupied space (152,603 sq. ft., 9.9% of total GLA) in the portfolio. Management will selectively complete capital expenditure improvements on vacant areas to attract tenants and maximize rent.

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

In Q3 2020, the REIT reported Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO)" were $0.19 and $0.18 per unit respectively, versus CAD$0.23 and CAD$0.21 for the same period last year. While both ratios saw an increase compared to Q2 2020 (CAD$0.16 and CAD$0.15 per unit respectively), financial performance has been affected by the conservative 2020 investment strategy to assess the economic impact of the COVID-19 pandemic on the REIT's business prior to deploying capital. As of September 30th, the REIT has CAD$73.3 million of cash on its balance sheet, including CAD$19.4 million proceeds from the partial repayment of the Rueil construction loan principal to the REIT in

[1] Net rental Income adjusted for IFRIC 21 is non-IFRS information. *(Refer to the "Non-IFRS financial measures" section for further details.)*

July. The REIT's Canadian funds held in Euros had a unrealized foreign exchange gain of CAD$1,855 (which represents an equivalent of approximately CAD$0.06 per unit of FFO) over the nine months of 2020. This gain has been conservatively excluded from the FFO determination due to the volatility of the Canadian dollar against the Euro, despite REALPAC guidance to the contrary on this matter.

Financing Activity

The weighted average interest rate across the portfolio debt is 2.06% and the debt ratio is 40.7% (33.8% net of cash), comfortably within the REITs mandated threshold of 60%.

The REIT is considering other refinancing opportunities to take advantage of historically low interest rates in Europe. The REIT anticipates being able to finance assets on a less costly basis than that offered by traditional financing in Canada.

In France, banks and financial lessors have been encouraged by the French Government's measures to ease the debt service conditions of their clients from the start of the pandemic. The REIT has benefited from deferrals on Sabliere, Courbevoie, Metropolitain, Baldi and Delizy properties representing a CAD$1.9 million (EUR1.2 million) positive impact on the Q3 available cash, on top of the deferrals obtained in Q2. Deferral on the Arcueil lease liability was finalized in October 2020, while the quarterly payments of CAD$1.3 million (EUR0.86 million) due on April 8, 2020 and July 8, 2020 have been deferred to April 8, 2027.

For the total year 2020, the positive impact on cash of senior debt deferrals represents CAD$6.3 million (EUR4.0 million), including the Arcueil deferral agreement signed in October 2020 and disclosed in the Subsequent Events section at the end of this document. As there are no penalties for these deferrals, it is in the best interest of the REIT to have the flexibility to conserve this cash for future investments.

Rueil acquisition loan

Subsequent to the quarter, on October 2nd, 2020, the REIT has exercised its option and acquired a 20% stake in the company it financed to build the Rueil property. The building was delivered on October 19th, in line with our budgetary assumptions related to the valuation of the REIT's profit participation component in the development loan (call option). On July 30, 2020, CAD$19,388 (EUR12,416) out of the initial CAD$26,805 (EUR17,166) loan has been returned to the REIT by the borrowing entity. A gain of CAD$9,937 in fair value has been recognized in relation to the profit participation component of the loan over the three years since its inception in December 2016. Management has successfully achieved the business plan objective to generate additional profit in the form of fund inflows from this loan.

Bad Homburg

Subsequent to the quarter, the REIT completed the buy-back of its JV partner's 50% stake in the Bad Homburg asset, for a total purchase price of EUR5,873 (CAD$8,957) including the JV partner's loan. The asset has been jointly held since 2015.

Stuttgart

The REIT and its JV partner have taken steps to sell the Stuttgart asset which has been jointly held since 2017. A top-tier international broker has been engaged for the sale and a bidder was granted a 6-week exclusivity period on November 2nd. The disposition of this asset will contribute to the REIT's positioning for future opportunistic investments and further simplify its asset ownership structure.

Courbevoie (Veronese)

The REIT has taken steps to sell the Courbevoie (Veronese) asset, one of the REIT's initial properties. A top-tier international broker has been engaged for the sale and a marketing plan has helped the REIT to identify one bidder, presently under exclusivity to confirm its pricing by mid- November. The disposition of this asset will contribute to the REIT's positioning for future opportunistic investments.

Normal Course Issuer Bid

As reported in Q2, the TSX approved the REIT's Normal Course Issuer Bid (NCIB) which was undertaken in response to the extreme volatility that affected the trading price of the REIT. Management believes that the purchase by the REIT of a portion of its outstanding Units is an appropriate use of available resources and in the best interests of the REIT and its unitholders. Between April 22 and September 30, 2020, the REIT bought back 884,675 Units at Unit prices ranging between $6.41 and $8.00 for a total CAD$6,679 buy-back of Units. Prior to the end of Q3 and before the onset of a scheduled blackout on trading for REIT insiders pending the release of Q3 financial results, the REIT initiated an automatic purchase plan with a broker to repurchase a daily limit of 20,890 units at a maximum price of $8.50 per unit, for the period from September 30 until November 14, 2020.

Special Committee to Review Strategic Alternatives

Subsequent to quarter end on October 28, 2020, the REIT announced the formation of a special committee of independent members of the Board of Trustees (the "Special Committee") to consider strategic alternatives available to the REIT. The Special Committee expects to review and evaluate a wide range of strategic alternatives to enhance unitholder value. The REIT will continue to evaluate possible acquisition or disposition of certain portfolio assets throughout this process.

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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*".

	September 30, 2020		December 31, 2019	
Operational information	IP Portfolio	Total Portfolio	IP Portfolio	Total Portfolio
Number of properties	7	14	7	14
Gross leasable area (sq. ft.)	917,836	1,398,704	917,836	1,398,704
Weighted Occupancy rate (end of period) (2)	88.4%	90.1%	89.4%	92.1%
Weighted average lease term	3.4 years	3.9 years	4.2 years	4.5 years
Average capitalization rate (3)	5.1%	5.1%	5.0%	5.5%
Financing information				
Level of debt (debt-to-book value) (4)	40.7%	47.6%	38.4%	46.0%
Level of debt (debt-to-book value, net of cash) (4)	33.8%	41.9%	30.3%	39.0%
Weighted average term of principal repayments of debt	5.1 years	4.6 years	6.1 years	5.3 years
Weighted average interest rate (5)	2.06%	1.97%	2.06%	2.00%
Interest coverage ratio (6)	3.6 x	3.9 x	3.3 x	4.0 x

	Three months ended		Nine months ended	
(thousands of CAD$ except per Unit and other data)	September 30, 2020	September 30, 2019 as restated (9)	September 30, 2020	September 30, 2019 as restated (9)
Operating results				
Rental revenue	7,154	6,627	21,151	19,263
Rental revenue - Total Portfolio (1)	9,606	9,750	28,369	28,803
Net rental income	7,260	6,981	18,838	16,609
Net rental income - Total Portfolio (1)	9,610	10,173	25,701	25,637
Net income for the period, attributable to the Trust	4,445	5,373	27,147	6,355
Funds from Operations (FFO) (7)	6,393	6,758	17,293	17,628
Adjusted Funds from Operations (AFFO) (7)	5,984	6,112	15,336	17,367
FFO per Unit (diluted) (7) (8)	0.19	0.23	0.51	0.61
AFFO per Unit (diluted) (7) (8)	0.18	0.21	0.45	0.60
Distributions				
Declared distributions on Units and Exchangeable sec.	6,008	5,081	18,280	15,176
Declared distributions on Units and Exchangeable sec. & Promissory notes	6,941	5,947	20,991	17,836
Declared distribution per Unit	0.21	0.21	0.21	0.21
FFO payout ratio (7)	108.6%	88.0%	121.4%	101.2%
AFFO payout ratio (7)	116.0%	97.3%	136.9%	102.7%

(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 income (based on net rental income for the year-to-date period).
(4) The definition of *debt-to-book value* and of *debt-to-book value, net of cash* can be found under the section *Non-GAAP Financial Measures.* The figures presented for the period ended September 30, 2019 have been reclassified, when appropriate, in order to ensure comparability with the figures for the periods ending December 31, 2019 and September 30, 2020
(5) Calculated as the weighted average interest rate paid on lease liabilities and the mortgage.
(6) Calculated as net rental income 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 notes.
(9) See the section *Restatement of Financial Results*.

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 interim consolidated financial statements for the three-month and nine-month periods ended September 30, 2020, 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 provides 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 (Non-"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 26% of the total value of all properties held by the REIT).

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 nine months ended September 30, 2020 and September 30, 2019 are CAD$1.5217 and CAD$1.4933, respectively. For balance sheet items as at September 30, 2020, projections or market data, the exchange rate used is CAD$1.5615 (CAD$1.4565 as at December 31, 2019).

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; (viii) capital markets will provide us with readily available access to equity and/or debt financing; and (ix) the impact the COVID-19 pandemic will have on the REIT's operations, the demand for the REIT's properties and global supply chains and economic activity in general. The 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 Euros, 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 nine months of 2020, the Canadian dollar weakened by approximately 7.2% relative to the Euro.

These changes in the EUR/CAD foreign exchange rate have positively impacted the REIT's equity through 'Other Comprehensive Income' by CAD$25 million. However, as the REIT's underlying real estate investment holdings are Euro-denominated, they have not been affected by these fluctuations.

