INOVALIS

REAL ESTATE INVESTMENT TRUST

CONTENTS

Letter to Unitholders

As we reach mid May, the encouraging news for Europe is that the worst of the COVID-19 pandemic is beginning to ease. The European Commission (EC) just released projections that Europe's economy will shrink by 7.4 % this year. Europe's economy had been previously forecast to grow by 1.2 % in 2020, but together with the European Central Bank (ECB), the EC has been hard at work to mitigate the economic consequences of the pandemic.

Recent developments include the ECB inception of Longer-Term Refinancing Operations, measures that are intended to provide very low-cost funding and liquidity for commercial banks to maintain activity in credit markets and to sustain businesses in all sizes and sectors.

In this context, I want to reassure you that the REIT is in a strong financial position and has a robust and defensive business model against economic and real estate cycles.

Our office portfolio remains 89.4% leased on a long-term basis to high-credit quality tenants. As tenants adapt to the potential and limits of working at home, we provide them with office spaces which represents critical infrastructure for their businesses in the long term.

Our business is funded almost exclusively with asset-level, non-recourse financing with an average term to maturity of 5.5 years and virtually no financial covenants. Only 5% of the value of the REIT's mortgages is due in 2020. While we expect some short-term impact on this business, particularly with respect to new leasing and renewals in 2020, we are well protected during this downturn.

The proceeds of the Q4 2019 equity offering, together with the proceeds of the disposition of the Vanves property last December, leaves the REIT with $69.4 million in available cash on the balance sheet as of end of the end of March 2020, and an extra $6.4 million when considering the REIT's share in joint ventures. The REIT's debt to equity ratio is well below the 60% permitted by the Declaration of Trust; currently 46.7% for the total portfolio and 39.8% for the wholly owned properties. This provides further flexibility for opportunistic investing.

We are confident that when the European region stabilize in the coming months, there will be attractive investment opportunities for the REIT, especially in Germany.

In the meantime, the Board of Trustees will consider cash distributions to Unitholders on a monthly (instead of quarterly) basis going forward.

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

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

Stéphane Amine
President

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Dollar amounts in the MD&A are presented in thousands of Canadian dollars and Euros, except rental rates, per unit amounts or as otherwise stated). Information contained in this MD&A is based on information available to management as of May 13, 2020.

HIGHLIGHTS

- **Arcueil Joint Venture winding up**

Further to the December 18th, 2019 repurchase by the joint venture of the 75% equity interest of the REIT's partner in the Arcueil joint venture, the winding up of the joint venture was completed on January 22, 2020. The Arcueil real estate property and net rental income are now fully consolidated into the REIT's financial position and operating results.

- **Rueil acquisition loan**

On December 19, 2019, the sale agreement for the underlying asset relating to the "Rueil development loan" was executed by the company that is developing the project. The economics of this agreement confirm the budgetary assumptions applied by management since 2018 in valuing the profit participation component of the loan. The construction of this project is on a short hiatus due to the COVID-19 related confinement however it is expected to resume in due course. As the project is in the final months of completion, management can now forecast that the 2020 fund inflows following the reimbursement of the loan are expected to be as per the initial loan plan. No additional gain in fair value was recognized in relation to the profit participation component of the loan for Q1 2020 in addition to the CAD$9.5 million accrued since the inception of the loan.

- **Sale of Vanves property**

Further to the disposition of the Vanves property on December 16th, 2019 for a sale price of €95 million (CAD$140.9 million), the REIT has settled the remainder of the lease equalization agreement for an amount of €0.9 million (CAD$1.4 million) and the input VAT on the sale of this asset for €6.5 million (CAD$10.2 million).

- **Leasing Operations**

About 2,500 S.M. or 25,000 S.F. incremental space was leased during the quarter. Efforts continue to lease space to reduce the remaining portfolio vacancies. Management will selectively complete CAPEX improvements on vacant areas to attract tenants and maximize rent.

- **Net Rental Income**

For the portfolio of properties owned by the REIT ("IP Portfolio"), net rental income for Q1 2020 (adjusted for IFRIC 21) was CAD$6.32 million (EUR4.27 million), an increase over the CAD$5.51 million (EUR3.65 million) adjusted net rental income for the same period in 2019. The gain of CAD$0.81 million (EUR0.63) in adjusted net rental income is mainly due to the income contribution following the acquisition of the Trio property and acquisition of the Arcueil property, partially offset by sale of Vanves and the departure of Smart&Co, the main tenant in Courbevoie.

In Q1 2020, for the portfolio that includes the REIT's proportionate share in joint ventures ("Total Portfolio"), net rental income (adjusted for IFRIC 21) increased by CAD$0.04 million (EUR0.13 million) compared to the same period in the previous year.

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

In Q1 2020, the REIT reported Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO)" were of $0.17 and $0.12 per unit respectively, offset this quarter by the above-mentioned anticipated $1.4 million reimbursement of the lease equalization agreement attached to the Vanves property, and knowing that the REIT has $55 million of cash ready to deploy. Management estimates that the opportunity cost of reserving $55 million in cash, previously earmarked for investment in 2020, has a quarterly effect on FFO in the range of $0.03 to $0.04 per unit. The $55 million has been held in Euros since December 2019 and has shown an unrealized foreign exchange gain of $2.6 million ($0.076/Unit) over Q1 2020, a gain that we have chosen to exclude from the FFO determination given the volatility of the Canadian dollar against the euro, despite the REALPAC guidance on this particular matter.

- **Financing Activity**

The weighted average interest rate across the portfolio is 2.06% and the debt ratio is 39.8% (33.4% net of cash), comfortably within the REITs mandated threshold of 60%. The refinancing of the Duisburg property, held in joint venture, is progressing with at least two German banks.

- **COVID-19 Related Business Update**

On April 17, 2019, the REIT issued a press release providing a business update related to the COVID-19 pandemic. As discussed in that press release, although the ultimate impact of the health crisis is difficult to predict, the REIT remains in a good financial position and is well-positioned to withstand the impact of the pandemic. As mentioned above, the REIT is reporting near-normal quarterly rent collection for the second quarter of 2020 and will focus on providing support to tenants throughout the coming months as their employees re-enter the workplace. The REIT will continue to assess market conditions and adapt its strategy to address the economic, social and health care impact of the pandemic.

The REIT is confident in the strength of its portfolio, as indicated by its strong Q1 2020 results. However, the REIT's first quarter results cannot be taken alone in formulating an outlook for the remainder of 2020. It is possible that downward pressure on rental revenue may occur in the short-term as a result of the COVID-19 pandemic and consequent economic disruption.

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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*".

	March 31, 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)	89.4%	90.4%	89.4%	92.1%
Weighted average lease term	3.9 years	4.3 years	4.2 years	4.5 years
Average capitalization rate (3)	4.9%	5.0%	5.0%	5.5%
Financing information				
Level of debt (debt-to-book value) (4)	39.8%	46.7%	38.4%	46.0%
Level of debt (debt-to-book value, net of cash) (4)	33.4%	41.3%	30.3%	39.0%
Weighted average term of principal repayments of debt	5.5 years	4.8 years	6.1 years	5.3 years
Weighted average interest rate (5)	2.06%	2.00%	2.06%	2.00%
Interest coverage ratio (6)	3.6 x	3.9 x	3.3 x	0.0 x

	Three months ended	
(thousands of CAD$ except per Unit and other data)	March 31, 2020	March 31, 2019 as restated
Operating results		
Rental revenue	6,878	6,043
Rental revenue - Total Portfolio (1)	9,238	9,259
Net rental income	4,250	2,904
Net rental income - Total Portfolio (1)	6,304	5,527
Net income (loss) for the period, attributable to the Trust	32,088	(2,045)
Funds from Operations (FFO) (7)	5,484	4,929
Adjusted Funds from Operations (AFFO) (7)	4,143	5,428
FFO per Unit (diluted) (7) (8)	0.16	0.17
AFFO per Unit (diluted) (7) (8)	0.12	0.19
Distributions		
Declared distributions on Units and Exchangeable sec.	6,132	5,036
Declared distributions on Units and Exchangeable sec. & Promissory note	7,005	5,933
Declared distribution per Unit	0.21	0.21
FFO payout ratio (7)	127.7%	120.4%
AFFO payout ratio (7)	169.1%	109.3%

(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 March 31, 2019 have been reclassified, when appropriate, in order to ensure comparability with the figures for the periods ending December 31, 2019 and March 31, 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.

