INOVALIS

REAL ESTATE INVESTMENT TRUST

CONTENTS

Letter to Unitholders

Our teams in France and Germany have managed capably throughout the extraordinary experience of Q2 2020, the most challenging quarter in the REIT's seven-year history. The unprecedented market conditions tested the resilience of our robust and defensive business model and the REIT is emerging from the worst of the COVID-19 crisis in a strong financial position, continuing to pay a stable, attractive distribution to Unitholders.

88.4% of the REIT's wholly owned properties and 89.9% of the total portfolio are leased on a long-term basis to high-credit quality tenants and now, following months of uncertainty, leasing inquiries are being made from prospective lessors. In Q2, 92% of rent was paid by French tenants and 99% was paid by German tenants. In Q3 we expect to collect 90% of rent on time for French assets with the balance owing deferred to Q4; in Q3, based on collections in July and August, we forecast that 98% of rent will be paid on time for German assets.

The REIT's Unit price is recovering from the post-COVID volatility in the markets. The current Unit price still represents a significant undervaluation of the net asset value. Independent asset appraisals in Q2 confirmed the total portfolio value of EUR441.3 million ($673 million), virtually unchanged since December 31, 2020.The REIT's total equity at June 30, 2020 is $354 million, which implies a Unit price in the range of $12.50 per unit. Our present trading price therefore provides a very attractive investment opportunity for investors who understand the long- term value of quality real estate in strategic locations.

The REIT is financed almost exclusively with asset-level, non-recourse financing with an average term to maturity of 5.3 years. The REIT's debt to equity ratio is currently 47.3% for the total portfolio and 40.3% only for the wholly owned properties. It is important to note that in in France and Germany, banks continue to provide financing at comparative terms to the period prior to the economic crisis caused by COVID-19.

Asset acquisitions were deferred during Q2 2020 and the REIT has re-assessed its investment criteria against the pipeline of opportunities. The proceeds from last December's transactions leave the REIT with $58 million in available cash on the balance sheet as of end of June 2020 and an extra $5 million from the REIT's share in joint ventures. We are confident that when the European region stabilizes in the coming months, there will be attractive investment opportunities for the REIT.

Although Q2 2020 results have been affected by the economic impact of the COVID-19 lockdown, June indicators suggest that the European economy is gaining momentum in its recovery. On July 20th, the European Union announced a ground-breaking EUR750 billion stimulus package, harnessing Europe's credit rating to sell collective debt and take unprecedented steps to help all member countries. The lingering effect of the pandemic on the US economy and some emerging markets has caused a deterioration in the global outlook and created a drag on the European economy. Many European countries still have to carefully manage the phasing out of COVID-19 related restrictions but activity is expected to grow with varying rates of recovery across member states of the European Union. The European Commission updated projections now show that Europe's economy is expected to shrink by approximately 8.75% this year before recovering at an annual growth rate of 6% in 2021, while inflation is expected to hover around 0.3% this year before reaching 1.1% next year.

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

The REIT's virtual annual and special meeting was held on May 13, 2020. Our trustees were re-elected with strong confidence expressed by Unitholders. A Unitholder Rights Plan was also approved at the meeting.

On behalf of our management team and our Board of Trustees, I would like to thank you for your continued support. As the economic effect of COVID-19 is an evolving global event, we will continue to keep you informed of material developments on the REIT 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 August 12, 2020.

HIGHLIGHTS

Net Rental Income

For the portfolio of properties wholly owned by the REIT ("IP Portfolio"), net rental income for Q2 2020, adjusted for IFRIC 21[1], was CAD$6.68 million (EUR4.38 million), an increase over the CAD$5.86 million (EUR3.90 million) adjusted net rental income for the same period in 2019. The gain of CAD$0.82 million (EUR0.48 million) 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 the sale of Vanves and the departure of the main tenant in Courbevoie.

In Q2 2020, for the portfolio that includes the REIT's proportionate share in joint ventures ("Total Portfolio"), net rental income of CAD$8.96 million (EUR5.88 million) adjusted for IFRIC 21 remained stable compared to the same period in the previous year (+CAD$0.06 million).

COVID-19 Related Business Update

Although the ongoing impact of the COVID-19 crisis is difficult to predict, the REIT remains in good financial standing and is currently well-positioned to withstand the economic impact of the pandemic. The REIT is thus reporting near-normal quarterly rent collection for Q2 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 solid Q2 2020 results. However, the REIT's second quarter results cannot be considered in isolation when 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

Rent collection

Rent collection for the French assets is recorded on a quarterly basis and 92% of rent has been received for Q2 2020. This is generally in line with the speed and percentage of pre-COVID-19 rent collection levels with a few minor exceptions. As at July 31, 2020 the REIT has already received 77% of the Q3 rents on its French portfolio. Management expects to collect nearly 90% of the Q3 2020 rents in France by the end of September, the remaining 10% having been deferred after negotiation with tenants to Q4 2020. For the REIT's German properties, where rents are collected on a monthly basis, 99% of rent was received in Q2 2020. Following quarter-end, 97% of July rent and 98% of August rent has been collected for German assets to date.

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

Leasing Operations

About 3,000 sq.ft of incremental space was leased during Q2. Efforts continue to lease unoccupied space (154,770 sq.ft) in the portfolio. Management will selectively complete capex improvements on vacant areas to attract tenants and maximize rent.

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

Funds from Operations (“FFO”), Adjusted Funds from Operations (“AFFO”)

In Q2 2020, the REIT reported Funds from Operations (“FFO”) and Adjusted Funds from Operations (“AFFO)” were $0.16 and $0.15 per unit respectively. Performance was affected by the decision to pause the 2020 investment strategy due to the economic impact of the COVID-19 pandemic. As of June 30th, the REIT has CAD$58 million of cash on its balance sheet, of which CAD$12.2 million is the excess profit accrued from the disposition of the Vanves asset in 2019 at a higher price than the fair market recorded until Q2 2019. Management estimates that the opportunity cost of reserving CAD$55 million in cash, previously allocated for investment in 2020, has negative quarterly effect the FFO in the range of CAD$0.03 to $0.04 per unit. The CAD$55 million has been held in Euros since December 2019 and has shown an unrealized foreign exchange gain of CAD$1.8 million (which represents an equivalent of approximately $2.6 per unit of FFO) over the six months of 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 40.3% (34.9% net of cash), comfortably within the REITs mandated threshold of 60%. The interest-only bullet loan against the Duisburg property, held in joint venture, has been successfully extended for another 3 years at an interest rate of 1.44%, and we are now working on an additional capex line for this asset with the same lender.

This refinancing proves the REIT’s ability to fund operations and acquisitions on a less costly basis than traditional financing in Canada, taking advantage of historically low interest rates in Europe.

In France, banks and financial lessors have been encouraged by the French Government’s measures to ease the debt service conditions of their clients from the start of the pandemic and this has positively benefited the REIT, which has obtained deferrals on Sabliere, Courbevoie, Metropolitain and Delizy properties representing a CAD$1.6 million (EUR1.05 million) positive impact on the Q2 available cash. Deferral on the Arcueil lease liability is still under discussion while the quarterly payment of CAD$1.3 million (EUR0.86 million) due on April 1, 2020 has been suspended.

For the total year 2020, the positive impact on cash of senior debt deferrals represents CAD$4.3 million, including Arcueil pending agreement.

Rueil acquisition loan

The delivery of the Rueil property development project is well under way and our budgetary assumptions related to the valuation of the REIT’s profit participation component in the Rueil development loan have been confirmed. The property development is now in its final three months of completion and, subsequent to the quarter, on July 30, 2020, EUR12.4 million out of the initial EUR17.2 million loan has been returned to the REIT by the borrowing entity. Management forecasts that the 2020 fund inflows should be in line as per the initial loan plan. An additional gain of CAD$0.15 million in fair value was recognized in relation to the profit participation component of the loan for Q2 2020 in addition to the CAD$9.6 million accrued since the inception of the loan in December 2016.

Bad Homburg

Subsequent to the quarter, an agreement has been reached between management of the REIT and its JV co-owner of the Bad Homburg asset for the REIT to acquire full ownership of the asset by end of Q3 2020, for a total purchase price of EUR5,873 (CAD$8,957). The asset has been jointly held since 2015.

Stuttgart

Subsequent to the quarter, the REIT and its JV partner have taken steps to sell the Stuttgart asset which has been jointly held by the parties since 2017. A top-tier international broker has been engaged for the sale and a marketing plan is underway. The disposition of this asset will contribute to the REIT’s positioning for future opportunistic investments and further simplify its asset ownership structure.

Normal Course Issuer Bid

On April 20, 2020, the TSX approved the REIT's Normal Course Issuer Bid (NCIB) which was undertaken in response to the extreme volatility that affected the trading price of the REIT in Q2. Management 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. Between April 22 and June 30, 2020, the REIT bought back 510,500 Units at Unit prices ranging between $6.41 and $8.00 for a total $3.9 million buyback of Units. On June 29, 2020, the REIT entered into an automatic purchase plan with a broker to repurchase a daily limit of 20,890 units at a maximum price of $8.00 per unit, for the period of June 30 to August 14, 2020.

