INOVALIS

REAL ESTATE INVESTMENT TRUST

CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS 2
HIGHLIGHTS 2
OVERVIEW – GAAP AND NON-GAAP 3
BASIS OF PRESENTATION 4
FORWARD-LOOKING INFORMATION 4
MARKET AND INDUSTRY DATA 4
BUSINESS OVERVIEW AND STRATEGY 5
CONSOLIDATED FINANCIAL INFORMATION 12
DISCUSSION OF STATEMENT OF CONSOLIDATED EARNINGS 13
INVESTMENT PROPERTIES 15
OTHER SIGNIFICANT ASSETS 15
PRESENTATION OF OUR CAPITAL 16
ANALYSIS OF DISTRIBUTED CASH 18
RISKS AND UNCERTAINTIES 18
OUTLOOK 18
CRITICAL ACCOUNTING POLICIES 19
DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING 19
SELECTED FINANCIAL INFORMATION 20
NON-GAAP FINANCIAL MEASURES 21
LAST 24 MONTHS – KEY FINANCIAL INFORMATION 22
NON-GAAP RECONCILIATION 22

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

HIGHLIGHTS

Acquisition of the Trio Property

The Trio property ("Trio") is comprised of three modern office buildings built in 2007 with a gross leasable area of approximately 204,000 square feet. Trio is 93% occupied by six different tenants with a weighted average lease term of 5.6 years. It is anchored by a solid, local tenant, Lorenz Snack-World GmbH, a company which produces and exports food products to 80 countries worldwide with over 2,250 employees.

Trio is strategically located less than 10 minutes by train from downtown Frankfurt and at about the same distance to the International Airport. There is a growing demand in the Frankfurt area with potential for an increase in market rents over the next five years.

Trio was acquired for approximately $69.5 million and financed with a senior bank loan of $47.4 million, bearing interest fixed at 1.56% for five years. This transaction represents a going-in cap rate on the existing rent of approximately 5.26% and 5.65% on the potential rent. In the period between the start of the due diligence and closing, approximately 8300 square feet of space has been leased, that had been assumed as vacant in the acquisition pricing model.

We anticipate the Trio property will be accretive to FFO and AFFO by two cents per unit.

The acquisition was funded by the cash generated from the sale of the Hanover property and the cash from the re-leveraging of the Métropolitan asset.

Re-financing of Métropolitan Property

The Métropolitan Property was constructed in 1993, and is comprised of 78,813 square feet of GLA, primarily for office and retail use. The six-storey building is located within the Paris Central Business District. This region is a favoured location for numerous French and international companies as well as public and private institutions.

Since the acquisition of the asset in 2016, the value of the asset increased from €50 million to €63.3 million. The new financing of $64.9 million bears interest at 2.07% for five years and generated additional proceeds of approximately $13.6 million. The existing finance lease of $51.3 million bearing interest at 2.43% was terminated.

Re-financing of Courbevoie Property

The Courbevoie Property, located in Courbevoie, France, was constructed in 1970 and renovated in 2010, is comprised of approximately 96,000 square feet of office space. The REIT completed new mortgage financing of $14.3 million bearing interest of 2.13% and repaid the maturing mortgage loan of $11.6 million.

Sale of Hanover

In January, 2019 the REIT completed the sale of the Hanover Property, proceeds for which were utilized to fund the acquisition of the Trio Property.

OVERVIEW – GAAP AND NON-GAAP

Our key performance indicators are set out below. "Non-GAAP" and Total Portfolio measures include our proportionate interest in joint ventures, please refer to "*Non- GAAP Reconciliation*".

	March 31, 2019		December 31, 2018	
Operational information	IP Portfolio	Total Portfolio	IP Portfolio	Total Portfolio
Number of properties	7	15	7	15
Gross leasable area (sq.ft)	852,385	1,416,896	772,403	1,330,727
Occupancy rate (end of period) (2)	88.6%	93.0%	88.6%	93.0%
Weighted average lease term	3.6 years	3.8 years	4.9 years	4.5 years
Average capitalization rate (3)	5.6%	5.8%	5.8%	5.8%
Financing information				
Level of debt (debt-to-book value) (4)	44.7%	52.5%	38.3%	47.7%
Level of debt (debt-to-book value, net of cash) (4)	42.8%	50.8%	36.3%	45.8%
Weighted average term of principal repayments of debt	6.0 years	5.4 years	5.5 years	5.1 years
Weighted average interest rate (5)	2.06%	2.06%	2.15%	2.11%
Interest coverage ratio (6)	5.3 x	4.5 x	4.5 x	3.9 x

	Three months ended	
(thousands of CAD$ except per Unit and other data)	March 31 2019	March 31 2018
Operating results		
Rental revenue	6,043	6,714
Adjusted rental revenue (1)	9,259	9,718
Net rental income	2,904	3,842
Adjusted net rental income (1)	5,527	5,915
Net income (loss) for the period	(1,902)	(1,891)
Funds from Operations (FFO) (7) (8)	4,853	5,771
Adjusted Funds from Operations (AFFO) (7) (8)	5,352	5,458
FFO per Unit (diluted) (7) (8)	0.17	0.22
AFFO per Unit (diluted) (7) (8)	0.19	0.21
Distributions		
Declared distributions on Units and Exchangeable sec.	5,036	4,952
Declared distributions on Units and Exchangeable sec. & Promissory note	6,074	5,530
Declared distribution per Unit (9)	0.21	0.21
FFO payout ratio (7)	125.2%	95.8%
AFFO payout ratio (7)	113.5%	101.3%

(1) Taking into account the interest the REIT has in joint venture partnerships.
(2) Calculated on weighted areas (activity, storage and inter-company restaurant areas being accounted for only a third of their effective areas), including vendor leases.
(3) Calculated on annualized net rental earnings (based on net rental earnings for the year-to-date period).
(4) The definition of *debt-to-book value* and of *debt-to-book value, net of cash* can be found under the section *Non-GAAP Financial Measures.* The figures presented for the periods ended March 31, 2018 and December 31, 2018 have been reclassified, when appropriate, in order to ensure comparability with the figures for the period ending March 31, 2019.
(5) Calculated as the weighted average interest rate paid on the finance leases and the mortgage.
(6) Calculated as net rental earnings plus finance income, less administrative expenses, divided by interest expense on the financial leases and mortgage financings.

(7) The reconciliation of FFO and AFFO to earnings can be found under the section *Non-GAAP Reconciliation (FFO and AFFO).*
(8) Based on the diluted weighted average number of Units, Exchangeable Units and the conversion of Private Placement Promissory Note.

BASIS OF PRESENTATION

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

The REIT has historically, within the MD&A, presented operating results based on financial information developed using proportionate consolidation for all the REIT's joint ventures, which are accounted for using the equity method, as required by IFRS 11 "Joint Arrangements". This manner of presentation provided current and prospective investors with, in management's view, the relevant information to assist them in understanding the REIT's financial performance, while providing for a reconciliation of such Non-Generally Accepted Accounting Principles ("GAAP") information to the REIT's financial statements as reported under 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 approximately 33% of the total value of all properties held by the REIT, including those owned by joint venture), are a significant component of the REIT's business.

This MD&A has been prepared considering material transactions and events up to and including May 15, 2019. Financial data provided in the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. All amounts in this MD&A are in thousands of Canadian dollars and Euro, except per unit amounts and where otherwise stated. Historical results, including trends which might appear 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 three months ended March 31, 2019 and March 31, 2018 are $1.5637 and 1.5893, respectively. For balance sheet items as at March 31, 2019, projections or market data, the exchange rate used is $1.4975 ($1.5637 as at December 31, 2018).

FORWARD-LOOKING INFORMATION

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

MARKET AND INDUSTRY DATA

This MD&A includes market and industry data and forecasts that were obtained from third-party sources, industry publications and publicly available information as well as industry data prepared by Inovalis SA based on its knowledge

of the commercial real estate industry in which we operate (including Inovalis SA estimates and assumptions relating to the industry based on that knowledge). Inovalis SA's knowledge of the real estate industry has been developed through its 20 years of experience and participation in the industry.

