INOVALIS

REAL ESTATE INVESTMENT TRUST

CONTENTS

All amounts in the MD&A are presented in thousands of Canadian dollars or 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 11, 2021.

LETTER TO UNITHOLDERS

While most European countries are accelerating the vaccination of their populations and exiting from lockdown, Inovalis REIT continues to demonstrate the resilience of its business model by collecting rents and retaining its tenants throughout the global crisis.

Importantly, the recently concluded Strategic Review process validated a « Core + » strategy and asset recycling program to optimize value for Unitholders. The REIT will be deploying most of its investment capital in "core and core+" assets that meet the REITs investment criteria and that are accretive to AFFO/unit on a leverage neutral basis, primarily in France and Germany.

It will also consider investing up to 15% of total assets in other continental European markets such as Spain, where Inovalis S.A., the REIT's asset manager, currently has operations and expertise.

The Strategic Review findings underscored the manager's strong track record of identifying and capitalizing on value in mature assets in Paris and Germany. This was confirmed by expressions of interests from third parties into individual assets from the REIT's portfolio that have provided market validation of this intrinsic value.

To allow investors to participate in the REIT's asset sales that achieve profit in excess of the fair market value, the REIT launched a participatory distribution program ("Participatory Distribution") on June 7, 2021. This program pays out to Unitholders 50% of the excess profit over fair market value generated from asset dispositions. The REIT has quantified the portion of its current balance sheet cash attributable to such profits as approximately million - generated by the sale of the Vanves and Rueil properties - and paid out a special participatory distribution of CAD$10 million ($0.31 per unit) on July 15, 2021, in addition to the regular June distribution.

The REIT is developing plans for additional properties to be included in the asset recycling program. Recently, a CAD$105 million commitment to sell the Jeuneurs asset in Paris was signed, subject to the City Hall preemption right, a disposition value which is in excess of the fair market value. Closing would occur by mid-December 2021 at the latest.

The Strategic Review process addressed the sustainability of the REIT's distributions to Unitholders, based on current cash flow stability and deployment of the capital on its balance sheet for accretive acquisitions and concluded that the current $0.06875 regular monthly distribution should remain in place for the foreseeable future, in line with the following goals and priorities for the REIT:

- Reducing normalized AFFO payout ratio <95% in 12 months and <85% within three years,
- Achieving three-year average AFFO/unit growth of 2-3% per year, and
- Evaluating the asset recycling program profit distributions over a three-year period with the goal of increasing the payout by a minimum of 10% annualized.

Following the two-year renewal of the management agreement on April 1st this year, the Board of Trustees renewal initiative has brought about the election of three new highly qualified, independent Trustees to join two incumbents. The smaller Board, reduced in size from eight Trustees to five, will have a favorable impact on the general and administrative expenses. Marc Manasterski and I will ensure continuity and the preservation of institutional knowledge at the REIT; Mike Bonneveld, Laetitia Pacaud and Robert Waxman will bring us new energy and a breadth of skills and experience.

The new Board of Trustees, together with management, will remain focused on operating fundamentals, managing the properties, supporting tenants, maintaining bank relationships, and delivering results to our Unitholders. And we are ready to start our disciplined approach to deploying capital in 2021, with focus on the REIT's new strategy.

I am confident in our capacity to manage any challenges and opportunities ahead of us.

I look forward to sharing the next steps of our « Core + » strategy in the coming quarters.

Stéphane Amine
President of Inovalis Real Estate Trust

HIGHLIGHTS

Net Rental Income

For the portfolio that includes only assets owned entirely by the REIT ("IP Portfolio"), net rental income for the three months ended June 30, 2021 ("Q2 2021"), adjusted for IFRIC 21 – Levies ("IFRIC 21")[1], was CAD$6,131 (EUR4,079), compared to CAD$6,683 (EUR4,444) adjusted net rental income for the three months ended June 30, 2020 ("Q2 2020"). The decrease of CAD$552 is mainly attributable to the bad debt provision of $379 incurred on the Metropolitain property for the early departure of a tenant. A credit note of CAD$118 arising from a negotiated agreement with the main tenant on the Baldi property partially offsets the loss. The space made available from this vacancy at Metropolitain will be leased at a higher rental value.

In Q2 2021 net rental income adjusted for IFRIC 21 for the portfolio that includes the REIT's proportionate share in joint ventures ("Total Portfolio"), was CAD$8,084 (EUR5,378), compared to CAD$8,964 (EUR5,961) for Q2 2020, mainly attributable to the factors described in the previous paragraph plus the CAD$73 impact of the vacancy in the Duisburg property.

To date, 84.2% of the REIT's wholly controlled properties and 91.1% of the total portfolio are leased on a long-term basis to high-credit quality tenants. The weighted average lease break option of the Total Portfolio stands at three years. Leasing inquiries from prospective tenants increased notably in Q2 2021.

COVID-19 Related Business Update

Management continuously monitors market conditions, adapting its operations to the measures taken by European governments and health officials to protect public health. Management is confident in the strength of its portfolio, as indicated by Q2 2021 results. Quarterly rent collection for Q2 2021 was strong. Management's forecast for subsequent quarters of 2021 reflects the possibility of short-term downward pressure on rental revenue as the COVID-19 pandemic may necessitate additional lockdown measures causing economic disruption.

Rent collection

Rent for the French assets is invoiced and collected on a quarterly basis and 95% of rent has been received to date for Q2 2021. This is generally in line with the timing and percentage of pre-COVID-19 rent collection levels with a few minor exceptions.

For the REIT's German properties, rents are collected monthly and nearly 100% of rent was received in Q2 2021.

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

Leasing Operations

In the REIT's Total Portfolio, nearly 10,000 sq. ft. of office space have been secured through lease maturity extensions on the Baldi and Pantin properties. On the Bad Homburg property, one lease on 37% vacant space is being finalized and is expected to be signed before the end of Q3. On the Duisburg property, the lease for the vacant 7th floor is also being finalized and should increase occupancy rate to 100% before the end of Q3. Efforts continue to lease unoccupied space (162,690 sq. ft., 12.5% of total weighted areas) in the portfolio. Management will selectively complete capital expenditure improvements on vacant areas to attract tenants and maximize rent.

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

Adjusted Funds from Operations ("AFFO").

The REIT follows the recommendations of the Real Property Association of Canada ("REALPAC") (February 2019 white paper) with certain exceptions. Refer to the *Non-GAAP Financial Measures* section of this MD&A for a more detailed discussion on FFO and AFFO.

In Q2 2021, the REIT reported Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO)" were CAD$0.13 and CAD$0.13 per Unit respectively, versus CAD$0.16 and CAD$0.15 for the same period last year. As economic recovery is gradually restored in the Paris and German markets and the REIT's Strategic Review has been completed, management is launching plans to deploy the CAD$55 million earmarked for acquisitions of income-generating assets since 2020.

Financing Activity

The REIT is financed almost exclusively with asset-level, non-recourse financing with an average term to maturity of 5.0 years.

As at June 30, 2021, the weighted average interest rate across the IP Portfolio debt was 2.02% and the debt ratio was 41.3% (35.7% net of cash), comfortably within the REIT's mandated threshold of 60%.

For the same period, the REIT had CAD$58.2 million of cash on its consolidated balance sheet.

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

Bad Homburg

The contribution of the Bad Homburg property to the six-month net rental income represented CAD$603, an increase of CAD$55 compared to the same period in 2020. The REIT acquired the other 50% ownership of this asset in October 2020 which had a 48% vacancy in Q2 2021. A new lease is being finalized on 37% of the property area for a firm seven-year period (plus 5 optional).

Jeuneurs

Subsequent to the quarter end, as part of the new asset recycling program, the REIT signed an agreement to sell the asset on July 27, 2021 for a total amount of CAD$104.7 million (EUR71.2 million), excluding closing costs, with a Paris-based investor specialized in the repositioning of Central Business District assets, with the goal of closing the transaction by December 15, 2021. The transaction is backed by a CAD$10.47 million (EUR7.12 million) deposit, of which CAD$5.2 million (EUR3.56 million) was received on the day of signing under the unilateral commitment to sell, which will be applied against the selling price of the property at the transaction date. Although there is no financing nor building condition as per this contract, the closing is subject to the non-execution by the Paris City Hall of its preemption right. The closing has been scheduled on December 15 at the latest, for the buyer to structure its financing of the acquisition and construction costs. This price, above fair market value, is driven by the scale of this downtown Paris redevelopment project envisioned by the buyer.

Courbevoie (Veronese)

The sale of the Courbevoie asset is conditionally scheduled to be completed by the end 2021 at a price of CAD$40 million (EUR27.2 million). The disposition is contingent on the buyer obtaining a building permit and the seller vacating the asset (costs estimated to CAD$1.2 million) by the end of the year, each acting at their own expense. The building permit application was filed in June by the buyer and an initial review of the application is expected by September 2021. Given the uncertainty related to the conditions attached to the commitment to sell, the Courbevoie property still does not qualify for the presentation as an asset held for sale as of June 30, 2021.

Duisburg

On April 19, 2021, management signed a two-year extension of the Joint Venture Agreement ("JVA") with the partner in the Duisburg property, maturing on December 31, 2022. This extension together with the mortgage loan agreement maturing in June 2023, now enables management to proceed with leasing plans for the 7th floor of the property. A new lease for this space is under final negotiation with a prospective tenant for a firm 5-year term.

Cologne

On June 29, 2021, the REIT sold its 6% interest in Cologne and the balance of its interest-bearing loan with Cologne to a related party, SC Advenis IMMO Capital, for a total consideration of CAD$963 (EUR655). The REIT recognized a loss on sale of CAD$108 (EUR73) mainly relating to the disposition costs. This sale is in line with management's commitment to simplify the legal structure of the REIT by selling the properties held in joint ventures or by buying back their share from the joint venture partners.

Management Agreement Renewal

The renewed two-year Management Agreement with Inovalis S.A. became effective on April 1, 2021.

See "*Related Party Transactions - Extension of Management Agreement effective April 1, 2021*" in this MD&A, and a full copy of the Fourth Amended and Restated Management Agreement is available on SEDAR.com.

Capital Market Considerations

The REIT has reliably maintained returns to Unitholders, continuing to pay a stable, attractive distribution. With an average trading price of CAD$9.93 in Q2 2021, Inovalis REIT provides a very attractive investment opportunity for investors who understand the long-term value of quality real estate in strategic European locations, all the more as the current Unit price still represents a significant discount of the underlying net asset value. The REIT's Unitholders' equity on June 30, 2021, was CAD$347,241, which implies a Unit price at that date of CAD$10.72/Unit or CAD$10.68/Unit on a fully diluted basis.

In addition, the REIT has started the participatory distribution ("Participatory Distribution") program which was initiated with a special distribution of CAD$10 million paid in addition to the regular monthly distribution on July 15, 2021. The Participatory Distribution was based on 50% of the cash attributable to sales over IFRS fair market value on the Vanves and Rueil properties and was CAD$0.307 per unit.

With its substantial cash reserve, the REIT is well positioned to opportunistically invest in new assets as the real estate sector and European economy stabilizes. Several operational and value add opportunities are in the outlook for the remainder of 2021 and beyond.

SIF conversion

On June 30, 2021, the REIT completed the process of restructuring Luxembourg holding company ("Luxco") into a Specialized Investment Fund within the meaning of the Luxembourg law of 13 February 2007 ("SIF"). This restructuring is not expected to result in material Canadian or foreign tax consequences; however, no assurance can be given that the CRA or a foreign tax authority will not challenge certain positions taken by the REIT and the REIT's subsidiaries in connection with the restructuring of Luxco.

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OVERVIEW – GAAP AND NON-GAAP

The REIT has identified specific key performance indicators to measure the progress of its long-term objectives. These are set out below:

	June 30, 2021		December 31, 2020	
Operating metrics	**IP Portfolio**	**Total Portfolio**	**IP Portfolio**	**Total Portfolio**
Number of properties	8	13	8	14
Gross leasable area (sq. ft.)	1,026,940	1,449,325	1,026,940	1,453,255
Weighted occupancy rate - end of period (1)	84.2%	86.2%	89.3%	90.3%
Weighted average lease term	2.9 years	3.4 years	3.1 years	3.6 years
Average initial yield (2)	4.9%	5.0%	4.9%	5.1%
Capital management metrics	**IP Portfolio**	**Total Portfolio**	**IP Portfolio**	**Total Portfolio**
Available liquidity (3)	$58,226	$62,237	$80,376	$84,189
Fair value of investment properties	$520,354	$667,640	$541,218	$701,458
Level of debt (debt-to-book value) (3)	41.3%	47.3%	42.3%	48.3%
Level of debt (debt-to-book value, net of cash) (3)	35.7%	42.5%	35.0%	42.3%
Weighted average term of principal repayments of debt	5.0 years	4.5 years	5.4 years	4.9 years
Weighted average interest rate (4)	2.02%	1.95%	2.03%	1.95%
Interest coverage ratio (5)	2.5 x	2.9 x	3.5 x	3.7 x

(1) Calculated on weighted areas (activity, storage and inter-company restaurant areas) being accounted for only a third of their effective areas, because of their lower rental value.

(2) Calculated on annualized net rental income (based on net rental income for the year-to-date period).

(3) See the section *"Non-GAAP Financial Measures"* on page 46 for more information on the REIT's non-GAAP financial measures and reconciliations thereof. Non-GAAP measures do not have standardized meaning under IFRS. These measures as computed by the REIT may differ from similar computations as reported by other entities and, accordingly, may not be comparable to other entities.

(4) Calculated as the weighted average interest rate on lease liabilities and mortgage financing.