The average foreign exchange rates for year to date are used to calculate the REIT's net rental income. Year-over-year, the Canadian dollar weakened by nearly 2%, generating a positive impact of CAD$479 on the total portfolio of properties. 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$0.9 million) is combined with the above-noted positive impact on exchange rate.

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 nearly 30 years of experience and participation in the industry.

BUSINESS OVERVIEW AND STRATEGY

The REIT is an unincorporated open-ended real estate investment trust governed by the laws of the Province of Ontario. The REIT was founded and sponsored by Inovalis 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 cash distributions on a tax-efficient basis from investments in income-producing office properties:
- grow the asset base, primarily in France and Germany, but also opportunistically in other European countries where assets meet the investment criteria;
- maintain a high level of cash available for distribution to holders of Units ("Unitholders"), through an accretive acquisition program that successfully leverages Inovalis SA's extensive relationships and depth of commercial property and financing; and,
- maximize the long-term value of the properties and the NAV per Units through active and efficient management.

The REIT's investment criteria encompass office properties outside of Canada with an occupancy level above 80% (unless AFFO accretive), secured rental cash flows, a property value between EUR20 million to EUR60 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.

SIGNIFICANT EVENT – COVID-19

During March 2020, the outbreak of the COVID-19 pandemic resulted in governments taking extraordinary measures to combat the spread of the virus, including the closure of businesses, suspension of cross-border travel, temporary quarantine for citizens, and subsequent physical distancing, with a second wave now triggering new specific preventive measures. This crisis, the long-term effects of which are still unknown, has led to an unprecedented worldwide economic slowdown.

Management continues to assess the impact of COVID-19-related economic conditions on REIT tenants and is committed to taking necessary measures to ensure their business continuity.

The REIT's portfolio consists almost entirely of office properties and has no exposure to hospitality and immaterial exposure to retail or other industries that have suffered the most negative impacts of COVID-19.

Rent Collection update

Rent collection for the French assets is on a quarterly basis and 94% of rent has been received for Q3 2020. This is generally in line with the timeliness of pre-COVID-19 rent collection levels with a few minor exceptions. For Q3, nearly 100% of rent was paid by German tenants.

As at November 4th, the REIT has already received 84% of the Q4 rents on its French portfolio. Management expects to collect nearly 90% of the Q4 2020 rents in France by the end of November and 97% by the end of the 4th quarter. For the REIT's German properties, where rents are collected on a monthly basis, 100% of October rent have been collected to date and nearly 100% of November rent is anticipated by the end of November.

Management is actively monitoring rent payment deferral requests to maintain consistent rent collection while supporting tenants' needs.

BUSINESS ENVIRONMENT[1]

FRENCH MARKET POST-COVID SITUATION

INVESTMENT MARKET FRANCE

The COVID-19 pandemic has impacted the real economy. While all parts of the financial markets have fallen in value including equity prices of REITs, the volatility apparent in the financial markets have reinforced the relative safety of real estate values in Central Paris. Real estate values in Central Paris continue to be firm and buying activity remains buoyant with no material reduction in values from pre-COVID levels. Accordingly, the REIT has not been able to capitalize on the volatility as a buying opportunity despite our significant levels of cash liquidity.

During the first three quarters of 2020, nearly EUR17 billion (including a corporate portfolio) was invested in French commercial real estate. Q2 investment declined significantly as lockdowns made it very difficult to finalise transactions. Nevertheless, Q3 performance improved, with a total investment of slightly more than EUR5 billion. Whereas the average unit size has remained stable over one year (EUR39 million), the decline in investment is due to a significant decrease in the total number of transactions (435 vs. 583). Although major transactions mechanically account for a significant share of investment volume, the market has become less liquid for single investments above EUR300 million. With global travel restrictions, the major international players have completely stopped their activity. We also notice a lack of deals on the market through all segment sizes as landlords prefer to wait the storm out as opposed to selling their assets at a discount. From that perspective, this crisis is not to be compared to the 2008 financial crisis where landlords were obliged by the banks to sell their assets as they breached their leverage covenants. This time around, there has not been huge discounts in price, if any for certain type of products and location.

[1] *Sources: CBRE Marketview / JLL Investment market overview*

Office investment decreased by a significant -33% year on year. This is primarily due to a decline in the number of transactions (263 vs. 354), as noted above due to major players being out of the market because of travel restrictions and Landlords preferring to wait and see instead of potentially suffering price discounts. Core investment in office totalled nearly two thirds of investments. At the same time, value add and core+ have performed equally well. Some investors are no longer hesitating to leave their comfort zone for "near-vacant" space located in established or up- and-coming business districts, or in areas where vacancies remain fairly contained thereby avoiding a potential drop in rents, such as the Inner Rim East and South. However, investment in assets located in non-business districts as well as those poorly connected to public transport are becoming more problematic.

In the end, the French market performed better than those of some of its European neighbours, benefiting from significant fund raising and a strong base of dynamic national investors. Due to the restrictions and difficulties that foreign investors have encountered, their investment represented only one third of volumes. Nevertheless, the market was energised by the return of these investors in Q3. Their activity increased significantly in one quarter (+34%). North American and German investors remain the most active. Travel barriers are preventing Asian investors from investing their capital.

INVESTMENT MARKET IN GERMANY

The property investment market exceeded expectations in the first three quarters of the year with a total transaction volume of about EUR58 billion, which was also slightly above the previous year's level (EUR57 billion). This result is a testament to the strength of the Germany property market and its importance for national and international investors. The growth is related to increases in the number and size of the transactions. Consistent with 2019, approximately 1,500 single-asset and portfolio transactions were registered between January and September 2020.

The ability of governments and authorities to manage effectively in crises such as the 2020 pandemic crisis is an increasingly important investment criterion for investors. Germany seems to be well positioned in this regard. Although there is strong confidence and trust in the political leadership of the country, it remains the case that Germany lacks alternative investment options.

In the next four years, approximately EUR900 billion worth of German government bonds are forecasted to mature and investors will be seeking reinvestment opportunities. There may be an opportunity for alternative asset classes to benefit. Solid investment products are sought after by both investors and the financing banks. Numerous institutional and private investors are looking for attractive investment opportunities and, as is often the case in times of crisis, demand is increasingly focused on core property segments, especially those with long-term rental agreements and public sector tenants. Demand for real estate remains strong as evidenced by the EUR14.2 billion transaction volume in the first three quarters in 2020, notwithstanding the travel-restriction impediments faced by international investors which made property inspections challenging.

For banks as well as for investors, creditworthy office tenants are desirable as compared to other commercial tenants.

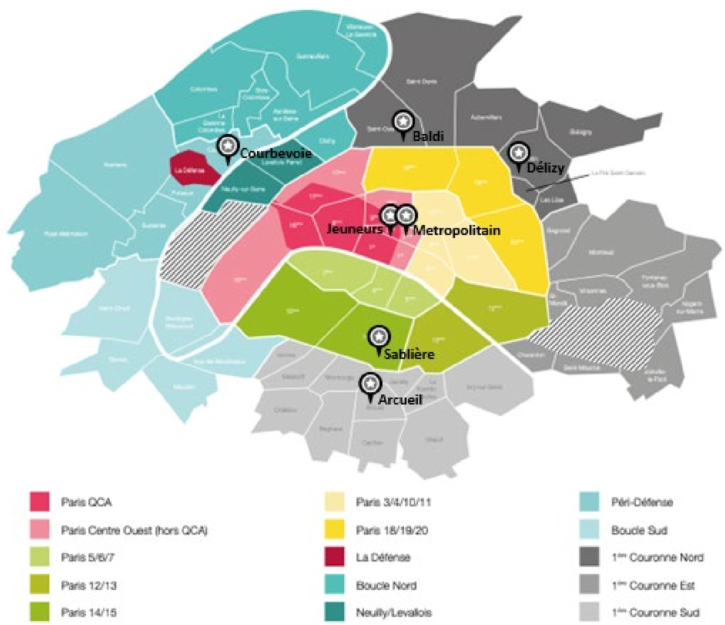
Notwithstanding the acquisition demand for office assets, the financing process is more difficult for existing properties with vacancies, or for project developments where pre-leasing targets are not achieved. This is especially true for office properties.

THE REIT'S POSITION WITHING THE FRENCH AND GERMAN BUSINESS ENVIRONMENTS

The value of the REIT's real estate assets has remained very strong in very strong office rental markets all through the very turbulent first three quarters of 2020. While this underscores the premise for investing in office assets in the Paris and German markets, it does not address the significant gap between the REIT's market price and the net asset value of the real estate together with cash holdings. It is for this reason that the REIT established a Special Committee early in Q4 to address possible reasons for this gap and to identify opportunities to unlock greater value for Unitholders.

Portfolio

The Total Portfolio for the REIT includes an interest in fourteen properties, seven in the IP Portfolio and seven held through partnerships with various global institutional funds, (the "JV Portfolio"). Seven properties are located in France and seven properties are in Germany.



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

Inovalis REIT
Germany Property Locations

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

The JV portfolio information is presented based on proportionate consolidation (see "Non-GAAP reconciliation" section).