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, our asset manager. Our Units have been listed on the Toronto Stock Exchange under the trading symbol INO.UN since April 10, 2013. Our head and registered office is located at 151 Yonge Street, 11th floor, Toronto, Ontario, M5C 2W7.

Our long-term objectives are to:

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

The REIT's investment criteria encompasses office properties outside of Canada with an occupancy level above 80% (unless AFFO accretive), secured rental cash flows, a property value between €20 million ($30 million) to €60 million ($90 million), unless AFFO accretive and a potential future upside with respect to matters including rent and area development. According to management, the target investment size falls within a very liquid segment of the real estate market in Europe, and debt financing for such acquisitions is readily available from local lenders.

BUSINESS ENVIRONMENT[1]

French commercial real estate investment market

Investment

The Greater Paris Region investment market for office properties has performed well over Q1 2019 with almost €2.4 billion in investments, 17% higher than the long-term average. These results were largely due to transactions for properties valued over €100 million. Although the number of transactions fell year over year (8 transactions versus 12), the transaction value was higher. Investment in the Paris region including the Central Business District and all 20 districts generated €679 million was overtaken by investment in the Inner Suburbs in Q1 2019, primarily due to attractive prices and the availability of properties on the market. €699 million of investments were recorded in the Inner Suburbs, accounting for 30% of overall activity. The Inner Eastern Suburbs were particularly active (€355 million) as were the Inner Southern Suburbs (€266 million) with 13 transactions, 3 of which were for lot sizes over €100 million. Investment in the area known as La Défense was fairly quiet with €64 million in investments following an active Q4 2018. The number of major office towers on the market in La Défense suggest a possible resurgence in activity

Inovalis REIT

Paris Property Locations

Central Business District
- Jeuneurs
- Metropolitain

Paris - 14th District and Montparnasse Area
- Sablière

La Defence Periphery
- Courbevoie

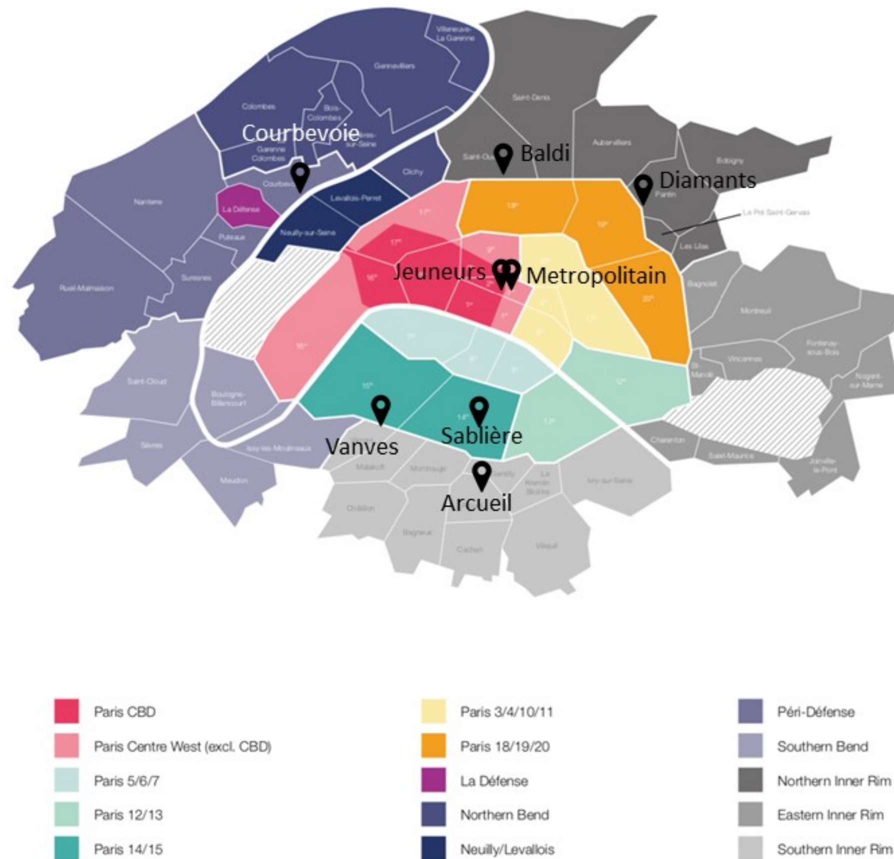
Northeastern Periphery
- Pantin

Northern Inner Rim of Paris
- Baldi

Southern Inner Rim of Paris
- Vanves
- Arcueil

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

over the coming months. The Outer Suburbs posted a substantial year-over-year increase with a transactions valued at over €177 million in Q1 2019, compared to €74 million in Q1 2018.



Leasing

In Q1 2019, almost 541,000 sq m were leased in the Greater Paris Region office market. Although this represents a 23% decrease over comparative quarters in 2017 and 2018, it is in line with the average Q1 volume of leased space for the last 10 years (535,000 sq m). Each of the small (<1,000 sq m), medium (1,000 - 5,000 s sq m) and large (10,000 to 25,000 sq m) space segments accounted for approximately one third of the space transacted over Q1 2019. The medium space segment posted an increase of 2% in the number of transactions and 17% by volume. The small space segment posted a 10% decrease in leasing and transactions compared to last year. The most significant decrease was seen in the large space segment in which leasing decreased 51% by volume and decreased 29% by number of transactions, with six fewer transactions. However, this data for the large segment is being compared with exceptional Q1 2018 results which accounted for 53% of leasing one year ago.

The decrease in leasing is also due to the low level of office vacancy in Paris and Greater Paris Region, which has been decreasing since 2017. In Inner Paris, the average vacancy rate stands at 2.3% and 1.5% in the Central Business District. Despite this, the Central Business District posted a respectable performance over Q1 that was only very slightly below 100,000 sq m. The availability of newly constructed office space, which is preferred by medium to large size tenants, remains low and only accounts for 14% of overall supply (443,000 sq m of availability).

The three largest transactions in early 2019 were all for new, pre-let buildings. The SOCIETE GENERALE leased “Sakura” in Fontenay-sous-Bois. This building (over 30,000 sq m due for completion in early 2021) is located opposite

their current building “Campus des Dunes” (126,000 sq m). It is also worth highlighting ALTEN’s lease of the refurbished “Oxalis” building in Boulogne-Billancourt. ALTEN is expected to move from its current building at 221 bis Rue Jean Jaurès at some point this year.

The trend of corporate offices relocating to the Inner Rim of Paris continues, due to the lack of supply. As a result, the Inner Rim of Paris accounted for half of leasing in the Greater Paris Region over Q1 2019.

Rents

Prime office rental rates have increased in the majority of markets in the Greater Paris Region. Some submarkets, such as Paris Centre Ouest excluding the Central Business District, or Paris 3-4-10-11, have seen double-digit growth over Q1 2019 with annual rents reaching €720 and €680 per square meter, respectively. In the Central Business District which is the benchmark market for the Greater Paris Region, the prime annual rent reached €820 per square meter (+5% year over year) due to a high number of transactions at rents of over €800 with a top value of €880.

Average rents for older, non-prime office space rose once again over Q1 to a new record. The average annual rent in the Greater Paris Region was €378 per square meter by the end of Q1 2019. Due to the unmet demand for office space in the Central Business District, the average rental rate has been rising steadily for the last four years and now stands at over €600 per sq m/year.

Over Q4 2018, leasing incentives fell for the first time since 2013 and stood at 19.9% of the annual contracted rent across the Greater Paris Region with a low point of 7.5% in Paris - North East, 22.1% in the Inner Suburbs and 24% in Western Crescent and La Défense.

German Commercial Real Estate Market

Investment

In the first quarter of 2019, almost €11.1 billion was invested in commercial real estate across Germany. This result is 10% below the extraordinary results of 2018 and represents the third best transaction volume of the last 12 years. The slightly lower investment volume is due to the limited availability of assets in important markets such as Frankfurt, Munich or Hamburg.

Individual transactions accounted for almost €9.6 billion and represent 86 % of the total volume, 8% below the record level of 2018.