(5) Calculated as net rental income plus interest income, less administrative expenses, divided by interest expenses on the lease liabilities and mortgage financing

(thousands of CAD$ except per Unit and other data)	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Financial performance metrics				
Rental revenue	6,871	7,119	14,291	13,997
Rental revenue - Total Portfolio (1)	8,967	9,525	18,497	18,762
Net rental income	6,918	7,399	11,356	11,646
Net rental income - Total Portfolio (1)	8,976	9,786	15,073	16,089
Net income for the period, attributable to the Trust	9,247	(9,385)	13,411	22,703
Funds from Operations (FFO) (2)	4,295	5,418	8,434	10,898
Adjusted Funds from Operations (AFFO) (2)	4,327	5,210	8,072	9,349
FFO per Unit (diluted) (2) (3)	0.13	0.16	0.25	0.32
AFFO per Unit (diluted) (2) (3)	0.13	0.15	0.24	0.27
Distributions				
Declared distributions on Units and Exchangeable sec.	16,851	6,140	23,764	12,271
Declared distributions on Units and Exchangeable sec. & Promissory notes	16,851	7,045	23,764	14,049
Declared distributions on Units and Exchangeable sec. & Promissory notes, excluding Participatory Distribution	6,904	7,045	13,817	14,049
Declared distribution per Unit, including Participatory Distribution	0.51	0.21	0.72	0.41
Declared distribution per Unit, excluding Participatory Distribution	0.21	0.21	0.41	0.41
FFO payout ratio (2)	160.7%	130.0%	163.8%	128.9%
AFFO payout ratio (2)	159.5%	135.2%	171.2%	150.3%

(1) See the section *"Non-GAAP Financial Measures"* on page 46 for more information on the REIT's non-GAAP financial measures and reconciliations thereof. Non-GAAP measures do not have standardized meaning under IFRS. These measures as computed by the REIT may differ from similar computations as reported by other entities and, accordingly, may not be comparable to other entities.

(2) Excluding Participatory Distribution. The reconciliation of FFO and AFFO to earnings can be found under the section Non-GAAP Reconciliation (FFO and AFFO).

(3) Based on the diluted weighted average number of Units, Exchangeable securities and Promissory Notes (in 2020 only).

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 unaudited condensed interim consolidated financial statements as at June 30, 2021 and for the three- and six-month periods ended June 30, 2021 and 2020. These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB").

Dollar amounts in this MD&A are presented in thousands of Canadian dollars and Euros, except rental rates, per Unit amounts or as otherwise stated.

Historical results, including trends which might appear in this MD&A, should not be taken as indicative of future operations or results. See *"Forward-Looking Information"* for further details. Information contained in this MD&A, including forward-looking information, is based on information available to management as of August 11, 2021.

Additional information about Inovalis REIT has been filed with applicable Canadian securities regulatory authorities and is available at sedar.com.

FORWARD-LOOKING INFORMATION

Although management believes that the expectations reflected in the forward-looking information are reasonable, no assurance can be given that these expectations will prove to be 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) the ability to continue to receive financing on acceptable terms;
(ii) the future level of indebtedness and the REIT’s future growth potential will remain consistent with current expectations;
(iii) there will be no changes to tax laws adversely affecting the REIT’s financing capability, operations, activities, structure, or distributions;
(iv) the REIT will retain and continue to attract qualified and knowledgeable personnel as the portfolio and business grow;
(v) the impact of the current economic climate and the current global financial conditions on operations, including the REIT’s financing capability and asset value, will remain consistent with current expectations;
(vi) there will be no material changes to government and environmental regulations that could adversely affect operations;
(vii) conditions in the international and, in particular, the French and German real estate markets, including competition for acquisitions, will be consistent with past conditions;
(viii) capital markets will provide the REIT with readily available access to equity and/or debt financing; and
(ix) the impact the COVID-19 pandemic will have on the REIT’s operations, the demand for the REIT’s properties and global supply chains and economic activity in general.

The REIT cautions that this list of assumptions is not exhaustive. Although the forward-looking statements contained in this MD&A are based upon assumptions that management believes are reasonable based on information currently available to management, there can be no assurance that actual results will be consistent with these forward-looking statements.

When relying on forward-looking statements to make decisions, the REIT cautions readers not to place undue reliance on these statements, as forward-looking statements involve significant risks and uncertainties. Forward-looking statements should not be read as guarantees of future performance or results and will not necessarily be accurate indications of whether or not, or the times at or by which, such performance or results will be achieved. A number of factors could cause actual results to differ, possibly materially, from the results discussed in the forward-looking statements, including, but not limited to:

- the REIT’s ability to execute its growth and capital deployment strategies;
- the impact of changing conditions in the European office market;
- the marketability and value of the REIT’s portfolio;
- changes in the attitudes, financial condition and demand in the REIT’s demographic markets;
- fluctuation in interest rates and volatility in financial markets;
- the duration and ultimate impact of the COVID-19 pandemic and related government interventions on the REIT’s business, operations and financial results;
- general economic conditions, including any continuation or intensification of the current economic downturn;
- developments and changes in applicable laws and regulations; and
- such other factors discussed under ‘‘Risk Factors and Uncertainties’’ in this MD&A.

If any risks or uncertainties with respect to the above materialize, or if the opinions, estimates or assumptions underlying the forward-looking statements prove incorrect, actual results or future events might vary materially from those anticipated in the forward-looking statements. The opinions, estimates or assumptions referred to above and described in greater detail under ''Risks and Uncertainties'' should be considered carefully by readers. Although management has attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other risk factors not presently known or that management believes are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking statements.

Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Certain statements included in this MD&A may be considered a ''financial outlook'' for purposes of applicable Canadian securities laws, and as such, the financial outlook may not be appropriate for purposes other than this MD&A. All forward-looking statements are based only on information currently available to the REIT and are made as of the date of this MD&A. Except as expressly required by applicable Canadian securities law, the REIT assumes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All forward-looking statements in this MD&A are qualified by these cautionary statements.

MARKET AND INDUSTRY DATA

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

BUSINESS OVERVIEW AND STRATEGY

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

The REIT's long-term objectives are to:

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

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

Special Committee to Review Strategic Alternatives

The strategic review process which concluded in early June 2021, was overseen by a special committee of independent members of the Board of Trustees (the "Special Committee"), with assistance from independent financial and legal advisors. The Special Committee ultimately determined that it was in the best interest of the REIT and its unitholders to pursue a strategy as more particularly described below that it had developed in conjunction with management during its review process (the "Strategic Plan"). The REIT intends to pursue the following investment strategy:

Cash Deployment

• Invest in "core and core+" assets that meet the REIT's investment criteria and that are accretive to AFFO/unit on a normalized leverage neutral basis of 50% primarily in France and Germany, and

• Consider investing up to 15% of total assets in other continental European markets such as Spain, where the manager currently has operations and expertise.

Structure

• By the end of 2022, either acquire or dispose of current joint ventures in accordance with their respective agreements in an attempt to simplify its corporate structure and governance. The REIT's preference will be to acquire new properties as wholly-owned assets.

FOREIGN CURRENCY ENVIRONMENT

The REIT's current asset base is located in France and Germany. Items included in the financial statements of each of the REIT's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the REIT's subsidiaries and joint ventures is the Euro, whereas the functional currency of the Trust, as well as its presentation currency, is the Canadian dollar. As such, although the REIT's main assets and liabilities are denominated in Euros, the REIT's financial results are translated into Canadian dollars for presentation purposes as follows:

- Assets and liabilities are converted to CAD$ at the closing rate at the date of the balance sheet;
- Items presented in the consolidated statement of earnings, consolidated statement of comprehensive income and consolidated statement of cash flows are translated at average exchange rates during the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income, expenses and cash flows are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognized in other comprehensive income and recognized as a cumulative translation adjustment account in "Accumulated other comprehensive income" in equity.

A change in the EUR/CAD foreign exchange rate therefore may have a material impact on the REIT's financial statements and results.

The exchange rate used throughout this MD&A for statement of earnings items is the average rate during the applicable period, which for the period ended June 30, 2021 and 2020 is CAD$1.5032 and CAD$1.5037, respectively.

For balance sheet items as at June 30, 2021, projections, or market data, the exchange rate used is CAD$1.4702 (CAD$1.5555 as at December 31, 2020).

Over the first semester ended June 30, 2021, the Canadian dollar strengthened by approximately 5.5% relative to the Euro.

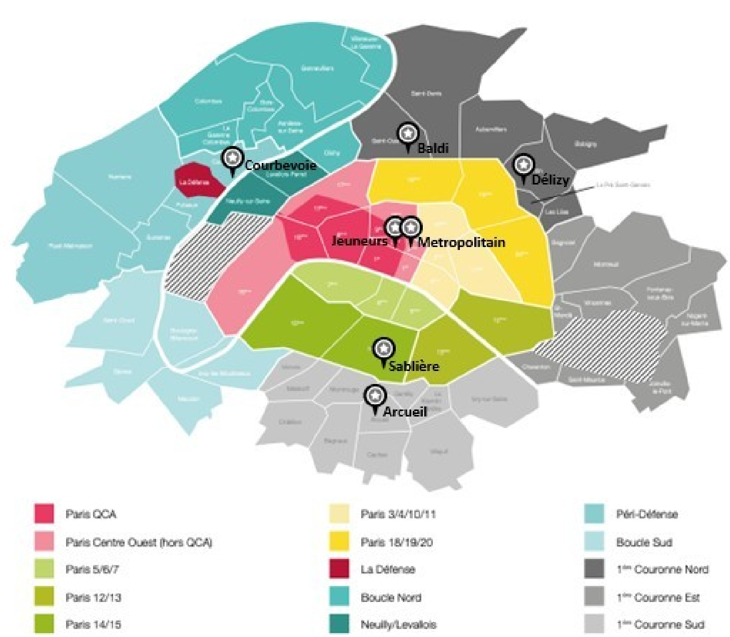
BUSINESS ENVIRONMENT[1]

Inovalis REIT owns varying interests in real estate entities which hold investment properties. Under IFRS, some of these interests are recorded as equity-accounted joint ventures. As at June 30, 2021, the REIT's property portfolio consists of ownership interests in eight properties that are consolidated and included in "Investment properties" ("IP") on the balance sheet, and partial ownership interests in five properties that are included within "Investments in joint ventures". As such, the results of these equity-accounted investments are not included in certain of our consolidated financial and operating metrics, unless specifically indicated that such metrics are presented on a "Total Portfolio" basis in which case such results are prepared on a proportionate share basis.

Together, the REIT's share of these 13 properties (7 located in France and 6 located in Germany) is approximately 1.5 million square feet of gross leasable area ("GLA")

France

Investment Market in France



Paris Property Locations:

Central Business District
- Jeuneurs (IP)
- Metropolitain (IP)

Paris - Montparnasse Area
- Sablière (IP)

La Defence Periphery
- Courbevoie (IP)

Northeastern Periphery
- Délizy / Pantin (joint venture)

Northern Inner Rim of Paris
- Baldi / St Ouen (IP)

Southern Inner Rim of Paris
- Arcueil (IP)

Economic growth in France, which was initially estimated at +0.4% for Q1 2021, was actually -0.01% as both activity and investment recovery in the construction sector was considerably lower than expected. Household confidence, which reached a low point in November 2020, moved above the long-term average in June for the first time since the start of the pandemic. This optimism was also reflected in the Business Climate and the Market Composite PMI (purchasing manager index) which both posted considerable increases in June. The unemployment rate stabilized at 8.1% of the active population over Q1 2021 (additional 18,000 jobseekers, +0.1 point)

Following a Q1 year-over-year decrease (-21%), the capital rallied over Q2 (+35% in 3 months). A cumulative volume of over 3.2 million sq. ft. was therefore recorded here (+24% year on year) over the last 6 months, or 39% of the overall volume seen across the wider region. After a moderate increase over Q1 (+1.1million sq. ft.), a more substantial hike in

[1] Sources: CBRE research and reports / BNP Real Estate research / JLL études et recherches

immediate supply was recorded over Q2 (+2.4 million sq/ ft.) taking the overall volume to over 40 million sq. ft. With an overall stock of close to 600 million sq. ft., this represents a vacancy rate of 7.3%. This increase, which is partly due to releases following the third lockdown, is also the result of a substantial volume of new building delivery.

There was a year-over-year increase in incentives with an average of 23% for the Greater Paris Region at the end of Q1 2021. These incentives currently range from an average of 14% in Paris, to around 29% in La Défense and the Western Crescent and from 23% to 27% in the Inner and Outer Suburbs.

In a climate where the investment market is becoming increasingly selective, investors are seeking to protect the market values of their assets by maintaining rental conditions (transaction rents and lease terms), even if it means granting more substantial rent-free periods and even in Paris. Offices were the most sought-after assets by far with CAD$6.75 billion in investments over Q1 and Q2 2021 accounting for an 87% market share.

Despite the slowdown in investments over Q2, the market remains optimistic due to the economic upturn, the vaccination campaign reaching an advanced stage and the continued low-interest-rate climate with controlled inflation which is making real estate an attractive asset class.

The strong international activity seen over Q2 should continue. Globally, the volume of capital that is ready to be deployed remains very healthy at 9.3% of the total assets under management according to INREV. The latest INREV survey reveals that investor confidence is high with the majority of investors planning to increase their real estate allocations. French capital will also be available with further receipts from SCPI and OPCI and life insurance.

Office Market in France

After a tumultuous 2020, office transactions in the greater Paris region are showing some signs of improvement in the first half of 2021 however, they are still far from pre-pandemic levels and remain below the long-term average. In the first half of 2021, leasing totaled 8.2 million sq. ft. i.e., +14% year-over-year (due to restricted business activity in Q2 2020) which is still 28% lower than the 10-year average.