Asset	% owned	REIT Ownership Valuation as at September 30, 2020	% 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%	75,189	11%	50,407	4%	1	100%	100.0%	2.9
Courbevoie	100%	36,034	5%	95,903	7%	5	41%	44.2%	5.4
Sablière	100%	39,404	6%	41,043	3%	7	100%	100.0%	2.6
Baldi	100%	35,411	5%	123,657	9%	8	70%	79.2%	3.2
Metropolitain	100%	102,198	15%	78,818	6%	7	100%	100.0%	4.7
Arcueil	100%	151,130	22%	334,521	24%	1	100%	100.0%	2.4
Délizy	50%	21,255	2%	71,617	5%	19	79%	80.4%	4.1
Subtotal France		**460,621**	**66%**	**795,966**	**58%**	**48**	**86.4%**	**86.4%**	**3.2**
Trio	94,9%	73,703	11%	193,487	13%	7	87%	87.0%	4.8
Duisburg	50%	48,362	7%	108,960	8%	1	88%	87.5%	7.3
Bad Homburg	50%	18,191	3%	54,553	4%	6	93%	97.3%	2.0
Cologne	6%	2,230	< 1%	3,930	< 1%	1	100%	100.0%	5.1
Stuttgart	50%	39,135	6%	121,416	9%	5	100%	99.9%	3.7
Arrow - Neu-Isenburg	50%	32,367	5%	67,334	5%	5	98%	97.8%	3.1
Kösching	50%	22,828	2%	53,058	3%	1	100%	100.0%	7.2
Subtotal Germany		**236,816**	**34%**	**602,738**	**42%**	**26**	**92.6%**	**92.9%**	**4.7**
Total - France and Germany		**697,437**	**100%**	**1,398,704**	**100%**	**74**	**89.1%**	**90.1%**	**3.9**
IP Portfolio		**513,069**	**74%**	**917,836**	**66%**	**36**	**87.1%**	**88.4%**	**3.4**
JV Portfolio		**184,368**	**26%**	**480,868**	**34%**	**38**	**92.9%**	**93.3%**	**4.7**

The IP Portfolio weighted occupancy at September 30, 2020 was 88.4%, slightly below 89.4% occupancy as at year end 2019. The weighted occupancy rate across the Total Portfolio declined from 92.1% as at December 31, 2019 to 90.1% as at September 30, 2020 due to the end of the rental guarantee in the Delizy property and the current vacancy in Duisburg. However, compared to Q2 occupancy of 89.9%, the occupancy rate increased as a result of 2 new leases at the Delizy and Arrow properties.

The average lease term for the Total Portfolio was 3.9 years as at September 30, 2020 compared to 4.5 years as at December 31, 2019.

Tenants

The tenant base in the Total Portfolio is well diversified by industry segment, with many national and multinational tenants. As at September 30, 2020, the REIT had 36 tenants across the IP Portfolio compared to 35 tenants as at December 31, 2019 and 74 tenants across the Total Portfolio compared to 70 tenants at December 31, 2019.

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

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	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	240,854	226,763	27.3%
Vacant		118,855	96,301	11.5%
IP Portfolio		**917,836**	**830,228**	**100.0%**

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

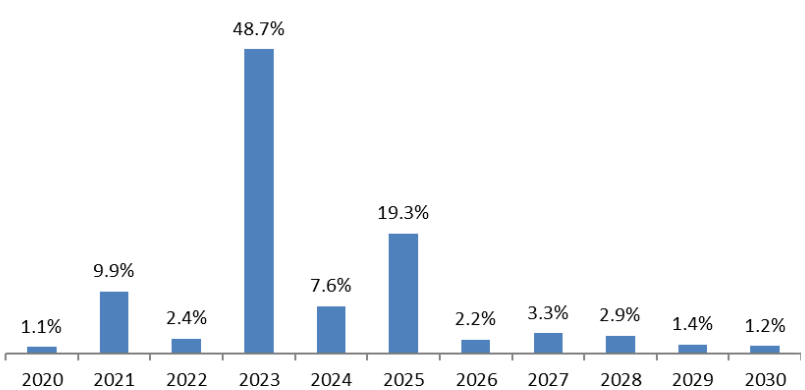
The REIT's five largest tenants across the Total Portfolio, including interests that the REIT has in properties held in joint ventures, are presented in the table below.

Tenant	Tenant Sector	GLA (sq. ft.)	Weighted Areas (sq. ft.) (1)	% of Weighted Areas
Orange	Telecommunications	334,521	290,218	23.0%
Daimler AG	Manufacturer	109,136	100,486	7.9%
Hitachi Power	Manufacturer	95,680	91,018	7.2%
The Lorenz Bahlsen Snack-World GmbH & Co. KG	Food and beverage	86,501	81,870	6.5%
Arrow Central Europe	E-commerce	55,639	51,717	4.1%
Top 5 tenants		**681,477**	**615,309**	**48.7%**
Other tenants	Diversified	564,624	523,831	41.4%
Vacant		152,603	125,373	9.9%
Total Portfolio		**1,398,704**	**1,264,513**	**100.0%**

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

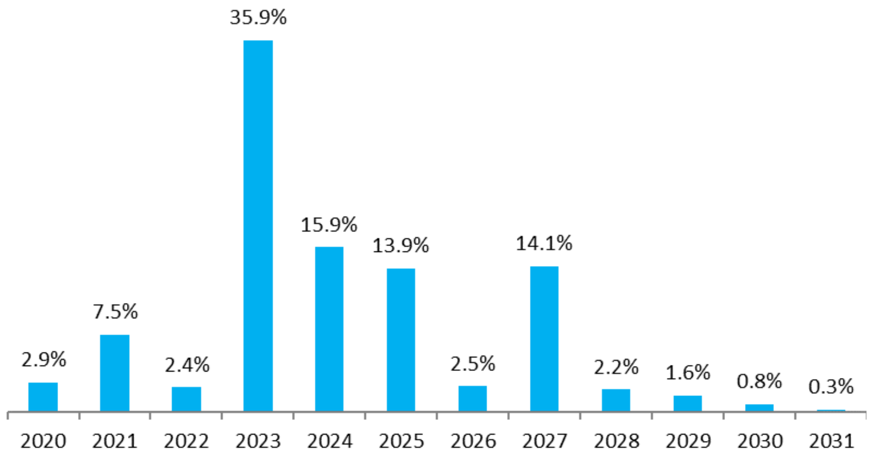
Lease profile

Lease Maturity Profile as at September 30, 2020
Investment portfolio
(% of total GLA)



The average remaining lease term in the IP Portfolio is 3.4 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 2.5 years. The above graph sets out the percentage of total GLA of the IP Portfolio subject to leases expiring by year (excluding early lease terminations).

Lease Maturity Profile as at September 30, 2020
Total Portfolio
(% of total GLA)



Including the JV Properties, the average remaining lease term is 3.9 years and 3.1 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).

New leases signed during the quarter

- In the Metropolitain property, the 5,138 sq. ft. left vacant in July were leased in mid-August for a nine-year period (six-years firm and three years optional renewal), for annual rent of CAD$415 compared to the previous rental rate of CAD$280.
- The REIT signed a new lease at the Arrow (Neu-Isenburg) property for tenancy starting September 1, 2020 on 2,489 sq. ft. for a five-year period with a break option after 3 years.
- In the Delizy property, the REIT has signed a new lease with a tenant for 3,057 sq. ft. area for a nine-year period (four years firm and five years optional renewal) effective August 10th, 2020.

RESTATEMENT OF FINANCIAL RESULTS

The consolidated financial statements for the three months and nine months ended September 30, 2019 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.

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 expected that the CCEU would obtain the necessary authorization allowing the conversion of CCEU into a SIF by September 30, 2019, which would have resulted 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. Consideration of the REIT's application to convert to a SIF is still ongoing as of the release date of these interim consolidated financial statements.

A description of restated financial information for the three months and nine months ended September 30, 2019 is provided in note 23 of the condensed interim consolidated financial statements as at and for the period ended September 30, 2020.

CONSOLIDATED FINANCIAL INFORMATION

Consolidated Statements of Earnings

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

	Three months ended September 30,		Nine months ended September 30,	
(in thousands of CAD$)	2020	2019 as restated	2020	2019 as restated
Rental revenue	7,154	6,627	21,151	19,263
Property operating cost recoveries	1,790	1,528	4,915	6,123
Property operating costs	(1,569)	(1,519)	(7,019)	(8,881)
Other revenues	-	411	19	415
Other property operating expenses	(115)	(66)	(228)	(311)
Net rental income	**7,260**	**6,981**	**18,838**	**16,609**
General and Administration expenses	(1,457)	(1,360)	(5,741)	(4,758)
Foreign exchange gain (loss)	816	(4)	2,619	(6)
Net change in fair value of investment properties	(763)	3,746	(1,348)	4,488
Loss on disposal of investment properties	-	-	-	(56)
Share of net income (loss) from joint ventures	(1,176)	342	(1,843)	886
Operating earnings	**4,680**	**9,705**	**12,525**	**17,163**
Net change in fair value of Financial derivatives	192	85	399	(1,543)
Net change in fair value of Exchangeable securities	96	(367)	2,675	(697)
Net change in fair value of Promissory Notes	449	(2,067)	14,152	(4,494)
Finance income	1,561	2,594	5,737	6,743
Finance costs	(2,486)	(2,750)	(7,562)	(7,774)
Distributions on Exchangeable securities	(209)	(173)	(602)	(528)
Income before income taxes	**4,283**	**7,027**	**27,324**	**8,870**
Current income tax recovery (expense)	33	(64)	(16)	(191)
Deferred income tax recovery (expense)	165	(1,576)	(119)	(2,303)
Total income tax recovery (expense)	**198**	**(1,640)**	**(135)**	**(2,494)**
Net income	**4,481**	**5,387**	**27,189**	**6,376**
Non-controlling interest	36	14	42	21
Net income attributable to the Trust	**4,445**	**5,373**	**27,147**	**6,355**

DISCUSSION OF STATEMENT OF CONSOLIDATED EARNINGS

Net rental income

Net rental income for Q3 2020 was CAD$7,260 compared to CAD$6,981 for Q3 2019.