Portfolio sales, account for approximately 14% of the total investment volume. With the exception of the 2009 financial crisis period, this is a record low share for portfolio sales.

Historically low interest rates, very limited investment alternatives and Germany’s proven stability, continue to form the main guidelines for an attractive environment. The fact that occupancy remains strong further strengthens investor confidence in the German markets.

Inovalis REIT

Germany Property Locations

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

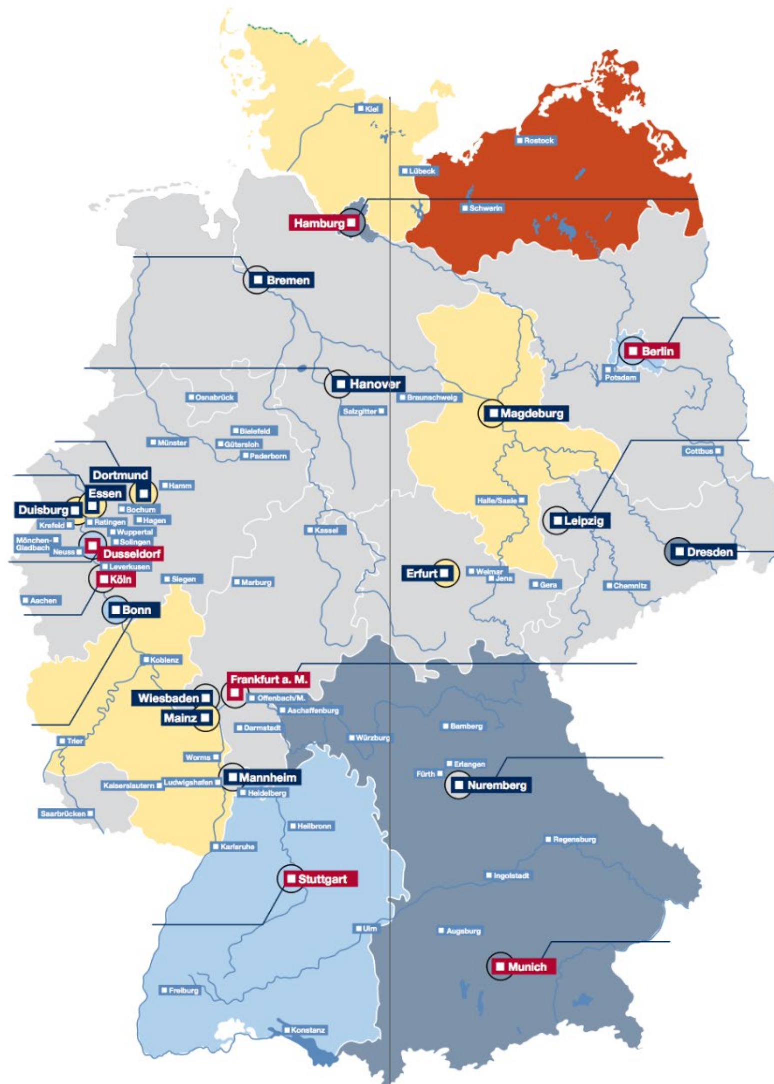
Low vacancy rate influences business development

The pipeline of office assets under construction and expected to come on market within 12 months in the seven major cities in Germany: Berlin, Dusseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart (the “Big 7”) continues to decline. The aggregate vacancy rate for the Big 7 currently stands at 3.5%, which is 1% below the first quarter of last year. The biggest declines in vacancy rates were registered in Berlin, Düsseldorf and Hamburg. Berlin was the first market in the Big 7 to fall below the 2% mark — a level last seen in Munich in 2002. By the end of the year, the majority of the markets are expected have a decline in vacancies. In central sub-markets, vacancy rates of even less than one percent are evident. Frankfurt recorded a decline in vacancy rate from 7.4% in Q1 2018 to 6.4% in Q1 2019.

Completions increase significantly in 2019 – only a quarter of the space is still available

Against the backdrop of strong demand and rising rents, the decline in vacancies over the years has led to increased new development activity and construction volume. Around 4.1 million sq m of office space is currently under construction across Germany, half of which is in Berlin (1.3 million sq m) and Munich (0.85 million sq m). Approximately 1.5 million sq m will be completed by the end of 2019, which is around two-thirds more than in 2018. In the first quarter, however, this increase in supply is not yet evident. In Düsseldorf, Frankfurt, Cologne and Munich, no office space of a relevant size came on to the market between January and the end of March. The aggregate sq m in the seven property strongholds only amounts to 160,000 sq m.

Approximately 75% of the space planned for completion in 2019 is leased, 4% higher than the previous quarter. This indicates that office space in project developments are in demand. Newly constructed space offers alternatives for space in a tight market, and enables users to implement modern office work environments.



Rents continue to rise in all markets

The current relationship between supply and demand continues to drive rental rate growth. Compared to the first quarter of 2018, prime rents rose in all Big 7 markets, with an increase of 5.3% in Frankfurt, 4.3% in Stuttgart and 6.76% in the Munich Region. Further increases are expected by the end of the year with the exception of Cologne, with Berlin and Munich each registering an increase of €2.00/sq m/month to €36.00/sq m/month and €41.50/sq m/month respectively.

Portfolio

The REIT has an interest in fifteen properties, (the "Property Portfolio"), of which seven are entirely owned by the REIT (the "IP Portfolio") and eight are held through partnerships with various global institutional funds, (the "JV Portfolio"). Eight properties are in France and Seven properties are in Germany.

Asset	*% owned*	*REIT Ownership Valuation as at March 31, 2019*	*% of REIT's Portfolio Value*	*Gross Leaseable Area (GLA)*	*Contributio n to GLA*	*# of tenants*	*Occupancy rate (including vendor leases)*	*WALT (end of lease)*
		(CAD)	*%*	*sq. ft.*	*%*		*%*	*Years*
Jeuneurs	100%	70,480	10%	50,407	3%	1	100.0%	1.8
Courbevoie	100%	41,316	6%	95,903	8%	7	86.2%	2.7
Vanves	100%	129,268	19%	258,673	18%	6	80.9%	2.7
Sablière	100%	36,419	5%	41,043	3%	7	93.2%	3.8
Baldi	100%	37,218	6%	123,657	9%	8	71.5%	3.2
Metropolitain	100%	92,120	14%	78,818	5%	7	100.0%	6.3
Arcueil	25%	33,759	5%	83,630	6%	1	100.0%	3.9
Pantin	50%	20,036	3%	71,628	5%	16	100.0%	3.5
Subtotal France		**460,616**	**68%**	**803,759**	**57%**	**53**	**87.5%**	**3.3**
Trio	100%	70,233	10%	203,886	14%	1	93.1%	4.8
Duisburg	50%	38,478	6%	108,960	8%	1	100.0%	1.8
Bad Homburg	50%	16,997	3%	54,553	4%	6	93.4%	3.9
Cologne	6%	2,102	0%	3,930	-	1	100.0%	6.6
Stuttgart	50%	34,709	5%	121,416	8%	4	96.3%	4.8
Neu-Isenburg	50%	31,646	5%	67,334	5%	4	100.0%	4.1
Kösching	50%	21,735	3%	53,058	4%	1	100.0%	8.7
Subtotal Germany		**215,900**	**32%**	**613,137**	**43%**	**18**	**96.4%**	**4.4**
Total - France and Germany		**676,516**	**100%**	**1,416,896**	**100%**	**71**	**91.3%**	**3.8**
IP Portfolio		**477,054**	**71%**	**852,387**	**60%**	**37**	**86.4%**	**3.6**
JV Portfolio		**199,462**	**29%**	**564,509**	**40%**	**34**	**98.6%**	**4.1**

In January, 2019 the REIT sold the 124,076 square foot Hanover property and in March, 2019 acquired the 203,886 square foot Trio property. The IP Portfolio occupancy at March 31, 2019 was 86.4%, compared to 88.6 % at December 31, 2018 and 94.9% at March 31, 2018.