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 months period ended March 31, 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 provided current and prospective investors with, in management's view, the relevant information to assist them in understanding the REIT's financial performance, while providing for a reconciliation of such Non-Generally Accepted Accounting Principles ("GAAP") information to the REIT's financial statements as reported under International Financial Reporting Standards ("IFRS") in the relevant sections of the MD&A. The MD&A will begin with an Overview, providing a summary of the REIT's performance and operations for the period, including both GAAP and non-GAAP metrics. Management believes this presentation provides users of this MD&A additional information about the source of the revenue used by the REIT to pay distributions on its units, as joint venture structures represent significant equity investments (joint ventures account for 27% of the total value of all properties held by the REIT), are a significant component of the REIT's investments.

Financial information provided in the consolidated financial statements have been prepared in accordance with IFRS. All amounts in this MD&A are in thousands of Canadian dollars and Euro, except per unit amounts and where otherwise stated. Historical results, including trends which might appear in this MD&A, should not be taken as indicative of future operations or results. Additional information about Inovalis REIT has been filed with applicable Canadian securities regulatory authorities and is available at www.sedar.com. The exchange rate used throughout this MD&A for statement of earnings items is the average rate during the applicable period which for the three months ended March 31, 2020 and March 31, 2019 are CAD$1.4818 and CAD$1.5100, respectively. For balance sheet items as at March 31, 2020, projections or market data, the exchange rate used is CAD$1.5518 (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; and (viii) capital markets will provide us with readily available access to equity and/or debt financing; (ix) the impact the COVID-19 virus will have on the REIT's operations, the demand for the REIT's properties and global supply chains and economic activity in general. The forward-looking statements are subject to inherent uncertainties and risks, including, but not limited to, the factors listed under the Risk and Uncertainties section of this MD&A. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements.

FOREIGN CURRENCY ENVIRONMENT

Although the REIT's main assets and liabilities are denominated in Euro, the REIT's financial results are measured in Canadian dollars. Change in the EUR/CAD foreign exchange rate has therefore had a major impact on the REIT's financial statements. Over the quarter, the Canadian dollar weakened by approximately 6.5% 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$21 million for the three months ended March 31, 2020. However, as the REIT's underlying real estate investment holdings are Euro-denominated, they have not been impacted by these fluctuations.

As the REIT's net rental income is calculated based on the average foreign exchange rates for the year-to-date, the negative impact is around 2%. 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$0.4 million) have more than compensated the negative impact on the REIT's total portfolio revenue arising from the foreign exchange rate variations over the first quarter (CAD$20).

MARKET AND INDUSTRY DATA

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

BUSINESS OVERVIEW AND STRATEGY

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

The REIT's long-term objectives are to:

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

The REIT's investment criteria encompass office properties outside of Canada with an occupancy level above 80% (unless AFFO accretive), secured rental cash flows, a property value between EUR20 million 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 has resulted in governments taking drastic measures to combat the spread of the virus, including lockdown of offices, self-imposed quarantine period and social distancing. This crisis, the effects of which are still unknown, has led to a domestic and worldwide economic slowdown.

The REIT regularly assess the impact of COVID-19 on its tenants and is committed to taking necessary measures to ensure continuity of business.

The REIT's portfolio consists only of office tenants and has no hospitality or retail exposure, which are industries particularly affected by COVID-19.

Collection update

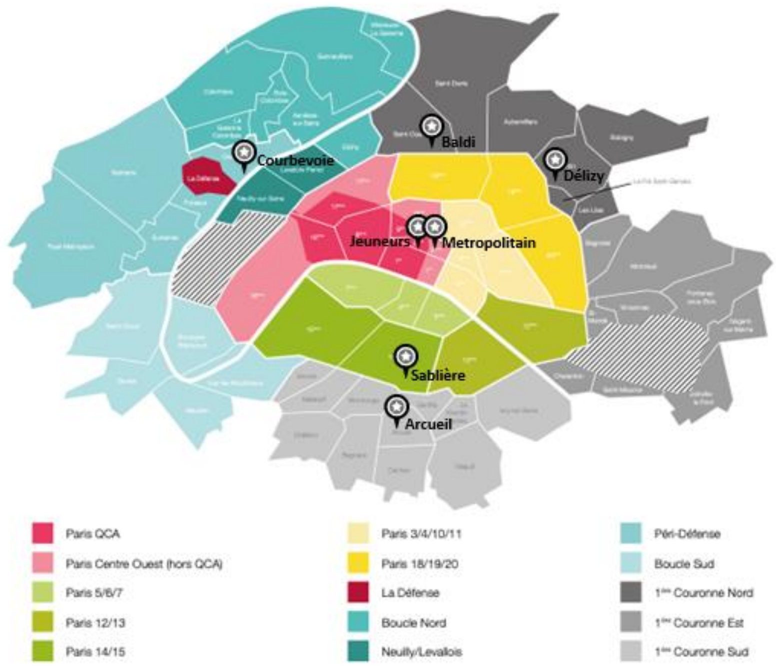
Rental collection for the French properties is at 96% for the first quarter ended March 31, 2020.

Rental collections for the month of May and for the quarter ended June 30, 2020 are generally in line with pre-COVID levels with a few minor exceptions. To date, the REIT has received 80% of the 2nd quarter rents on its French portfolio. Management of the REIT expects to collect at least 90% of the 2nd quarter rents in France and 98% of May rent on German properties by the end of the quarter.

Management is actively monitoring rent payment deferral requests to maintain a consistent cash collection while supporting tenants when needed and will assess tenants' bad debts (if any).

BUSINESS ENVIRONMENT[1]

FRENCH MARKET POST-COVID SITUATION



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

Central banks have reaffirmed their commitment to maintain financial liquidity during a global health crisis and emerging global recession. The ECB announced a new massive QE package of €750 billion to buy back private and public debt, the bank's most accommodative monetary policy to date. Also, despite stock market fluctuations from these crises, real estate still offers attractive yields compared to other asset categories. This strengthens its status as a safe haven asset with an exceptionally high-risk premium.

After an exceptional year for corporate real estate in 2019, investment continued to thrive, sustained by a number of large transactions combined with exponential metric values. Although the number of transactions has declined year-on-year (125 vs. 147), the market performed well thanks to an overall increase in average transaction volume, and particularly major transactions. These consist primarily of transactions above €100 million. These 18 transactions alone accounted for two third of the volume invested. At the same time, transactions below €50 million are still the anchor of the market. Some investors have come out on top, thanks to rent increases in the context of the Grand Paris. This is particularly true for the Western Crescent and Inner Rim areas. Although investors were extremely active in La Defense in 2019 with the sale of several big towers, not a single transaction was recorded in Q1 2020. This is due to the scarcity of assets, poor asset rotation, and the interruption of market activity. Although there are some transactions in the pipeline, 2020 investment will be less than that of 2019.

OFFICE SPACE STILL DOMINATES

Investors remain interested in high quality or well-located assets, and those in areas where demand is clearly high or rising. However prime yields have also decreased slightly for certain asset categories. Investors consider portfolios with a high asset value, but also the security of the tenant in terms of type of business and resilience in periods of upheaval.