Dividend Reinvestment Plan Suspension

Until further notice, in response to the market disruption caused by the COVID-19 pandemic, the REIT has suspended its DRIP effective May 15, 2020 to unitholders of record as at April 30, 2020.

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OVERVIEW – GAAP AND NON-GAAP

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

	June 30, 2020		December 31, 2019	
Operational information	IP Portfolio	Total Portfolio	IP Portfolio	Total Portfolio
Number of properties	7	14	7	14
Gross leasable area (sq.ft)	917,836	1,398,704	917,836	1,398,704
Weighted Occupancy rate (end of period) (2)	88.4%	89.9%	89.4%	92.1%
Weighted average lease term	3.7 years	4.1 years	4.2 years	4.5 years
Average capitalization rate (3)	5.2%	5.2%	5.0%	5.5%
Financing information				
Level of debt (debt-to-book value) (4)	40.3%	47.3%	38.4%	46.0%
Level of debt (debt-to-book value, net of cash) (4)	34.9%	42.8%	30.3%	39.0%
Weighted average term of principal repayments of debt	5.3 years	4.8 years	6.1 years	5.3 years
Weighted average interest rate (5)	2.06%	1.97%	2.06%	2.00%
Interest coverage ratio (6)	3.5 x	3.8 x	3.3 x	4.0 x

	Three months ended		Six months ended	
(thousands of CAD$ except per Unit and other data)	June 30, 2020	June 30, 2019 as restated (9)	June 30, 2020	June 30, 2019 as restated (9)
Operating results				
Rental revenue	7,119	6,593	13,997	12,636
Rental revenue - Total Portfolio (1)	9,525	9,794	18,762	19,053
Net rental income	7,399	6,724	11,646	9,629
Net rental income - Total Portfolio (1)	9,786	9,937	16,089	15,464
Net (loss) income for the period, attributable to the Trust	(9,385)	3,027	22,703	982
Funds from Operations (FFO) (7)	5,418	5,940	10,898	10,871
Adjusted Funds from Operations (AFFO) (7)	5,210	5,824	9,349	11,256
FFO per Unit (diluted) (7) (8)	0.16	0.21	0.32	0.38
AFFO per Unit (diluted) (7) (8)	0.15	0.20	0.27	0.39
Distributions				
Declared distributions on Units and Exchangeable sec.	6,140	5,058	12,271	10,095
Declared distributions on Units and Exchangeable sec. & Promissory notes	7,045	5,955	14,049	11,889
Declared distribution per Unit	0.21	0.21	0.21	0.21
FFO payout ratio (7)	130.0%	100.2%	128.9%	109.4%
AFFO payout ratio (7)	135.2%	102.2%	150.3%	105.6%

(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 June 30, 2019 have been reclassified, when appropriate, in order to ensure comparability with the figures for the periods ending December 31, 2019 and June 30, 2020
(5) Calculated as the weighted average interest rate paid on lease liabilities and the mortgage.
(6) Calculated as net rental income plus interest expenses, less administrative expenses, divided by interest expenses on the financial leases and mortgage financing.
(7) The reconciliation of FFO and AFFO to earnings can be found under the section *Non-GAAP Reconciliation (FFO and AFFO).*
(8) Based on the diluted weighted average number of Units, exchangeable Units and the conversion of Private Placement promissory notes.
(9) See the section *Restatement of Financial Results*.

BASIS OF PRESENTATION

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of Inovalis Real Estate Investment Trust (the "REIT") should be read in conjunction with the REIT's interim consolidated financial statements for the three-month and six-month period ended June 30, 2020, and the notes thereto.

The REIT has historically, within the MD&A, presented operating results based on financial information developed using proportionate consolidation for all the REIT's joint ventures, which are accounted for using the equity method, as required by IFRS 11 "Joint Arrangements". This manner of presentation 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 six months ended June 30, 2020 and June 30, 2019 are CAD$1.5037 and CAD$1.5064, respectively. For balance sheet items as at June 30, 2020, projections or market data, the exchange rate used is CAD$1.5251 (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 euros, the REIT's financial results are measured in Canadian dollars. Change in the EUR/CAD foreign exchange rate has therefore had a major impact on the REIT's financial statements. Over the six months of 2020, the Canadian dollar weakened by approximately 4.7% 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$16.1 million. However, as the REIT's underlying real estate investment holdings are Euro-denominated, they have not been impacted by these fluctuations.

The average foreign exchange rates for year to date are used to calculate the REIT's net rental income. As rates remained stable compared to the same period last year (-0.2%) the negative impact was only CAD$31. 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$0.7 million) well exceeded the effect of the minimal decline in the exchange rate.

MARKET AND INDUSTRY DATA

This MD&A includes market and industry data and forecasts that were obtained from third-party sources, industry publications and publicly available information as well as industry data prepared by Inovalis SA based on its knowledge of the commercial real estate industry (including Inovalis SA estimates and assumptions relating to the industry based on that knowledge). Inovalis SA's management has knowledge of the real estate industry developed through their nearly 30 years of experience and participation in the industry.

BUSINESS OVERVIEW AND STRATEGY

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

The REIT's long-term objectives are to:

- generate predictable 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 resulted in governments taking drastic measures to combat the spread of the virus, including closure of businesses, suspension of cross-border travel, temporary quarantine for citizens and subsequent physical distancing. This crisis, the long-term effects of which are still unknown, has led to an unprecedented worldwide economic slowdown.

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

The REIT's portfolio consists of office tenants and has no hospitality or retail exposure - industries that have been immediately affected by COVID-19.

Rent Collection update

Rent collection for the French assets is on a quarterly basis and 92% of rent has been received for Q2 2020. This is generally in line with the timeliness of pre-COVID-19 rent collection levels with a few minor exceptions. As at July 31, 2020, the REIT has already received 77% of the Q3 rents on its French portfolio. Management expects to collect nearly 90% of the Q3 2020 rents in France by the end of September. For the REIT's German properties, , where rents are collected on a monthly basis, 98% of rent was received in Q2 2020. Following quarter-end, 97% of July rent and 98% of August rent has been collected for German assets to date.

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

BUSINESS ENVIRONMENT[1]

FRENCH MARKET POST-COVID SITUATION

INVESTMENT MARKET FRANCE

Despite the global economic crisis arising from the COVID-19 pandemic commercial real estate has continued to show solid fundamentals underscoring its safe haven status. With negative economic indicators and an anticipated major worldwide recession, central banks have committed to maintaining liquidity in the financial markets and are pursuing increasingly accommodating monetary policies. In this context, commercial real estate investment could benefit from this liquidity as investors seek to invest in secure assets. Although Q1 recorded a new real estate investment record in France of EUR7.4 billion, Q2 suffered as a result of the current crisis, with only EUR4.1 billion invested. A total of EUR11.5 billion was invested in the first half of 2020, comparable to the half-year average over the past three years (EUR11.9 billion). In addition to the technical difficulties due to the government-mandated closure of businesses, the investment market suffered from selective access to financing.

Some major transactions have sustained the market turbulence. There were a significant number of single asset sales valued over EUR200 million (nine versus three in the first half of 2019) yet sales volume decreased year-over-year (-22%). At the same time, transactions valued under EUR50 million continue to thrive.

OFFICE SPACE STILL DOMINATES

Although offices still represent the most transacted asset category, investment decline is expected in Paris city transactions. Investor appetite for the industrial segment, and particularly logistics continues, taking up 20% of Q1 and Q2 2020 investment activity. The COVID-19 crisis has reinforced the importance of the supply chain as an essential distribution link given the changes in of consumption modes (e-commerce). Comparatively attractive yields in the supply chain segment and growing interest by both the domestic and international investors are indicators of the potential for strong future performance in this market.

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

The debt market has become very selective and sale-and-lease back transactions could become increasingly popular enabling companies to access cash and realize investments and/or preserve their business. After a record 2019 (more than EUR3 billion invested), sale-and-lease back transactions totalled 9% of investments in the first half of 2020. Whereas in the past these transactions were generally focused on industrial and retail segments, this year the office sector is the focus of this market, totalling 90% of sale-and-lease back transactions in the first half of 2020.

SECOND HALF OF 2020 OUTLOOK

The economic crisis related to COVID-19 has caused a significant slowdown in investment since mid-March. However, due to its historical status as a safe haven asset, real estate should remain a key focus for investors. Therefore, given that the need for capital remains significant and there is a solid base of domestic investors, the outlook for the remaining two quarters of 2020 remains positive. The core market should remain fluid with limited price corrections of less than approximately 5%. The average decrease for value-add assets located in well established and stable sectors should remain under the 10% threshold. Adjustments will likely be more significant in secondary locations, oscillating between 15 and 35%. The market is overall ready to rebound, but the focus of major markets is firmly fixed on the evolution of the pandemic.

COMMERCIAL REAL ESTATE MARKET IN GERMANY

Liquidity and trust are two terms that have shaped both the financial and investment markets in recent months. Politicians and central banks have injected significant amounts of money into the market to promote liquidity. The largest economic stimulus package in Germany's history has been announced, equating to around 4% to 4.5% of the Gross Domestic Product. Even though the economy, boosted by financial aid, is slowly getting back on its feet, market participants anticipate a delayed impact on the property market. The financing environment will remain appreciably difficult until at least 2021.