For the nine months ended September 30, 2020, the net rental income increased by CAD$2,229, to CAD$18,838.

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$2,800. 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 Q3 2020 and Q3 2019 is set out below.

	In '000 CAD		*In '000 EUR*	
	Q3 2020	**Q3 2019**	**Q3 2020**	**Q3 2019**
Net rental income	7,260	6,981	4,637	4,729
IFRIC 21 impact	707	880	475	579
Adjusted net rental income - IFRIC 21	6,553	6,101	4,162	4,151

	In '000 CAD		*In '000 EUR*	
	YTD Q3 2020	**YTD Q3 2019**	**YTD Q3 2020**	**YTD Q3 2019**
Net rental income	18,838	16,609	12,380	11,122
IFRIC 21 impact	(651)	(861)	(428)	(577)
Adjusted net rental income - IFRIC 21	19,489	17,470	12,808	11,699

Adjusted net rental income for Q3 2020 increased by CAD$452 compared to the same period last year, mainly attributable to the positive foreign exchange impact of CAD$435. Gains from Arcueil acquisition and new leases have been partially offset by the departure of the principal tenant in Courbevoie at the end of Q3 2019 (CAD$660 of both rent and indemnity from main tenant were embedded in Q3 2019 net rental income). Re-leasing activity underway for the vacant space at the Courbevoie property.

For the nine months ended September 30, 2020, the increase in net rental income adjusted for IFRIC 21 was CAD$2,019 compared to the nine months ended September 30, 2019. The increase related primarily to the net impact of the acquisition of Arcueil and the sale of Vanves (+CAD$2,036), the acquisition of Trio property (+CAD$828), offsetting the Courbevoie vacancy since Q3 2019 (-CAD$1,335).

General and Administrative expenses

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

G&A expenses for Q3 2020 was CAD$1,457 compared to CAD$1,360 in Q3 2019. Asset Management fees remained stable with a small increase of CAD$84 while other G&A expenses increased by CAD$13.

G&A expenses for the nine-month period ended September 30, 2020 amounted to CAD$5,741, an increase of CAD$983 compared to the nine-month period ended September 30, 2019, mainly as a consequence of CAD$536 non-recurring costs associated with both the conversion into a regulated SIF structure, the 2019 relocation of the Trio corporate entity from Germany to Luxembourg, as well as CAD$500 professional fees for the reorganization of the REIT's finance function.

Net change in fair value of investment properties

The loss of CAD$763 in Q3 2020 in net change in fair value of investment properties relates principally to the impact of IFRIC 21 (CAD$707), slightly offset by the increase in REIT's portfolio value as per internal valuations (+CAD$152).

The net change in fair value of investment properties for the nine months ended September 30, 2020 resulted in a loss of CAD$1,348, compared to a gain of CAD$4,488 for the same period in 2019.

Share of net income (loss) from joint ventures

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

The share of net loss from joint ventures was (CAD$1,843) for the nine months ended September 30, 2020 compared to a gain of CAD$886 for the same period in 2019. The variance mainly resulted from vacancy impacts on Duisburg and Delizy assets.

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's Units, thus an increase of the REIT's Unit price increases the value of the liability. Due to the impact of COVID-19 on international markets, the closing price of a REIT Unit on the Toronto Stock Exchange was CAD$7.51 on September 30, 2020 compared to CAD$10.66 at close of December 31, 2019, explaining the gain of CAD$2,675 in the net change in fair value of exchangeable securities over the nine months of 2020.

After a recovery during the first half of 2020, the REIT's unit price slightly decreased over the quarter resulting in a small gain of CAD$96 for Q3 2020.

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 a decrease of the REIT Unit price decreases the value of the liability (see above unit price at period ends). The REIT recorded a gain of CAD$449 during Q3 2020, offsetting the large loss in Q2 2020 (CAD$8,050). In total, for the nine months ended September 2020, the REIT recorded a gain of CAD$14,152, compared to a loss of CAD$4,494 for the same period in 2019.

Finance income

In addition to interest on loans granted to joint ventures, in Q3 2020 and Q3 2019, finance income of CAD$1,561 and CAD$2,594, respectively, consisted mainly of interest earned on the Rueil acquisition loan granted to an Inovalis SA subsidiary for the development of the Rueil property and the gain from foreign exchange hedging contracts (CAD$235 for Q3 2020). After receipt of a $19,388 partial repayment towards principle of the acquisition loan in July 2020, interest earned on the remaining loan balance in Q3 2020 was CAD$295, compared to CAD$786 in Q3 2019.

For the nine-month period ended September 30, 2020, finance income decreased by CAD$1,006 from the nine-month period ended September 30, 2019 to CAD$5,737. The decrease comes from the interest on acquisition loan (-CAD$700) and from interests on loans to joint ventures (-CAD$832) following partial repayment incurred in 2020, offset by the additional gain on hedging contract (+CAD$526).

Finance costs

The finance costs in Q3 2020 were CAD$2,486 compared to CAD$2,750 in Q3 2019, which included CAD$1,253 related to interest on mortgage loans and lease liabilities, CAD$933 related to promissory notes and CAD$300 related to derivative interests and other financial costs. Variation year on year is primarily due to derivative interests and other finance costs.

The finance costs year-to-date were CAD$7,562, stable compared to the same period last year, and included CAD$3,603 related to interests on mortgage loans and lease liabilities, CAD$2,711 related to promissory notes, and CAD$1,248 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 Q3 2020 the distributions on exchangeable securities were CAD$209 compared to CAD$173 in Q3 2019.

For the nine-month period ended September 30, 2020, the distribution on exchangeable securities amounted to CAD$602, compared to CAD$528 for the same period in 2019.

Deferred income tax expense

The deferred income tax liability for the third quarter 2020 resulted in a recovery of CAD$165 compared to CAD$1,576 expense for the quarter ended September 30, 2019.

INVESTMENT PROPERTIES

Fair value

The fair value of the REIT's Investment Property Portfolio as at September 30, 2020 was CAD$513,069 (EUR 328,574) compared to CAD$478,700 (EUR 328,664) at December 31, 2019. The increase of CAD$34,369 is mainly attributable to foreign exchange adjustment of CAD$34,507.

Management uses the Direct Capitalization Method ("DCM") to determine the fair value of REIT's properties in France and Germany. Starting in the Q2 2020 appraisal initiative, the German properties are accounted for using the equity method based on the DCM instead of the discounted cash flow method, to align the valuation methodology for the properties in both countries. Based on external appraisals of the total portfolio as at end Q2 2020, performed in conformity with the requirements of the *Royal Institution of Chartered Surveyors Standards*, and for the French properties, in conformity with the *Charte de l'expertise immobilière, European Valuation Standards of TEGoVA (the European Group of Valuers' Association)* and IFRS 13, management performed internal valuations as at September 30, 2020 to include any major change in valuation parameters. The Q3 2020 internal valuation initiative resulted in an increase of CAD$156 over the Investment Property Portfolio, and a decrease of CAD$625 over the Total Portfolio.

OTHER SIGNIFICANT ASSETS

Investments in joint ventures

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

- the Duisburg property (CCD) (50%),
- the Walpur (Bad Homburg) property (50%),
- the Stuttgart property (50%),
- the Delizy (Pantin) property (50%),
- the Arrow (Neu-Isenburg) property (50%),
- the Kösching property (50%), and
- the Cologne property (6%).

The REIT's investment in joint ventures was CAD$89,637 as at September 30, 2020 compared to CAD$100,782 as at December 31, 2019. The decrease mainly resulted from the acquisition of control of the Arcueil joint venture (CAD$14,405), offset by the positive foreign exchange difference of CAD$6,159.

Subsequent to Q3 2020, the REIT agreed to the buy-back of 50% interest in the Walpur property in Bad Homburg, from its joint venture partner. The transaction closed on October 27, 2020 and is in line with REIT strategy to buy-back joint ventures to simplify the ownership structure.

Acquisition loan

As at September 30, 2020, the acquisition loan of CAD$7,417 (EUR4,750), consists of a loan granted in Euros to an Inovalis SA subsidiary for the development of the Rueil property. During the quarter, the REIT received a CAD$19,388 (EUR12,416) partial repayment of the CAD$26,805 (EUR17,166) principal.

Trade receivables and other financial assets

Trade receivables and other financial assets as at September 30, 2020 amounted to CAD$8,948, compared to the CAD$4,437 at December 31, 2019. The increase, as every year, is mainly due to service charge revenue arising from property taxes recognized in accordance with IFRIC 21, which accounted for an additional CAD$3,600 for the nine-month period ended September 30, 2020.