[1] *Sources: CBRE / WORLD Real Estate Research*

Consequently, when combined with high prices, the scarcity of core products with rent resilience in locations with significant flows limit investment.

Offices remain the asset category most prized by investors, with historically low yield at 2.75% for the prime CBD and hovering around 3 % for the rest of Paris. In total, €4.7 billion were invested, a 65% year-on-year increase. 14 transactions above €100 million totaled €3 billion. Despite a convergence of yields in the Greater Paris area, investors have favored the most established business districts or urban areas undergoing major transformations such as Paris Centre West, the Western Crescent and, to a certain degree, the Inner Rim.

<u>INTERNATIONAL INVESTORS REMAIN PRESENT</u>

Paris continues to prove itself an attractive city for international funds. After an exceptional year for South Korean investment in 2019, these investors have unsurprisingly disappeared this quarter and are being replaced by Singaporean equity. Americans and Germans have reasserted their position, whereas investors from Australia and the Middle East are being cautious. In terms of domestic investment, following a new record in collections by large savings collectors, SCPIs and OPCIs have totaled 15% of investments and they could continue to invest. Insurance groups have also been active, representing approximately 20% of investment volume.

<u>LETTING TRANSACTIONS DECLINE BUT RENTS ARE STABILIZING</u>

The letting market has been impacted much more than the investment market due to the direct impact of the lockdown. Given the tumultuous economic context with the Covid-19 health crisis, take-up for Q1 2020 was much lower than expected, totalling 340,300 sq m (-37% y-o-y). Given the short and medium-term economic uncertainty and lack of visibility, some companies have adopted a more cautious approach and are delaying their decisions. Demand for letting area has shrunk, particularly when it comes to small and medium-sized units. Negotiation periods are being extended. Although leases are being signed, they are being delayed. All unit sizes are affected by this decreased demand.

Take-up for the small and medium surface area segment has also dramatically decreased (-33% year-on-year and -22% compared with the ten-year average). This contraction has affected all segments (<1,000 sq m and 1,000-5,000 sq m) across all locations. This reduced take-up will likely persist in the coming months. Not only are occupiers delaying their transactions, but many of the traditional motivations for moving (growth and new company formation) are and will continue to be lacking given the current major economic downturn.

Over the past few years, strong demand from occupiers combined with a low vacancy rate have pushed rents increasingly higher. Although on average the rents recorded in Q1 2020 are higher than those of a year ago, rents have stabilised over the past few months in the Greater Paris region. In the coming months, headline rent should not decrease significantly in the short-term, despite the difficult economic context and plummeting demand. The push for lower headline rents in leases currently being finalised and renegotiations should remain contained given the low vacancy rate in the Greater Paris region and the delays in future completions.

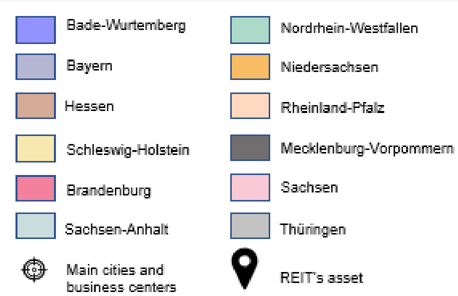
<u>FORECAST IN THE FACE OF COVID-19?</u>

In the current context, banks have refocused their priorities in order to support the real economy and avoid business bankruptcies by supplying much needed cash. In the short term, this will impact financing for some real estate projects. Although some transactions that were well underway have been finalized or simply delayed, other less mature transactions have been paused in order to re-assess risk given the difficulties in ascertaining said risk. As banks have become more selective, some sectors such as hotels and retail have been more affected than others. At the same time, the quality of cashflows and of the sponsor become even more discriminating factors. Finally, given the quasi impossibility of syndication or securitization, banks are also prioritizing smaller transactions. For the time being the investment market remains open, even more so since it is facing this crisis with better fundamentals than in previous crises. At the same time, recent collections have provided several investors with available capital, "dry powder" that is asking to be invested. These are the so-called "all-equity" investments by first-rate international funds as well as some SCPIs and French insurers.

COMMERCIAL REAL ESTATE MARKET IN GERMANY

Inovalis REIT
Germany Property Locations

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



The investment volume on Germany's office market exceeded the €8 billion threshold for the first time in on opening quarter, marking a continuation of the dynamic trend in 2019. Market conditions in the first quarter of 2020 continued to be characterized by the sustained low interest rate environment and by transactions that were still awaiting completion at the end of 2019.

In the first quarter of 2020, the German office investment market continued its strong performance of the previous year. Most of the international capital came from European countries, especially Luxembourg. In contrast, investors from the USA and Great Britain invested more cautiously than in the corresponding period of the previous year.

Besides the large portfolio transactions, numerous individual purchases above the €100m mark also took place. A total of 14 single asset deals of this magnitude were registered, which totaled almost €2.9bn and were mainly acquired by domestic investors. Excess demand in city locations boosted demand for properties in the city fringe and in the periphery where yields declined accordingly. There, prime yields shed an average of 0.3% points (city fringe) and 0.5%-points (periphery) respectively.

FORECAST IN THE FACE OF COVID-19?

The current situation resulting from COVID-19 has led to a slowdown in the second quarter for most of the European Countries. Some countries will be more impacted than others. From the third quarter onwards, the economy is expected to begin recovering, especially since the German government has introduced a gradual easing of the lockdown in addition to a very extensive economic support package. The real estate market follows the overall economic development with a time lag, so that in the second quarter a further decline in demand can be expected in some cases and correspondingly less letting and investment momentum especially in the hospitality and retail segment.

As a result, some investors are likely to wait and see how things develop in the second quarter, so that investment momentum could lose some of its momentum. Nevertheless, negotiations are continuing as planned without delay and transactions including large-volume transactions are taking place in all asset classes, although some products will temporarily not be launched on the market due to increased uncertainty. This is likely to change in the second half of the year.

Portfolio

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

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

Asset	% owned	*REIT Ownership Valuation as at March 31, 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%	74,861	11%	50,407	4%	1	100%	100.0%	3.4
Courbevoie	100%	38,061	5%	95,903	7%	5	41%	43.2%	4.7
Sablière	100%	38,350	6%	41,043	3%	7	100%	100.0%	3.1
Baldi	100%	35,911	5%	123,657	9%	8	70%	79.2%	3.7
Metropolitain	100%	100,990	14%	78,818	6%	7	100%	100.0%	5.3
Arcueil	100%	150,713	22%	334,521	24%	1	100%	100.0%	2.9
Délizy	50%	21,515	3%	71,617	5%	17	77%	78.2%	4.4
Subtotal France		**460,401**	**66%**	**795,966**	**58%**	**46**	**86.1%**	**86.1%**	**3.6**
Trio	94,9%	73,138	10%	193,487	13%	6	93%	92.4%	5.2
Duisburg	50%	49,015	7%	108,960	8%	1	88%	87.5%	7.8
Bad Homburg	50%	18,078	3%	54,553	4%	6	93%	97.3%	2.5
Cologne	6%	2,215	0%	3,930	0%	1	100%	100.0%	5.6
Stuttgart	50%	39,135	6%	121,416	9%	6	100%	99.9%	4.2
Arrow - Neu-Isenburg	50%	32,321	5%	67,334	5%	3	92%	91.9%	3.4
Kösching	50%	22,764	3%	53,058	3%	1	100%	100.0%	7.7
Subtotal Germany		**236,666**	**34%**	**602,738**	**42%**	**24**	**93.8%**	**93.9%**	**5.2**
Total - France and Germany		**697,067**	**100%**	**1,398,704**	**100%**	**70**	**89.5%**	**90.4%**	**4.3**
IP Portfolio		**512,024**	**73%**	**917,836**	**66%**	**35**	**88.2%**	**89.4%**	**3.9**
JV Portfolio		**185,043**	**27%**	**480,868**	**34%**	**35**	**91.8%**	**92.1%**	**5.1**

The IP Portfolio weighted occupancy at March 31, 2020 was thus 89.4%, stable compared to December 31, 2019. The weighted occupancy rate across the Total Portfolio declined from 92.1% as at December 31, 2019 to 90.4% as at March 31, 2020, due to the end of rental guarantee in the Délizy property and to the current vacancy in Duisburg pending the start of Regus new lease in August.