The average lease term decreased to 5.5 years as at March 31, 2019 from 6.5 years as at December 31, 2018. The average lease term including Property Portfolio decreased to 5.1 years compared to 5.9 as at December 31, 2017.

Tenants

The tenant base in the Property Portfolio is well diversified by industry segment, with many national and multinational tenants. As at March 31, 2019, the REIT had 37 tenants across the IP Portfolio and 71 across the Property Portfolio.

The following table shows our five largest tenants, sorted by contribution to gross leasable area (GLA) in the IP Portfolio.

Tenant	Tenant Sector	GLA (sq.ft.) (1)	Weighted Areas (sq.ft) (1)	% of Weighted Areas
Orange (Formerly France Telecom)	Telecommunications	186,070	181,096	22.6%
The Lorenz Bahlsen Snack-World GmbH & Co. KG	Food and beverage	91,150	83,600	10.4%
Rue Du Commerce	E-commerce	51,926	51,926	6.5%
CNAM	Education & Training	50,407	49,543	6.2%
SAS Smart & Co	Internet and direct marketing retail	43,481	39,796	5.0%
Top 5 tenants		**423,033**	**405,961**	**50.7%**
Other tenants	Diversified	313,620	296,691	37.0%
Vacant		115,732	98,211	12.3%
Total IP Portfolio		**852,385**	**800,863**	**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 Property Portfolio are presented in the table below.

Tenant	Tenant Sector	GLA (sq.ft.) (1)	Weighted Areas (sq.ft) (1) (2)	% of Weighted Areas
Orange (Formerly France Telecom)	Telecommunications	269,700	253,651	19.4%
Daimler AG	Manufacturer	109,136	100,486	7.6%
Hitachi Power	Manufacturer	108,959	104,046	8.0%
The Lorenz Bahlsen Snack-World GmbH & Co. KG	Food and beverage	91,150	83,600	6.4%
Arrow Central Europe	E-commerce	55,639	51,717	4.0%
Top 5 tenants		**634,584**	**593,500**	**45.4%**
Other tenants	Diversified	650,390	610,593	46.7%
Vacant		131,922	103,593	7.9%
Total Property Portfolio		**1,416,896**	**1,307,686**	**100.0%**

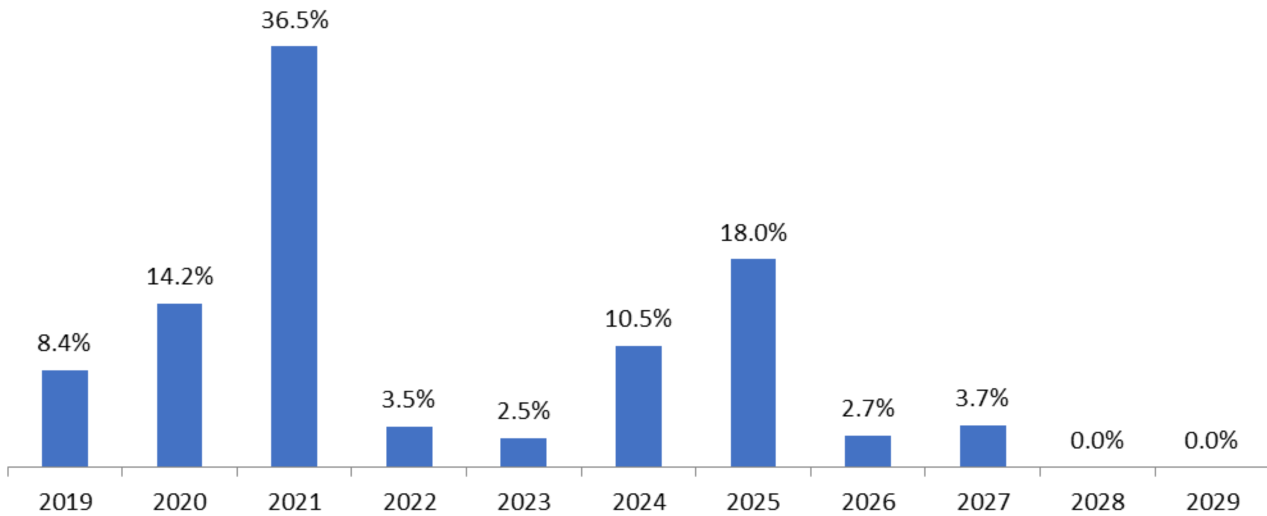
(1) Taking into account the interest the REIT has in the properties held in partnerships
(2) Activity, storage and intercompany restaurant areas are weighted by being accounted for a third of their effective areas.

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

Lease profile

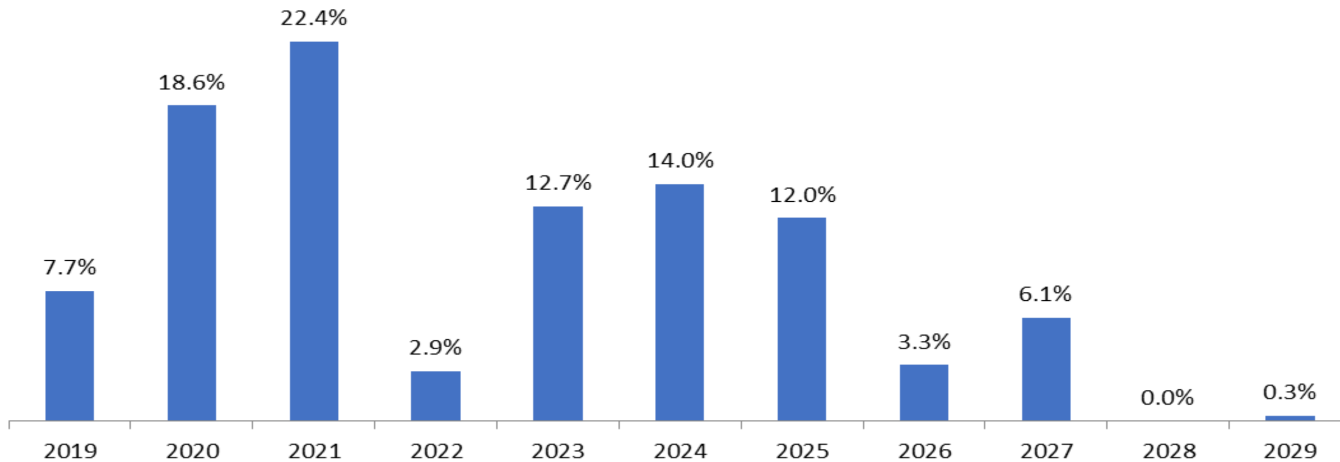
The average remaining lease term in the IP Portfolio is 3.6 years (not including tenant early termination rights). Assuming all tenants leave at the earliest possible early termination rights, which the REIT believes is unlikely, the average remaining lease term in our portfolio is 2.8 years. The following graph sets out the percentage of total GLA of the IP Portfolio subject to leases expiring by year (excluding early lease terminations).

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



Including the JV Properties, the average remaining lease term is 3.8 years (not including tenant early termination rights) and 3.2 years including early termination rights. The following graph presents the percentage of total GLA expiring in the Property Portfolio by year (excluding early lease terminations).

Lease Maturity Profile as at March 31, 2019
Entire portfolio including joint ventures
(% of total GLA)



At our Baldi property, William Grant & Sons have renewed its lease on 18,417 square feet of GLA on a nine year lease, effective June 1, 2019. Building improvements works are scheduled to commence later this month, which when completed later in the summer, is expected to drive potential tenant interest in the vacant space. At our Courbevoie property SMART & Co leases 43,481 square feet of GLA, expiring on September 30, 2019. We have had several prospective tenants tour the property and are hopeful a replacement tenancy will be secured in the short term. All leases contracts have rental indexation based on the French ICC (construction cost index), ILAT (index averaging construction costs and CPI indexes) or the German Consumer Price Index, as applicable.