Tenants are seeking central locations, which explains the strong performance in Paris Centre West, and in Paris city in general. Large tenants are selecting smaller, high-quality units that are adapted to hybridized working modes and the increase in remote working. Some sectors such as La Défense have consequently managed to do very well. Due to its high-quality assets and attractive prices, leasing in La Défense has now surpassed its long-term average (+18%), totaling 630 000 sq. ft. Following the trend of previous quarters, vacancy continued to rise by +5.7% compared with the previous quarter; it has now surpassed the 40 million sq. ft. threshold. As a result of several office construction project completions, vacant space has risen, and the share of new/refurbished space increased to 29%.

While investors and developers are waiting to see how the context evolves, probable future supply fell by 3.5% in Q2 to 29 million sq. ft.. The number of building permits submitted and projects in progress have both dropped. Average prime rents continue to increase in Paris Centre West (rising from CAD$1,300 in Q1 2021 to CAD$1,314 in Q2 2021), La Défense (CAD$778 at the end of June 2021, versus CAD$706 three months earlier) and the Western Crescent (to CAD$777, i.e., a 9.3% increase). Average weighted rent in the greater Paris region remains particularly stable at CAD$494/sq m. Yet, downward pressure continues for lesser quality buildings and/or those located in less sought-after locations. Focused on maintaining headline rents, owners are concentrating on leasing incentives. Since the start of the crisis, incentives have generally increased to an average of 24% of the cumulated rent over the firm lease term in the greater Paris region for transactions >10,000 sq. ft. (Q2 2021) and terms of at least 6 years. There are also major geographical discrepancies where incentives are concerned. These are closely correlated to the available space in each sector, rising from 13% in Paris Centre West (excl. the Central Business District) to 28% in La Défense.

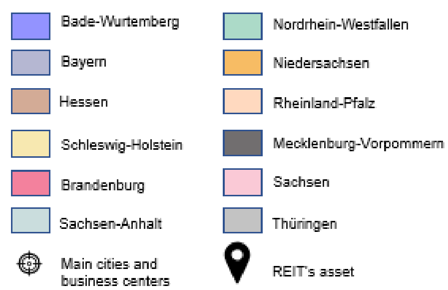
The initial signs of an office market recovery indicate a slow but progressive rebound. Although French growth in the first half of 2021 has remained relatively stagnant (around 1%), the latest forecasts are cause for optimism as they indicate that the GDP growth may reach +5% in the second half of 2021.

The health crisis will also have long-term repercussions on tenant expectations. The crisis has accelerated major structural changes to the office leasing market. Companies and employees have high expectations: they are currently seeking quality buildings and modular spaces that are able to adapt to hybrid working modes. However, the reconfiguration of office space and working methods should not have an undue impact on the market.

Germany

Germany property locations

- Trio - Frankfurt (IP[1])
- Bad Homburg - Frankfurt (IP)
- Duisburg - Düsseldorf (joint venture)
- Stuttgart (joint venture)
- Arrow / Neu-Isenburg - Frankfurt (joint venture)
- Kösching - Ingolstadt (joint venture)



1. The REIT owns 94.9% of this asset.

Investment Market in Germany

As the COVID-19-related lockdown came to an end, almost all economic indicators turned positive again and economic activity picked up momentum in Germany. Although a fourth wave of infections is being forecasted, the situation seems more stable than before because of the high vaccination rate that has since been achieved.

After falling by over 40% in the first quarter of this year, the German investment market showed some improvement in the past three months. At the end of the first half of 2021, the total transaction volume including residential ("Living") real estate amounted to CAD$51.2 billion, which was "only" 20% lower compared to 2020.

The office segment again accounted for a 29% share of the transaction volume in the first half of the year, generating around CAD$15 billion. It is notable that nine of the ten largest office transactions in the first half of the year took place in Q2.

Yield compression has continued for office properties. Properties rented on a long-term basis to tenants with good credit ratings, and in a very good location with ESG-compliant criteria, continue to attract high demand. Investors still believe in office property as a product. Yet, they are looking at properties more attentively than before and are reacting proactively to trends and developments relating to home working and sustainability. Across all seven strongholds, the aggregated prime yield fell by seven basis points to 2.74%. As yields for secondary products or locations have remained stable, the price gap between the different product qualities is currently widening.

Keeping in mind that the gap between all property sector yields and the yields on German government bonds remains very high, the market environment will remain attractive for the foreseeable future.

Investment uncertainty is a consequence of general political, economic and social uncertainties. While an economic rebound has yet to materialize, the first signs of bottlenecks and catch-up effects are visible. There are no fundamental weaknesses in the property market.

Investors face major challenges in translating short-term recovery effects and their consequences on interest rates and inflation, into a medium-term context. It is therefore understandable that they choose to bide their time.

Office Market Germany

The eight German office markets of Berlin, Düsseldorf, Essen, Frankfurt, Hamburg, Cologne, Leipzig and Munich reported take-up of just under 150 million sq. ft. in the first half of 2021. Despite the large-scale lockdown restrictions, which lasted for many months, the previous year's result was thus exceeded by around 5%. While Berlin remains stable at a very high level, four other markets reported an increase of well over 25%, including Frankfurt and Hamburg. The majority of the locations achieved take-up in line with the long-term average and in some cases even significantly above it. This is particularly remarkable, because the first half of the year was still dominated by the third pandemic wave, which once again affected the country beginning in April.

Similarly, to the beginning of 2021, leasing in different markets varies widely in comparison to the previous year. Once again, Cologne with +84% and neighboring Düsseldorf with -32% set the benchmarks. Market activity is increasing across the board. Once more, the German capital of Berlin is the leader in take-up nationwide. With around 370 million sq. ft., the latest result is only 1% below the previous year's level and on par with the 10-year average. Munich follows in second place with 2.5 million sq. ft. and Hamburg manages to hold on to third place with 2.3 million sq. ft. (+40 % year-on-year).

The pace of the vacancy rise continued to slow in the second quarter. Currently, the vacancy volume in the analyzed cities totals 51.7 million sq. ft. This corresponds to an increase of around 24% compared to the previous year's level, although the increase in the single markets varies considerably. Even though the vacancy rates remain at a low level for Berlin and Munich, they both recorded an increase of 60%. In the German capital, it stands at 2.9%, and in Munich it reached the 4% mark again for the first time since 2017. It thus remains below the fluctuation reserve, which is also true for the markets in Cologne (3.6%), Hamburg (4.1%), Leipzig (4.3%) and Essen (4.4%). Only in Frankfurt (8.0%) and Düsseldorf (9.2%) the vacancy rate is significantly higher.

At mid-year, prime rents in all major office markets continue to be very stable, with the exception of Cologne, where an approximate 2% increase to CAD$5.5/sq. ft. is reported.

As of Q2 2021, the German office markets are on a very good course towards the 32.3 million sq. ft. mark of leasing at year end. The number of large leasing transactions is expected to increase in the coming months. For prime rents, a sideways movement or even a further upturn is the most likely scenario due to the still very limited level of vacancies in prime locations.

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

The value of the REIT's real estate assets and the strength of the office rental market in France and Germany remained consistent through the fiscal year 2020 and the first half of 2021. While this underscores the premise for investing in office assets in the French (Paris) and German markets, it does not address the significant gap between the REIT's market price and the net asset value of the real estate together with cash holdings. Much of the REIT sector has experienced similar compression on Unit price since the onset of the pandemic and volatility in the capital markets.

During the first half of 2021, the markets in France and Germany maintained stability as investors viewed real estate as secure and a source of strong yields. These sentiments have been reinforced by the very low interest rate environment.

Real estate investors in the French and German markets may be generally categorized as either institutional secured investors or opportunistic funds. Institutional investors tend to seek low risk assets. They are present mostly in big cities and participate in straightforward transactions, requiring often little to no senior bank debt. Opportunistic funds are generally looking to capitalize on categories of assets that are in difficulty or on sellers that need to dispose of assets that are not considered as institutional grade assets.

OUTLOOK

The COVID-19 pandemic related government measures to combat the spread of the virus, including limitations on cross-border travel for some foreign nationals, temporary quarantine for visitors, and physical distancing, is expected to continue until at least Q3 2021 while vaccination of the population continues.

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 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 reliable and stable throughout the COVID-19 crisis and management will continue to monitor the potential effect of the economic crisis on the rate of distributions.

PORTFOLIO OVERVIEW

The REIT's portfolio by geography as at June 30, 2021 is as follows:

Asset	*% owned*	*Fair value*	*REIT's Total Portfolio Value*	*Gross Leaseable Area (GLA)*	*Contribution to Total Portfolio rental revenue*	*# of tenants*	*Occupancy rate*	*Weighted occupancy rate*	*WALT (end of lease)*
		(CAD)	*%*	*sq. ft.*	*%*		*%*	*%*	*Years*
Jeuneurs	100%	80,227	12%	50,407	11%	1	100%	100.0%	2.2
Courbevoie	100%	34,040	5%	95,903	3%	5	33%	34.0%	5.0
Sablière	100%	34,368	6%	41,043	6%	7	100%	100.0%	2.0
Baldi	100%	33,338	5%	123,657	6%	9	70%	79.5%	2.4
Metropolitain	100%	97,582	15%	78,818	10%	7	100%	100.0%	6.1
Arcueil	100%	142,589	21%	334,521	28%	1	100%	100.0%	1.7
Délizy (1)	50%	19,217	2%	71,617	3%	19	70%	71.5%	4.5
Subtotal France		**441,361**	**65%**	**795,966**	**67%**	**49**	**84.7%**	**84.7%**	**2.8**
Trio	94,9%	67,188	10%	193,487	10%	7	87%	87.0%	4.0
Bad Homburg	100%	31,021	5%	109,104	4%	4	52%	56.2%	2.5
Duisburg (1)	50%	41,827	6%	108,960	6%	1	88%	87.5%	6.5
Stuttgart (1)	50%	35,083	5%	121,416	5%	5	99%	99.7%	3.2
Arrow - Neu-Isenburg (1)	50%	29,739	4%	67,334	5%	6	98%	97.8%	2.4
Kösching (1)	50%	21,420	3%	53,058	3%	1	100%	100.0%	6.4
Subtotal Germany		**226,279**	**35%**	**653,359**	**33%**	**24**	**85.7%**	**86.8%**	**4.1**
Total - France and Germany		**667,640**	**100%**	**1,449,325**	**100%**	**73**	**85.1%**	**86.2%**	**3.4**
IP Portfolio		**520,354**	**78%**	**1,026,940**	**71%**	**41**	**82.6%**	**84.2%**	**2.9**
JV Portfolio		**147,286**	**22%**	**422,385**	**29%**	**32**	**91.3%**	**91.1%**	**4.5**

(1) Represents investments that are classified as joint ventures and subject to equity-accounting. The results included in the table above (excluding number of tenants, occupancy metrics, and weighted average lease term) are presented on a proportionate share basis at the REIT's ownership percentage of the related investment.

Of all of the REIT's assets, only the Metropolitain asset, leased by small tenants, has had a notable impact from the business closures resulting from COVID-19. The effect, while challenging, does not have a material effect on the REIT's results. Credit notes have been issued as an incentive against lease maturity extensions, and an impairment of receivables have impacted the first half of 2021 net rental income. Two new higher rental value tenant leases at Metropolitain, signed at the end of 2020, forecast higher rental revenue. In addition, an existing tenant is preparing to expand its leased space in the building at higher rental value in Q3 2021.

With the REIT investing its available cash in the coming months, notably in Germany through the year end expected sale of Jeuneurs property, the expected buy-back of joint venture-held assets, and with the potential future sale of Courbevoie in France, the portfolio value is expected to become more evenly allocated between France and German investments. This rebalancing, if achieved, will have a diversifying effect by reducing the net asset value of the Arcueil asset below 20% of the Total Portfolio value.

TENANT PROFILE

As at June 30, 2021, the REIT had 41 tenants across the IP Portfolio compared to 43 tenants as at December 31, 2020 and 73 tenants across the Total Portfolio, compared to 75 as at December 31, 2020.

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

IP Portfolio

The following table shows the five largest tenants relating to properties owned by the REIT, sorted by contribution to rental revenue in the IP Portfolio.

Tenant	**Tenant Sector**	**% of annual contractual rental revenue**	**Occupied space (sq. ft.)**	**Weighted Areas (sq. ft.) (1)**	**% of Weighted Areas**	**Average remaining lease term (years)**
Orange	Telecommunications	35%	334,521	284,958	31.4%	1.70
The Lorenz Bahlsen Snack-World	Food and beverage	6%	86,501	81,870	9.0%	4.50
Rue Du Commerce	E-commerce	5%	51,926	51,926	5.7%	0.33
CNAM	Education & Training	12%	50,407	49,543	5.5%	2.17
Fresenius	Health care	4%	44,942	41,611	4.6%	2.58
Top 5 tenants		**62%**	**568,297**	**509,908**	**56.2%**	**2.13**
Other tenants	Diversified	38%	279,756	252,971	27.9%	4.37
Vacant			178,887	144,504	15.9%	
IP Portfolio		**100%**	**1,026,940**	**907,383**	**100.0%**	**2.87**

(1) Activity, storage and shared-restaurant space, being usually rented at about a third of office areas, they are being accounted for a third of their effective areas in the weighted areas.