The trade receivables alone amount to CAD$4,758 and include both outstanding invoices and accruals, mainly for property taxes and also for the remaining 2019/2020 operating expense settlements.

Trade and other payables

Trade and other payables as at September 30, 2020 amounted to CAD$11,857 compared to CAD$34,336 at December 31, 2019. The 2019 amount included the balance of purchase consideration payment to the Arcueil joint venture for the REIT's acquisition of the Arcueil property and other payables to joint venture partners (CAD$13,748) and the VAT due on the Vanves sale (CAD$10,231), which was paid in January 2020.

The trade payables amounted to CAD$6,499 as at September 30, 2020 and include approximately CAD$2,074 of property taxes accounted for the whole year, pursuant to IFRIC 21.

LIQUIDITY AND CAPITAL RESOURCES

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.

Liquidity

The REIT's cash available was CAD$73,330 as at September 30, 2020. Available cash is a strength in the current economic conditions and management intends to use it for future investments and for the purchase of its own Units as part of a Normal Course Issuer Bid ("NCIB"). As at September 30, 2020, CAD$6,679 has been used to acquire Units under the NCIB.

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, 82.4% of the REIT's senior debt benefits from interest rate protection (54.4% in the form of a swap and 28.0% 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 30% of the senior debt commitment.

Debt-to-book value

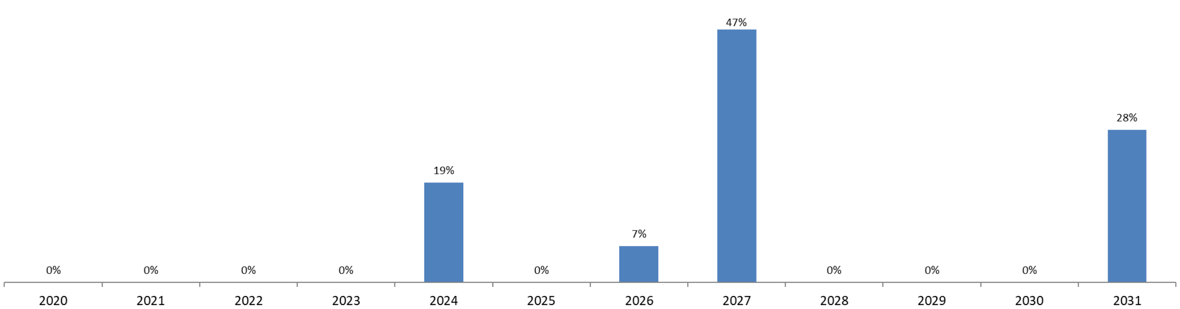
The debt-to-book value ratio is calculated on a look-through basis and considers the REIT's apportioned amount of indebtedness at the partnership level. Indebtedness at the REIT level, as well as at the different partnership levels is calculated as the sum of (i) lease liabilities, (ii) mortgage loans, (iii) lease equalization loans, (iv) other long-term liabilities, and (v) deferred tax liabilities. Indebtedness does not 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 September 30, 2020	As at December 31, 2019
Weighted average interest rate (1)	1.97%	2.00%
Debt-to-book value (2)	47.6%	46.0%
Debt-to-book value, net of cash (2)	41.9%	39.0%
Interest coverage ratio (3)	3.9 x	4.0 x
Debt due in next 12 months in thousand of CAD$	15,309	29,531
Weighted average term to maturity of debt (4)	4.6 years	5.3 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 income 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.

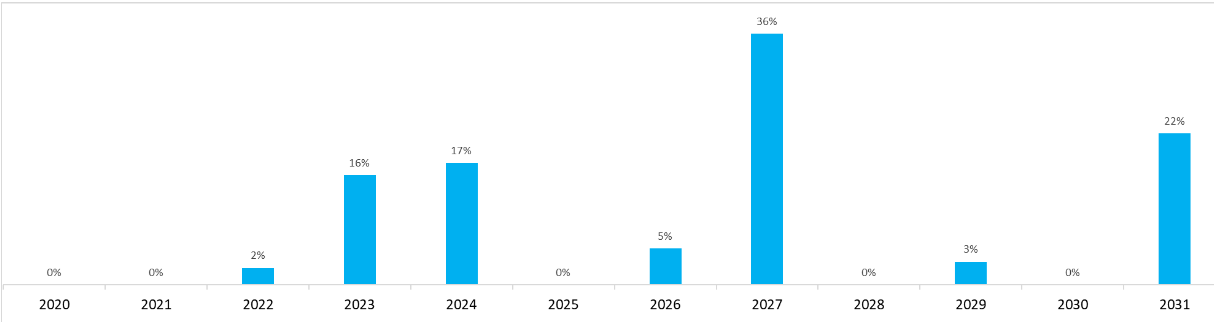
Leasehold and Mortgage Financing Maturity Profile
Investment Portfolio
(% of amount outstanding as at September 30, 2020)



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

Leasehold and Mortgage Financing Maturity Profile

Total Portfolio
(% of amount outstanding as at September 30, 2020)



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

ANALYSIS OF DISTRIBUTED CASH

	For the three months ended September 30		For the nine months ended September 30	
	2020	**2019 as restated**	**2020**	**2019 as restated**
Net cash flows related to operating activities (A)	2,650	7,139	(9,512)	11,012
Income (loss) before income taxes (B)	4,283	7,027	27,324	8,870
Declared distribution on Units (C)	5,799	4,908	17,678	14,648
Excess of cash flows from operating activities over cash distributions paid (A-C)	(3,149)	2,231	(27,190)	(3,636)
Excess of profit over cash distributions paid (B - C)	(1,516)	2,119	9,646	(5,778)

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 an 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, for the three months ended September 30, 2020, i.e. CAD$5,799, were below the FFO (CAD$6,393) for the quarter. Management also held CAD$12,156 of the excess profit accrued from the disposition of the Vanves asset in 2019 at a higher price than the fair market recorded until Q2 2019 to maintain the REIT's distributions to Unitholders while preparing for accretive acquisition opportunities.

Distributions Funding Sources

		Note		Q1 2020	Q2 2020	Q3 2020	Total YTD Q3 2020
Weighted average number of units (diluted)		*(1)*		34,165,136	34,306,016	33,830,501	
Theoretical distribution per unit (in CAD)		*(2)*		0.21	0.21	0.21	0.63
Theoretical distribution (in '000 CAD)	(1) x (2)	*(3)*		7,047	7,076	6,978	21,101
Actual FFO per units (in CAD)		*(4)*		0.16	0.16	0.19	0.51
Distribution funded by AFFO (in '000 CAD)	**(1) x (4)**	*(5)*		**5,466**	**5,489**	**6,393**	**17,348**
Shortfall over distribution	**(3) - (5)**			**(1,581)**	**(1,587)**	**(585)**	**(3,753)**
Excess cash generated by sale of Vanves above FMV in Dec. 2019			**12,156**				
Distribution funded by Vanves sale (in '000 CAD)				**1,581**	**1,587**	**585**	**3,753**
Remaining Vanves cash (sold over market value in December 2019)				**10,575**	8,988	8,403	**8,403**

RISKS AND UNCERTAINTIES

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

RISKS RELATING TO THE REIT AND ITS BUSINESS

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

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

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

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

Public Health Crises / COVID-19

A local, regional, national or international pandemic, epidemic or outbreak of a contagious disease, including COVID-19, could result in a general or acute prolonged decline in economic activity in the regions the REIT holds assets, a decrease in the willingness or ability 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 or government safety regulations about the use of a REIT building, office, or market in which the REIT operates could negatively impact the REIT's business, its tenants, and results of operations or reputation.

With respect to the COVID-19 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 updated its business continuity plan and will continue to monitor and adjust its plans as the COVID-19 pandemic evolves.

Concentration of tenants may result in significant vacancies on the Properties

Five of the REIT's largest tenants, by percentage of total GLA, occupy nearly 49% of the total weighted areas. Although all five tenants are committed to multi-year leases, which are set to expire gradually between 2023 and 2027, there is no assurance that such tenants will continue to occupy such premises for the remainder of their lease terms. Some of them have break options before the end of their leases, and the earliest dates on which those five largest tenants may effectively move range between 2021 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 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 like ours.

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

The REIT may incur significant capital expenditures

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

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

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

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

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

Changes in government regulations may affect our investment in our properties

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

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

During the acquisition of the properties, the REIT entered 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. The term of the management agreement expires in six months on 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. On October 28, 2020, the REIT announced the establishment of a Special Committee to review the pending expiry of the Management Agreement and consider all of the options available to the REIT.

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

The REIT carries general liability, umbrella liability and excess liability insurance with limits that are typically obtained for similar real estate portfolios in France and Germany and otherwise acceptable to the Trustees. For the property risks the 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 (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 currently. The REIT partially self-insures against terrorism risk for the entire portfolio. The REIT has insurance for earthquake risks, subject to certain policy limits, deductibles and self-insurance arrangements. Should an uninsured or underinsured loss occur, the REIT could lose the investment in, and anticipated profits and cash flows from, one or more of its properties, but it would continue to be obligated to repay any recourse mortgage indebtedness on such properties. The REIT does not carry title insurance on the properties. If a loss occurs resulting from a title defect with respect to a property where there is no title insurance the REIT could lose all or part of its investment in, and anticipated profits and cash flows from, such property. The REIT does not carry pandemic insurance on the properties. If a loss occurs resulting from the inability of a tenant to pay rent or a restriction on the operation of a property due to government regulation related to the COVID-19 pandemic, the REIT could lose all or part of its investment in, and anticipated profits and cash flows from, such property.