The average lease term for the Total Portfolio mechanically declined to 4.3 years at March 31, 2020 compared to 4.5 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 March 31, 2020, the REIT had 35 tenants across the IP Portfolio and 70 across the Total Portfolio.

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

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

Tenant	Tenant Sector	GLA (sq.ft.)	Weighted Areas (sq.ft) (1)	% of Weighted Areas
Orange (Formerly France Telecom)	Telecommunications	334,521	290,218	35.0%
The Lorenz Bahlsen Snack-World GmbH & Co. KG	Food and beverage	86,501	81,870	9.9%
Rue Du Commerce	E-commerce	51,926	51,926	6.3%
CNAM	Education & Training	50,407	49,543	6.0%
Time:matters	Logisitics	34,772	33,607	4.0%
Top 5 tenants		**558,127**	**507,164**	**61.2%**
Other tenants	Diversified	251,698	235,275	28.3%
Vacant		108,011	87,593	10.5%
IP Portfolio		**917,836**	**830,032**	**100.0%**

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

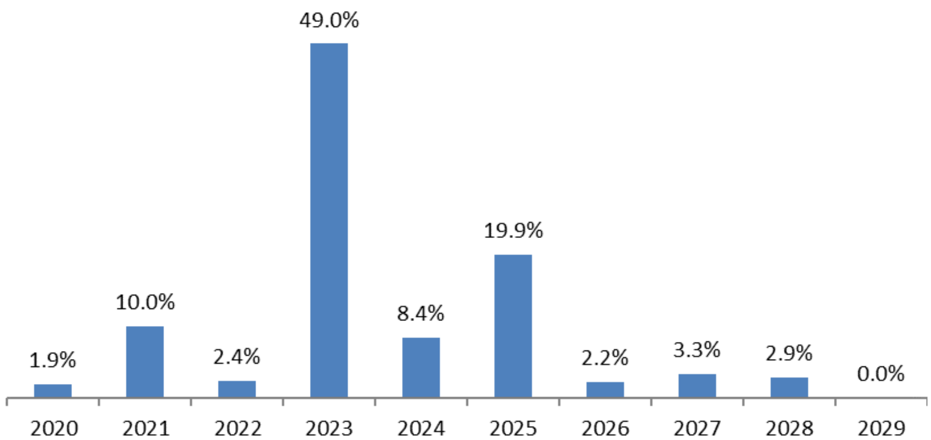
The REIT's five largest tenants across the Total Portfolio, including interests that the REIT has in properties held in joint ventures, are presented in the table below.

Tenant	Tenant Sector	GLA (sq.ft.)	Weighted Areas (sq.ft) (1)	% of Weighted Areas
Orange	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	570,209	527,007	41.7%
Vacant		147,018	121,998	9.6%
Total Portfolio		**1,398,704**	**1,264,314**	**100.0%**

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

Lease profile

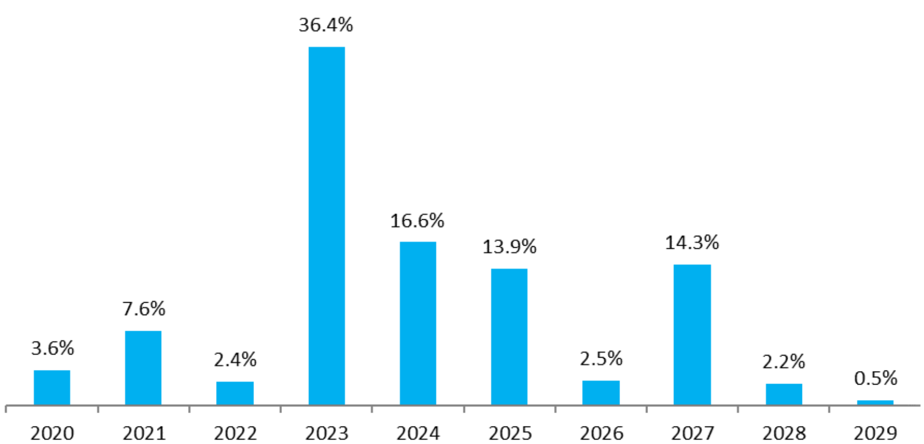
Lease Maturity Profile as at March 31, 2020
Investment portfolio
(% of total GLA)



The average remaining lease term in the IP Portfolio is 3.9 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 2.9 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).

At the Délizy property (held in JV), the rental guarantee (9,723 sq.ft of GLA) expired on December 31, 2019 and has negatively impacted Q1 2020 occupancy rate, falling from 91% to 78.2% on this property over the quarter. In January 2020, a new lease was signed on this property and the REIT should benefit from recent capex works (financed by the seller) to re-lease remaining vacant space.

Lease Maturity Profile as at March 31, 2020
Total Portfolio
(% of total GLA)



Including the JV Properties, the average remaining lease term is 4.3 years and 3.5 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

- On the Trio property, 10% of GLA (21,367 sq.ft) have been secured for 5 years firm with existing tenant, despite a reduction of space of 8,826 sq.ft.
- At the Stuttgart property, the REIT extended a lease for 10 firm years on 7.104 sq.ft (2.7% of the area), effective September 2021.
- The REIT signed a new lease at the Arrow property for tenancy starting June 1, 2020 on 2,458 sq.ft (areas left vacant by Technogym when extending their new lease to 2025), for a 5-year period with a break option after 3 years.
- In January 2020, a new lease has been signed on Délizy property for total GLA of 1,830 sq.ft over nine years, with a break option after 3 years.

RESTATEMENT OF FINANCIAL RESULTS

The consolidated financial statements for the three months ended March 31, 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 considered that it was probable as at March 31, 2019 that CCEU would obtain the necessary authorization allowing the conversion of CCEU into a SIF, which would result in the application of a reduced effective tax rate of 15%. Given that the regulatory approval required to convert to a SIF is considered a substantive process, the reduced effective tax rate should not have been considered in measuring the REIT’s deferred taxes until such time as the regulatory approval is obtained. The application process to convert to a SIF is still ongoing as of the release date of these interim consolidated financial statements.

A description of restated financial information for the three months ended March 31, 2019 is provided in note 21 of the interim consolidated financial statements as at March 31, 2019.

CONSOLIDATED FINANCIAL INFORMATION

Consolidated Statements of Earnings

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

(in thousands of CAD$)	Three months ended March 31, 2020	Three months ended March 31, 2019 as restated
Rental revenue	6,878	6,043
Property operating cost recoveries	1,571	2,433
Property operating costs	(4,171)	(5,514)
Other revenues	5	3
Other property operating expenses	(33)	(61)
Net rental income	**4,250**	**2,904**
General and Administration expenses	(2,242)	(1,772)
Foreign exchange gain	2,647	29
Net change in fair value of investment properties	1,702	2,319
Loss on disposal of investment properties	-	(100)
Share of net income from joint ventures	183	914
Operating earnings	**6,540**	**4,294**
Net change in fair value of financial derivatives	-	(921)
Finance income	2,265	2,017
Finance costs	(2,468)	(2,521)
Distributions on Exchangeable securities	(190)	(177)
Net change in fair value of Exchangeable securities	4,307	(649)
Net change in fair value of Promissory Notes	21,752	(3,461)
Income before income taxes	**32,206**	**(1,418)**
Current income tax expense	(9)	(48)
Deferred income tax expense	(219)	(611)
Net income	**31,978**	**(2,077)**
Non-controlling interest	12	(32)
Net income attributable to the Trust	**31,966**	**(2,045)**

DISCUSSION OF STATEMENT OF CONSOLIDATED EARNINGS

Net rental income

Net rental income for the three months ended March 31, 2020 ("Q1 2020") was CAD$4,250 compared to CAD$2,904 for the three months ended March 31, 2019 ("Q1 2019").