In the first half of 2020, the total transaction volume (portfolio and single-asset transactions) reached EUR42.5 billion and exceeded the previous year's result by 31%. In the first three months, growth was more than 80%. The entire year will benefit from this first quarter, which will also remain an exception in 2020. The period from April to June therefore also have to be assessed in this context: their contribution to the half-year volume is 35% — proof that the COVID-19 pandemic and its consequences have also reached the investment market. Of particular note is that while company acquisitions and investments dominated the first quarter, hardly any transactions of this type took place in subsequent months, also undoubtedly a result of the uncertain development and volatility on the stock markets.

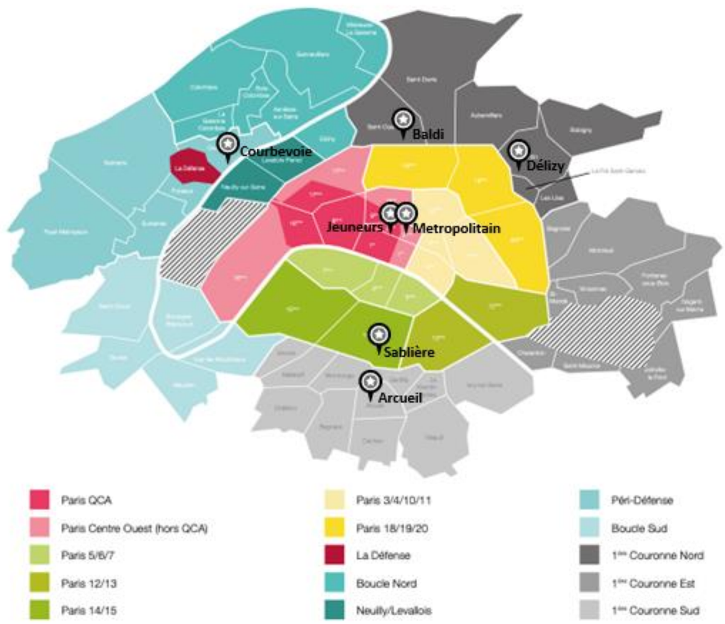
Nevertheless, in the first half of the year the portfolio transaction volume increased significantly compared to 2019, reaching EUR24.4 billion. Single-asset transactions contributed 43% or EUR18.1 billion of the total volume. The largest single transaction took place in Munich, where approximately EUR240 million was paid for an office and commercial park. There is a significant amount of liquidity in the market and numerous institutional and private investors are seeking attractive investment opportunities. Demand is increasingly focused on the core segment but not every property that was labelled as 'core' before the crisis is still classified this way.

The cost of financing has increased by around 30 basis points, but in relation to the lower returns for government bonds financing terms are almost the same as before COVID-19. In contrast, the capital costs for value-add properties and project developments have increased significantly more on average by 100-200 basis points. And in the case of large-volume transactions, financing takes much longer to arrange than before the onset of the crisis.

Prime yields remained in robust form after the first six months of 2020. This applies to the office and logistics as set classes, and in some cases to retail properties as well. With an average office prime yield of 2.91% for the seven strongholds, the price level is even slightly lower than three months ago, and 15 basis points lower in a 12-month comparison. German real estate proved to be remarkably resilient in the past three months, when the COVID-19 pandemic had the greatest effect on the business environment. Although the number of transactions is falling, the crisis has not brought about a decline in investor demand. Large private equity investors continue to accumulate huge amounts of capital, while Asian investors in particular are also intensively exploring the German market. In short, when it comes to security, trust and stability, some areas of the German investment market remain attractive.

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.



Inovalis REIT
Paris Property Locations

Central Business District

- Jeuneurs
- Metropolitain

Paris - Montparnasse Area

- Sablière

La Defence Periphery

- Courbevoie

Northeastern Periphery

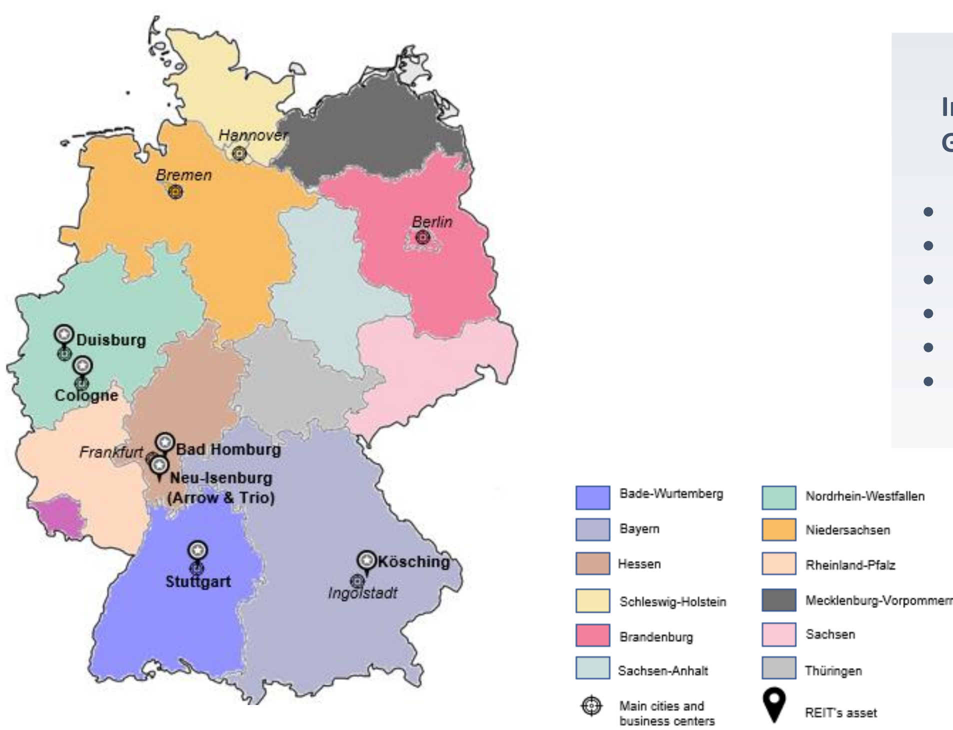
- Délizy / Pantin

Northern Inner Rim of Paris

- Baldi / St Ouen

Southern Inner Rim of Paris

- Arcueil



Inovalis REIT
Germany Property Locations

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

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

Asset	% owned	REIT Ownership Valuation as at June 30, 2020	% of REIT's Portfolio Value	Gross Leaseable Area (GLA)	Contribution to GLA	# of tenants	Occupancy rate (including vendor leases)	Weighted occupancy rate (including vendor leases)	WALT (end of lease)
		(CAD)	%	sq. ft.	%		%	%	Years
Jeuneurs	100%	73,550	11%	50,407	4%	1	100%	100.0%	3.2
Courbevoie	100%	36,068	5%	95,903	7%	5	41%	43.2%	5.7
Sablière	100%	38,393	6%	41,043	3%	7	100%	100.0%	2.9
Baldi	100%	34,722	5%	123,657	9%	8	70%	79.2%	3.4
Metropolitain	100%	99,001	14%	78,818	6%	7	100%	100.0%	4.4
Arcueil	100%	148,078	22%	334,521	24%	1	100%	100.0%	2.7
Délizy	50%	20,800	3%	71,617	5%	17	77%	78.2%	4.2
Subtotal France		**450,612**	**66%**	**795,966**	**58%**	**46**	**86.1%**	**86.1%**	**3.4**
Trio	94,9%	71,527	10%	193,487	13%	6	88%	87.6%	5.2
Duisburg	50%	48,888	7%	108,960	8%	1	88%	87.5%	7.5
Bad Homburg	50%	17,767	3%	54,553	4%	6	93%	97.3%	2.2
Cologne	6%	2,180	0%	3,930	0%	1	100%	100.0%	5.4
Stuttgart	50%	38,146	6%	121,416	9%	6	100%	99.9%	4.0
Arrow - Neu-Isenburg	50%	31,535	5%	67,334	5%	4	96%	95.9%	3.3
Kösching	50%	22,297	3%	53,058	3%	1	100%	100.0%	7.4
Subtotal Germany		**232,340**	**34%**	**602,738**	**42%**	**25**	**92.6%**	**92.8%**	**5.0**
Total - France and Germany		**682,952**	**100%**	**1,398,704**	**100%**	**71**	**88.9%**	**89.9%**	**4.1**
IP Portfolio		**501,339**	**73%**	**917,836**	**66%**	**35**	**87.2%**	**88.4%**	**3.7**
JV Portfolio		**181,613**	**27%**	**480,868**	**34%**	**36**	**92.3%**	**92.6%**	**4.9**

The IP Portfolio weighted occupancy at June 30, 2020 was thus 88.4%, in slight diminution compared to 89.4% as at year end 2019. The weighted occupancy rate across the Total Portfolio declined from 92.1% as at December 31, 2019 to 89.9% as at June 30, 2020, due to the end of rental guarantee in the Delizy 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 was 4.1 years as at June 30, 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 June 30, 2020, the REIT had 35 tenants across the IP Portfolio (December 31, 2019: 35) and 71 across the Total Portfolio (December 31, 2019: 70)

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 "ILAT") and the Consumer Price Index – CPI), or the German Consumer Price Index, as applicable.