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

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

Reliance on partnerships

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

Income taxes

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 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 (absorbed in August 2020 by Arcueil SCS) which are OPCI (collective undertaking for real estate investment) to CanCorpEurope ("CCEU") and Arcueil SI Sarl (absorbed by Arcueil SCS in January 2020), respectively.

TFI CanCorp Isenburg, TFI CanCorp Kosching, TFI CanCorp Stuttgart ("TFI CC"), Trio and CanCorp Cologne 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. As CCEU holds 100% of Arcueil SCS since January 22, 2020, the income and expenses are allocated to CCEU.

The Governments of France and Luxembourg implemented a new Double Taxation Treaty ("DTT") for withholding taxes on the dividends received from French entities (the "New Treaty") and the accompanying Protocol which came into effect on January 1, 2020. As of that date, dividends paid by OPCI are progressively subject to a higher 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 a Specialized Investment Fund ("SIF") effectively reduces the withholding rate to 15% on the basis of the provisions of the New TreatyCanCorp Duisburg ("CCD"); Trio and TFI CC are Luxembourg limited liability companies that are managed in Luxembourg and, therefore, should not be considered tax residents 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 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 apply 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% per annum of its Net Asset Value (so called "taxe d'abonnement"), which will make it also eligible for a dividend withholding tax at the reduced rate of 15%. Eligibility for the reduced 15% dividend withholding tax is conditional upon the completion of specified formalities and filings 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 Canada Revenue Agency ("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

The REIT cannot factor into its outlook, the impact of the worldwide pandemic that has developed in 2020 and the consequent disruption of the worldwide economy and trade due to the COVID-19 outbreak. It is impossible to determine the full measure of economic and social impact of this yet, but it may be said that France and Germany overall have already been greatly affected.

Management remains focused on fundamentals, such as actively managing properties and conservatively 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 since then, renewed until Q4 2022, provide predictable cash flows and serve as a basis for future growth.

The REIT's distributions to Unitholders have remained reliable and stable throughout the COVID-19 crisis and management will continue to monitor the potential effect of the economic crisis on the rate of distributions.

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 bases its judgements, estimates and assumptions on experience and other factors that it believes to be reasonable under the circumstances. However, uncertainty about these judgements, estimates and assumptions could result in outcomes requiring a material adjustment to the carrying amount of the asset or liability affected in future periods. Critical accounting judgements estimates and assumptions in applying accounting policies are described in Note 4 to the annual audited consolidated financial statements of the REIT for the year ended December 31, 2019.

A description of significant accounting policies is provided in note 3 of the consolidated financial statements as at December 31, 2019. In the second quarter 2020 the REIT decided to early adopt Amendment to IFRS 16 providing lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification and has applied the practical expedient provided by this amendment to all rent concessions that meet its condition.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures ("DCP")

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

The CEO and CFO concluded that such disclosure controls and procedures were 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 September 30, 2020, 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. No changes were made to the REIT's ICFR during the nine months ended September 30, 2020. 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; and
- 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 September 30, 2020, are fairly represented in all material respects, in accordance with IFRS.

Remediation Plans and Actions Undertaken

The remediation plan and actions to resolve the DCP & ICFR material weaknesses noted above 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.

In November 2019 Inovalis REIT engaged the consulting arm of a "Big 4" national accounting firm to revise their finance operating model, including internal controls over financial reporting, finance processes, policies and a close calendar and address any DCP and ICFR material weaknesses. As at September 30, 2020, the revised accounting processes, close calendar, and policies have been developed and implemented, along with the design and implementation of business process-level controls and design of entity-level controls. For Q4 2020, Management will work to assess the operating effectiveness of such controls, but expects all revised internal controls over financial reporting, finance processes, policies and the updated close calendar to be fully implemented and operating effectively.

Management, with the advice and support of the consulting firm, is working towards establishing a Canadian-based finance team to be fully responsible for the financial reporting function of the REIT including taking ownership of all internal controls over financial reporting. In the interim, to assist in the transition and support the existing finance team, the same consulting firm was further engaged in April 2020 to provide technical accounting support and tactical support in the execution of core finance processes. The REIT has postponed its search for a permanent Chief Financial Officer and supporting finance team in Canada pending the Special Committee review of the Management Agreement which expires in April 2021. The CEO, current CFO and the Audit Committee will continue to closely monitor, evaluate and assess the REIT's ICFR Program. Any additional control deficiencies identified as part of this process will be evaluated and actioned-upon by management with support from the consulting firm, 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

(in thousands of CAD$)	For the year ended December 31, 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 the Trust	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 2020	Three months ended 2019 as restated	Nine months ended 2020	Nine months ended 2019 as restated
Rental revenue	9,606	9,750	28,369	28,803
Property operating cost recoveries	2,592	2,309	7,093	8,557
Property operating costs	(2,403)	(2,229)	(9,666)	(11,788)
Other revenues	(68)	411	142	435
Other property operating expenses	(117)	(68)	(237)	(370)
Net rental income	**9,610**	**10,173**	**25,701**	**25,637**
General and administrative expenses	(1,891)	(1,873)	(7,277)	(6,297)
Foreign exchange gain (loss)	816	(4)	2,619	(6)
Net change in fair value of investment properties	(2,758)	2,644	(4,556)	3,757
Loss on disposal of investment properties	-	-	-	(56)
Operating earnings	**5,777**	**10,940**	**16,487**	**23,035**
Net change in fair value of financial derivatives	193	102	407	(1,545)
Net change in fair value of Exchangeable securities	96	(367)	2,675	(697)
Net change in fair value of Promissory notes	449	(2,067)	14,152	(4,494)
Finance income	510	1,322	2,656	2,832
Finance costs	(2,830)	(3,203)	(8,685)	(9,611)
Additionnal gain from Arcueil's JV	-	448	-	14
Distributions on Exchangeable securities	(209)	(173)	(602)	(528)
Income before income taxes	**3,986**	**7,002**	**27,090**	**9,006**
Current income tax recovery (expense)	83	(68)	18	(206)
Deferred income tax recovery (expense)	412	(1,547)	81	(2,424)
Total income tax recovery (expense)	**495**	**(1,615)**	**99**	**(2,630)**
Net income	**4,481**	**5,387**	**27,189**	**6,376**
Non-controlling interest	36	14	42	21
Net income attributable to the Trust	**4,445**	**5,373**	**27,147**	**6,355**

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$)	Sept. 30, 2020	June 30, 2020	March 31, 2020	Dec. 31, 2019	Sept. 30, 2019 as restated	June 30, 2019 as restated	March 31, 2019 as restated	Dec. 31, 2018 as restated	Sept. 30, 2018
Rental revenue	7,154	7,119	6,878	6,261	6,627	6,593	6,043	6,039	6,142
Rental revenue - Total Portfolio	***9,607***	***9,525***	***9,238***	***9,242***	***9,750***	***9,794***	***9,259***	***9,581***	***9,386***
Net rental income	7,260	7,399	4,250	6,380	6,981	6,724	2,904	6,136	6,669
Net rental income - Total Portfolio	***9,612***	***9,786***	***6,304***	***9,146***	***10,173***	***9,937***	***5,527***	***9,246***	***10,013***
Net income (loss) for the period	4,481	(9,390)	32,100	30,155	5,387	3,066	(2,077)	14,392	3,365

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 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 nine-month periods ended September 30, 2020 and September 30, 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, Delizy (Pantin), Arrow (Neu-Isenburg) and Kösching 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''). As an exception, considering the significant amount of cash held in Euro in Canada and the volatility of the Canadian dollar against the Euro, the unrealized gain (loss) recognized in Q1 2020, Q2 2020 and Q3 2020 have been excluded from the FFO calculation.

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. 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 notes, (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, (xiii) gains or losses from non-recurring items, (xiv) additional non-recurring income (loss) from JVs, (xv) minority interest, and (xvi) goodwill / bargain purchase gains upon acquisition. These distributions are recognized in profit and loss consistent with the classification of the exchangeable securities as a liability. However, they are not to be considered when determining distributions for the Unitholders as indeed they are subordinated to the distributions to the Unitholders.

Exchangeable securities and private placement promissory notes are recorded as liabilities. 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.