CONSOLIDATED FINANCIAL INFORMATION

Consolidated Statements of Earnings

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

(in thousands of CAD$)		
Rental revenue	6,043	6,714
Service charge revenue	2,433	2,146
Service charge expenses	(5,514)	(5,172)
Other revenues	3	244
Other property operating expenses	(61)	(90)
Net rental income	**2,904**	**3,842**
Administration expenses	(1,772)	(1,537)
Foreign exchange gain	29	55
Net change in fair value of investment properties	2,319	1,925
Loss on disposal of investment property	(100)	-
Share of net earnings from joint ventures	914	(2,023)
Operating earnings	**4,294**	**2,262**
Net change in fair value of financial derivatives	(921)	1,776
Net change in fair value of Exchangeable securities	(649)	114
Net change in fair value of Promissory notes	(3,320)	(191)
Finance income	2,017	2,005
Finance costs	(2,662)	(2,392)
Distributions on Exchangeable securities	(177)	(268)
Income before income taxes	**(1,418)**	**3,306**
Current income tax expense	(48)	(119)
Deferred income tax expense	(436)	(5,078)
Net loss for the period	**(1,902)**	**(1,891)**
Non-controlling interest	(32)	2
Net loss for the period attributable to the REIT	**(1,870)**	**(1,893)**

DISCUSSION OF STATEMENT OF CONSOLIDATED EARNINGS

Certain figures presented for the three months ended March 31, 2018 have been reclassified, when appropriate, in order to ensure comparability with the amounts presented for the three months ended March 31, 2019, with respect to

- The share of net income from joint ventures has been reduced by $2,858 and finance costs has been reduced by $2,858.

Certain figures presented for the three months ended March 31, 2018 revised to correct errors as follows:

- Regarding the acquisition loan and the related call option, the net change in the fair value of financial derivatives has been increased by $1,359 and finance income has been reduced by $1,359 and the net change in the fair value of financial derivatives has been increased by $1,400 resulting in an increase in net income of $1,400.
- Regarding the promissory notes, part of the change in fair value of Promissory notes is reclassified from "Change in cumulative translation adjustment account" to "Net change in fair value of Promissory notes" for an amount of $1,319, with the effect of reducing net income by $1,319.
- As a result, net loss for the three months ended March 31, 2018 has decreased by $81, and comprehensive income has increased by $1,319.

Net rental earnings

Net rental income for the three months ended March 31, 2019 ("Q1 2019") was $2,904 compared to $3,842 for the three months ended March 31, 2018 ("Q1 2018").

In accordance with IFRIC 21, the annual property taxes for our properties located in France are expensed in full in the first quarter our fiscal year. These taxes are paid in the fourth quarter. In accordance with IFRIC 21, realty taxes expenses in both Q1 2019 and Q1 2018 were $3.5 million. 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 IFRCI 21 on net rental income for Q1 2019 and Q1 2018 is set out below.

(In Thousands of CAD$)	**Q1 2019**	**Q1 2018**
Net rental income	2,904	3,842
IFRIC 21 impact	(2,608)	(2,602)
Adjusted net rental income - IFRS 21	5,512	6,444

(In Thousands of EUR)	**Q1 2019**	**Q1 2018**
Net rental income	1,923	2,472
IFRIC 21 impact	(1,727)	(1,674)
Adjusted net rental income - IFRS 21	3,650	4,146

The decrease in net rental income , was primarily due to the sale of the Hanover property in January, 2019 ($450) and the departure of ADEME from the Vanves property ($470). The Trio property was acquired at the end of quarter and therefore only had a marginal contribution to net rental income in Q1 2019.

Administration expenses

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

Administration expenses in Q1 2019 were consistent with Q1 2018. However, asset management fees were $336 lower, which was offset by approximately $300 (one cent per unit) of non-recurring costs associated with accounting services and internal control over financial reporting matters.

Net change in fair value of investment properties

The increase in the net change in fair value of investment properties relates to the impact of the IFRIC 21 on realty taxes.

Share of net income from joint ventures

Income from the joint ventures in Q1 2019 was slightly higher than Q1 2018, due to the acquisition of the Kosching property completed in Q1 2018.

Finance income

In Q1 2019 and Q1 2018, finance income consists of interest earned with respect to the acquisition loan advanced to a company controlled by Inovalis SA for the development of the Rueil property and loans to joint ventures.

Finance costs

Finance costs in Q1 2019 were $3,931 versus $2,392 in Q1 2018. Finance costs in Q1 2019 includes $1,269 related to the costs incurred with the early repayment of a mortgage loan secured by the Hanover property, which was sold in January 2019. Additionally, interest cost related to the promissory notes increased by $460 due to increase amounts borrowed.

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 Q1 2019 the distributions on Exchangeable Securities were $177 compared to $268 in Q1 2018 as fewer Exchangeable Securities were outstanding.

Net change in fair value of Exchangeable securities

The fair value of the Exchangeable securities is dependent on the trading price of the REIT Units. Exchangeable Securities are considered a liability and a fair value reduction will be recognized if the market price of the REIT Units increases and a fair value increase will be recognized when the market price of the REIT Unit decreases.

Net change in fair value of Promissory notes

The fair value of the Promissory notes is dependent on the trading price of the REIT Units. Promissory notes are considered a liability and a fair value reduction will be recognized if the market price of the REIT Units increases and a fair value increase will be recognized when the market price of the REIT Unit decreases.

Deferred tax expense

The deferred income tax expense (and deferred income tax liabilities) corresponds to the origination of temporary differences primarily arising from investment properties. Included in deferred tax expense in Q1 2019 is the reversal of the deferred tax liability associated with the Hanover property sold in January, 2019.

The governments of France and Luxembourg signed a new Double Taxation Treaty ("DTT") and accompanying protocol in 2018. The new DTT is currently pending ratification before it comes into force. If the new DTT is ratified before December 31, 2019 by both parties it will come into effect in 2020.

Under the existing DTT, the REIT, through its subsidiary located in Luxembourg, incurs French withholding tax at the 5% treaty rate on the dividend received from French OPCI[1]. Under the anticipated DTT, such dividend distributions would be subject to withholding tax at a rate of approximately 30%, which can be reduced to 15% under specific cases.

Management is currently implementing a structure that will allow the REIT to benefit from a reduced rate of 15% once the new DTT comes into effect. Deferred income tax liabilities are based on the reduced rate of 15% and the assumption of the distribution of 50% of the OPCIs' net profits arising from capital gains upon disposition (which results in an effective rate of 7.5%).

INVESTMENT PROPERTIES

Fair value

The fair value of the REIT's investment property portfolio as at March 31, 2019 was $477,054 compared to $421,937 at December 31, 2018. The increase is mainly attributable acquisition of the Trio property and the impact of IFRIC 21 with respect to realty taxes, off set by foreign currency translation adjustments.

Management principally uses discounted cash flows to determine the fair value of the investment properties. These values are supported by third party appraisals in conformity with the requirements of the *Royal Institution of Chartered Surveyors Standards*, and for the French properties, in conformity with the *Charte de l'expertise immobilière*, *European Valuation Standards of TEGoVA* (the European Group of Valuers' Association) and IFRS 13. All investments properties were appraised as at December 31, 2018.

Building improvements

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

OTHER SIGNIFICANT ASSETS

Investments accounted for using the equity method

Investments accounted for using the equity method encompasses the 50% interest the REIT (through its subsidiaries) has in the Duisburg property, the 50% interest in the Walpur (Bad Homburg) property, the 25% interest in the Arcueil property, the 50% interest in the Neu-Isenburg property, 50% in the Stuttgart property and 50% in the Kösching property. The REIT's investment in joint ventures at March 31, 2019 share of fair value of the investment properties accounted for using the equity method was $95,074 at March 31, 2019 compared to 98,703 as at December 31, 2018. The decrease is attributable to the exchange rate changes.

Acquisition loans and deposit

As at March 31, 2019, acquisition loan of $24,755 consists of loan for the Rueil project. The acquisition loan, which is issued in Euro, accretes at 14% per annum but is subject to changes in currency exchange rate.

Trade and other receivables

Trade and other receivables as at March 31, 2019 amounted to $6,790 compared to the $4,000 at December 31, 2018, which is consistent with the increase between March 31, 2018 and December 31, 2017.