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

Tenant	Tenant Sector	GLA (sq.ft.)	Weighted Areas (sq.ft) (1)	% of Weighted Areas
Orange (Formerly France Telecom)	Telecommunications	334,521	290,218	35.0%
The Lorenz Bahlsen Snack-World GmbH & Co. KG	Food and beverage	86,501	81,870	9.9%
Rue Du Commerce	E-commerce	51,926	51,926	6.3%
CNAM	Education & Training	50,407	49,543	6.0%
Time:matters	Logisitics	34,772	33,607	4.0%
Top 5 tenants		**558,127**	**507,164**	**61.2%**
Other tenants	Diversified	241,943	226,793	27.3%
Vacant		117,766	96,075	11.5%
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.

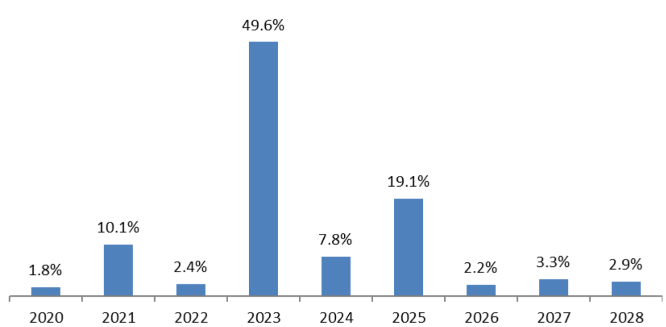
The REIT's five largest tenants across the Total Portfolio, including interests that the REIT has in properties held in joint ventures, are presented in the table below.

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	562,945	521,067	41.2%
Vacant		154,282	127,938	10.1%
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.

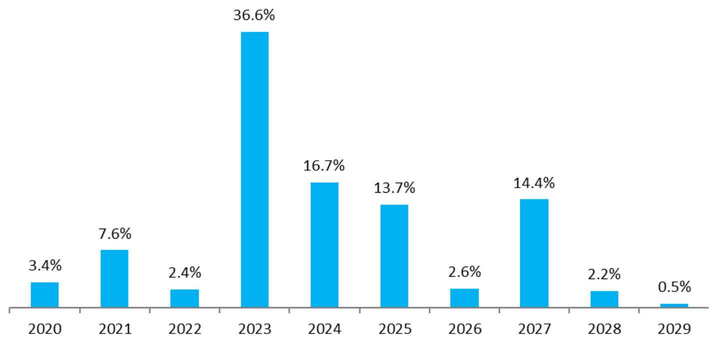
Lease profile

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



The average remaining lease term in the IP Portfolio is 3.7 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 2.7 years. The above graph sets out the percentage of total GLA of the IP Portfolio subject to leases expiring by year (excluding early lease terminations).

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



Including the JV Properties, the average remaining lease term is 4.1 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

- The REIT signed a new lease at the Arrow property for tenancy starting June 1, 2020 on 2,458 sq.ft for a 5-year period with a break option after 3 years.

- On Courbevoie property, the REIT has extended a lease with an existing tenant, on 344 sq.ft additional area for a six-year firm period, at a reduced rent of 14% compared to previous agreement. The tenant now represents 6% of building GLA, effective July 1st, 2020.

RESTATEMENT OF FINANCIAL RESULTS

The consolidated financial statements for the three months and six months ended June 30, 2019 have been restated to recognize an increase of 10% in the withholding tax rate used for the calculation of the deferred income tax liability as at December 31, 2018 following the Double Taxation Treaty (the "New Treaty"), ratified by France in March 2018 and Luxembourg on July 2, 2019, and effective as of January 1, 2020.

An increase in the withholding tax rate in Luxembourg could have a significant impact in the calculation of the deferred income tax liability for the REIT and management is in the process of reviewing the legal status of its corporate structure in Luxembourg, namely CanCorpEurope (CCEU), to transform it into a regulated eligible entity, known as a Specialized Investment Fund (SIF), to benefit from a reduced withholding rate of 15%, on the basis of the provisions of the New Treaty.

Prior to the onset of COVID-19, management expected that the CCEU would obtain the necessary authorization allowing the conversion of CCEU into a SIF by June 30, 2019, which would have resulted in the application of a reduced effective tax rate of 15%. Given that the regulatory approval required to convert to a SIF is considered a substantive process, the reduced effective tax rate should not have been considered in measuring the REIT's deferred taxes until such time as the regulatory approval is obtained. 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 and six months ended June 30, 2019 is provided in note 22 of the interim consolidated financial statements as at June 30, 2020.

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 June 30, 2020	Three months ended June 30, 2019 as restated	Six months ended June 30, 2020	Six months ended June 30, 2019 as restated
Rental revenue	7,119	6,593	13,997	12,636
Property operating cost recoveries	1,554	2,162	3,125	4,595
Property operating costs	(1,279)	(1,847)	(5,450)	(7,360)
Other revenues	84	-	87	(3)
Other property operating expenses	(79)	(184)	(113)	(239)
Net rental income	**7,399**	**6,724**	**11,646**	**9,629**
General and Administration expenses	(2,110)	(1,627)	(4,352)	(3,399)
Foreign exchange gain (loss)	(845)	(29)	1,803	-
Net change in fair value of investment properties	(2,288)	(1,577)	(586)	743
Gain (loss) on disposal of investment properties	-	42	-	(56)
Share of net income (loss) from joint ventures	(849)	(369)	(666)	544
Operating earnings	**1,307**	**3,164**	**7,845**	**7,461**
Net change in fair value of financial derivatives	85	(707)	207	(1,628)
Finance income	1,911	2,131	4,175	4,147
Finance costs	(2,608)	(2,503)	(5,076)	(5,024)
Distributions on Exchangeable securities	(203)	(178)	(392)	(355)
Net change in fair value of Exchangeable securities	(1,727)	319	2,579	(330)
Net change in fair value of Promissory Notes	(8,050)	1,034	13,703	(2,427)
Income (loss) before income taxes	**(9,285)**	**3,260**	**23,041**	**1,844**
Current income tax expense	(40)	(78)	(49)	(127)
Deferred income tax expense	(65)	(116)	(283)	(728)
Net income (loss)	**(9,390)**	**3,066**	**22,709**	**989**
Non-controlling interest	(5)	39	6	7
Net income (loss) attributable to the Trust	**(9,385)**	**3,027**	**22,703**	**982**

DISCUSSION OF STATEMENT OF CONSOLIDATED EARNINGS

Net rental income

Net rental income for the three months ended June 30, 2020 ("Q2 2020") was CAD$7,399 compared to CAD$6,724 for the three months ended June 30, 2019 ("Q2 2019").

For the six-month period ended June 30, 2020, the net rental income increased by CAD$2,017, at CAD$11,646.

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 Q2 2020 and Q2 2019 is set out below.

	In '000 CAD		In '000 EUR	
	Q2 2020	Q2 2019	Q2 2020	Q2 2019
Net rental income	7,399	6,724	4,877	4,469
IFRIC 21 impact	716	867	497	572
Adjusted net rental income - IFRIC 21	6,683	5,857	4,380	3,897

	In '000 CAD		In '000 EUR	
	YTD Q2 2020	YTD Q2 2019	YTD Q2 2020	YTD Q2 2019
Net rental income	11,646	9,629	7,745	6,392
IFRIC 21 impact	(1,358)	(1,741)	(903)	(1,156)
Adjusted net rental income - IFRIC 21	13,004	11,370	8,648	7,548

Adjusted net rental income for Q2 2020 increase by $CAD826 compared to the same period last year. Excluding positive FX impact of CAD$100, the Q2 2020 net rental income excluding IFRIC impact increased by CAD$726. The gain in rental income is mainly attributable to the Arcueil property, which was acquired in the latter part of December 2019 (previously held in a joint venture) and partially offset by the sale of Vanves property.

For the six-month period the increase in net rental income adjusted for IFRIC represented CAD$1,634 and relates primarily to the net impact of the acquisition of Arcueil (+CAD$1.6million) following the sale of Vanves, the acquisition of Trio property (+CAD$0.8million), offsetting Courbevoie vacancy since Q3 2019 (-CAD$0.9million).

General and Administration expenses

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

G&A expenses for the quarter ended June 30, 2020 was CAD$2,110 compared to CAD$1,627 in Q2 2019. Asset management fees remained stable (+CAD$40) while other G&A expenses increased by CAD$443, mainly attributable to CAD$216 professional fees associated the restructuring of the REIT's finance function and internal control over financial reporting ("ICFR"), added to CAD$158 non-recurring costs engaged for the conversion of a related holding company into a regulated SIF structure.

Administration expenses for the six-month period ended June 30, 2020 amounted to CAD$4,352, an increase of CAD$953 compared to Q2 2019, as a consequence of CAD$475 non-recurring costs associated with both the conversion into a regulated SIF structure and the 2019 relocation of the Trio corporate entity from Germany to Luxembourg in as well as CAD$396 professional fees for the reorganization of the REIT's finance function.

Net change in fair value of investment properties

The loss of CAD$2,288 in Q2 2020 in net change in fair value of investment properties relates principally to a decrease of (CAD$1,185) portfolio valuation as per external appraisals at as June 30 and the impact of IFRIC 21 (CAD$716).