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$2.8 million. These taxes are paid in the fourth quarter. This results in a reduction to net rental income in the first quarter of each year with relatively higher net rental income in the subsequent three quarters. The impact of IFRIC 21 on net rental income for Q1 2020 and Q1 2019 is set out below.

	In Thousands of CAD$		*In Thousands of EUR*	
	Q1 2020	**Q1 2019**	**Q1 2019**	**Q1 2018**
Net rental income	4,250	2,904	2,868	1,923
IFRIC 21 impact	(2,074)	(2,608)	(1,400)	(1,727)
Adjusted net rental income - IFRIC 21	6,324	5,512	4,269	3,650

Excluding negative FX impact of CAD$104, the Q1 2020 net rental income increased by CAD$915 when compared to Q1 2019 income. The gain in rental income is mainly attributable to the Trio property and the Arcueil property, which was acquired in the latter part of December 2019 (previously held in a joint venture).

General and Administration expenses

General and Administration expenses ("G&A expenses") are comprised of Inovalis SA's asset management fees and other G&A expense 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 the quarter ended March 31, 2020 was CAD$2,242 compared to CAD$1,772 in Q1 2019. Asset management fees remained stable (+CAD$23) while other G&A expenses increased by CAD$447 mainly attributable to CAD$317 in non-recurring costs engaged for the transfer of the Trio registered office from Germany to Luxembourg and the conversion of a related holding company into a regulated SIF structure.

Net change in fair value of investment properties

The increase in net change in fair value of investment properties for both Q1 2020 and Q1 2019 is related to the impact of IFRIC 21 on property taxes.

Share of net income from joint ventures

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

The share of net income from joint ventures was CAD$183 in Q1 2020 compared to CAD$914 for same period in 2019. The variance mainly comes from Q1 2019 result (CAD$442) in Arcueil property, that has been bought out in December 2019 and is now part of the IP portfolio.

Finance income

In addition to interest on loans granted to joint ventures, in Q1 2020 and Q1 2019, finance income of CAD$2,265 and CAD$2,017 respectively consisted mainly of interest earned with respect to the Rueil acquisition loan granted to an

Inovalis SA subsidiary for the development of the Rueil property. The acquisition loan interest was CAD$802 in Q1 2020 compared to CAD$699 in Q1 2019. This variance of the finance income is primarily due to income on a foreign exchange hedge contract for CAD$373 in the quarter.

Finance costs

The finance costs in Q1 2020 were CAD$2,468 compared to CAD$2,521 in Q1 2019, which included CAD$1,164 related to interest on loans and lease liabilities, CAD$873 related to promissory notes and CAD$431 related 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 Q1 2020 the distributions on exchangeable securities were CAD$190 compared to CAD$177 in Q1 2019 as fewer exchangeable securities were outstanding due to the conversion that occurred in Q2 2019.

Net change in fair value of Exchangeable securities

Exchangeable securities are a liability recorded at fair value based on the market price of the REIT’s Units, thus an increase of the REIT’s unit price increases the value of the liability. Due to Covid-19 and its impact on worldwide stock exchange, the closing price was CAD$5.82 on March 31, 2020 compared to CAD$10.66 at close of December 31, 2019, explaining the gain of CAD$4,307 in the net change in fair value of exchangeable securities.

Net change in fair value of Promissory Notes

Promissory notes are a liability recorded at fair value based on the market price of the REIT Units, thus a decrease of the REIT unit price decreases the value of the liability (see above unit price at period ends). The REIT recorded a significant gain of CAD$21,752 during the quarter ended March 31, 2020.

Deferred income tax expenses

The deferred income tax liability for the first quarter 2020 resulted in an expense of CAD$219 compared to CAD$611 for the quarter ended March 31, 2019.

INVESTMENT PROPERTIES

Fair value

The fair value of the REIT’s Investment Property Portfolio as at March 31, 2020 was CAD$512,023 (EUR 329,954) compared to CAD$478,700 (EUR 328,665) at December 31, 2019. The increase of CAD$33,323 is mainly attributable to foreign exchange adjustment of CAD$31,412.

Management principally uses cap-rate method to determine the fair value of French investment properties and the Discounted Cash Flow method for Trio, property located in Germany. These values are supported by third party appraisals as at December 31, 2019 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. As at March 31, 2020, these appraisals have been reviewed by management to include changes that occurred during the quarter and that could have a significant impact on valuation of the properties.

OTHER SIGNIFICANT ASSETS

Investments in joint ventures

Investments in joint ventures encompasses the interest the REIT (through 7 subsidiaries) has in:

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

The REIT's investment in joint ventures was CAD$91,666 as at March 31, 2020 compared to CAD$100,782 on December 31, 2019. The decrease mainly comes from the acquisition of control of the Arcueil joint venture (CAD$14,405), offset by the positive exchange difference of CAD$5,643.

Acquisition loan

As at March 31, 2020, acquisition loan of CAD$26,638 (EUR 17,166), consists of a loan granted in Euro to an Inovalis SA's subsidiary for the development of the Rueil property.

Trade receivables and other financial assets

Trade receivables and other financial assets as at March 31, 2020 amounted to CAD$4,624, stable over the period compared to the CAD$4,437 at December 31, 2019.

The trade receivables alone amount to CAD$2,582 and include CAD$1,647 of accruals, mainly for property taxes and 2019 opex settlements, and CAD$935 of outstanding invoices.

Trade and other payables

Trade and other payables as at March 31, 2020 amounted to CAD$13,820 compared to CAD$34,336 at December 31, 2019. The 2019 amount embedded the balance of sale payable to the Arcueil joint venture on acquisition of the Arcueil property and other payable to joint ventures (CAD$13,748) and the VAT due on Vanves sale (CAD$10,231) paid in January 2020.

The trade payables alone amount to CAD$8,113 (of which CAD$1,140 to Inovalis SA) and include approximately CAD$1.8 million of property taxes accounted for the whole year, pursuant to IFRIC 21.

Other payables represent CAD$5,707 and embedded VAT payable for CAD$1,185 and distribution payable for CAD$2,266.

PRESENTATION OF CAPITAL

Liquidity and capital resources

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

The REIT's cash available was CAD$69,366 as at March 31, 2020 compared to CAD$83,409 as at December 31, 2019, after the payment of VAT (CAD$10,231) on the Vanves property sale. The REIT sees that available cash as a strength in the current post-COVID era and intends to use its cash resources for future investments and for the purchase of its units as part of a Normal Course Issuer Bid ("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 an interest rate protection (54.2% in the form of a swap and 28.2% in the form a cap). Management's preference is to have staggered debt maturities to mitigate interest rate risk and limit refinancing exposure in any particular period. The REIT has a diversified base of senior debt providers with no financial institution representing more than 25% of the senior debt commitment.