Total Portfolio

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	% of annual contractual rental revenue	Occupied space (sq. ft.)	Weighted Areas (sq. ft.) (1)	% of Weighted Areas	Average remaining lease term (years)
Orange	Telecommunications	27%	334,521	284,958	22.0%	1.70
Daimler AG	Manufacturer	5%	109,136	100,486	7.8%	2.92
The Lorenz Bahlsen Snack-World	Food and beverage	5%	86,501	81,870	6.3%	4.50
Hitachi Power	Manufacturer	5%	82,800	78,138	6.0%	6.50
Arrow Central Europe	E-commerce	4%	55,639	51,717	4.0%	2.00
Top 5 tenants		**47%**	**668,597**	**597,169**	**46.1%**	**2.94**
Other tenants	Diversified	53%	564,975	516,950	40.1%	3.91
Vacant			215,753	178,852	13.8%	
Total Portfolio		**100%**	**1,449,325**	**1,292,971**	**100.0%**	**3.39**

(1) Activity, storage and shared-restaurant space, being usually rented at about a third of office areas, they are being accounted for a third of their effective areas in the weighted areas.

The tenant base is well diversified by industry segment, with many national and multinational tenants.

OCCUPANCY AND LEASING ACTIVITY

The portfolio occupancy and leasing activity by geography for the period ended June 30, 2021 was as follows:

Asset	*Occupied space (sq. ft.)*									
	January 1, 2021	*Acquisition / Disposition*	*New leases*	*Lease Expiries*	*Other changes*	*June 30, 2021*	*Occupancy rate*	*Commited space (sq. ft) (1)*	*Total space (sq. ft)*	*Committed occupancy*
France	633,263			-9,795		623,468	86.1%		623,468	86.1%
Germany	270,442			-45,432		225,010	74.3%		225,010	74.3%
Total IP Portfolio	**903,705**	-	-	- **55,227**	-	**848,478**	**82.6%**	-	**848,478**	**82.6%**

On a proportionate share basis, including the results of our equity-accounted joint ventures at our proportionate ownership interest, the operating metrics by geography as at June 30, 2021 are as follows:

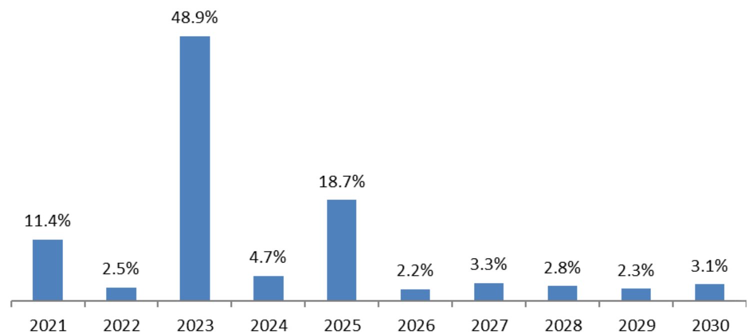
Asset	*Occupied space (sq. ft.)*									
	January 1, 2021	*Acquisition / Disposition*	*New leases*	*Lease Expiries*	*Other changes*	*June 30, 2021*	*Occupancy rate*	*Commited space (sq. ft) (1)*	*Total space (sq. ft)*	*Committed occupancy*
France	690,189			-16,275		673,914	84.7%		673,914	84.7%
Germany	607,582	-3,443	5,443	-49,495		560,087	85.7%		560,087	85.7%
Total Portfolio	**1,297,771**	- **3,443**	**5,443**	- **65,770**	-	**1,234,001**	**85.1%**	-	**1,234,001**	**85.1%**

New leases signed during the quarter**:**

- Management extended a six-year firm lease on 8,525 sq.ft. area in the Pantin property, effective retroactively on January 1st, 2021.
- At the Baldi property, management extended a 947 sq.ft. lease for nine years with break options every three years, in an exchange agreement between two existing tenants.
- At the Metropolitain property, the REIT extended a retail lease for ten firm years and the rent-free period for the sports center terminated in June 2021 following the end of the lockdown measures.

LEASE MATURITIES

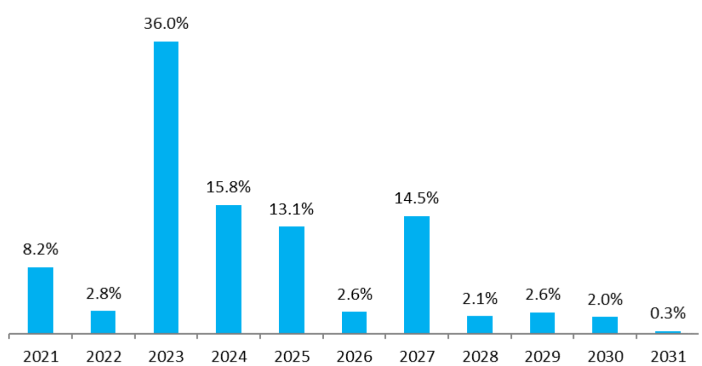
Lease Maturity Profile as at June 30, 2021
IP Portfolio
(% of total GLA)



The above graph sets out the percentage of total GLA of the IP Portfolio subject to leases expiring by year (excluding early lease terminations).

The average remaining lease term in the IP Portfolio is 2.9 years (not including tenant early termination rights). Assuming all tenants leave at the earliest possible early termination rights, which the REIT believes is unlikely, the average remaining lease term in the portfolio is 2.5 years.

Lease Maturity Profile as at June 30, 2021
Total Portfolio
(% of total GLA)



Including the joint venture properties, the average remaining lease term is 3.4 years (3.0 years including early termination rights). The above graph presents the percentage of total GLA expiring in the Total Portfolio by year (excluding lease early terminations).

CONSOLIDATED FINANCIAL INFORMATION

(in thousands of CAD$)	Three months ended June 30, 2021	2020	Six months ended June 30, 2021	2020
Rental revenue	6,871	7,119	14,291	13,997
Property operating cost recoveries	1,587	1,554	3,628	3,125
Property operating costs	(1,372)	(1,279)	(6,254)	(5,450)
Other revenues	137	84	204	87
Other property operating expenses	(305)	(79)	(513)	(113)
Net rental income	**6,918**	**7,399**	**11,356**	**11,646**
General and Administration expenses	(2,105)	(2,110)	(4,566)	(4,352)
Foreign exchange gain (loss)	(54)	(845)	(940)	1,803
Net change in fair value of investment properties	6,814	(2,288)	8,524	(586)
Loss on sale of investment in joint venture	(108)	-	(108)	-
Share of net income (loss) from joint ventures	(1,495)	(849)	(1,066)	(666)
Operating earnings	**9,970**	**1,307**	**13,200**	**7,845**
Net change in fair value of financial derivatives	(1,860)	85	974	207
Net change in fair value of Exchangeable securities	(95)	(1,727)	(774)	2,579
Net change in fair value of Promissory Notes	-	(8,050)	-	13,703
Finance income	884	1,911	1,686	4,175
Finance costs	(1,634)	(2,608)	(3,260)	(5,076)
Distributions on Exchangeable securities	(222)	(203)	(452)	(392)
Income before income taxes	**7,043**	**(9,285)**	**11,374**	**23,041**
Current income tax expense	(2,007)	(40)	(2,184)	(49)
Deferred income tax recovery (expenses)	4,145	(65)	4,200	(283)
Total income tax expense	**2,138**	**(105)**	**2,016**	**(332)**
Net income	**9,181**	**(9,390)**	**13,390**	**22,709**
Non-controlling interest	(66)	(5)	(21)	6
Net income attributable to the Trust	**9,247**	**(9,385)**	**13,411**	**22,703**

SELECTED THREE-YEAR QUARTERLY INFORMATION

(in thousands of CAD$)	For the six months ended June 30, 2021	2020	2019	2021 vs. 2020	2020 vs. 2019
Rental revenue	14,291	13,997	12,636	294	1,361
Finance income	1,686	4,175	4,147	(2,489)	28
Net income	13,390	22,709	989	(9,319)	21,720
Net income attributable to the Trust	13,411	22,703	982	(9,292)	21,721

DISCUSSION OF FINANCIAL PERFORMANCE

Net rental income

Net rental income for Q2 2021 was CAD$6,918 compared to CAD$7,399 for Q2 2020, the decrease being mostly attributed to the impairment of a receivable on the Metropolitain property for CAD$379, the CAD$100 increased vacancy in Courbevoie asset to fulfill sale conditions and the CAD$118 credit note granted to Baldi’s main tenant when negotiating its early departure.

For the six months ended June 2021, net rental income was CAD$11,356, compared to CAD$11,646 for the same period last year. The decrease is mainly attributable to the same factor above described, partially offset by the rental income from Bad Homburg acquisition.

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 approximatively CAD$2,950. 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 2021 and Q2 2020 is set out below.

	Three months ended June 30			Six months ended June 30		
In Canadian dollars (in thousands)	**2021**	**2020**	**Variance**	**2021**	**2020**	**Variance**
Net rental income	6,918	7,399	(481)	11,356	11,646	(290)
IFRIC 21 impact	(787)	(716)	(71)	1,449	1,358	91
Adjusted net rental income - IFRIC 21 (1)	6,131	6,683	(552)	12,805	13,004	(199)

	Three months ended June 30			Six months ended June 30		
In Euros (in thousands)	**2021**	**2020**	**Variance**	**2021**	**2020**	**Variance**
Net rental income	4,602	4,921	(319)	7,554	7,745	(191)
IFRIC 21 impact	(524)	(476)	(48)	964	903	61
Adjusted net rental income - IFRIC 21 (1)	4,079	4,444	(366)	8,518	8,648	(130)

(1) Represents a non-GAAP financial measure that has no standardized meaning with IFRS and is not comparable to other companies.

General and Administrative expenses

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

The following table outlines the major categories of G&A expenses:

	Three months ended June 30,			For the six months ended June 30,		
	2021	2020	Variance	2021	2020	Variance
Asset management fees – Inovalis SA	(638)	(785)	147	(1,377)	(1,524)	147
Less: amount reinvoiced to joint ventures	285	338	(53)	589	646	(57)
	(353)	**(447)**	**94**	**(788)**	**(878)**	**90**
Professional fees for accounting, tax and audit	(843)	(707)	(136)	(1,823)	(1,698)	(125)
Legal expenses	(268)	(479)	211	(878)	(963)	85
Trustee fees	(204)	(182)	(22)	(431)	(319)	(112)
Travel expenses	-	25	(25)	(3)	(22)	19
Bank expenses	(44)	(9)	(35)	(66)	(63)	(3)
Other general and administrative expenses	(393)	(311)	(82)	(577)	(409)	(168)
Total G&A expenses	**(2,105)**	**(2,110)**	**5**	**(4,566)**	**(4,352)**	**(214)**

G&A expenses, excluding CAD$610 of non-recurring costs related to Strategic Review process and the aborted transactions in the last quarters, are in line with the budget approved and attached to the Management Agreement extension. The increase of CAD$214 for the six-month period ended June 30, 2021, is mainly due to these non-recurring costs.

Asset Management fees, representing CAD$353 for the three months period ended June 30, 2021, decreased in line with the new Management Agreement effective January 1, 2021.

Net change in fair value of investment properties

The net change in fair value of CAD$6,814 in investment properties for Q2 2021 (compared to CAD$(2,288) for Q2 2020) is mainly related to the positive impact of the Jeuneurs property, the value of which has been adjusted by +CAD$10.4 million following the signing of the unilateral commitment to sell to be completed by the end of year.

Refer to the *"Investment Properties"* section in this document for further details on the valuation methodology.

Share of net income (loss) from joint ventures

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

The share of net loss from joint ventures was CAD$(1,495) for the three months period ended June 30, 2021, compared to CAD$(849) for the same period in 2020. The unfavorable year-on-year change is mainly due to a slight reduction in the fair value of the JVs portfolio assets.

Net change in fair value of Exchangeable securities

Exchangeable securities are recorded at fair value based on the market price of the REIT's Units. They are reflected as a liability on the REIT's consolidated balance sheets, and therefore a decrease of the REIT's Unit price reduces the value of the liability. The closing price of a REIT Unit on the Toronto Stock Exchange was CAD$9.62 on June 30, 2021 compared to $8.94 at close of December 31, 2020, resulting in a loss of CAD$774 in the net change in fair value of Exchangeable securities throughout the first six months of 2021.

Over the quarter, the REIT unit price slightly increased, leading to a negative net change in fair value of Exchangeable securities of CAD$95.

Finance income

In Q2 2021, finance income of CAD$884 (compared to CAD$1,911 in Q2 2020) consisted essentially of interest on loans granted to joint ventures. The negative variance of CAD$1,027 corresponds mainly to the interest on Rueil acquisition loan (CAD$522) which was fully repaid in in Q4 2020 and to the interests on joint-venture loans (CAD$349) following the buy-back of Bad-Homburg 50% interest in October 2020.

For the six months ended June 30, 2021, finance income was CAD$1,686 compared to CAD$4,175 for the same period in 2020. The decrease is mainly attributable to the interest on Rueil acquisition loan (CAD$1,324) which was fully repaid in Q4 2020 and to the buy-back of joint-venture (Bad Homburg) generating less interest on joint venture loans.

Finance costs

The finance costs in Q2 2021 were CAD$1,634 (compared to CAD$2,608 in Q2 2020), which included CAD$1,190 related to interest on mortgage loans and lease liabilities and CAD$421 related to derivative interest and other financial costs. The variance with Q2 2020 consisted mainly in the interest recognized on Promissory Notes for CAD$905, which were fully converted in Units in November 2020.

For the six-month period ended June 30, 2021, finance costs were CAD$3,260, in decrease of CAD$1,816 from the same period last year, resulting from the conversion of Promissory Notes as described above.

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 2021 the distributions on Exchangeable securities were CAD$222 compared CAD$203 in Q2 2021.

For the six-month period ended June 30, 2021, distributions on Exchangeable securities were CAD$452, compared to CAD$392.