The net change in fair value of investment properties for the six months ended June 30, 2020 resulted in a loss of CAD$586, compared to a gain of CAD$743 for the same period in 2019.

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 loss from joint ventures was (CAD$849) in Q2 2020 compared to (CAD$369) for same period in 2019. The variance mainly comes from vacancy impact on Duisburg and Delizy assets. The lease for vacant space in Duisburg is signed since December 2019 but rent is starting in August 2020.

Finance income

In addition to interest on loans granted to joint ventures, in Q2 2020 and Q2 2019, finance income of CAD$1,911 and CAD$2,131 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 and the income from foreign exchange hedge contract (CAD$385 for Q2 2020). The acquisition loan interest was CAD$522 in Q2 2020 compared to CAD$834 in Q2 2019.

For the six-month period ended June 30, finance income is stable for both 2020 and 2019 and amounted to CAD$4,175 and CAD$4,147 respectively.

Finance costs

The finance costs in Q2 2020 were CAD$2,608 compared to CAD$2,503 in Q2 2019, which included CAD$1,283 related to interest on mortgage loans and lease liabilities, CAD$905 related to promissory notes and CAD$420 related to derivative interest and other financial costs.

The finance costs year to date were CAD$5,076, stable compared to same period last year, and include CAD$2,552 related to interests on mortgage loans and lease liabilities, CAD$1,778 related to promissory notes and CAD$746 due to derivative interest and other financial costs.

Distributions on Exchangeable Securities

Distributions to the holders of exchangeable securities are calculated in a manner to provide a return that is economically equivalent to the distributions received by the Unitholders. In Q2 2020 the distributions on exchangeable securities were CAD$203 compared to CAD$178 in Q2 2019.

For the year to date as at June 30, 2020, the distribution on exchangeable securities amounted to CAD$392, compared to CAD$355 for the same period in 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 the impact of COVID-19 on international markets, the closing price on the Toronto Stock Exchange was CAD$7.61 on June 30, 2020 compared to CAD$10.66 at close of December 31, 2019, explaining the gain of CAD$2,579 in the net change in fair value of exchangeable securities over the first half of 2020.

As the REIT's unit price recovered over the second quarter 2020, the three-month period ended June 30, 2020 result in a loss of CAD$1,727.

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 loss of CAD$8,050 during the quarter ended June 30, 2020, offsetting the large gain in Q1 2020 (+CAD$21,753).

Deferred income tax expense

The deferred income tax liability for the second quarter 2020 resulted in an expense of CAD$65 compared to CAD$116 for the quarter ended June 30, 2019.

INVESTMENT PROPERTIES

Fair value

The fair value of the REIT's Investment Property Portfolio as at June 30, 2020 was CAD$501,339 (EUR 328,726) compared to CAD$478,700 (EUR 328,664) at December 31, 2019. The increase of CAD$22,639 is mainly attributable to foreign exchange adjustment of CAD$22,548.

Management uses Direct Capitalization Method ("DCM") to determine the fair value of REIT's properties in France and Germany. These values are supported by third party appraisals as at June 30, 2020 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. Starting Q2 2020 appraisal campaign, Trio property as well as all other properties accounted for the using equity method in Germany, are based on the DCM instead of the Discounted Cash Flow method ("DCF"), to align the valuation methodology for the properties in both portfolios.

OTHER SIGNIFICANT ASSETS

Investments in joint ventures

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

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

The REIT's investment in joint ventures was CAD$89,382 as at June 30, 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$4,060.

Acquisition loan

As at June 30, 2020, acquisition loan of CAD$26,180 (EUR17,166), consists of a loan granted in Euro to an Inovalis SA's subsidiary for the development of the Rueil property. Subsequent to the quarter, on July 30, 2020, the REIT has received a partial reimbursement of the initial amount of CAD$18.9 million (EUR12.4 million).

Trade receivables and other financial assets

Trade receivables and other financial assets as at June 30, 2020 amounted to CAD$7,023, compared to the CAD$4,437 at December 31, 2019. The increase, as every year, is mainly due to service charge revenue arising from property taxes recognized in accordance with IFRIC21, which amounted for an additional CAD$2.4 million for the six-month period ended June 30, 2020.

The trade receivables alone amount to CAD$3,901 and include CAD$2,019 of outstanding invoices and CAD$1,882 of accruals, mainly for property taxes and the 2019/2020 operating expense settlements.

Trade and other payables

Trade and other payables as at June 30, 2020 amounted to CAD$12,309 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 the Vanves sale (CAD$10,231) paid in January 2020.

The trade payables alone amount to CAD$6,969 as at June 30, 2020 and include approximately CAD$1.8 million of property taxes accounted for the whole year, pursuant to IFRIC 21.

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$57,881 as at June 30, 2020. Available cash is a strength in the current economic conditions and management intends to use it for future investments and for the purchase of its own Units as part of a Normal Course Issuer Bid ("NCIB"). As at June 30, 2020, CAD$3.9 million has been used to acquire Units under the NCIB.

Financing activities

The debt strategy is to have secured mortgage financing with a term to maturity commensurate with the profile of the REIT's portfolio and to put in place, where appropriate, interest-bearing financings using fixed rate or floating rate financings with a cap. As such, 82.4% of the REIT's senior debt benefits from an interest rate protection (54.3% in the form of a swap and 28.1% 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

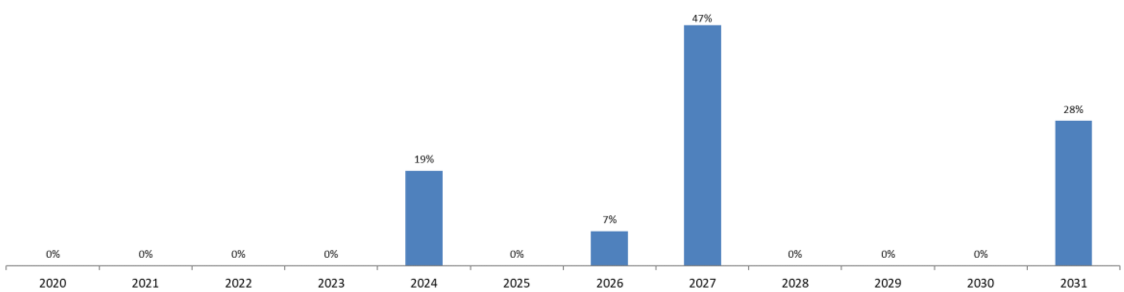
The debt-to-book value ratio is calculated on a look-through basis and considers the REIT's apportioned amount of indebtedness at the partnership level. Indebtedness at the REIT level, as well as at the different partnership levels is calculated as the sum of (i) lease liabilities, (ii) mortgage loans, (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 June 30, 2020	As at December 31, 2019
Weighted average interest rate (1)	1.97%	2.00%
Debt-to-book value (2)	47.3%	46.0%
Debt-to-book value, net of cash (2)	42.8%	39.0%
Interest coverage ratio (3)	3.8 x	4.0 x
Debt due in next 12 months in thousand of CAD$	11,722	29,531
Weighted average term to maturity of debt (4)	4.8 years	5.3 years

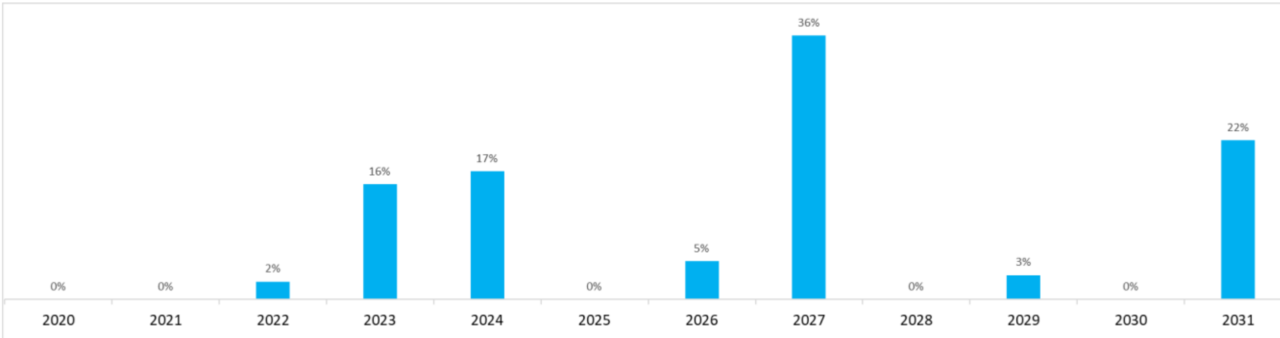
(1) Calculated as the weighted average interest rate paid on lease liabilities and the mortgage financing.
(2) The definition of *debt-to-book value* and of *debt-to-book value, net of cash* can be found in the *Debt-to-book value* note above.
(3) Calculated as net rental income plus interest, less general 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 June 30, 2020)



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

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



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

ANALYSIS OF DISTRIBUTED CASH

	For the three months ended June 30		For the six months ended June 30	
	2020	2019 as restated	2020	2019 as restated
Net cash flows related to operating activities (A)	74	2,103	(12,162)	3,873
Income before income taxes (B)	(9,285)	3,260	23,041	1,844
Declared distribution on Units (C)	5,937	4,880	11,879	9,740
Excess of cash flows from operating activities over cash distributions paid (A-C)	(5,863)	(2,777)	(24,041)	(5,867)
Excess of profit over cash distributions paid (B - C)	(15,222)	(1,620)	11,162	(7,896)

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

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

As quantified in the FFO and AFFO calculations, the funds required to make the distributions on Units, for the three months ended June 30, 2020, i.e. CAD$5,937, were slightly over the FFO (CAD$5,418) for the said quarter. Management held CAD$12.2 million of the excess profit accrued from the disposition of the Vanves asset in 2019 at a higher price than the fair market recorded until Q2 2019 to maintain the REIT's distributions to Unitholders while preparing for accretive acquisition opportunities.