Debt-to-book value

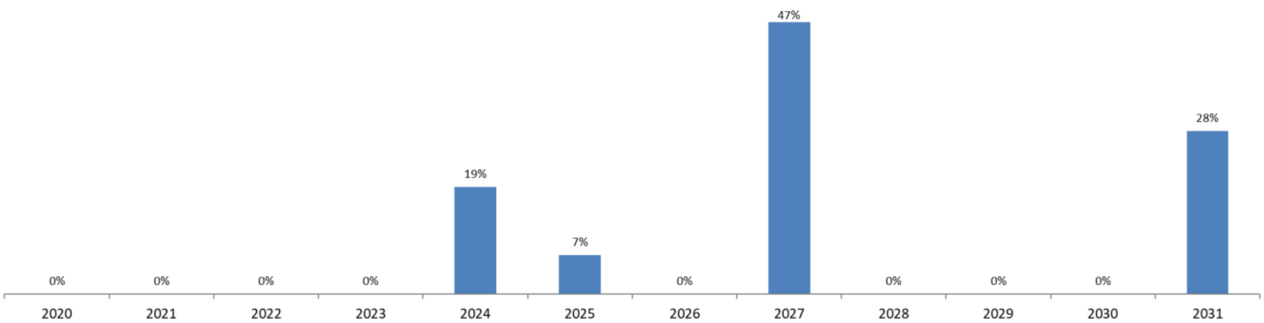
The debt-to-book value ratio is calculated on a look-through basis and considers the REIT's apportioned amount of indebtedness at the partnership level. Indebtedness at the REIT level, as well as at the different partnership levels is calculated as the sum of (i) lease liabilities, (ii) mortgage loans, (iii) lease equalization loans, (iv) other long-term liabilities and (v) deferred tax liabilities. Indebtedness does not 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 March 31, 2020**	**As at December 31, 2019**
Weighted average interest rate (1)	2.00%	2.00%
Debt-to-book value (2)	46.7%	46.0%
Debt-to-book value, net of cash (2)	41.3%	39.0%
Interest coverage ratio (3)	3.9 x	4.0 x
Debt due in next 12 months in thousand of CAD$	31,646	29,531
Weighted average term to maturity of debt (4)	4.8 years	5.3 years

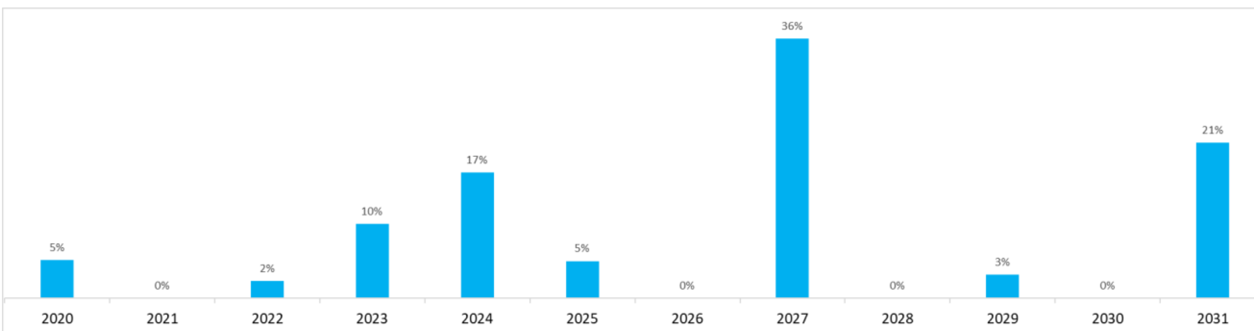
(1) Calculated as the weighted average interest rate paid on lease liabilities and the mortgage financing.
(2) The definition of *debt-to-book value* and of *debt-to-book value, net of cash* can be found in the *Debt-to-book value* note above.
(3) Calculated as net rental income plus interest, less general 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 March 31, 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 March 31, 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 March 31	
	2020	2019 as restated
Net cash flows related to operating activities (A)	(12,236)	1,771
Income before income taxes (B)	32,206	(1,418)
Declared distribution on Units (C)	5,942	4,859
Excess of cash flows from operating activities over cash distributions paid (A-C)	(18,178)	(3,088)
Excess of profit over cash distributions paid (B - C)	26,264	(6,277)

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

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

As quantified in the FFO and AFFO calculations, the funds required to make the distributions on Units, for the three months ended March 31, 2020, i.e. CAD$5,942, were slightly over the FFO (CAD$5,484) for the said quarter, mainly due to the delay induced by the COVID-19 events to deploying capital resources resulting from the Vanves property sale. The small shortfall between FFO and AFFO relative to distributions declared on Units was easily funded from cash on hand.

However, the REIT result before income tax for Q1 2020 exceeds cash distribution paid by CAD$26,264.

RISKS AND UNCERTAINTIES

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

Risks relating to the REIT and its business

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

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

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

Public Health Crises / COVID-19

A local, regional, national or international pandemic, epidemic or outbreak of a contagious disease, including the COVID-19 coronavirus, could result in a general or acute decline in economic activity in the regions the REIT holds assets, a decrease in the willingness of the general population to travel, staff shortages, mobility restrictions, supply shortages, increased government regulation, and the quarantine or contamination of one or more of the REIT's assets or offices.

Contagion in a REIT building, office or market in which the REIT operates could negatively impact the REIT's business, its tenants, results of operations or reputation.

Concentration of tenants may result in significant vacancies on the Properties

Five of the REIT's largest tenants, by percentage of total GLA, occupy nearly 50% of the total weighted areas. Although all five tenants are committed to multi-year leases, which are set to expire gradually between 2020 and 2029, there is no assurance that such tenants will continue to occupy such premises for the remainder of their lease terms. Some of them have break options before the end of their leases, and the earliest dates on which those five largest tenants may effectively move range between 2023 and 2027. To minimize this risk of vacancy, Inovalis REIT will continue to closely monitor all leases and ensure that they work with the current tenants to determine their future leasing plans, which would allow Inovalis REIT to source tenants in advance of the current tenants vacating the property.

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

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

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

Head Lease for properties

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

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

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

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

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

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

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

Changes in government regulations may affect our investment in our properties

The REIT is subject to laws and regulations governing the ownership and leasing of real property, employment standards, environmental and energy efficiency matters, taxes and other matters. It is possible that future changes in applicable federal, state, local or common laws or regulations or changes in their enforcement or regulatory interpretation could result in changes in the legal requirements affecting us (including with retroactive effect). In addition, the political conditions in the jurisdictions in which the REIT operates are also subject to change. Any changes in investment policies or shifts in political attitudes may adversely affect our investments. Any changes in the laws to which the REIT is subject in the jurisdictions in which it operates could materially affect the rights and title to the properties. All 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 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 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.

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, or the loss is more than insured limits, the REIT could lose all or part of its investment in, and anticipated profits and cash flows from, such property.

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

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

Reliance on partnerships

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

Income taxes

Canadian income taxes

The Trust is considered a mutual fund trust for income tax purposes in Canada. In Canada, mutual fund trusts are not taxed on income earned in a taxation year, to the extent that such income has been distributed to Unitholders prior to the end of the taxation year. Indeed, according to Article 11 of the REIT's Amended and Restated Declaration of Trust, dated January 20, 2016, the trustees shall make payable to Unitholders a distribution of sufficient net realized capital gains and income that the Trust shall not be liable to pay taxes under Part 1 of the Tax Act. As a result, there is little possibility of the Trust being taxable on ordinary income under Part 1 of the Income Tax Act. Consequently, the Trust does not recognize Canadian income taxes under IAS 12 Income taxes because it has an "in-substance" exemption.

Foreign Income Taxes

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

The REIT's subsidiaries that hold the leasehold rights on the properties located in France are established in France and should therefore be considered as tax residents in France. Under current French tax legislation, income derived from the French REIT's subsidiaries, incorporated under the form of Société Civile Immobilière subject to article 8 of the French Tax Code, and allocated to INOPCI 1 should be corporate income tax exempt in the hands of INOPCI 1 on the basis that INOPCI 1 complies with its distribution obligations. A withholding tax should be levied in France on dividend distributions made by INOPCI 1 and INOPCI2 which are OPCI (collective undertaking for real estate investment) to CanCorpEurope ("CCEU") and Arcueil SI Sarl, respectively.