Current and deferred income tax expense

The current income tax expense for Q2 2021 includes a provision of CAD$2,020 that represents management's best estimate for the amount payable following a tax reassessment that is being disputed with the French tax authorities.

The REIT recorded a deferred income tax recovery of CAD$4,145 in Q2 2021 compared to an expense of CAD$65 for Q2 2020. The income tax recovery in Q2 2021 was a result of a reduction in the withholding tax rate applicable to CCEU on any distributions received from INOPC1, following the conversion of CCEU into a Specialized Investment Fund ("SIF") on June 30, 2021. A SIF is a regulated entity in Luxembourg that is not subject to Luxembourg taxes on income or capital gains. Subsequent to the conversion, dividend distributions to CCEU from INOPCI1, a French subsidiary of CCEU, are subject to a 15% withholding tax. CCEU was previously subject to withholding tax of 25% on any distributions from INOPC1.

SELECTED CONSOLIDATED BALANCE SHEET INFORMATION

	For the period ended				
(in thousands of CAD$)	June 30, 2021	Dec 31, 2020	Dec 31, 2019	2021 vs. 2020	2020 vs. 2019
Total assets	667,386	712,089	710,206	(44,703)	1,883
Fair value of investment properties - IP Portfolio	520,354	541,218	478,700	(20,864)	62,518
Fair value of investment properties - Total Portfolio	667,640	701,458	652,013	(33,818)	49,445
Investment in joint ventures - carrying value	67,623	75,987	100,782	(8,364)	(24,795)
Total non-current liabilities	249,743	292,817	267,600	(43,074)	25,217
Total debt (1)	267,326	288,657	308,643	(21,331)	(19,986)
Number of outstanding Units	32,400,585	32,400,585	28,742,306	0	3,658,279

(1) Includes the current and non-current portion of interest-bearing loan, mortgage loans, lease liabilities, promissory notes (2019 only), and lease equalization loans.

Investment Properties

The fair value of the REIT's IP Portfolio as at June 30, 2021 was CAD$520,354 (EUR 353,934) compared to CAD$541,218 (EUR 347,938) as at December 31, 2020. The decrease of CAD$20,864 is mainly attributable to the foreign exchange adjustment (CAD$29,738) partially offset by the increase in fair value of the IP portfolio (of which CAD$10,468 on the Jeuneurs property)

Management uses the Direct Capitalization Method ("DCM") to determine the fair value of REIT's properties in France and Germany. The values are supported by third party appraisals as at June 30, 2021 a performed in conformity with the requirements of the *Royal Institution of Chartered Surveyors Standards*, and for the French properties, in conformity with the *Charte de l'expertise immobilière, as well as European Valuation Standards of TEGoVA (the European Group of Valuers' Association)* and IFRS 13 *Fair Value Measurement.*

Investments in joint ventures

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

- the Duisburg property (CCD) (50%),
- the Stuttgart property (50%),
- the Delizy (Pantin) property (50%),
- the Arrow (Neu-Isenburg) property (50%),
- the Kösching property (50%).

The REIT's investment in joint ventures was CAD$67,623 as at June 30, 2021 compared to CAD$75,987 as at December 31, 2020. The decrease was mainly due to the negative foreign exchange difference of CAD$4,115, added to the disposition of the 6% interest in the Cologne property for an amount of CAD$1,015 and declared distribution of the remaining profit from Rueil SCCV for CAD$1,701.

Trade receivables and other financial assets

Trade receivables and other financial assets as at June 30, 2021 amounted to CAD$10,082, compared to the CAD$6,623 at December 31, 2020. The increase, as every year, is mainly due to service charge revenue arising from property taxes recognized in accordance with IFRIC 21, which amounted for an additional CAD$1.4 million for the six-month period ended June 30, 2021. On the Baldi property, the rent for Q2 and the overdue receivables of CAD$1,605 was received in July following the signature of a lease termination protocol with the main tenant. In addition, the other receivables item included the remaining unpaid dividend from Rueil SCCV for CAD$1,701.

Trade and other payables

Trade and other payables as at June 30, 2021 amounted to CAD$21,857 compared to CAD$11,052 as at December 31, 2020, mostly due to the Participatory Distribution of CAD$9,947 paid on July 15 together with the regular June dividend.

Income tax payable

The income tax payable as at June 30, 2021 amounts to CAD$2,184 compared to CAD$4,069 as at December 31, 2020, which mostly represents management's best estimate for the amount payable following a tax reassessment that is being disputed with the French tax authorities for CAD2,020.

CAPITAL MANAGEMENT

Sources of Capital

The REIT's primary sources of capital are cash generated from operations, credit facilities, sharing the ownership of actual assets owned entirely, and equity issuances. 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.

Available Liquidity

The REIT's cash available was CAD$58,226 as at June 30, 2021. Available cash is a strength in the current economic conditions and management intends to use it primarily for future investments.

Management has determined that the REIT has the financial resources to sustain its operations for 12 months following the date of the balance sheet.

Capital Management Metrics

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

	Consolidated basis - IP Portfolio		Proportionate share basis - Total Portfolio	
	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020
Capital management metrics				
Debt-to-book value	41.3%	42.3%	47.3%	48.3%
Debt-to-book value, net of cash	35.7%	35.0%	42.5%	42.3%
Debt due in the next 12 months	28,700	13,597	29,423	16,156
Weighted average term to maturity	5.0 years	5.4 years	4.5 years	4.9 years
Weighted average interest rate (1)	2.02%	2.03%	1.95%	1.95%
Interest coverage ratio (2)	2.52	3.46	2.91	3.68

(1) Includes lease liabilities and the mortgage financing.

(2) Calculated as net rental income plus interest income, less general and administrative expenses, divided by interest expense on lease liabilities and mortgage financing.

The Bad Homburg mortgage loan representing CAD$16.3 million, has a maturity date in March 2022 and has been classified as a current liability in the balance sheet as at June 30, 2021. Management will seek to refinance this asset as soon as the reletting of vacant space is completed.

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 joint venture 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 (2020 only) and at the joint venture level for the contribution from the REIT and its partners.

Debt-to-book value	Consolidated basis - IP Portfolio		Proportionate share basis - Total Portfolio	
	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020
Lease liabilities	119,745	130,287	130,628	142,066
Mortgage loans	146,996	157,489	209,903	225,349
Other long-term liabilities	378	474	378	474
Deferred tax liabilities	8,316	13,212	15,007	20,830
Total debt outstanding	**275,435**	**301,462**	**355,916**	**388,719**
Less : Cash	(58,226)	(80,376)	(62,237)	(84,189)
Debt net of cash	**217,209**	**221,086**	**293,679**	**304,530**
Gross book value	667,386	712,089	753,086	803,905
Gross book value, net of cash	609,160	631,713	690,849	719,716
Debt to gross book value	**41.3%**	**42.3%**	**47.3%**	**48.4%**
Debt to gross book value, net of cash	**35.7%**	**35.0%**	**42.5%**	**42.3%**

The debt ratio is 41.3% (35.7% net of cash), comfortably within the REITs mandated threshold of 60%. For the Total Portfolio, the weighted average interest rate is 1.95% and the debt ratio is 47.3% (42.5% net of cash).

Interest coverage ratio and debt ratio

Interest coverage ratio	Consolidated basis - IP Portfolio		Proportionate share basis - Total Portfolio	
	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020
Net rental income	11,356	26,600	15,073	35,553
IFRIC 21 adjustment	1,449	-	1,640	-
Net rental income adjusted	**12,805**	**26,600**	**16,713**	**35,553**
Administration expense	(4,566)	(7,864)	(5,398)	(9,771)
Interest income	-	2,665	-	2,657
Total income	**8,239**	**21,401**	**11,315**	**28,439**
Interest expense (1)	(3,265)	(6,186)	(3,890)	(7,726)
Interest coverage ratio	**2.5**	**3.5**	**2.9**	**3.7**

(1) Includes interest on mortgage loans, leases liabilities, swap interest and amortization of financing costs.

The variance in the interest coverage ratio is mostly due to the decrease in finance income on Rueil acquisition loan, following the full repayments in July and November 2020, and non-recurring administrative expenses of CAD$1.2million in 2021 (mostly for the Strategic Review process).

Weighted-average interest rate

The weighted average interest rate across the IP portfolio debt is 2.02% and 1.95% for the Total Portfolio. The REIT is considering other refinancing opportunities to take advantage of historically low interest rates in Europe. The REIT anticipates being able to finance assets on a less costly basis than that offered by traditional financing in Canada.

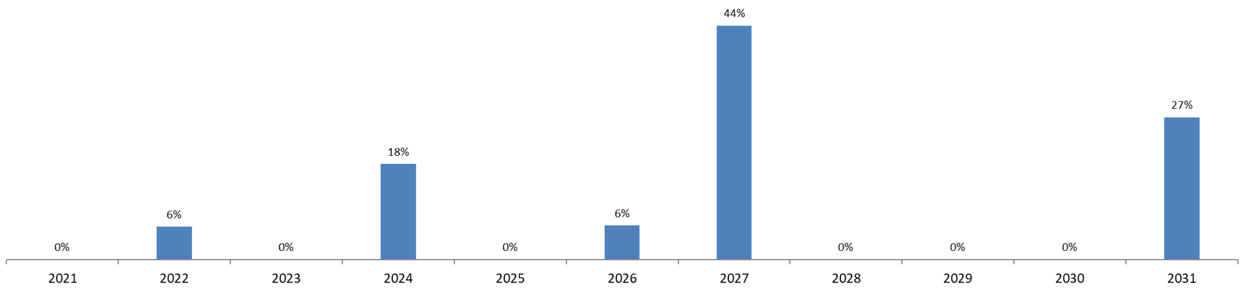
Debt Profile

Debt profile as at June 30, 2021	IP Portfolio		Total Porfolio	
	Nominal Value	%	Nominal Value	%
Lease liabilities	119,745	45%	130,554	38%
Mortgage loans	146,996	55%	210,491	62%
of which : Amortized mortgage loan	*130,710*	*89%*	*141,318*	*67%*
Bullet mortgage loan	*16,286*	*11%*	*69,173*	*33%*
Total	**266,741**	**100%**	**341,044**	**100%**

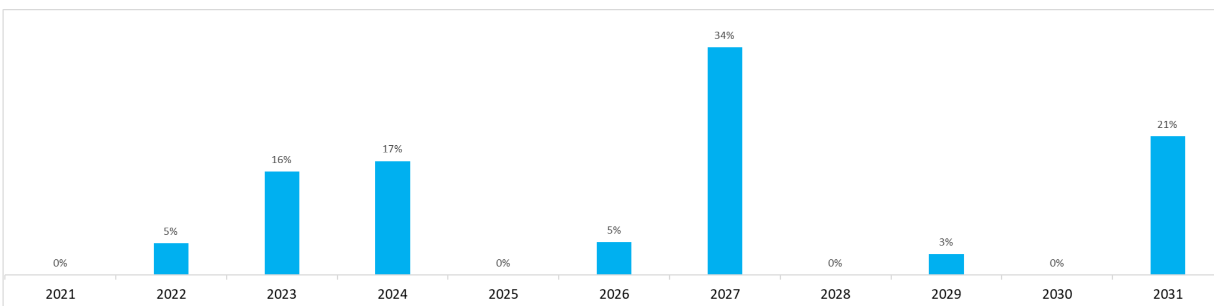
As at June 30, 2021, the REIT debt on its IP Portfolio is composed of 55% mortgage loans and 45% lease liabilities, under contracts expiring from 2022 to 2031.

Amortized loan, most frequent on French assets (Jeuneurs, Baldi, Courbevoie, Sablière), represents 41% of the total financing in the REIT's Total Portfolio.

Leasehold and Mortgage Financing Maturity Profile
IP Portfolio
(% of amount outstanding as at June 30, 2021)



Leasehold and Mortgage Financing Maturity Profile
Total Portfolio
(% of amount outstanding as at June 30, 2021)



The graphs above do not include the impact of the annual amortization of outstanding debt.

Equity

Management's discussion about equity is inclusive of Exchangeable securities. In the interim consolidated financial statements, the Exchangeable securities are classified as current liabilities under IFRS because of the conversion feature that can be exercised by the holder of those securities at any time.

As at June 30, 2021 the REIT has 32,400,585 Units issued and outstanding plus 1,113,663 Exchangeable securities.

	Three months period ended June 30, 2021	Six months period ended June 30, 2021
Units		
Number at beginning of period	32,400,585	32,400,585
Decrease in number during the period	-	-
Increase in number during the period	-	-
Number at end of period	32,400,585	32,400,585
Weighted average number during the period	32,400,585	32,400,585
Exchangeable securities		
Number at beginning of period	1,113,663	1,113,663
Increase in number during the period	-	-
Number at end of period	1,113,663	1,113,663
Weighted average number during the period	1,113,663	1,113,663
Units and Exchangeable securities		
Number at beginning of period	33,514,248	33,514,248
Decrease in number during the period	-	-
Number at end of period	33,514,248	33,514,248
Weighted average number during the period	33,514,248	33,514,248

Unit-based compensation plan

The REIT through its Deferred Share Unit ("DSU") Plan, grants DSU's to its trustees and senior officers as non-cash compensation. These DSU's are measured at fair value at the grant date and compensation expense is recognized consistent with the vesting features of the plan. The DSU plan is accounted for as a cash-settled award as the underlying REIT Units are redeemable at the sole discretion of the unitholders for cash at market value of the Units. For cash-settled awards, the REIT recognizes a liability measured at its fair value. At each reporting date until the liability is settled, the fair value of the liability is remeasured, with any changes in fair value recognised as compensation expense for the same period. Upon settlement of a DSU, the liability balance is reduced and the resulting Trust Unit is recorded in equity.