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

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

FFO and AFFO

(in thousands of CAD$)	Three months ended September 30, 2020	Three months ended September 30, 2019 as restated	Nine months ended September 30, 2020	Nine months ended September 30, 2019 as restated
Net income attributable to the Trust	4,445	5,373	27,147	6,355
Add/(Deduct):				
Net change in fair value of investment properties	2,758	(2,644)	4,556	(3,757)
Net change in fair value of financial derivatives	(189)	1,202	(103)	1,545
Net change in fair value of derivative on acquisition loan	(2)	(652)	(152)	1,316
Loss on disposal of investment properties	-	-	-	57
Adjustment for property taxes accounted for under IFRIC 21	(817)	(1,054)	747	1,033
Additional income (loss from Arcueil's JV)	-	(448)	-	(14)
Interest on promissory notes	932	866	2,711	2,660
Distributions on Exchangeable securities	209	173	602	528
Net change in fair value of Exchangeable securities	(96)	367	(2,675)	697
Net change in fair value of Promissory Notes	(449)	2,067	(14,152)	4,494
Foreign exchange loss (gain)	(82)	4	(1,885)	5
Other non-recurring finance costs	-	(57)	-	263
Deferred income tax expense	(412)	1,547	(81)	2,425
Others adjustments	61	-	536	-
Minority interest	35	14	42	21
FFO	**6,393**	**6,758**	**17,293**	**17,628**
Add/(Deduct):				
Non-cash effect of straight line rents	(674)	79	(1,291)	491
Cash effect of the lease equalization loans	(110)	(276)	(1,656)	(844)
Amortization of transaction costs on mortgage loans	64	79	223	227
Non-cash part of asset management fees paid in Exchangeable securities (1)	393	372	1,155	1,165
Capex net of cash subsidy	(82)	(900)	(388)	(1,300)
AFFO	**5,984**	**6,112**	**15,336**	**17,367**
FFO / Units (diluted) *(in CAD$)*	**0.19**	**0.23**	**0.51**	**0.61**
AFFO / Units (diluted) *(in CAD$)*	**0.18**	**0.21**	**0.45**	**0.60**

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

Balance sheet reconciliation to consolidated financial statements

Assets	As at September 30, 2020 As per REIT's financial statements (1)	Share from investments in joint-ventures	Proportionate Consolidation	As at December 31, 2019 As per REIT's financial statements (1)	Share from investments in joint-ventures	Proportionate Consolidation
Non-current assets						
Investment properties	513,069	145,233	**658,302**	478,700	173,313	**652,013**
Investments in joint ventures	89,637	(89,637)	**-**	100,782	(100,782)	**-**
Derivative financial instruments	-	-	**-**	10	-	**10**
Restricted cash	4,955	-	**4,955**	4,705	-	**4,705**
Total non-current assets	607,661	55,596	**663,257**	584,197	72,531	**656,728**
Current assets						
Trade receivables and other financial assets	8,948	(253)	**8,695**	4,437	269	**4,706**
Derivative financial instruments	189	21	**210**	1,704	19	**1,723**
Call option related to the acquisition loan	9,937	-	**9,937**	9,124		**9,124**
Acquisition loan	7,417	-	**7,417**	24,744	-	**24,744**
Other current assets	2,441	1,348	**3,789**	2,093	968	**3,061**
Restricted cash	518		**518**	498	-	**498**
Cash	73,330	5,973	**79,303**	83,409	7,639	**91,048**
Total current assets	102,780	7,089	**109,869**	126,009	8,895	**134,904**
Assets classified as held for sale (2)	-	39,135	**39,135**	-	-	**-**
Total assets	710,441	101,820	**812,261**	710,206	81,426	**791,632**
Liabilities and Unitholders' equity						
Liabilities						
Non-current liabilities						
Interest-bearing loan	508	-	**508**	473	-	**473**
Mortgage loans	137,577	76,728	**214,305**	130,162	53,714	**183,876**
Lease liabilities	122,344	11,432	**133,776**	116,968	10,730	**127,698**
Lease equalization loans	92	-	**92**	343	-	**343**
Tenant deposits	2,186	158	**2,344**	1,930	142	**2,072**
Exchangeable securities	-	-	**-**	2,695	-	**2,695**
Derivative financial instruments	4,014	-	**4,014**	2,734	-	**2,734**
Deferred tax liabilities	13,303	8,932	**22,235**	12,295	8,519	**20,814**
Total non-current liabilities	280,024	97,250	**377,274**	267,600	73,105	**340,705**
Current liabilities						
Interest-bearing loan	4	39	**43**	4	-	**4**
Promissory Notes	33,737	-	**33,737**	47,909	-	**47,909**
Mortgage loans	4,478	160	**4,638**	4,198	17,988	**22,186**
Lease liabilities	10,150	521	**10,671**	6,910	435	**7,345**
Lease equalization loans	374	-	**374**	1,676	-	**1,676**
Tenant deposits	185	35	**220**	577	22	**599**
Exchangeable securities	8,013	-	**8,013**	6,867	-	**6,867**
Derivative financial instruments	2,227	-	**2,227**	1,494	2	**1,496**
Trade and other payables	11,857	2,973	**14,830**	34,336	(10,339)	**23,997**
Deferred income	900	842	**1,742**	5,491	213	**5,704**
Total current liabilities	71,925	4,570	76,495	109,462	8,321	**117,783**
Total liabilities	351,949	101,820	**453,769**	377,062	81,426	**458,488**
Equity						
Trust units	252,853	-	**252,853**	259,526	-	**259,526**
Retained earnings	68,401	-	**68,401**	57,827	-	**57,827**
Accumulated other comprehensive income	35,784	-	**35,784**	14,591	-	**14,591**
	357,038	-	**357,038**	331,944	-	**331,944**
Non-controlling interest	1,454	-	**1,454**	1,200	-	**1,200**
Total liabilities and equity	710,441	101,820	**812,261**	710,206	81,426	**791,632**

(1) Balance sheet amounts presented for the REIT were taken respectively from the interim and audited consolidated financial statements as at September 30, 2020 and December 31, 2019.

(2) The pending commitment to dispose of the Stuttgart property meets the definition of a discontinued operation for the purpose of classification and presentation in the REIT's financial statements at September 30, 2020. However, for consistency purposes, the Stuttgart property is presented as an asset held for sale and is identified separately in the share from investments in joint ventures and consequently in the proportionate consolidation figures above. This presentation represents a non-GAAP measure.

Consolidated statement of earnings reconciliation to consolidated financial statements

(in thousands of CAD$)	Three months ended					
	As at September 30, 2020			September 30, 2019 as restated		
	Amounts per REIT's financial statements (1)	**Share of net earnings from investments in joint ventures**	**Total**	**Amounts per REIT's financial statements (1)**	**Share of earnings from investments in joint ventures**	**Total**
Rental income	7,154	2,452	**9,606**	6,627	3,123	**9,750**
Property operating cost recoveries	1,790	802	**2,592**	1,528	781	**2,309**
Property operating costs	(1,569)	(834)	**(2,403)**	(1,519)	(710)	**(2,229)**
Other revenues	-	(68)	**(68)**	411	-	**411**
Other property operating expenses	(115)	(2)	**(117)**	(66)	(2)	**(68)**
Net rental income	**7,260**	**2,350**	**9,610**	**6,981**	**3,192**	**10,173**
General and administrative expenses	(1,457)	(434)	**(1,891)**	(1,360)	(513)	**(1,873)**
Foreign exchange gain (loss)	816	-	**816**	(4)	-	**(4)**
Net change in fair value of investment properties	(763)	(1,995)	**(2,758)**	3,746	(1,102)	**2,644**
Share of net income (loss) from joint ventures	(1,176)	1,176	**-**	342	(342)	**-**
Operating income	**4,680**	**1,097**	**5,777**	**9,705**	**1,235**	**10,940**
Net change in fair value of Financial derivatives	192	1	**193**	85	17	**102**
Net change in fair value of Exchangeable securities	96	-	**96**	(367)	-	**(367)**
Net change in fair value of Promissory notes	449	-	**449**	(2,067)	-	**(2,067)**
Finance income	1,561	(1,051)	**510**	2,594	(1,272)	**1,322**
Finance costs	(2,486)	(344)	**(2,830)**	(2,750)	(453)	**(3,203)**
Additionnal income from Arcueil's JV	-	-	**-**	-	448	**448**
Distributions on Exchangeable securities	(209)	-	**(209)**	(173)	-	**(173)**
Income (loss) before income taxes	**4,283**	**(297)**	**3,986**	**7,027**	**(25)**	**7,002**
Current income tax recovery (expense)	33	50	**83**	(64)	(4)	**(68)**
Deferred income tax recovery (expense)	165	247	**412**	(1,576)	29	**(1,547)**
Total income tax recovery (expense)	**198**	**297 -**	**495 -**	**(1,640) -**	**25 -**	**(1,615)**
Net income	**4,481**	**-**	**4,481**	**5,387**	**-**	**5,387**
Non-controlling interest	36	-	36	14	-	14
Net income attributable to the Trust	**4,445**	**-**	**4,445**	**5,373**	**-**	**5,373**

(1) Statement of earnings amounts presented for the REIT were taken respectively from the interim consolidated financial statements as at September 30, 2020 and September 30, 2019.