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

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

Luxco Conversion of corporate status

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

OUTLOOK

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

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

CRITICAL ACCOUNTING POLICIES

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

A description of significant accounting policies is provided in note 3 of the consolidated financial statements as at December 31, 2019. No change in accounting policies occurred in the first quarter 2020.

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. No changes were made to the REIT's DCP during the three months ended March 31, 2020.

Notwithstanding the material weaknesses identified, the REIT has concluded that the financial statements, as at March 31, 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 three months ended March 31, 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;
- 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 March 31, 2020, are fairly represented in all material respects, in accordance with IFRS.

Remediation Plans and Actions Undertaken

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

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

Management is in the final stages of establishing a finance team with appropriately qualified staff that will be based in Canada with the advice and support of the independent consulting firm retained to assist on this in late 2019. This new finance team will be charged with the all process level and entity level internal controls and will be fully responsible for the financial reporting of the REIT. Management expect that this will be fully operational and effective by September 2020. The ongoing evaluation and assessment of the Trust's ICFR Program will be monitored and evaluated by the CEO, CFO and the Audit Committee. Any additional control deficiencies identified as part of this process will be evaluated and actioned-upon by Management, as required.

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

Inherent Limitations

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

SELECTED FINANCIAL INFORMATION

	For the year ended December 31,			
(in thousands of CAD$)	**2019**	**2018 as restated**	**2017**	**2016**
Revenue (excluding finance income)	33,937	33,486	32,688	31,120
Revenue (including finance income)	42,785	41,261	39,506	35,464
Net income attributable to 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 March 31, 2020	2019 as restated
Rental revenue	9,238	9,259
Property operating cost recoveries	2,299	3,223
Property operating costs	(5,324)	(6,901)
Other revenues	127	30
Other property operating expenses	(36)	(84)
Net rental income	**6,304**	**5,527**
General and Administration expenses	(2,794)	(2,304)
Foreign exchange gain	2,647	29
Net change in fair value of investment properties	1,798	2,802
Loss on disposal of investment properties	-	(100)
Operating earnings	**7,955**	**5,954**
Net change in fair value of financial derivatives	131	(945)
Finance income	1,260	685
Finance costs	(2,838)	(3,009)
Additionnal income (loss) from Arcueil's JV	-	294
Distributions on Exchangeable securities	(190)	(177)
Net change in fair value of Exchangeable securities	4,307	(649)
Net change in fair value of Promissory notes	21,752	(3,461)
Income before income taxes	**32,377**	**(1,308)**
Current income tax expense	(24)	(69)
Deferred income tax expense	(253)	(700)
Net income	**32,100**	**(2,077)**
Non-controlling interest	12	(32)
Net income attributable to the Trust	**32,088**	**(2,045)**

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$)	March. 31, 2020	Dec. 31, 2019	Sept. 30, 2019 as restated	June 30, 2019 as restated	March 31, 2019 as restated	Dec. 31, 2018	Sept. 30, 2018	June 30, 2018
Rental revenue	6,878	6,261	6,627	6,593	6,043	6,039	6,142	6,539
Rental revenue - Total Portfolio	***9,238***	***9,242***	***9,750***	***9,794***	***9,259***	***9,581***	***9,386***	***9,830***
Net rental income	4,250	6,380	6,980	6,726	2,904	6,136	6,669	6,882
Net rental income - Total Portfolio	***6,304***	***9,146***	***10,173***	***9,937***	***5,527***	***9,246***	***10,013***	***10,315***
Net income (loss) for the period	32,100	30,155	5,396	3,056	(2,077)	14,392	3,365	6,342

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 three-month periods ended March 31, 2020 and 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, Délizy, 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'').

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

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

FFO for the REIT is defined as net earnings in accordance with IFRS, subject to certain adjustments including adjustments for: (i) acquisition costs, (ii) net change in fair value of investment properties, (iii) net change in fair value of derivative financial instruments at fair value through profit and loss, (iv) net changes in fair value of exchangeable securities and

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

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

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

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

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

FFO and AFFO

(in thousands of CAD$)	Three months ended March 31, 2020	2019 as restated
Net income attributable to the Trust	32,088	(2,045)
Add/(Deduct):		
Net change in fair value of investment properties	(1,798)	(2,802)
Net change in fair value of financial derivatives	(131)	945
Net change in fair value of derivative on acquisition loan	-	118
Loss on disposal of investment properties	-	100
Adjustment for property taxes accounted for under IFRIC 21	2,386	3,126
Additional income (loss from Arcueil's JV)	-	(294)
Interest on promissory notes	873	897
Distributions on Exchangeable securities	190	177
Net change in fair value of Exchangeable securities	(4,307)	649
Net change in fair value of Promissory Notes	(21,752)	3,461
Foreign exchange (loss) gain	(2,647)	(29)
Other non-recurring finance costs	-	(42)
Deferred income tax expense	253	700
Others adjustments	317	-
Minority interest	12	(32)
FFO	**5,484**	**4,929**
Add/(Deduct):		
Non-cash effect of straight line rents	(140)	174
Cash effect of the lease equalization loans	(1,397)	(285)
Amortization of transaction costs on mortgage loans	78	67
Non-cash part of asset management fees paid in Exchangeable securities [(1)]	374	397
Capex net of cash subsidy	(256)	146
AFFO	**4,143**	**5,428**
FFO / Units (diluted) *(in CAD$)*	**0.16**	**0.17**
AFFO / Units (diluted) *(in CAD$)*	**0.12**	**0.19**

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

Balance sheet reconciliation to consolidated financial statements

Assets	As at March 31, 2020			As at December 31, 2019		
	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	512,023	185,044	**697,067**	478,700	173,313	**652,013**
Investments in joint ventures	91,666	(91,666)	**-**	100,782	(100,782)	**-**
Derivative financial instruments	-	-	**-**	10	-	**10**
Restricted cash	4,970	-	**4,970**	4,705	-	**4,705**
Total non-current assets	608,659	93,378	**702,037**	584,197	72,531	**656,728**
Current assets						
Trade receivables and other financial assets	4,624	1,118	**5,742**	4,437	269	**4,706**
Derivative financial instruments	1,338	21	**1,359**	1,704	19	**1,723**
Call option related to the acquisition loan	9,124	-	**9,124**	9,124		**9,124**
Acquisition loan	26,638	-	**26,638**	24,744	-	**24,744**
Other current assets	3,304	1,154	**4,458**	2,093	968	**3,061**
Restricted cash	515		**515**	498	-	**498**
Cash	69,366	6,411	**75,777**	83,409	7,639	**91,048**
Total current assets	114,909	8,704	**123,613**	126,009	8,895	**134,904**
Total assets	723,568	102,082	**825,650**	710,206	81,426	**791,632**
Liabilities and Unitholders' equity						
Liabilities						
Non-current liabilities						
Interest-bearing loan	504	-	**504**	473	-	**473**
Mortgage loans	137,633	57,309	**194,942**	130,162	53,714	**183,876**
Lease liabilities	123,909	11,315	**135,224**	116,968	10,730	**127,698**
Lease equalization loans	274	-	**274**	343	-	**343**
Tenant deposits	2,021	149	**2,170**	1,930	142	**2,072**
Exchangeable securities	1,472	-	**1,472**	2,695	-	**2,695**
Derivative financial instruments	4,712	-	**4,712**	2,734	-	**2,734**
Deferred tax liabilities	13,328	9,113	**22,441**	12,295	8,519	**20,814**
Total non-current liabilities	283,853	77,886	**361,739**	267,600	73,105	**340,705**
Current liabilities						
Interest-bearing loan	4	-	**4**	4	-	**4**
Promissory Notes	26,157	-	**26,157**	47,909	-	**47,909**
Mortgage loans	5,422	19,204	**24,626**	4,198	17,988	**22,186**
Lease liabilities	6,554	466	**7,020**	6,910	435	**7,345**
Lease equalization loans	414	-	**414**	1,676	-	**1,676**
Tenant deposits	231	23	**254**	577	22	**599**
Exchangeable securities	4,150	-	**4,150**	6,867	-	**6,867**
Derivative financial instruments	1,974	-	**1,974**	1,494	2	**1,496**
Trade and other payables	13,820	3,940	**17,760**	34,336	(10,338)	**23,998**
Deferred income	1,606	563	**2,169**	5,491	213	**5,704**
Total current liabilities	60,332	24,196	84,528	109,462	8,322	**117,784**
Total liabilities	344,185	102,082	**446,267**	377,062	81,427	**458,489**