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

PRESENTATION OF OUR CAPITAL

Liquidity and capital resources

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

The REIT's cash available was $20,593 as at March 31, 2019 compared to $19,110 million as at December 31, 2018.

Financing activities

Our debt strategy is to have secured mortgage financing with a term to maturity that is appropriate in relation to the profile of our portfolio and then to put in place, when appropriate, interest-only financings. We intend to search for fixed rate financings or floating rate financings with a cap. As such, 82.8% of the REIT's senior debt benefits from an interest rate protection (67.4% in the form of a swap and 15.3% in the form a cap). Management's preference is to have staggered debt maturities to mitigate interest rate risk and limit refinancing exposure in any particular period. With no financial institution representing more than 24% of our senior debt commitment, we also make sure that the REIT has a diversified base of senior debt providers.

Debt-to-book value

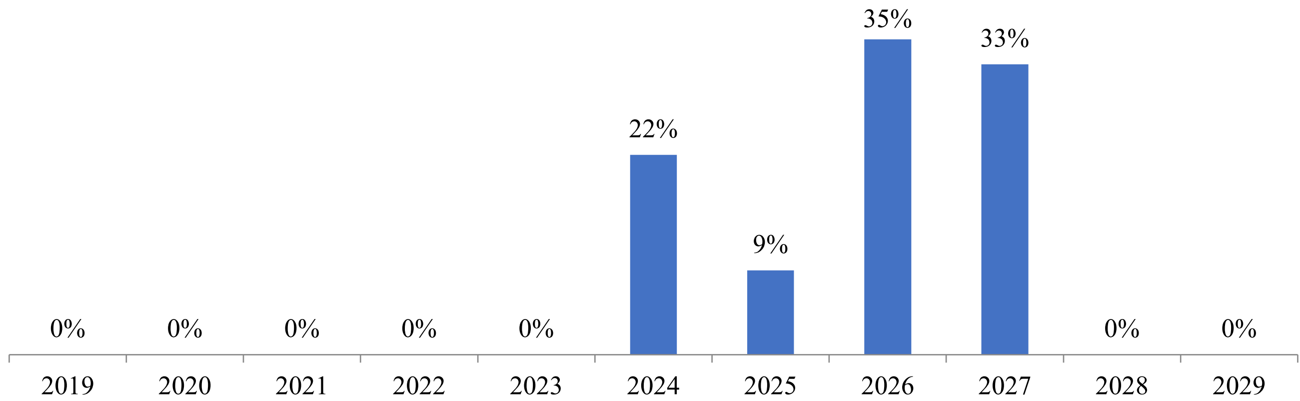
Our debt-to-book value ratio is calculated on a look-through basis and takes into account the REIT's apportioned amount of indebtedness at the partnership level. Indebtedness at the REIT level, as well as at the different partnership levels is calculated as the sum of (i) finance lease liabilities, (ii) mortgage loans, (iii) lease equalization loans, (iv) other long-term liabilities and (v) deferred tax liabilities. Indebtedness does not take into 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 our debt are summarized in the following table.

Entire portfolio incorporating interest in joint-ventures	As at March 31, 2019	As at December 31, 2018
Weighted average interest rate (1)	2.05%	2.11%
Debt-to-book value (2)	53.3%	47.7%
Debt-to-book value, net of cash (2)	51.6%	45.8%
Interest coverage ratio (3)	4.5 x	3.9 x
Debt maturity in next 12 months in thousand of CAD$	12,500	23,918
Weighted average term to maturity of debt (4)	5.4 years	5.1 years

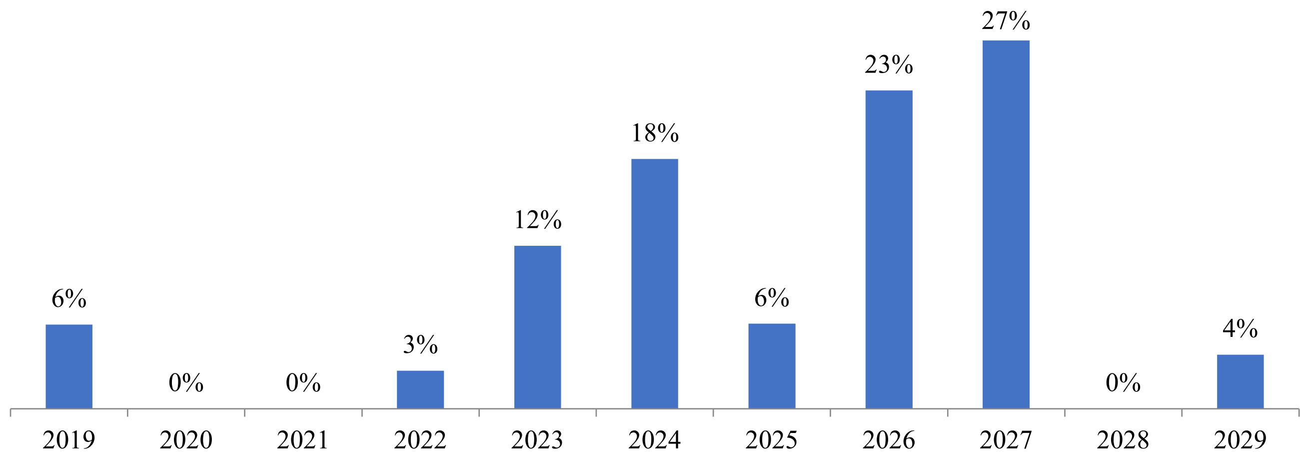
(1) Calculated as the weighted average interest rate paid on the finance leases and the mortgage financing.
(2) The definition of *debt-to-book value* and of *debt-to-book value, net of cash* can be found in the *Debt-to-book value* note above.
(3) Calculated as net rental earnings plus interest, less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

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



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

Leasehold and Mortgage Financing Maturity Profile
(Entire portfolio including joint-ventures)
(% of amount outstanding as at March 31, 2019)



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

ANALYSIS OF DISTRIBUTED CASH

	Three months ended March 31	
	2019	2018
Cash flows from operating activities (A)	1,944	12,158
Income (loss) before income taxes (B)	(1,418)	3,306
Declared distribution on Units (C)	4,859	4,684
Excess (shortfall) of cash flows from operating activities over distributions (A-C)	(2,915)	7,474
Excess (shortfall) of income before income taxes over distributions (B - C)	(6,277)	(1,378)

Cash flows from operating activities and net income (loss) are not relied upon as measures of the REIT's ability to pay distributions.

Management believes that FFO and AFFO are important measures of our 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 measure which do not have a standard meaning as defined by IFRS and therefore it may not be comparable to similar measures presented by other entities.

As quantified in the FFO and AFFO calculations, the funds used to make the distributions declared on Units, exchangeable securities and promissory notes for the year ended December 31, 2018 were generated through the REIT's ongoing operations. For the three months ended March 31, 2019, distributions declared on Units, exchangeable securities and promissory notes exceeded FFO and AFFO by $1,221 and $722, respectively, mainly due to the timing of deploying capital resources. In late March 2019, the REIT acquired the Trio property which is expected to contribute positively to FFO and AFFO. The shortfall of between FFO and AFFO relative to distributions declared on Units, exchangeable securities and promissory notes was funded by issuance on Units under the Distribution Reinvestment Plan ($676) and from cash on hand.

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

RISKS AND UNCERTAINTIES

We are exposed to various risks and uncertainties, many of which are beyond our control, the occurrence of which could materially and adversely affect our investments, prospects, cash flows, results of operations or financial condition and our ability to make cash distributions to Unitholders. We believe the risk factors described below are the most material risks that we face, however they are not the only ones. Additional risk factors not presently known to us or that we currently believe are immaterial could also materially and adversely affect our investments, prospects, cash flows, results of operations or financial condition and our ability to make cash distributions to Unitholders and negatively affect the value of the Units. For a discussion of the risk and uncertainties identified by the REIT, please refer to our Management Discussion and Analysis for the year ended December 31, 2018 and our Annual Information Form dated April 1, 2019, filed on the System for Electronic Document Analysis and Review ("SEDAR") (www.sedar.com).