Effective May 15, 2019, the REIT's unitholders approved a DSU Plan 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 trustees and 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. The cost of Granted DU is recognized in the interim consolidated statement of earnings consistent with the vesting feature of each grant.

In addition, whenever cash distributions are paid on the REIT's Trust Units, additional deferred U

nits ("ADU") are granted based on aggregate number of vested DSUs as at the same date.

As of June 30, 2021, 47,347 DSUs are outstanding and 152,653 DSUs are available for grant under the DSU Plan.

For the six months ended June 30, 2021, the REIT recorded an expense of $67 and an increase to the liability for the same amount. The total liability related to the DSU plan as of June 30, 2021, was $433 and was included in Trade and other payables.

Cash Flows

	Six months ended June 30,		
	2021	**2020**	**Variance**
Cash provided by (used in):			
Operating activities	(428)	(12,162)	11,734
Investing activities	1,754	1,984	(230)
Financing activities	(19,135)	(18,605)	(530)
Net change during the period	**(17,809)**	**(28,783)**	**10,974**

Analysis of Distributed Cash

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. Pursuant to the REIT's Amended and Restated Declaration of Trust, dated April 9, 2020, 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.

Pursuant to the requirement of National Policy 41-201, Income Trusts and Other Indirect Offerings, the table below outlines the differences between cash flow from operating activities and cash distributions as well as the differences between income (loss) before income taxes and cash distributions, in accordance with the policy guidelines.

Distributions Funding Sources

	For the three months ended June 30		For the six months ended June 30	
	2021	2020	2021	2020
Net cash flows related to operating activities (A)	(2,947)	74	(428)	(12,162)
Income before income taxes (B)	7,043	(9,285)	11,374	23,041
Declared distribution on Units (C) (1)	16,629	5,937	23,312	11,879
Shortfall of cash flows from operating activities over cash distributions paid (A-C)	(19,576)	(5,863)	(23,740)	(24,041)
Excess (shortfall) of profit over cash distributions paid (B - C) funded by the sale of Vanves and the profit on Rueil transaction	(9,586)	(15,222)	(11,938)	11,162

(1) Including Participatory Distribution on June dividend for CAD$9.947

The shortfall was funded from the sale of the Vanves property in December 2019 and cash generated on Rueil transaction. No material contract was amended to fund the shortfall and there are no risks or implications over the sustainability of future distributions.

As quantified in the FFO and AFFO calculations, the funds required to make the distributions on Units, for the three months ended June 30, 2021, i.e., CAD$6,683, were above the FFO (CAD$4,295) for the quarter.

		Note		**Year 2020**	**For the six months ended June 30, 2021**
Weighted average number of units (diluted)		*(1)*		33,957,066	33,514,248
Theoretical distribution per unit (in CAD)		*(2)*		0.83	0.41
Theoretical distribution (in '000 CAD)	(1) x (2)	*(3)*		28,017	13,825
Actual FFO per units (in CAD)		*(4)*		0.68	0.25
Distribution funded by FFO (in '000 CAD)	**(1) x (4)**	***(5)***		**23,049**	**8,434**
Shortfall over distribution	**(3) - (5)**			**(4,968)**	**(5,391)**
Excess cash generated by sale of Vanves and the profit on Rueil transaction			**21,987**		
Distribution funded by Vanves sale (in '000 CAD)				**4,968**	**5,391**
Participatory distribution paid in June					**(9,947)**
Remaining Vanves cash and Rueil cash				**17,019**	**1,681**

As at June 30, 2021, the shortfall of CAD$5,391 over the quarterly FFO, as well as the shortfall of CAD$4,968 for the year 2020, was funded out of the CAD$21,987 profit resulting from the disposition of the Vanves asset in December 2019 (sold over the fair market value in Q3 2019 Financial Statements) and the profit realized on Rueil transaction.

Contractual Obligations

	Contractual Cash Flows (1)	2021	2022	2023	2024	2025	Thereafter
Interest-bearing loan	411	33			378		
Lease equalization loans	174	174					
Mortgages – principal payments	34,183	3,488	4,948	5,183	5,079	5,210	10,275
Mortgages -maturities	112,813		16,319		43,577		52,917
Lease liabilities	119,745	6,373	6,423	6,024	6,413	6,474	88,037
Exchangeable securities	10,713	10,713					
Accounts payable	21,857	21,857					
Income tax payable	2,184	2,184					
Total	**302,080**	**44,823**	**27,690**	**11,207**	**55,447**	**11,684**	**151,229**

(1) Contractual cash flows do not include interest and do not account for any extension options.

FINANCIAL INSTRUMENTS

The REIT has the following financial assets and liabilities as at June 30, 2021

	Classification
Financial assets	
Loans to joint ventures	Amortized cost
Derivative financial instruments	FVTPL
Trade receivables and other Financial assets	Amortized cost
Restricted cash	Amortized cost
Cash	Amortized cost
Financial liabilities	
Mortgage loan	Amortized cost
Lease equalization loans	Amortized cost
Tenant deposits	Amortized cost
Exchangeable securities	FVTPL
Derivative financial instruments	FVTPL
Trade and other payables	Amortized cost

The REIT uses the following hierarchy for the fair value determination of financial instruments:

- Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 unobservable inputs for the asset or liability.

There were no transfers between levels of the fair value hierarchy during the three months period ended June 30, 2021.

Due to their short-term nature, the carrying value of the following financial instruments measured at amortized cost approximates their fair value at the balance sheet date:

- Trade receivables and other financial assets
- Cash and restricted cash
- Trade and other payables

The following table summarizes the estimated fair value of other financial instruments which have a fair value different from their carrying value:

	June 30, 2021		December 31, 2020	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial assets				
Loans to joint ventures	36,232	36,232	40,531	40,531
Financial liabilities				
Mortgage loan	157,266	146,996	169,742	157,489
Lease equalization loans	174	174	371	371
Tenant deposits	1,906	1,906	2,499	2,499

The following methods and assumptions were used to estimate the fair values of financial instruments:

- The fair value of the call option is determined based mainly on (i) the expected gain on the sale of the property and (ii) the probability of realization of that gain.
- The fair values of mortgage loans, lease equalization loans and tenant deposits are estimated using the nominal amounts expected to be repaid at maturity and a discount rate based on prevailing market interest rates adjusted by an internally determined credit spread.
- The fair value of derivative financial instruments is determined based on discounted cash flows using interest rate yield curves and volatility that are observable on an active market, as at the balance sheet date.
- The fair value of the Exchangeable securities is based on the quoted price of the REIT's Units, on the basis that they are exchangeable on a one-to-one basis.

The REIT is exposed to a number of financial risks, including those associated with financial instruments, which have the potential to affect its operating and financial performance. These risks include interest rate risk, currency risk, credit risk and liquidity risk.

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The REIT's exposure to the risk of changes in market interest rates relates to the long-term debt obligations with floating interest rates related to leases and mortgage loans. The interest rate risk is mitigated by the REIT's strategy using derivative financial instruments on mortgage loans and on the lease liabilities. As at June 30, 2021, after taking into consideration the effect of interest rate swap (35%) and interest rate cap (26%) as well as fixed interest rates (17%), 78% of the REIT's long-term debt obligation has no exposure to interest rate risk (2020–78%).

As at June 30, 2021, a 50-basis point increase in interest rates would decrease the REIT's annualized profit by CAD$304 (2020 – a decrease of CAD$321).

Currency risk

The REIT operates in France and Germany, and the functional currency for these operations is the Euro. The REIT's distributions are paid to unitholders in Canadian dollars. Thus, the cash available for distribution to unitholders could be adversely impacted by currency variations. To mitigate the risk of foreign exchange fluctuations on the distributions to our Unitholders, management has established an active foreign exchange hedging program. As such, the exchange rate relating to 100% of the REIT's current distributions are secured by these foreign currency forward contracts until October 2022.

Contracts Maturing by Quarter	Hedge Value ('000 EUR)	Weighted average hedging rate
Q3 2021	3,583	1.507
Q4 2021	3,566	1.514
Q1 2022	3,553	1.520
Q2 2022	3,542	1.525
Q3 2022	3,526	1.531
Q4 2022	1,170	1.539
	18,940	

As at June 30, 2021, under the new forward currency exchange contract, the REIT was committed to sell EUR1,198 at rate of 1.5027 and to receive CAD$1,800 for July 2021. This two-year hedging program will secure the REIT to receive CAD$1,800 on a monthly basis at an average rate of 1.5207 until October 2022. Volumes and agreed-upon exchange rates are listed in the above table.

As at June 30, 2021 and December 31, 2020, a 10% change in the value of the Euro relative to the Canadian dollar would have the following impact on financial results:

June 30, 2021	**% change**	**Net income**	**OCI**	**Total**
Impact in the event of an increase in the value of the Euro/CAD$	10%	777	(20,839)	(20,264)
Impact in the event of an increase in the value of the Euro/CAD$	(10%)	(777)	20,839	20,264
December 31, 2020				
Impact in the event of an increase in the value of the Euro/CAD$	10%	1,852	(21,263)	(19,411)
Impact in the event of an increase in the value of the Euro/CAD$	(10%)	1,852	21,263	19,411

Credit risk

Credit risk is the risk that counterpart will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The REIT is directly exposed to credit risk from its leasing activities and its investing activities, including the acquisition loans, trades and other receivables, loans in other current financial assets, derivatives, deposits with banks and financial institutions. The REIT's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized on June 30, 2021.

Loan to joint ventures: Credit risk relating to loan to joint ventures is mitigated through recourse against such parties and/or the underlying real estate. These financial instruments are considered to have low credit risk. The REIT monitors the debt service ability of the properties underlying the loans to assess for changes in credit risk.

Accounts Receivable: Credit risk is managed by requiring tenants to pay rentals in advance. Also, in certain cases, deposits are obtained from tenants. Accounts receivables are presented on the consolidated balance sheet, net of allowance for credit losses determined using the simplified method as allowed per IFRS 9. This provision is based on the expected recovery percentage of amounts receivable from each tenant and various other indicators, such as a deterioration of the credit situation of a given tenant. Management regularly reviews accounts receivable and monitors past due balances.

Cash deposit and derivatives: The credit risk for cash and derivative financial instruments is considered negligible since the counterparts are reputable banks with high quality external credit ratings.

Liquidity risk

The REIT’s objective is to maintain a balance between continuity of funding and flexibility using bank deposits and loans. Liquidity risk inherent to the financial structure of the business is mainly managed through quarterly updates of short-term cash flow forecasts, follow-up of availability of funding through an adequate amount of committed credit facilities, as well as the status of the maturity of financial assets and liabilities. Refer to *“Contractual Obligations”* section above for further details.

RISKS AND UNCERTAINTIES

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

RISKS RELATING TO THE REIT AND ITS BUSINESS

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

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

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

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

Public Health Crises / COVID-19

The COVID 19 a global pandemic has necessitated restrictive measures to combat the spread of the virus. These measures, which include the implementation of travel restrictions, quarantine periods and social distancing, have caused material disruptions to businesses globally resulting in an economic slowdown. Global equity and capital markets have also experienced significant volatility. Governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The duration and full extent of the impact of the COVID 19 pandemic on the REIT is unknown at this time, as is the efficacy of the various government interventions. Vaccination programmes are underway in all European locations, including cities regions where the REIT's assets are located. Other measures to combat COVID 19, including quarantines, "shelter in place" rules, and restrictions on travel and the types of business that may continue to operate, remain in place. The REIT has proactively taken actions in response to or in furtherance of these measures and currently has in place, in response to such measures and local conditions, where applicable, measures such as: protocols for social distancing, hand sanitization and the wearing of facemasks; closure of certain non essential indoor common areas; and conducting tours for prospective tenants on an appointment only basis, which actions the REIT may continue to take.

Notwithstanding the COVID 19 pandemic, such measures have not had a material impact on the REIT, and management believes that the REIT's performance will continue to be stable or strengthen in the foreseeable future and over the longer term. Nonetheless, given the unpredictable nature of the COVID-19 pandemic, any continuation or intensification of such pandemic or related government measures, and any changes in levels of government financial support to individuals affected by the COVID-19 pandemic and economic downturn, could in the future have an adverse effect (which effect could be material) on the REIT's financial condition, results of operations and cash flows due to the following factors, or others:

- Weaknesses in national, regional or local economies may prevent tenants from paying rent in full or on a timely basis.
- A reduction in tenant demand for space due to a general decline in business activity and discretionary spending could adversely affect the value of the REIT's assets. This could lead to an impairment of the REIT's real estate investments. In addition, the REIT may be unable to complete planned development of land for expansion or other capital improvement projects on a timely basis or at all due to government mandated shutdowns or the inability of third-party contractors to continue to work on construction projects.
- A general decline in business activity or demand for real estate transactions could adversely affect the REIT's ability or desire to acquire additional assets.
- The financial impact of the COVID-19 pandemic could negatively impact the REIT's ability to comply with financial covenants in its credit arrangements and result in a default and potentially an acceleration of indebtedness. Such noncompliance could negatively impact the REIT's financial position and its ability to make additional borrowings under its credit facilities.
- A severe disruption and instability in the global financial markets or deteriorations in credit and financing conditions may affect the REIT's ability to access capital necessary to fund business operations, including the acquisition or expansion of investment assets, or replace or renew maturing liabilities on a timely basis, on attractive terms, or at all, and may adversely affect the valuation of financial assets and liabilities.
- An outbreak of COVID-19 or other contagious illness in an asset or the market in which an asset operates could negatively impact its occupancy, reputation or attractiveness.
- Delays or supply issues related to COVID-19 vaccination programs could prolong the regulatory limitations on the operation of businesses and affect economic recovery.
- The COVID-19 pandemic could negatively affect the health, availability and productivity of Inovalis S.A.'s personnel. It could also affect Inovalis S.A.'s ability to recruit and attract new employees or retain current employees. An outbreak that directly affects, or threatens to directly affect, any of the assets could also deter or prevent Inovalis S.A.'s on site personnel from reporting to work. The effects of shelter in place orders could strain the REIT's business continuity plans, introduce operational risk, including but not limited to cybersecurity risks, and impair the REIT's ability to manage its business.
- Governmental agencies that permit and approve the REIT's projects, suppliers, builders, and other business partners and third parties may be prevented from conducting business activities in the ordinary course for an indefinite period of time, which could in turn negatively affect the REIT's business.
- Disruptions caused by COVID-19 may negatively impact the market price for the equity securities of the REIT and may, in the short or long term, materially adversely impact the REIT's tenants and/or the debt and equity markets, both of which could materially adversely affect the REIT's operations and financial performance and ability to pay distributions.