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

Consolidated statement of earnings reconciliation to consolidated financial statements

	Three months ended					
	March 31,2020			March 31,2019 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	6,878	2,360	**9,238**	6,043	3,216	**9,259**
Property operating cost recoveries	1,571	728	**2,299**	2,433	790	**3,223**
Property operating costs	(4,171)	(1,153)	**(5,324)**	(5,514)	(1,387)	**(6,901)**
Other revenues	5	122	**127**	3	27	**30**
Other property operating expenses	(33)	(3)	**(36)**	(61)	(23)	**(84)**
Net rental income	**4,250**	**2,054**	**6,304**	**2,904**	**2,623**	**5,527**
General and Administration expenses	(2,242)	(552)	**(2,794)**	(1,772)	(532)	**(2,304)**
Foreign exchange gain	2,647	-	**2,647**	29	-	**29**
Net change in fair value of investment properties	1,702	96	**1,798**	2,319	483	**2,802**
Loss on disposal of investment properties	-	-	**-**	(100)	-	**(100)**
Share of net income from joint ventures	183	(183)	**-**	914	(914)	**-**
Operating earnings	**6,540**	**1,415**	**7,955**	**4,294**	**1,660**	**5,954**
Net change in fair value of financial derivatives		131	**131**	(921)	(24)	**(945)**
Finance income	2,265	(1,005)	**1,260**	2,017	(1,332)	**685**
Finance costs	(2,468)	(370)	**(2,838)**	(2,521)	(488)	**(3,009)**
Additionnal income (loss) from Arcueil's JV	-	-	**-**	-	294	**294**
Distributions on Exchangeable securities	(190)	-	**(190)**	(177)	-	**(177)**
Net change in fair value of Exchangeable securities	4,307	-	**4,307**	(649)	-	**(649)**
Net change in fair value of Promissory notes	21,752	-	**21,752**	(3,461)	-	**(3,461)**
Income before income taxes	**32,206**	**171**	**32,377**	**(1,418)**	**110**	**(1,308)**
Current income tax expense	(9)	(15)	**(24)**	(48)	(21)	**(69)**
Deferred income tax expense	(219)	(34)	**(253)**	(611)	(89)	**(700)**
Net income	**31,978**	**122**	**32,100**	**(2,077)**	**-**	**(2,077)**
Non-controlling interest	12	-	12	(32)	-	(32)
Net income attributable to the Trust	**31,966 -**	**122 -**	**32,088**	**(2,045)**	**-**	**(2,045)**

(1) P&L amounts presented for the REIT were taken respectively from the interim consolidated financial statements as at March 31, 2020 and March 31, 2019

Equity

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

As at March 31, 2020 the REIT has 28,805,664 Units issued and outstanding, including 4.835 million Units issued in the December 2019 public equity offering.

In Q1 2020, 104,167 Units were issued pursuant to the Distribution Reinvestment Plan ("DRIP"), which was suspended in April 2020.

	Three month period ended March 31, 2020
Units	
Number at beginning of period	28,742,306
Increase/(Decrease) in number during the period	
Units issued pursuant to the DRIP	104,167
Number at end of period	28,846,473
Weighted average number during the period	28,773,753
Exchangeable securities	
Number at beginning of period	897,082
Increase in number during the period	68,829
Number at end of period	965,911
Weighted average number during the period	897,082
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	34,133,689
Increase/(Decrease) in number during the period	172,996
Number at end of period	34,306,685
Weighted average number during the period	34,165,136

Distribution and management of foreign exchange risk

The Declaration of Trust provides the REIT's trustees with the discretion to determine the percentage payout of income that would be in the best interests of the REIT. Given that the level of working capital tends to fluctuate over time and should not affect the REIT's distribution policy, it is not considered by trustees in determining distributions.

Contracts Maturing by Quarter	Hedge Value (EUR)	Weighted average hedging rate
Q2 2020	2,360,637	1.652
Q3 2020	2,348,270	1.661
Q4 2020	3,196,502	3.156
Q1 2021	3,611,642	1.495
Q2 2021	3,599,202	1.500
Q3 2021	3,582,741	1.507
Q4 2021	3,566,165	1.514
Q1 2022	3,553,258	1.520
Q2 2022	3,541,607	1.525
Q3 2022	3,526,041	1.531
Q4 2022	1,169,667	1.539
	34,055,733	

To mitigate risk of foreign exchange fluctuations on the distributions to our Unitholders, we have established an active foreign exchange hedging program. As at December 31, 2019, the REIT was committed to sell EUR786 (on average) at an average rate of 1.653 and to receive CAD$1,300 on a monthly basis until October 2020 (included). This hedging program has been extended and reinforced in February 2020: the REIT engaged in a new two-year hedging program beginning in Q4 2020, to received CAD$1,800 on a monthly basis at average rate of 1.512. 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

Normal Course Issuer Bid (NCIB)

On April 16, 2020, the REIT filed a normal course issuer bid ("NCIB") for a portion of its Units as appropriate opportunities arise from time to time. The Board of Trustees of the REIT believes that the purchase by the REIT of a portion of its outstanding Units may be an appropriate use of available resources and in the best interests of the REIT and its unitholders.

Pursuant to the NCIB notice filed with the TSX, the REIT intends to acquire up to a maximum of 2,622,412 of its Units, or approximately 10% of its public float of Units as of April 15, 2020 for cancellation over the next 12 months.

Purchases under the NCIB may be made through the facilities of the TSX or through a Canadian alternative platform and in accordance with applicable regulatory requirements at a price per Unit equal to the market price at the time of acquisition. The number of Units that can be purchased pursuant to the NCIB is subject to a current daily maximum of 20,890 Units (which is equal to 25% of 83,562, being the average daily trading volume during the last six months), subject to the REIT's ability to make one block purchase of Units per calendar week that exceeds such limits.

Until June 30, 2020, pursuant to temporary blanket relief granted by the TSX in connection with the COVID-19 pandemic, daily purchases of up to 41,781 Units, other than block purchases, will be permitted. All Units purchased under the NCIB will be cancelled upon their purchase. The REIT intends to fund the purchases out of its available resources. The NCIB began on April 22, 2020 and will terminate on April 21, 2021, or such earlier time as the REIT completes its purchases pursuant to the NCIB or provides notice of termination.

Distribution Reinvestment and Unit Purchase Plan (DRIP)

On April 13, 2020, in response to the market disruption caused by the COVID-19 pandemic, the REIT has suspended its Distribution Reinvestment and Unit Purchase Plan (the "DRIP") effective as of the distribution payable on May 15, 2020 to unitholders of record as at April 30, 2020 which is the April distribution. The DRIP will remain suspended until further notice and commencing with the May distribution, distributions of the REIT will be paid only in cash. Upon reinstatement of the DRIP, plan participants enrolled in the DRIP at the time of its suspension who remain enrolled at the time of its reinstatement will automatically resume participation in the DRIP. The decision to suspend the DRIP was taken by the Board of Trustees as it is not in the best interests of the Trust or its unitholders to issue units at current prices.

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