OUTLOOK

We believe that the current market environment is a favorable one for the REIT to prosper. In addition to actively managing our properties, we are continuously assessing potential acquisitions in our target markets and will focus on the ones offering value and stability. Our long-term credit worthy tenants, low cost of debt with staggered maturities and the foreign

exchange rate contracts for our distributions in place until October, 2020, not only provide predictable cash flows and serve as a basis for future growth. In addition to the cash available, we can also sell some portion of assets that we own to get access to additional cash and at the same time diversify our portfolio risk.

CRITICAL ACCOUNTING POLICIES

The preparation of the REIT's consolidated financial statements in conformity with GAAP requires management to make judgments, estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities. Management basis its judgements, estimates and assumptions on experience and other factors it believes to be reasonable under the circumstances. However, uncertainty about these judgements, estimates and assumptions could result in outcomes requiring a material adjustment to the carrying amount of the asset or liability affected in future periods. Our 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, 2018.

A description of significant accounting policies is provided in Note 3 of the consolidated financial statements as at December 31, 2018.

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. Various improvements are still being considered and therefore, no changes were made to the REIT’s DCP during the three months ended March 31, 2019. The CEO and CFO concluded that such disclosure controls and procedures were not effective as at December 31, 2018 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 March 31, 2019, are fairly represented in all material respects, in accordance with IFRS.

Internal Controls over Financial Reporting (ICFR)

Management is responsible for establishing and maintaining adequate ICFR to provide reasonable assurance regarding the reliability of the REIT’s financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS. No changes were made to the REIT’s ICFR during the three months ended March 31, 2019. The CEO and CFO determined that, as at December 31, 2018, the REIT’s ICFR were not effective as a result of the identification of material weaknesses pertaining to the design and operational effectiveness of ICFR. 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;
- Failure to record significant transactions on a timely basis;
- Ineffective accounting policies related to acquisitions, new accounting pronouncements; (ex. IFRS 9), and complex financial instruments;
- Improper accounting treatment for significant contracts;
- Incomplete reconciliation processes; and
- Inadequate evidence of review and approval over source documentation.

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 March 31, 2019, are fairly represented in all material respects, in accordance with IFRS.

Remediation Plans and Actions Undertaken

A remediation plan and actions to resolve the aforementioned DCP & ICFR material weaknesses have been communicated to the Audit Committee by the CEO and CFO. The Board, with direction by the Audit Committee, will continue to review progress on the remediation activities determined on a regular and ongoing basis. The remediation plan and actions include, but are not limited to, the following:

- In April, 2019, the REIT will engage an independent accounting firm to perform a risk assessment, re-assess the design, and conduct operational effectiveness testing of the REIT's ICFR Program. The independent accounting firm will also evaluate Management's remedial actions to address the existing material weaknesses previously identified.
- The ongoing evaluation and assessment of the Trust's ICFR Program by the independent accounting firm throughout Fiscal 2019 will be monitored and evaluated by the CEO, CFO and the Audit Committee. Any additional control deficiencies identified as part of this process will be evaluated and actioned-upon by Management, as required.

As at May 15, 2019 the REIT is currently considering proposals from independent accounting firms to complete the remediation plan described above.

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

Inherent Limitations

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

SELECTED FINANCIAL INFORMATION

	For the year ended December 31,		
(in thousands of CAD$)	**2018**	**2017**	**2016**
Revenue (excluding finance income)	33,486	32,688	31,120
Revenue (including finance income)	41,261	39,506	35,464
Earnings attributable to Unitholders	22,152	19,167	23,284
Earnings	22,296	19,364	23,405
Assets	622,932	576,709	510,125
Non-current liabilities	223,947	255,441	219,573
Distributions per unit	$ 0.825	$ 0.825	$ 0.825

NON-GAAP FINANCIAL MEASURES

This 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$)	For the three months ended March 31, 2019			For the three months ended March 31, 2018		
	Amounts per REIT's financial statements (1)	Share of net income from investments in joint ventures	Total	Amounts per REIT's financial statements (1)	Share of net income from investments in joint ventures	Total
Rental revenue	6,043	3,216	9,259	6,714	3,004	9,718
Service charge revenue	2,433	790	3,223	2,146	813	2,959
Service charge expenses	(5,514)	(1,387)	(6,901)	(5,172)	(1,506)	(6,678)
Other revenues	3	27	30	244	(238)	6
Other property operating expenses	(61)	(23)	(84)	(90)	-	(90)
Net rental income	**2,904**	**2,623**	**5,527**	**3,842**	**2,073**	**5,915**
Administration expenses	(1,772)	(532)	(2,304)	(1,537)	(439)	(1,976)
Foreign exchange gain	29	-	29	55		55
Net change in fair value of investment properties	2,319	483	2,802	1,925	944	2,869
Loss on diposal of investment property	(100)	-	(100)	-	-	-
Acquisiton costs	-	-	-	0	453	453
Share of net income from joint ventures	914	(914)	-	(2,023)	2,023	-
Operating income	**4,294**	**1,660**	**5,954**	**2,262**	**5,054**	**7,316**
Net change in fair value of financial derivatives	(921)	(24)	(945)	1,776	(5)	1,771
Net change in fair value of Exchangeable securities	(649)	-	(649)	114	-	114
Net change in fair value of Promissory notes	(3,320)	-	(3,320)	(191)	-	(191)
Finance income	2,017	(1,332)	685	2,005	(1,297)	708
Finance costs	(2,662)	(488)	(3,150)	(2,392)	(780)	(3,172)
Additionnal income (loss) from Arcueil's JV	-	294	294	-	(2,005)	(2,005)
Distributions on Exchangeable securities	(177)	-	(177)	(268)	-	(268)
Income before income taxes	**(1,418)**	**110**	**(1,308)**	**3,306**	**967**	**4,273**
Current income tax expense	(48)	(21)	(69)	(119)	(29)	(148)
Deferred income tax expense	(436)	(89)	(525)	(5,078)	(938)	(6,016)
Income for the period	**(1,902)**	**-**	**(1,902)**	**(1,891)**	**-**	**(1,891)**
Non-controlling interest	(32)	-	(32)	2	-	2
Income for the period attributable to the REIT	**(1,870)**	**-**	**(1,870)**	**(1,893)**	**-**	**(1,893)**

(1) Includes the REIT's share of the hedging cost of Acrueil's partner.
(2) Reflects the income (loss) in reference to the REIT's 75% interest in the net profit of the Arcueil JV.

LAST 24 MONTHS – KEY FINANCIAL INFORMATION

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

	Three month period ended							
(in thousands of CAD$)	March 31, 2018	Dec. 31, 2018	Sept. 30, 2018	June 30, 2018	March 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017
Rental revenue	6,043	6,039	6,142	6,539	6,714	6,381	6,323	6,271
Adjusted rental revenue	9,259	9,581	9,386	9,830	9,718	8,977	8,659	8,100
Net rental income	2,904	6,136	6,668	6,882	3,842	7,411	6,729	6,610
Adjusted net rental income	5,527	9,246	10,013	10,314	5,915	9,891	9,012	8,292
Net income (loss) for the period	(1,902)	16,723	2,512	5,031	(1,891)	13,785	2,220	214

NON-GAAP RECONCILIATION

Investments in joint ventures

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

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

For the three-month and nine-month periods ended March 31, 2019, the proportional financial results include the following proportion of the revenues and expenses of each one of the joint ventures: 50% respectively for Duisburg, Walpur (Bad Homburg), Stuttgart, Pantin, Neu-Isenburg and Kösching and 25% for Arcueil.