		Note		Q1 2020	Q2 2020	Total YTD Q2 2020
Weighted average number of units		*(1)*		34,165,136	34,306,016	
Theoretical distribution per unit (in CAD)		*(2)*		0.21	0.21	0.42
Theoretical distribution per unit (in '000 CAD)	(1) x (2)	*(3)*		7,047	7,076	14,123
Actual FFO per units (in CAD)		*(4)*		0.16	0.16	0.32
Distribution funded by AFFO (in '000 CAD)	**(1) x (4)**	***(5)***		**5,466**	**5,489**	**10,955**
Excess of cash / (Shortfall) over distribution	**(3) - (5)**			**(1,581)**	**(1,587)**	**(3,168)**
Excess cash generated by sale of Vanves above FMV in Dec. 2019			**12,156**			
Distribution funded by Vanves sale (in '000 CAD)				**1,581**	**1,587**	**3,168**
Remaining Vanves cash (sold over market value in December 2019)				**10,575**	8,988	**8,988**

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 COVID-19. Poor economic conditions could adversely affect the REIT's ability to generate revenues, thereby reducing its operating income and earnings. It could also have an adverse impact on the ability of the REIT to maintain occupancy rates which could harm the REIT's financial condition. In weak economic environments, the REIT's tenants may be unable to meet their rental payments and other obligations due to the REIT, which could have a material and adverse effect on the REIT. In addition, fluctuation in interest rates or other financial market volatility may adversely affect the REIT's ability to refinance existing Indebtedness on its maturity or on terms that are as favourable as the terms of the existing Indebtedness, which may impact negatively on AFFO, may restrict the availability of financing for future prospective purchasers of the REIT's investments and could potentially reduce the value of such investments, or may adversely affect the ability of the REIT to complete acquisitions on financially desirable terms. With respect to the COVID-19 outbreak, Management is monitoring the situation closely and has proactively raised its level of preparedness planning to adapt more quickly should risk levels rise. Management has updated its business continuity plan and will continue to monitor and adjust its plans as the COVID-19 pandemic evolves.

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 COVID-19, could result in a general or acute prolonged decline in economic activity in the regions the REIT holds assets, a decrease in the willingness of the general population to travel, staff shortages, mobility restrictions, supply shortages, increased government regulation, and the quarantine or contamination of one or more of the REIT's assets or offices. Contagion or government safety regulations about the use of a REIT building, office or market in which the REIT operates could negatively impact the REIT's business, its tenants, and results of operations or reputation.

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 2023 and 2027, there is no assurance that such tenants will continue to occupy such premises for the remainder of their lease terms. Some of them have break options before the end of their leases, and the earliest dates on which those five largest tenants may effectively move range between 2021 and 2027. To minimize this risk of vacancy, Inovalis REIT will continue to closely monitor all leases and ensure that they work with the current tenants to determine their future leasing plans, which would allow Inovalis REIT to source tenants in advance of the current tenants vacating the property.

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

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

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

Head Lease for properties

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

Environmental contamination on properties may expose us to liability and adversely affect 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 to required capital could adversely impact investments, cash flows, operating results or financial condition, the ability to make distributions on the Units and the ability to implement the REIT's growth strategy.

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

Changes in government regulations may affect our investment in our properties

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

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

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

Changes in currency exchange rates could adversely affect our business

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

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

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

Dependence on Inovalis SA for management services

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

While the Trustees have similar oversight responsibility with respect to the services provided by Inovalis SA pursuant to the management agreement, the services provided by Inovalis SA are not performed by employees of the REIT, but by Inovalis SA directly and through entities to which it may subcontract. The term of the management agreement expires 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 the REIT could lose all or part of its investment in, and anticipated profits and cash flows from, such property. The REIT does not carry pandemic insurance on the properties. If a loss occurs resulting from the inability of a tenant to pay rent or a restriction on the operation of a property due to government regulation related to the COVID-19 pandemic, the REIT could lose all or part of its investment in, and anticipated profits and cash flows from, such property.

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

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

Reliance on partnerships

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

Income taxes

Canadian income taxes

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

Foreign Income Taxes

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

The REIT's subsidiaries that hold the leasehold rights on the properties located in France are established in France and should therefore be considered as tax residents in France. Under current French tax legislation, income derived from the French REIT's subsidiaries, incorporated under the form of Société Civile Immobilière subject to article 8 of the French Tax Code, and allocated to INOPCI 1 should be corporate income tax exempt in the hands of INOPCI 1 on the basis that INOPCI 1 complies with its distribution obligations. A withholding tax should be levied in France on dividend distributions made by INOPCI 1 and INOPCI2 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 are 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 specified formalities and filing with the Commission de Surveillance du Secteur Financier, the Luxembourg Financial Regulatory Authority. The restructuring is not expected to result in material Canadian or foreign tax consequences; however, no assurance can be given that the Canada Revenue Agency ("CRA") or a foreign tax authority will not challenge certain positions taken by the REIT and the REIT's subsidiaries in connection with the restructuring of Luxco.

OUTLOOK

The REIT cannot factor into its outlook, the impact of the worldwide pandemic that has developed in 2020 and the consequent shut down of the worldwide economy and trade due to the COVID-19 outbreak. It is impossible to determine the full economic impact of this yet but a serious impact on the French and German economies is certain.

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

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

CRITICAL ACCOUNTING POLICIES

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

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures ("DCP")

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

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

Notwithstanding the material weaknesses identified, the REIT has concluded that the financial statements, as at June 30, 2020, are fairly represented in all material respects, in accordance with IFRS.

Internal Controls over Financial Reporting ("ICFR")

Management is responsible for establishing and maintaining adequate ICFR to provide reasonable assurance regarding the reliability of the REIT's financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS. No changes were made to the REIT's ICFR during the six months ended June 30, 2020. The material weaknesses in risk assessment, control activities, information and communication, and monitoring activities contributed to the following:

- Non-performance of a fraud risk assessment and resulting mitigation program;
- Incomplete design and assessment of business process controls and information technology general controls;

- Inadequate accounting policies related to complex transactions, certain new accounting pronouncements and complex financial instruments;
- Inadequate accounting for deferred income taxes;
- 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 June 30, 2020, are fairly represented in all material respects, in accordance with IFRS.

<u>Remediation Plans and Actions Undertaken</u>

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.

In November 2019 Inovalis REIT engaged the consulting arm of a "Big 4" national accounting firm to revise their finance operating model including internal controls over financial reporting, finance processes, policies and a close calendar and address any DCP and ICFR material weaknesses. To date, the revised finance operating model has been designed and developed and is in the process of being implemented. Management expects that the revised internal controls over financial reporting, finance processes, policies and the updated close calendar will be implemented and become operational by the end of Q3 2020.

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

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

<u>Inherent Limitations</u>

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

SELECTED FINANCIAL INFORMATION

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

NON-GAAP FINANCIAL MEASURES

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

(in thousands of CAD$)	Three months ended 2020	Three months ended 2019 as restated	Six months ended 2020	Six months ended 2019 as restated
Rental revenue	9,525	9,794	18,762	19,053
Property operating cost recoveries	2,202	3,025	4,501	6,248
Property operating costs	(1,940)	(2,659)	(7,264)	(9,560)
Other revenues	88	4	209	25
Other property operating expenses	(89)	(227)	(119)	(302)
Net rental income	**9,786**	**9,937**	**16,089**	**15,464**
General and Administration expenses	(2,593)	(2,120)	(5,387)	(4,426)
Foreign exchange gain (loss)	(845)	(29)	1,803	-
Net change in fair value of investment properties	(3,596)	(1,689)	(1,798)	1,113
Gain (loss) on disposal of investment properties	-	42	-	(56)
Operating earnings	**2,752**	**6,141**	**10,707**	**12,095**
Net change in fair value of financial derivatives	84	(702)	215	(1,647)
Finance income	889	823	2,149	1,508
Finance costs	(3,017)	(3,397)	(5,856)	(6,403)
Additionnal loss from Arcueil's JV	-	(728)	-	(434)
Distributions on Exchangeable securities	(203)	(178)	(392)	(355)
Net change in fair value of Exchangeable securities	(1,727)	319	2,579	(330)
Net change in fair value of Promissory notes	(8,050)	1,034	13,703	(2,427)
Income (loss) before income taxes	**(9,272)**	**3,312**	**23,105**	**2,007**
Current income tax expense	(40)	(69)	(65)	(138)
Deferred income tax expense	(78)	(177)	(331)	(880)
Net income (loss)	**(9,390)**	**3,066**	**22,709**	**989**
Non-controlling interest	(5)	39	6	7
Net income (loss) attributable to the Trust	**(9,385)**	**3,027**	**22,703**	**982**

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$)	**June 30, 2020**	**March. 31, 2020**	**Dec. 31, 2019**	**Sept. 30, 2019 as restated**	**June 30, 2019 as restated**	**March 31, 2019 as restated**	**Dec. 31, 2018**	**Sept. 30, 2018**	**June 30, 2018**
Rental revenue	7,119	6,878	6,261	6,627	6,593	6,043	6,039	6,142	6,539
Rental revenue - Total Portfolio	***9,525***	***9,238***	***9,242***	***9,750***	***9,794***	***9,259***	***9,581***	***9,386***	***9,830***
Net rental income	7,399	4,250	6,380	6,980	6,724	2,904	6,136	6,669	6,882
Net rental income - Total Portfolio	***9,786***	***6,304***	***9,146***	***10,173***	***9,937***	***5,527***	***9,246***	***10,013***	***10,315***
Net income (loss) for the period	(9,390)	32,100	30,155	5,396	3,066	(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 six-month periods ended June 30, 2020 and June 30, 2019, the proportional financial results include the following proportion of the revenues and expenses of each one of the joint ventures: 50% respectively for Duisburg, Walpur (Bad Homburg), Stuttgart, Delizy (Pantin), Arrow (Neu-Isenburg) and Kösching and 6% for Cologne.