Other risks, including those described elsewhere in this MD&A related to changes to applicable laws and regulations, economic downturn in markets, debt financing, financing renewal, access to capital and the REIT's reliance on information technology infrastructure, and the effects of these risks on the REIT's financial condition, results of operations, cash flows, ability to make cash distributions, operations and the market price of its securities, could be exacerbated by the effects of the COVID-19 pandemic and government measures to control it, any intensification of such pandemic or measures, or any other outbreak of contagious disease.

The extent to which the COVID-19 pandemic impacts the REIT's operations, financial condition and financial results will depend on future developments, which are highly uncertain and cannot be predicted with confidence. Such future developments include the severity and duration of the pandemic, any intensification of the pandemic, the actions by governments and others taken to contain the pandemic or mitigate its impact, changes in the preferences of tenants and prospective tenants, and the direct and indirect economic effects of the pandemic and containment measures, among others. The rapid development and fluidity of this situation impedes the REIT's ability to predict the ultimate adverse impact of the COVID-19 pandemic. Nevertheless, the COVID-19 pandemic and the current financial, economic and capital markets environment, and future developments in these and other areas, present material uncertainty and risk with respect to the REIT's performance, consolidated financial condition, results of operations and cash flows.

Concentration of tenants may result in significant vacancies on the Properties

Five of the REIT's largest tenants, by percentage of total GLA, occupy 46% 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 2023 and 2027. To minimize this risk of vacancy, the 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 the 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 rent. In addition, certain leases contain a provision which gives tenants the right to terminate their leases upon payment of a penalty.

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

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

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

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

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

The REIT may incur significant capital expenditures

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

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

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

The real estate industry is capital intensive. The REIT requires access to capital to maintain our properties, as well as to fund our growth strategy and significant capital expenditures from time to time. There is no assurance that capital will be available when needed or on favorable terms. Failure to access 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 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 into financing transactions with third parties and affiliates. These financing agreements will require payment of principal and interest. There are several rules in German tax laws restricting the tax deductibility of interest expenses for corporate income and municipal trade tax purposes. Such rules have been changed considerably on several occasions in recent past. As a result, major uncertainties exist as to the interpretation and application of such rules, which are not yet clarified by the tax authorities and the tax courts. The tax deductibility of interest expenses depends on, among other things, the details of the security structure for debt financings, the annual amount of tax net-debt interest, the amounts and terms of Unitholder or affiliate financings and our general tax structure. There is a risk of additional taxes being triggered on the rental income and capital gains in case the tax authorities or the tax courts adopt deviating views on the above. If this were the case, this would result in a higher tax burden and, consequently, could have a material adverse effect on cash flows, financial condition and results of operations and ability to pay distributions on the Units.

Changes in currency exchange rates could adversely affect our business

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

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

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

Dependence on Inovalis S.A. for management services

The REIT is dependent on Inovalis S.A. 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 S.A. 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 S.A. 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 S.A. pursuant to the management agreement, the services provided by Inovalis S.A. are not performed by employees of the REIT, but by Inovalis S.A. directly and through entities to which it may subcontract. The Fourth Amended and Restated Management Agreement has an initial term of two years expiring on March 31, 2023 but may be extended for an additional one-year term based on mutual agreement of Inovalis S.A. and the REIT.

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

The REIT carries general liability, umbrella liability and excess liability insurance with limits that are typically obtained for similar real estate portfolios in France and Germany and otherwise acceptable to the Trustees. For the property risks the REIT intends to carry “Multi-Risk” property insurance including but not limited to, natural catastrophic events and loss of rental income insurance (with at least a 12 to 18-month indemnity period). The REIT also carries boiler and machinery insurance covering all boilers, pressure vessels, HVAC systems and equipment breakdown. There are, however, certain types of risks (of a catastrophic nature such as from pandemics war or nuclear accident) that are uninsurable under any insurance policy. Furthermore, there are other risks that are not economically viable to insure currently. The REIT partially self-insures against terrorism risk for the entire portfolio. The REIT has insurance for earthquake risks, subject to certain policy limits, deductibles and self-insurance arrangements. Should an uninsured or underinsured loss occur, the REIT could lose the investment in, and anticipated profits and cash flows from, one or more of its properties, but it would continue to be obligated to repay any recourse mortgage indebtedness on such properties. The REIT does not carry title insurance on the properties. If a loss occurs resulting from a title defect with respect to a property where there is no title insurance the REIT could lose all or part of its investment in, and anticipated profits and cash flows from, such property. The REIT does not carry pandemic insurance on the properties. If a loss occurs resulting from the inability of a tenant to pay rent or a restriction on the operation of a property due to government regulation related to the COVID-19 pandemic, the REIT could lose all or part of its investment in, and anticipated profits and cash flows from, such property.

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

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

Reliance on partnerships

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

Income taxes

Taxation of Trusts

The REIT qualifies as a "unit trust" and a "mutual fund trust" for purposes of the Tax Act. There can be no assurance that Canadian federal income tax laws and the administrative policies and assessing practices of the CRA respecting mutual fund trusts will not be changed in a manner that adversely affects Unitholders. Should the REIT cease to qualify as a mutual fund trust under the Tax Act, the income tax consequences to the REIT and its Unitholders would be materially and adversely different in certain respects.

Application of the SIFT Rules

Certain rules (the "SIFT Rules") apply to a trust that is a "SIFT trust" as defined in the Tax Act. Provided that a trust does not own "non-portfolio property" (as defined in the Tax Act), it will not be subject to the SIFT Rules. Based on the investment restrictions of the REIT, the REIT may not acquire any non-portfolio property and, therefore, is not subject to the SIFT Rules. However, there can be no assurance that the SIFT Rules or the administrative policies or assessing practices of the CRA will not be changed in a manner that adversely affects the REIT and Unitholders.

FAPI

The REIT's "participating percentage" (as defined in the Tax Act) of "foreign accrual property income" ("FAPI") earned by any controlled foreign affiliate ("CFA") of the REIT must be included in computing the income of the REIT for the fiscal year of the REIT in which the taxation year of such CFA ends, subject to a deduction for grossed-up "foreign accrual tax" as computed in accordance with the Tax Act. The deduction for grossed-up "foreign accrual tax" may not fully offset the FAPI realized by the REIT, thereby increasing the allocation of income to the REIT and, therefore, the allocation of income by the REIT to Unitholders.

In addition, as FAPI generally must be computed in accordance with Part I of the Tax Act as though the CFA were a resident of Canada and in Canadian currency (subject to the detailed rules contained in the Tax Act), income or transactions may be taxed differently under foreign tax rules as compared to the FAPI rules and, accordingly, may result in additional income being allocated to Unitholders.

Foreign Currency

For purposes of the Tax Act, the REIT is required to compute its Canadian tax results using Canadian currency, including for purposes of computing FAPI earned by CFAs of the REIT. Where an amount that is relevant in computing a taxpayer's Canadian tax results is expressed in a currency other than Canadian currency, such amount must be converted to Canadian currency using the rate of exchange quoted by the Bank of Canada on the day such amount first arose or using such other rate of exchange as is acceptable to the CRA. As a result, the REIT may realize gains and losses for tax purposes by virtue of the fluctuation of the value of foreign currencies relative to Canadian dollars.

Change of Tax Law

There can be no assurance that Canadian or foreign income tax laws, the judicial interpretation thereof, the terms of any income tax treaty applicable to the REIT or its affiliates or the administrative policies and assessing practices and policies of the CRA, the Department of Finance (Canada) and any foreign tax authority or tax policy agency will not be changed in a manner that adversely affects the REIT, its affiliates or Unitholders.

Non-Residents of Canada

The Tax Act may impose additional withholding or other taxes on distributions made by the REIT to Unitholders who are Non-Residents. These taxes and any reduction thereof under a tax treaty between Canada and another country may change from time to time.

Taxation of the REIT and the REIT's Subsidiaries

Although the REIT and its subsidiaries have been structured with the objective of maximizing after-tax distributions, taxes (including corporate, withholding, land transfer, and other taxes) in the various jurisdictions in which the REIT invests will reduce the amount of cash available for distribution to the REIT by its subsidiaries and, therefore, reduce the amount of cash available for distribution by the REIT to Unitholders. No assurance can be given as to the future level of taxation suffered by the REIT or its subsidiaries. In addition, certain tax positions adopted by the REIT and its subsidiaries may be challenged by the CRA or a foreign taxing authority. This could materially increase the taxable income of, and taxes payable by, the REIT and its subsidiaries, and thereby increase taxable income of Unitholders and/or adversely affect the REIT's financial position and cash available for distribution to Unitholders.

The extent to which distributions will be non-taxable in the future will depend in part on the extent to which the REIT's subsidiaries are able to deduct depreciation, interest and loan expenses relating to the REIT's properties for purposes of the Tax Act. No assurances can be given that the CRA will agree with capital cost allowance claims by the REIT's subsidiaries and that expenses claimed by the REIT and its subsidiaries are reasonable and deductible.

Qualified Investments

Management of the REIT will endeavor to ensure that the Units continue to be qualified investments for trusts governed by a registered retirement savings plan, a registered education savings plan, a registered retirement income fund, a deferred profit sharing plan, a registered disability savings plan and a tax-free savings account, each as defined in the Tax Act (collectively, “Plans”); however, there can be no assurance in this regard. In addition, Redemption Notes or other property received on an in specie redemption of Units may not be qualified investments for Plans. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments.

German Taxes

The Luxembourg SPV and Walpur-Four would be subject to municipal trade tax (“TT”) if acting through a German permanent establishment. Management of the REIT have assumed that the Luxembourg SPV and Walpur-Four will not be subject to TT based on the REIT’s current understanding of the structure. However, no assurances can be given that the Luxembourg SPV and Walpur-Four will not be subject to TT.

Luxco Restructuring

In 2018, the French and Luxembourg governments signed a double taxation treaty (“Double Taxation Treaty”), which replaces the existing treaty that currently applies to Luxco. The Double Taxation Treaty is applicable since January 1, 2020. Dividend distributions made by a French OPCI to Luxco are subject to a tax at a rate of 26.5% in 2021 (reduced to 25% as of January 1, 2022).

On June 30, 2021, the REIT completed the process of restructuring Luxco into a Specialized Investment Fund within the meaning of the Luxembourg law of 13 February 2007 (“SIF”), with multiple compartments and variable capital (“Société d’Investissement à Capital Variable”) subject an annual tax (also called “taxe d’abonnement”) of 0.01% of its Net Asset Value, and eligible for dividend withholding tax at a rate of 15% on dividends distribution made by a French OPCI.

The restructuring is not expected to result in material Canadian or foreign tax consequences; however, no assurance can be given that the CRA or a foreign tax authority will not challenge certain positions taken by the REIT and the REIT’s subsidiaries in connection with the restructuring of Luxco.

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 which is OPCI (collective undertaking for real estate investment) to CCE.

TFI CanCorp Isenburg, TFI CanCorp Kosching, TFI CanCorp Stuttgart (“TFI CC”), CanCorp Cologne and Trio are established in Luxembourg as fully taxable companies, subject to annual corporate income, municipal business and net wealth taxes. There is a minimum net wealth tax and corporate income tax in Luxembourg under certain condition. Dividends and liquidation distributions derived by CCE from the French OPCI may be tax exempt in Luxembourg for corporate income tax and municipal business tax purposes. CCE 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), fully owned by CCE, 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 sole partner.

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. 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 of 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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, 2020.

A description of significant accounting policies is provided in Note 3 of the annual audited consolidated financial statements of the REIT for the year ended December 31, 2020. On January 1, 2021, the REIT adopted Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, which addresses the accounting issues that arise upon the replacement of an Interbank Offered Rate (“IBOR”) with a Risk-Free Rate (“RFR”). The amendments had no impact on the REIT’s Condensed Interim Consolidated Financial Statements for the three months ended June 30, 2021 (Refer to “Note 3” in the June 30, 2021, interim FS).

The REIT has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

RELATED PARTY TRANSACTIONS

Pursuant to the Management Agreement, Inovalis S.A. is the asset manager of the REIT and provides the strategic, advisory, asset management, project management, construction management, property management and administrative services necessary to manage the operations of the REIT and its subsidiaries.

Inovalis S.A. is considered as a related party of the REIT as they share the same management. The founder and Chairman of Inovalis S.A. is President of the REIT, the Chief Executive Officer (“CEO”) of Inovalis S.A. is also CEO of the REIT, and the Deputy Chief Executive Officer of Inovalis S.A. is Chief Investment Officer (“CIO”) and Chief Financial Officer (“CFO”) of the REIT.

Extension of Management Agreement effective April 1, 2021

The Management Agreement between the REIT and Inovalis S.A. was extended for two years effective April 1, 2021.