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

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

FFO is defined as net earnings in accordance with IFRS, subject to certain adjustments including adjustments for: (i) acquisition costs, (ii) gain on bargain purchase and option costs, (iii) net change in fair value of investment properties, (iv) net change in fair value of certain financial instruments at fair value through profit and loss, (v) changes in fair value of Exchangeable Securities and Private Placement Promissory Note, (vi) distribution on Exchangeable Securities and Promissory Notes (vii) adjustment for property taxes accounted for under IFRIC 21 (if any), (viii) loss on exercise of lease option, (ix) adjustment for foreign exchange gains or losses on monetary items not forming part of an investment in a foreign operation, (x) gain on disposal of an interest in a subsidiary and the non-cash portion of earnings from investments accounted for using the equity method, (xi) finance income earned from loans to joint-ventures, (xii) loss on refinancing

of debts and other non-recurring finance costs, (xiii) deferred taxes and (xiv) gains or losses from non-recurring items, (xv) additional non-recurring income (loss) from JVs, (xvi) minority interest. It has also been adjusted to exclude the distributions declared on Exchangeable Securities and finance costs associated with Promissory Notes. 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 Promissory Notes are recorded as liability in accordance with However, both are considered as equity for the purposes of calculating FFO and AFFO

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

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

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

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

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

Q1 2019 FFO and AFFO was impacted by the sale of the Hanover in January and the timing delay of the acquisition of Trio in late March 2019. We expect the Trio property will contribute positively to FFO and AFFO and a quarterly basis. In comparison to Q1 2018 FFO and AFFO, Q1 2019 is lower due to the significant gain in the fair value of REIT's profit participation in the development of the Rueil property.

(in thousands of CAD$)	Three months ended March 31 2019	2018
Earnings attributable to Unitholders	(1,870)	(1,894)
Add/(Deduct):		
Loss on disposal of an investment property	100	-
Net change in fair value of investment properties	(2,802)	(2,869)
Net change in fair value of financial derivatives	945	(1,771)
Adjustment for property taxes accounted for under IFRIC 21	3,126	3,157
Additional income (loss from Arcueil's JV)	(294)	2,005
Interest on promissory notes	1,038	578
Distributions on Exchangeable securities	177	268
Change in fair value of Exchangeable securities	649	(114)
Change in fair value of Promissory Notes	3,320	192
Foreign exchange (loss) gain	(29)	(55)
Other non-recurring finance costs	-	256
Deferred income tax expense	525	6,016
Non-controlling interest	(32)	2
FFO	4,853	5,771
Add/(Deduct):		
Non-cash effect of straight line rents	174	329
Cash effect of the lease equalization loans	(285)	(298)
Amortization of transaction costs on mortgage loans	67	75
Asset management fees paid in Exchangeable securities	397	556
Improvements to investment properties	146	(975)
AFFO	5,352	5,458
FFO per unit *(in CAD$)*	0.17	0.22
AFFO per unit *(in CAD$)* [2]	0.19	0.21

Balance sheet reconciliation to consolidated financial statements

	As at March 31, 2019			As at December 31, 2018		
Assets	**As per REIT's financial statements (1)**	**Share from investments in joint-ventures**	**Proportionate Consolidation**	**As per REIT's financial statements (1)**	**Share from investments in joint-ventures**	**Proportionate Consolidation**
Non-current assets						
Investment properties	477,054	199,462	676,516	421,937	207,752	629,689
Investments in joint ventures	95,074	(95,074)	-	98,703	(98,703)	-
Acquisition loans	24,775	-	24,775	25,719	-	25,719
Derivative financial instruments	821	8	829	306	28	334
Restricted cash	5,617	(76)	5,541	1,644	280	1,924
Total non-current assets	**603,341**	**104,320**	**707,661**	**548,309**	**109,357**	**657,666**
Current assets						
Trade and other receivables	6,790	1,640	8,430	3,999	1,127	5,126
Derivative financial instruments	1,243	20	1,263	64	20	84
Call option related to the acquisition loan	6,582	-	6,582	-	-	-
Other current assets	2,017	1,096	3,113	1,080	1,166	2,246
Financial current assets	-	-	-	6,750	-	6,750
Cash and cash equivalents	20,593	6,165	26,758	19,110	6,444	25,554
Total current assets	**37,225**	**8,921**	**46,146**	**31,003**	**8,757**	**39,760**
Assets classified as held for sale				40,027		40,027
Total assets	**640,566**	**113,241**	**753,807**	**619,339**	**118,114**	**737,453**
Liabilities						
Non-current liabilities						
Interest-bearing loan	412	-	412	-	-	-
Mortgage loans	137,311	73,859	211,170	83,391	76,850	160,241
Finance lease liabilities	124,754	26,909	151,663	120,547	28,442	148,989
Other long-term liabilities	-	569	569	-	638	638
Lease equalization loans	1,761	-	1,761	2,130	-	2,130
Tenant deposits	2,026	124	2,150	2,180	134	2,314
Derivative financial instruments	2,579	121	2,700	1,396	107	1,503
Deferred tax liabilities	8,504	7,064	15,568	8,428	7,274	15,702
Exchangeable securities	5,168	-	5,168	4,779	-	4,779
Deferred income	1,052	-	1,052	1,099	-	1,099
Total non-current liabilities	**283,567**	**108,646**	**392,213**	**223,950**	**113,445**	**337,395**
Current liabilities						
Promissory Notes	45,932	-	45,932	42,471	-	42,471
Mortgage loans	4,822	64	4,886	14,588	35	14,623
Finance lease liabilities	7,747	1,280	9,027	6,637	1,313	7,950
Lease equalization loans	1,131	-	1,131	1,185	-	1,185
Tenant deposits	666	22	688	687	23	710
Exchangeable securities	3,847	-	3,847	3,203	-	3,203
Derivative financial instruments	1,417	-	1,417	1,207	-	1,207
Trade and other payables	14,438	2,934	17,372	7,144	3,043	10,187
Deferred income	3,679	295	3,974	4,394	255	4,649
Total current liabilities	**83,679**	**4,595**	**88,274**	**81,516**	**4,669**	**86,185**
Liabilities direclty associated with assets classified as held for sale				21,792		21,792
Total liabilities	**367,246**	**113,241**	**480,487**	**327,258**	**118,114**	**445,372**
Equity						
Trust units	208,118	-	208,118	207,442	-	207,442
Retained earnings	41,245	-	41,245	47,974	-	47,974
Accumulated other comprehensive income	22,909	-	22,909	36,146	-	36,146
	272,272	**-**	**272,272**	**291,562**	**-**	**291,562**
Non-controlling interest	1,048	-	1,048	519		519
Total liabilities and equity	**640,566**	**113,241**	**753,807**	**619,339**	**118,114**	**737,453**

Equity

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

As at May 14, 2019 the REIT has 23,605,979 Units issued and outstanding.

	Three month period ended March 31, 2019
Units	
Number at beginning of period	23,513,652
Units issued pursuant to the DRIP	69,754
Number at end of period	23,583,406
Weighted average number during the period	23,546,734
Exchangeable securities	
Number at beginning of period	844,673
Increase in number during the period	37,496
Number at end of period	882,169
Weighted average number during the period	845,090
Promissory notes	
Number at beginning of period	4,494,301
Number at end of period	4,494,301
Weighted average number during the period	4,494,301
Units, Exchangeable securities and Promissory notes	
Number at beginning of period	28,852,626
Increase/(Decrease) in number during the period	107,250
Number at end of period	28,959,876
Weighted average number during the period	28,886,125

69,754 Units were issued pursuant to the Distribution Reinvestment Plan ("DRIP") in Q1 2019. As at April 30, 2019, 14.0% of the Units were enrolled in the DRIP.

Distribution and management of foreign exchange risk

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

Contracts Maturing by Quarter	Hedge Value (EUR)	Weighted average hedging rate
Q2 2019	2,468,780	1.580
Q3 2019	2,400,448	1.625
Q4 2019	2,387,176	1.634
Q1 2020	2,373,135	1.643
Q2 2020	2,360,637	1.652
Q3 2020	2,348,270	1.661
Q4 2020	780,312	1.666
	15,118,758	

To mitigate risk of foreign exchange fluctuations on the distributions to our Unitholders, we have established an active foreign exchange hedging program. As at March 31, 2019, the REIT was committed to sell €812 (on average) at an average rate of 1.603 and to receive $1,300 on a monthly basis until October 2020 (included).

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

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