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

FFO and AFFO are non-IFRS performance measures that are widely used by the real estate industry in evaluating the operating performance of real estate entities. The REIT's determination of FFO and AFFO follows the definition prescribed by the Real Estate Property Association of Canada (''REALPAC'') White Paper on Funds From Operations & Adjusted Funds From Operations for IFRS dated February 2019 and as subsequently amended (''White Paper''). As an exception, considering the significant amount of cash held in Euro in Canada and the volatility of the Canadian dollar against the Euro., the gain (loss) recognized in Q1 2020 and Q2 2020 have been excluded from the FFO calculation.

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

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

FFO for the REIT is defined as net earnings in accordance with IFRS, subject to certain adjustments including adjustments for: (i) acquisition costs, (ii) net change in fair value of investment properties, (iii) net change in fair value of derivative financial instruments at fair value through profit and loss, (iv) net changes in fair value of exchangeable securities and Private Placement promissory 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 / bargain purchase gains upon acquisition. These distributions are recognized in profit and loss consistent with the classification of the exchangeable securities as a liability. However, they are not to be considered when determining distributions for the Unitholders as indeed they are subordinated to the distributions to the Unitholders.

Exchangeable securities and private placement promissory notes are recorded as 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$)	Three months ended June 30, 2020	Three months ended June 30, 2019 as restated	Six months ended June 30, 2020	Six months ended June 30, 2019 as restated
Net income attributable to the Trust	(9,385)	3,027	22,703	982
Add/(Deduct):				
Net change in fair value of investment properties	3,596	1,689	1,798	(1,113)
Net change in fair value of financial derivatives	217	1,793	86	1,647
Net change in fair value of derivative on acquisition loan	(150)	(546)	(150)	664
Loss on disposal of investment properties	-	(42)	-	58
Adjustment for property taxes accounted for under IFRIC 21	(822)	(1,039)	1,564	2,087
Additional income (loss from Arcueil's JV)	-	728	-	434
Interest on promissory notes	906	898	1,778	1,794
Distributions on Exchangeable securities	203	178	392	355
Net change in fair value of Exchangeable securities	1,727	(319)	(2,579)	330
Net change in fair value of Promissory Notes	8,050	(1,034)	(13,703)	2,427
Foreign exchange loss (gain)	845	29	(1,803)	-
Other non-recurring finance costs	-	362	-	321
Deferred income tax expense	78	177	331	878
Others adjustments	158	-	475	-
Minority interest	(5)	39	6	7
FFO	**5,418**	**5,940**	**10,898**	**10,871**
Add/(Deduct):				
Non-cash effect of straight line rents	(477)	237	(617)	412
Cash effect of the lease equalization loans	(149)	(283)	(1,546)	(568)
Amortization of transaction costs on mortgage loans	81	81	159	148
Non-cash part of asset management fees paid in Exchangeable securities (1)	388	395	762	793
Capex net of cash subsidy	(51)	(546)	(307)	(400)
AFFO	**5,210**	**5,824**	**9,349**	**11,256**
FFO / Units (diluted) *(in CAD$)*	**0.16**	**0.21**	**0.32**	**0.38**
AFFO / Units (diluted) *(in CAD$)*	**0.1519**	**0.20**	**0.27**	**0.39**

(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 per REIT's financial statements (1)	Share from investments in joint-ventures	Proportionate Consolidation	As per REIT's financial statements (1)	Share from investments in joint-ventures	Proportionate Consolidation
			As at June 30, 2020			As at December 31, 2019
Non-current assets						
Investment properties	501,339	181,613	**682,952**	478,700	173,313	**652,013**
Investments in joint ventures	89,382	(89,382)	**-**	100,782	(100,782)	**-**
Derivative financial instruments	-	-	**-**	10	-	**10**
Restricted cash	4,883	-	**4,883**	4,705	-	**4,705**
Total non-current assets	595,604	92,231	**687,835**	584,197	72,531	**656,728**
Current assets						
Trade receivables and other financial assets	7,023	245	**7,268**	4,437	269	**4,706**
Derivative financial instruments	582	20	**602**	1,704	19	**1,723**
Call option related to the acquisition loan	9,706	-	**9,706**	9,124		**9,124**
Acquisition loan	26,180	-	**26,180**	24,744	-	**24,744**
Other current assets	2,625	1,235	**3,860**	2,093	968	**3,061**
Restricted cash	506		**506**	498	-	**498**
Cash	57,881	5,180	**63,061**	83,409	7,639	**91,048**
Total current assets	104,503	6,680	**111,183**	126,009	8,895	**134,904**
Total assets	700,107	98,911	**799,018**	710,206	81,426	**791,632**
Liabilities and Unitholders' equity						
Liabilities						
Non-current liabilities						
Interest-bearing loan	496	-	**496**	473	-	**473**
Mortgage loans	135,445	74,962	**210,407**	130,162	53,714	**183,876**
Lease liabilities	121,312	11,294	**132,606**	116,968	10,730	**127,698**
Lease equalization loans	179	-	**179**	343	-	**343**
Tenant deposits	2,054	148	**2,202**	1,930	142	**2,072**
Exchangeable securities	-	-	**-**	2,695	-	**2,695**
Derivative financial instruments	3,693	-	**3,693**	2,734	-	**2,734**
Deferred tax liabilities	13,161	8,970	**22,131**	12,295	8,519	**20,814**
Total non-current liabilities	276,340	95,374	**371,714**	267,600	73,105	**340,705**
Current liabilities						
Interest-bearing loan	4	-	**4**	4	-	**4**
Promissory Notes	34,180	-	**34,180**	47,909	-	**47,909**
Mortgage loans	3,771	154	**3,925**	4,198	17,988	**22,186**
Lease liabilities	7,466	331	**7,797**	6,910	435	**7,345**
Lease equalization loans	367	-	**367**	1,676	-	**1,676**
Tenant deposits	171	34	**205**	577	22	**599**
Exchangeable securities	7,725	-	**7,725**	6,867	-	**6,867**
Derivative financial instruments	1,805	-	**1,805**	1,494	2	**1,496**
Trade and other payables	12,309	2,912	**15,221**	34,336	(10,339)	**23,997**
Deferred income	697	107	**804**	5,491	213	**5,704**
Total current liabilities	68,495	3,538	72,033	109,462	8,321	**117,783**
Total liabilities	344,835	98,912	**443,747**	377,062	81,426	**458,488**
Equity						
Trust units	256,045	-	**256,045**	259,526	-	**259,526**
Retained earnings	69,537	-	**69,537**	57,827	-	**57,827**
Accumulated other comprehensive income	28,392	(1)	**28,391**	14,591	-	**14,591**
	353,974	(1)	**353,973**	331,944	-	**331,944**
Non-controlling interest	1,298	-	**1,298**	1,200	-	**1,200**
Total liabilities and equity	700,107	98,911	**799,018**	710,206	81,426	**791,632**

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

- **Consolidated statement of earnings reconciliation to consolidated financial statements**