Consolidated statement of earnings reconciliation to consolidated financial statements (Cont'd)

	Nine months ended					
	September 30,2020			September 30, 2019 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 revenue	21,151	7,218	**28,369**	19,263	9,540	**28,803**
Property operating cost recoveries	4,915	2,178	**7,093**	6,123	2,434	**8,557**
Property operating costs	(7,019)	(2,647)	**(9,666)**	(8,881)	(2,907)	**(11,788)**
Other revenues	19	123	**142**	412	23	**435**
Other property operating expenses	(228)	(9)	**(237)**	(308)	(62)	**(370)**
Net rental income	**18,838**	**6,863**	**25,701**	**16,609**	**9,028**	**25,637**
General and administrative expenses	(5,741)	(1,536)	**(7,277)**	(4,758)	(1,539)	**(6,297)**
Foreign exchange gain (loss)	2,619	-	**2,619**	(6)	-	**(6)**
Net change in fair value of investment properties	(1,348)	(3,208)	**(4,556)**	4,488	(731)	**3,757**
Loss on disposal of investment properties	-	-	**-**	(56)	-	**(56)**
Share of net income (loss) from joint ventures	(1,843)	1,843	**-**	886	(886)	**-**
Operating income	**12,525**	**3,962**	**16,487**	**17,163**	**5,872**	**23,035**
Net change in fair value of Financial derivatives	399	8	**407**	(1,543)	(2)	**(1,545)**
Net change in fair value of Exchangeable securities	2,675	-	**2,675**	(697)	-	**(697)**
Net change in fair value of Promissory notes	14,152	-	**14,152**	(4,494)	-	**(4,494)**
Finance income	5,737	(3,081)	**2,656**	6,743	(3,911)	**2,832**
Finance costs	(7,562)	(1,123)	**(8,685)**	(7,774)	(1,837)	**(9,611)**
Additionnal income from Arcueil's JV	-	-	**-**	-	14	**14**
Distributions on Exchangeable securities	(602)	-	**(602)**	(528)	-	**(528)**
Income before income taxes	**27,324**	**(234)**	**27,090**	**8,870**	**136**	**9,006**
Current income tax recovery (expense)	(16)	34	**18**	(191)	(15)	**(206)**
Deferred income tax recovery (expense)	(119)	200	**81**	(2,303)	(121)	**(2,424)**
Total income tax recovery (expense)	**(135)**	**234**	**99**	**(2,494)**	**(136)**	**(2,630)**
Net income	**27,189**	**-**	**27,189**	**6,376**	**-**	**6,376**
Non-controlling interest	42	-	42	21	-	21
Net income attributable to the Trust	**27,147**	**-**	**27,147**	**6,355**	**-**	**6,355**

Normal course issuer bid

On April 17, 2020 the Toronto Stock Exchange (the "TSX") approved the REIT's intention to make a normal course issuer bid ("NCIB") to acquire up to a maximum of 2,622,412 of its units, or approximately 10% of its public float as of April 15, 2020 over the next 12 months for cancellation.

The number of units that can be purchased pursuant to the NCIB is subject to a current daily maximum of 20,890 Units, subject to the REIT's ability to make one block purchase of Units per calendar week that exceeds such limits.

During the three and nine months ended September 30, 2020, the REIT repurchased 374,175 units for $2,964 at a weighted average price of $7.92 per unit and 884,675 units for $6,679 at a weighted average price of $7.55. For the three and nine months ended September 30, 2020, 220,475 of the 374,175 units and 730,975 of the 884,675 units were cancelled and the residual of 153,700 units repurchased at September 30, 2020 will be cancelled subsequently.

On September 30, 2020, the REIT entered into an automatic purchase plan for a broker to repurchase a daily maximum of 20,890 units at a maximum price of $8.50 per unit, for the period of September 30 to November 13, 2020. A liability of $178 has been recorded and included within Trade and Other Payables, relating to the repurchase obligation of 20,890 units as at September 30, 2020.

As of September 30, 2020, the 27,995,168 units already include the upcoming cancellations of 153,700 and 20,890. The number of units repurchased resulted during the three and nine months ended September 30, 2020 in a reduction of Trust Units representing the average book value of $3,817, and $7,961 and an increase in retained earnings of $675 and $1,104, respectively.

Unit-based compensation plan

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

The DSU Plan allows the Board of Trustees to grant DSUs to its senior officers at the Board's discretion ("Granted DU"). The Granted DU will vest equally over each anniversary date from date of grant over three years.

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

As of September 30, 2020, 43,049 DSUs are outstanding and 156,951 DSUs are available for grant under the DSU Plan.

For the three months ended September 30, 2020, the REIT recorded an expense of CAD$56 and an increase to the liability for the same amount. The total liability related to the DSU plan as of September 30, 2020 was CAD$185 and was included in Trade and other payables.

Distribution Reinvestment Plan

Until May 2020, the REIT had a Distribution Reinvestment Plan ("DRIP"). Previously, by participating in the DRIP, Unitholders could have cash distributions from Inovalis REIT reinvested in additional Units as and when cash distributions were made with a "bonus" distribution of units equal to 3% of the amount of the cash distribution reinvested pursuant to the DRIP. In response to the market disruption caused by the COVID-19 pandemic, the REIT suspended its DRIP effective as of the distribution payable on May 15, 2020 to unitholders of record as at April 30, 2020.

Equity

Management's discussion about equity is inclusive of exchangeable securities and the private placement promissory notes 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 September 30, 2020 the REIT has 27,995,168 Units issued and outstanding, including 4.835 million Units issued in the December 2019 public equity offering.

For the three and nine months ended September 30, 2020, respectively, 220,475 and 730,975 Units were cancelled pursuant to the broker agreement related to the NCIB.

Securities

	Three months period ended Sept 30, 2020	Nine months period ended Sept 30, 2020
Units		
Number at beginning of period	28,369,343	28,742,306
Decrease in number during the period	(374,175)	(892,754)
Units issued pursuant to the DRIP	-	145,616
Number at end of period	27,995,168	27,995,168
Weighted average number during the period	28,323,037	28,646,385
Exchangeable securities		
Number at beginning of period	1,015,145	897,082
Increase in number during the period	51,780	169,843
Number at end of period	1,066,925	1,066,925
Weighted average number during the period	1,015,145	959,583
Promissory notes		
Number at beginning of period	4,492,319	4,494,301
Number at end of period	4,492,319	4,492,319
Weighted average number during the period	4,492,319	4,493,600
Units, Exchangeable securities and Promissory notes		
Number at beginning of period	33,876,807	34,133,689
Decrease in number during the period	(322,395)	(577,295)
Number at end of period	33,554,412	33,554,412
Weighted average number during the period	33,830,501	34,099,568

The 27,995,168 units as at September 30, 2020 reflect the pending cancellation of 153,700 and 20,890 units which has no impact on the weighted average number of units during the period.

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 ('000 EUR)	Weighted average hedging rate
Q3 2020	2,348	1.661
Q4 2020	3,197	3.156
Q1 2021	3,612	1.495
Q2 2021	3,599	1.500
Q3 2021	3,583	1.507
Q4 2021	3,566	1.514
Q1 2022	3,553	1.520
Q2 2022	3,542	1.525
Q3 2022	3,526	1.531
Q4 2022	1,170	1.539
	31,696	

To mitigate the risk of foreign exchange fluctuations on the distributions to our Unitholders, management has established an active foreign exchange hedging program. As at September 30, 2020, the REIT was committed to sell EUR780 at rate of 1.666 and to receive CAD$1,300 for October 2020. This hedging program expired in October 2020 and management initiated a new two-year hedging program beginning in Q4 2020, to receive CAD$1,800 on a monthly basis at an average rate of 1.5124. Volumes and agreed-upon exchange rates are listed in the above table.

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

SUBSEQUENT EVENTS

Conversion of the call option into shares of SCCV Rueil

Upon completion of the Rueil property held by SCCV Rueil, on October 2, 2020, the REIT exercised its call option related to the acquisition loan and acquired 20% of the shares (2,200 shares) of SCCV Rueil for a purchase price of €2,200 (CAD$3,410).

Walpur (Bad Homburg) buy-back of joint venture

On July 27, 2020, the REIT entered into an agreement with its joint venture partner to buy-back the 50% interest held in Walpur by a co-investor. Total purchase price of EUR5,873 (CAD$8,957) is based on Q2 2020 asset valuation of €22,900 (CAD$34,924; REIT share of CAD$17,462). The transaction closed on October 27, 2020 and is in line with REIT strategy to buy-back joint ventures to simplify the ownership structure.

Arcueil – lease liability concession

On October 23, 2020 the REIT entered into an agreement to defer the quarterly payment due on April 8, 2020 and July 8, 2020 under the Arcueil lease liability to April 8, 2027. Regular payments under the lease obligation resumed on October 8, 2020. A charge equal to 1% per annum of the deferred payments for the rest of the lease term was paid on October 23, 2020.

Extension and Conversion of Promissory Notes

On October 4, 2020, the REIT signed an amended agreement to extend its promissory note issued in October 2017 with REIT Notes Program Ltd (Note 2). As part of the amended agreement, the term of the Promissory Note is extended to the maturity date of October 4, 2021. All other conditions and features of the note have not been modified. In accordance with IFRS 9, the original liability was extinguished, and the REIT recognized a new liability in the fourth quarter of 2020. Later in October, the Investor confirmed its intention to exercise its put right under the put/call agreement and redeem the entire outstanding principal amount of the three Promissory Notes. On November 3, 2020 the REIT has repaid the total amount of Note 3 by delivering 2,121,008 units. On November 5, 2020 the REIT has entirely repaid Note 1 and Note 2 by delivering 1,280,208 and 1,087,911 units, respectively. The repayment resulted in a cumulative gain of CAD$10,916 arising from a net change in fair value of the Promissory Notes.

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