	Three months ended					
	As at June 30, 2020			June 30, 2019 as restated		
(in thousands of CAD$)	**Amounts per REIT's financial statements (1)**	**Share of net earnings from investments in joint ventures**	**Total**	**Amounts per REIT's financial statements (1)**	**Share of earnings from investments in joint ventures**	**Total**
Rental income	7,119	2,406	**9,525**	6,593	3,201	**9,794**
Property operating cost recoveries	1,554	648	**2,202**	2,162	863	**3,025**
Property operating costs	(1,279)	(661)	**(1,940)**	(1,847)	(812)	**(2,659)**
Other revenues	84	4	**88**	-	4	**4**
Other property operating expenses	(79)	(10)	**(89)**	(184)	(43)	**(227)**
Net rental income	**7,399**	**2,387**	**9,786**	**6,724**	**3,213**	**9,937**
Administration expenses	(2,110)	(483)	**(2,593)**	(1,627)	(493)	**(2,120)**
Foreign exchange gain	(845)	-	**(845)**	(29)	-	**(29)**
Net change in fair value of investment properties	(2,288)	(1,308)	**(3,596)**	(1,577)	(112)	**(1,689)**
Gain on disposal of investment properties	-	-	**-**	42	-	**42**
Share of net income (loss) from joint ventures	(849)	849	**-**	(369)	369	**-**
Operating income	**1,307**	**1,445**	**2,752**	**3,164**	**2,977**	**6,141**
Gain (loss) on financial instruments at fair value through P&L	85	(1)	**84**	(707)	5	**(702)**
Finance income	1,911	(1,022)	**889**	2,131	(1,308)	**823**
Finance costs	(2,608)	(409)	**(3,017)**	(2,503)	(894)	**(3,397)**
Additionna loss from Arcueil's JV	-	-	**-**	-	(728)	**(728)**
Distributions on Exchangeable securities	(203)	-	**(203)**	(178)	-	**(178)**
Net change in fair value of Exchangeable securities	(1,727)	-	**(1,727)**	319	-	**319**
Net change in fair value of Promissory notes	(8,050)	-	**(8,050)**	1,034	-	**1,034**
Income (loss) before income taxes	**(9,285)**	**13**	**(9,272)**	**3,260**	**52**	**3,312**
Current income tax expense	(40)	-	**(40)**	(78)	9	**(69)**
Deferred income tax expense	(65)	(13)	**(78)**	(116)	(61)	**(177)**
Net income (loss)	**(9,390)**	**-**	**(9,390)**	**3,066**	**-**	**3,066**
Non-controlling interest	(5)	-	(5)	39	-	39
Net income (loss) attributable to the Trust	**(9,385)**	**-**	**(9,385)**	**3,027**	**-**	**3,027**

(1) P&L amounts presented for the REIT were taken respectively from the interim consolidated financial statements as at June 30, 2020 and June 30, 2019.

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

	Six months ended					
	June 30,2020			June 30, 2019 as restated		
(in thousands of CAD$)	**Amounts per REIT's financial statements (1)**	**Share of net earnings from investments in joint ventures**	**Total**	**Amounts per REIT's financial statements (1)**	**Share of earnings from investments in joint ventures**	**Total**
Rental revenue	13,997	4,765	**18,762**	12,636	6,417	**19,053**
Property operating cost recoveries	3,125	1,376	**4,501**	4,595	1,653	**6,248**
Property operating costs	(5,450)	(1,814)	**(7,264)**	(7,360)	(2,200)	**(9,560)**
Other revenues	87	122	**209**	-	25	**25**
Other property operating expenses	(113)	(6)	**(119)**	(242)	(60)	**(302)**
Net rental income	**11,646**	**4,443**	**16,089**	**9,629**	**5,835**	**15,464**
General and Administration expenses	(4,352)	(1,035)	**(5,387)**	(3,399)	(1,027)	**(4,426)**
Foreign exchange gain	1,803	-	**1,803**	-	-	**-**
Net change in fair value of investment properties	(586)	(1,212)	**(1,798)**	743	370	**1,113**
Loss on disposal of investment properties	-	-	**-**	(56)	-	**(56)**
Share of net income (loss) from joint ventures	(666)	666	**-**	544	(544)	**-**
Operating income	**7,845**	**2,862**	**10,707**	**7,461**	**4,634**	**12,095**
Net change in fair value of financial derivatives	207	8	**215**	(1,628)	(19)	**(1,647)**
Finance income	4,175	(2,026)	**2,149**	4,147	(2,639)	**1,508**
Finance costs	(5,076)	(780)	**(5,856)**	(5,024)	(1,379)	**(6,403)**
Additionnal loss from Arcueil's JV	-	-	**-**	-	(434)	**(434)**
Distributions on Exchangeable securities	(392)	-	**(392)**	(355)	-	**(355)**
Net change in fair value of Exchangeable securities	2,579	-	**2,579**	(330)	-	**(330)**
Net change in fair value of Promissory notes	13,703	-	**13,703**	(2,427)	-	**(2,427)**
Income before income taxes	**23,041**	**64**	**23,105**	**1,844**	**163**	**2,007**
Current income tax expense	(49)	(16)	**(65)**	(127)	(11)	**(138)**
Deferred income tax expense	(283)	(48)	**(331)**	(728)	(152)	**(880)**
Net income	**22,709**	**-**	**22,709**	**989**	**-**	**989**
Non-controlling interest	6	-	6	7	-	7
Net income attributable to the Trust	**22,703**	**-**	**22,703**	**982**	**-**	**982**

- **Normal course issuer bid**

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

The number of units that can be purchased pursuant to the NCIB is subject to a current daily maximum of 20,890 Units (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, were permitted.

The REIT intends to purchase a portion of its outstanding Units from time to time with the appropriate use of available resources and in the best interest of the REIT and its unitholders.

During the three months ended June 30, 2020, the REIT acquired 510,500 units for $3,701 at a weighted average price of $7.25 per unit. As at June 30, 2020, 189,900 of the 510,500 units were cancelled and the residual of 320,600 units were cancelled subsequently. The share repurchased resulted in a reduction of Trust Units representing the average book value of $4,582 and an increase in retained earnings of $866.

On June 29, 2020, the REIT entered into an automatic purchase plan for a broker to repurchase a daily maximum of 20,890 units at a maximum price of $8.00 per unit, for the period of June 30 to August 14, 2020. A liability of $167 has been recorded and included within Trade and Other Payables.

- **Unit-based compensation plan**

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

The DSU Plan allows the Board of Trustees to grant DSUs to its senior officers at the Board's discretion ("Granted DU"). The Granted DU will vest 1/3 over each anniversary date from date of grant over three years.

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

As of June 30, 2020, 38,691 DSUs are outstanding and 161,309 DSUs are available for grant under the DSU Plan.

For the three months ended June 30, 2020, the REIT recorded an expense of $129 and a liability in the same amount within Trade and Other Payables.

- **Distribution Reinvestment Plan**

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

- **Equity**

Management's discussion about equity is inclusive of exchangeable securities and the private placement promissory 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 June 30, 2020 the REIT has 28,369,343 Units issued and outstanding, including 4.835 million Units issued in the December 2019 public equity offering.

In Q2 2020, 189,900 Units were cancelled pursuant to the broker agreement related to the NCIB approved in April.

	Three months period ended June 30, 2020	Six months period ended June 30, 2020
Units		
Number at beginning of period	28,846,473	28,742,306
Increase/(Decrease) in number during the period	(518,579)	(518,579)
Units issued pursuant to the DRIP	41,449	145,616
Number at end of period	28,369,343	28,710,833
Weighted average number during the period	28,845,913	28,809,832
Exchangeable securities		
Number at beginning of period	965,911	897,082
Increase in number during the period	49,234	118,063
Number at end of period	1,015,145	1,015,145
Weighted average number during the period	965,911	931,497
Promissory notes		
Number at beginning of period	4,494,301	4,494,301
Number at end of period	4,492,319	4,492,319
Weighted average number during the period	4,494,192	4,494,247
Units, Exchangeable securities and Promissory notes		
Number at beginning of period	34,306,685	34,133,689
Increase/(Decrease) in number during the period	(427,896)	(254,900)
Number at end of period	33,876,807	34,218,297
Weighted average number during the period	34,306,016	34,235,576

The 28,369,343 units as at June 30, 2020 reflect the pending cancellation of 320,600 and 20,890 units which has no impact on the weighted average number of units during the period.

- **Distribution and management of foreign exchange risk**

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

Contracts Maturing by Quarter	Hedge Value (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
	31,695,095	

To mitigate risk of foreign exchange fluctuations on the distributions to our Unitholders, we have established an active foreign exchange hedging program. As at June 30, 2020, the REIT was committed to sell EUR782(on average) at an average rate of 1.6621 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 1.5124. Volumes and agreed-upon exchange rates are listed in the above table.

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

SUBSEQUENT EVENTS

- **Rueil acquisition loan**

Subsequent to the quarter, on July 30, 2020, the REIT has received a partial reimbursement of CAD$18.9 million (EUR12.4 million) from the initial amount of CAD$26,180 (EUR17,166) acquisition loan.

- **Stuttgart**

On July 17, 2020, the REIT signed a brokerage mandate with Savills for the sale of the Stuttgart asset (held in a 50% joint venture), with a base price higher than June 30th JLL's valuation. Savills has begun active marketing of the asset, for a sale anticipated by year-end.

- **Walpur (Bad Homburg)**

Subsequent to the quarter, on July 27th, the REIT entered into an agreement with its joint venture partner to buy-back the 50% interest held in Bad Homburg property. Total purchase price of EUR5,873 (CAD$8,957) including 50% share capital and receivables, is based on Q2 2020 asset valuation of EUR22,900 (CAD$34,924; REIT share of CAD$17,462) as per latest external appraisal. The transaction is expected to close on or before September 30, 2020 and is in line with REIT strategy to buy-back joint ventures to simplify ownership structure.

- **Arcueil**

The REIT has elected to defer the interest and principal payments due in period ending June 30 in respect of its outstanding lease liability due 2027. The interest is due nine months after the agreement and the principal will be paid over the remaining term of the lease. The next payment will be on July 8, 2020.

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