See "*Related Party Transactions - Extension of Management Agreement effective April 1, 2021*" in this MD&A, and a full copy of the Fourth Amended and Restated Management Agreement is available on SEDAR.com.

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 effective as at June 30, 2021.

Internal Controls over Financial Reporting ("ICFR")

During the quarter ended June 30, 2021, no changes were made to the REIT's system of disclosure controls and procedures and internal controls over financial reporting.

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.

An evaluation of the adequacy of the design and effective operation of the REIT's ICFR was conducted under the supervision of management, including the CEO and CFO, as at June 30, 2021.

The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate. Based on that evaluation, the CEO and the CFO have concluded that the design of ICFR was complete as at June 30, 2021. These controls, although implemented, were not fully assessed for operating effectiveness as at June 30, 2021.

Inherent Limitations

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

QUARTERLY INFORMATION – LAST EIGHT QUARTERS

	As at and for the three months ended							
	June 30 2021	March 31 2021	Dec. 31 2020	Sep. 30 2020	Jun. 30 2020	Mar. 31 2020	Dec. 31 2019	Sep. 30 2019
Rental revenue	6,871	7,420	7,706	7,154	7,119	6,878	6,261	6,627
Rental revenue - Total Portfolio(1)	8,967	9,531	9,941	9,606	9,525	9,238	9,242	9,750
Net rental income	6,918	4,438	7,761	7,260	7,399	4,250	6,379	6,980
Net rental income - Total Portfolio(1)	8,976	6,096	9,851	9,610	9,786	6,304	9,146	10,173
Net income attributable to Unitholders	9,247	4,166	(8,952)	4,445	(9,385)	32,088	30,094	5,373
FFO (1)	4,295	4,265	5,631	6,393	5,418	5,484	6,744	6,758
AFFO (1)	4,327	2,986	4,955	5,984	5,210	4,143	8,176	6,112
FFO per Unit (diluted) (1) (2)	0.13	0.13	0.17	0.19	0.16	0.16	0.22	0.23
AFFO per Unit (diluted) (1) (2)	0.13	0.09	0.15	0.18	0.15	0.12	0.26	0.21
Declared distribution per Unit	0.51	0.21	0.21	0.21	0.21	0.21	0.21	0.21
FFO payout ratio(2)	160.7%	167.0%	129.2%	108.6%	130.0%	127.7%	93.5%	88.0%
AFFO payout ratio(2)	159.5%	184.6%	146.8%	116.0%	135.2%	169.1%	77.1%	97.3%

(1) See the section *"Non-GAAP Financial Measures"* on page 46 for more information on the REIT's non-GAAP financial measures and reconciliations thereof. Non-GAAP measures do not have standardized meaning under IFRS. These measures as computed by the REIT may differ from similar computations as reported by other entities and, accordingly, may not be comparable to other entities.

(2) Excluding Participatory Distribution. Based on the diluted weighted average number of Units, Exchangeable securities and the conversion of promissory notes in 2020.

NON-GAAP FINANCIAL MEASURES

There are financial measures included in this MD&A that do not have a standardized meaning under IFRS. These measures include funds from operations, adjusted funds from operations, and other measures presented on a proportionate share basis. Management includes these measures as they represent key performance indicators to management, and it believes certain investors use these measures as a means of assessing relative financial performance. These measures as computed by Inovalis REIT may differ from similar computations as reported by other entities and, accordingly, may not be comparable to other such entities.

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 consolidated financial statements, are presented below using the proportionate consolidation method at the REIT's ownership percentage of the related investment. Management views this method as relevant in demonstrating the Trust's ability to manage the underlying economics of the related investments, including the financial performance and the extent to which the underlying assets are leveraged, which is an important component of risk management.

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.

Consolidated statement of earnings reconciliation to consolidated financial statements

	Three months ended					
	June 30, 2021			June 30, 2020		
(in thousands of CAD$)	**Amounts per REIT's financial statements**	**Share of net earnings from investments in joint ventures**	**Total**	**Amounts per REIT's financial statements**	**Share of earnings from investments in joint ventures**	**Total**
Rental income	6,871	2,096	**8,967**	7,119	2,406	**9,525**
Property operating cost recoveries	1,587	602	**2,189**	1,554	648	**2,202**
Property operating costs	(1,372)	(644)	**(2,016)**	(1,279)	(661)	**(1,940)**
Other revenues	137	(2)	**135**	84	(2)	**82**
Other property operating expenses	(305)	6	**(299)**	(79)	(4)	**(83)**
Net rental income	**6,918**	**2,058**	**8,976**	**7,399**	**2,387**	**9,786**
General and administrative expenses	(2,105)	(419)	**(2,524)**	(2,110)	(483)	**(2,593)**
Foreign exchange loss	(54)	-	**(54)**	(845)	-	**(845)**
Net change in fair value of investment properties	6,814	(2,315)	**4,499**	(2,288)	(1,308)	**(3,596)**
Loss on sale of investment in joint venture	(108)	-	**(108)**	-	-	**-**
Share of net loss from joint ventures	(1,495)	1,495	**-**	(849)	849	**-**
Operating income	**9,970**	**819**	**10,789**	**1,307**	**1,445**	**2,752**
Net change in fair value of financial derivatives	(1,860)	24	**(1,836)**	85	(1)	**84**
Net change in fair value of Exchangeable securities	(95)	-	**(95)**	(1,727)	-	**(1,727)**
Net change in fair value of Promissory notes	-	-	**-**	(8,050)	-	**(8,050)**
Finance income	884	(831)	**53**	1,911	(1,022)	**889**
Finance costs	(1,634)	(322)	**(1,956)**	(2,608)	(409)	**(3,017)**
Distributions on Exchangeable securities	(222)	-	**(222)**	(203)	-	**(203)**
Income (loss) before income taxes	**7,043**	**(310)**	**6,733**	**(9,285)**	**13**	**(9,272)**
Current income tax expense	(2,007)	(31)	**(2,038)**	(40)	-	**(40)**
Deferred income tax recovery	4,145	341	**4,486**	(65)	(13)	**(78)**
Total income tax recovery (expense)	**2,138**	**310**	**2,448**	**(105)**	**(13)**	**(118)**
Net income (loss)	**9,181**	**-**	**9,181**	**(9,390)**	**-**	**(9,390)**
Non-controlling interest	(66)	-	(66)	(5)	-	(5)
Net income (loss) attributable to the Trust	**9,247**	**-**	**9,247**	**(9,385)**	**-**	**(9,385)**

(1) Consolidated statement of earnings amounts presented for the REIT were taken respectively from interim consolidated financial statements as at June 30, 2021 and 2020.

	Six months ended					
	June 30, 2021			June 30, 2020		
(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	14,291	4,206	**18,497**	13,997	4,765	**18,762**
Property operating cost recoveries	3,628	1,391	**5,019**	3,125	1,376	**4,501**
Property operating costs	(6,254)	(1,886)	**(8,140)**	(5,450)	(1,814)	**(7,264)**
Other revenues	204	-	**204**	87	122	**209**
Other property operating expenses	(513)	6	**(507)**	(113)	(6)	**(119)**
Net rental income	**11,356**	**3,717**	**15,073**	**11,646**	**4,443**	**16,089**
General and administrative expenses	(4,566)	(832)	**(5,398)**	(4,352)	(1,035)	**(5,387)**
Foreign exchange loss	(940)	-	**(940)**	1,803	-	**1,803**
Net change in fair value of investment properties	8,524	(2,083)	**6,441**	(586)	(1,212)	**(1,798)**
Loss on sale of investment in joint venture	(108)	-	**(108)**	-	-	**-**
Share of net loss from joint ventures	(1,066)	1,066	**-**	(666)	666	**-**
Operating income	**13,200**	**1,868**	**15,068**	**7,845**	**2,862**	**10,707**
Net change in fair value of financial derivatives	974	(10)	**964**	207	8	**215**
Net change in fair value of Exchangeable securities	(774)	-	**(774)**	2,579	-	**2,579**
Net change in fair value of Promissory notes	-	-	**-**	13,703	-	**13,703**
Finance income	1,686	(1,730)	**(44)**	4,175	(2,026)	**2,149**
Finance costs	(3,260)	(638)	**(3,898)**	(5,076)	(780)	**(5,856)**
Distributions on Exchangeable securities	(452)	-	**(452)**	(392)	-	**(392)**
Income before income taxes	**11,374**	**(510)**	**10,864**	**23,041**	**64**	**23,105**
Current income tax expense	(2,184)	(4)	**(2,188)**	(49)	(16)	**(65)**
Deferred income tax recovery (expense)	4,200	514	**4,714**	(283)	(48)	**(331)**
Total income tax recovery (expense)	**2,016**	**510**	**2,526**	**(332)**	**(64)**	**(396)**
Net income	**13,390**	**-**	**13,390**	**22,709**	**-**	**22,709**
Non-controlling interest	(21)	-	(21)	6	-	6
Net income attributable to the Trust	**13,411**	**-**	**13,411**	**22,703**	**-**	**22,703**

(1) Consolidated statement of earnings amounts presented for the REIT were taken respectively from interim consolidated financial statements as at June 30, 2021 and 2020.

Balance sheet reconciliation to consolidated financial statements

	June 30, 2021			As at December 31, 2020		
Assets	**As per REIT's financial statements (1)**	**Share from investments in joint-ventures**	**Proportionate Consolidation**	**As per REIT's financial statements (1)**	**Share from investments in joint-ventures**	**Proportionate Consolidation**
Non-current assets						
Investment properties	520,354	147,286	**667,640**	541,218	160,240	**701,458**
Investments in joint ventures	67,623	(67,623)	**-**	75,987	(75,987)	**-**
Other Financial assets	637	(637)	**-**	-	-	**-**
Derivative financial instruments	233	-	**233**	-	-	**-**
Restricted cash	5,079	-	**5,079**	4,874	-	**4,874**
Total non-current assets	593,926	79,026	**672,952**	622,079	84,253	**706,332**
Current assets						
Trade receivables and other financial assets	10,082	1,130	**11,212**	6,623	2,756	**9,379**
Derivative financial instruments	603	-	**603**	15	19	**34**
Other current assets	4,496	1,533	**6,029**	2,444	975	**3,419**
Restricted cash	53	-	**53**	552	-	**552**
Cash	58,226	4,011	**62,237**	80,376	3,813	**84,189**
Total current assets	73,460	6,674	**80,134**	90,010	7,563	**97,573**
Total assets	667,386	85,700	**753,086**	712,089	91,816	**803,905**
Liabilities and Unitholders' equity						
Liabilities						
Non-current liabilities						
Interest-bearing loan	378	-	**378**	474	-	**474**
Mortgage loans	125,953	62,680	**188,633**	152,737	67,620	**220,357**
Lease liabilities	112,262	10,388	**122,650**	121,813	9,460	**131,273**
Tenant deposits	1,287	124	**1,411**	1,490	162	**1,652**
Derivative financial instruments	1,547	-	**1,547**	3,091	-	**3,091**
Deferred tax liabilities	8,923	6,690	**15,613**	13,212	7,618	**20,830**
Total non-current liabilities	250,350	79,882	**330,232**	292,817	84,860	**377,677**
Current liabilities						
Interest-bearing loan	33	-	**33**	36	-	**36**
Mortgage loans	21,043	227	**21,270**	4,752	240	**4,992**
Lease liabilities	7,483	496	**7,979**	8,474	2,319	**10,793**
Lease equalization loans	174	-	**174**	371	-	**371**
Tenant deposits	619	33	**652**	1,009	35	**1,044**
Exchangeable securities	10,713	-	**10,713**	9,945	-	**9,945**
Derivative financial instruments	1,233	-	**1,233**	2,382	-	**2,382**
Trade and other payables	21,857	4,580	**26,437**	11,052	3,755	**14,807**
Income tax payable	164	-	**164**	4,069	-	**4,069**
Provisions	2,020	-	**2,020**	-	-	**-**
Deferred income	3,723	482	**4,205**	521	599	**1,120**
Total current liabilities	69,062	5,818	74,880	42,611	6,948	49,559
Total liabilities	319,412	85,700	**405,112**	335,428	91,808	**427,236**
Equity						
Trust units	286,975	-	**286,975**	286,975	-	**286,975**
Retained earnings	42,838	-	**42,838**	53,350	1	**53,351**
Accumulated other comprehensive income	16,821	-	**16,821**	34,913	7	**34,920**
	346,634	-	**346,634**	375,238	8	**375,246**
Non-controlling interest	1,340	-	**1,340**	1,423	-	**1,423**
Total liabilities and equity	667,386	85,700	**753,086**	712,089	91,816	**803,905**

(1) Balance sheet amounts presented for the REIT were taken respectively from interim consolidated financial statements as at June 30, 2021 and audited consolidated financial statements as at December 31, 2020.

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

FFO and AFFO are non-GAAP 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 dated February 2019 and as subsequently amended (''White Paper''). As an exception, considering the significant amount of cash held in Euros in Canada and the volatility of the Canadian dollar against the Euro, the unrealized gain (loss) recognized in the first semester of 2021 and for all four quarters of 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 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 Unitholders after considering costs associated with sustaining operating earnings.

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

FFO for the REIT is defined as net earnings in accordance with IFRS, subject to certain adjustments including adjustments for: (i) acquisition costs, (ii) net change in fair value of investment properties, (iii) net change in fair value of derivative financial instruments at fair value through profit and loss, (iv) net changes in fair value of Exchangeable securities and Private Placement promissory notes in 2020, (v) finance costs related to distribution on Exchangeable securities and promissory notes in 2020, (vi) adjustment for property taxes accounted for under IFRIC 21 (if any), (vii) loss on exercise of lease option (if any), (viii) adjustment for foreign exchange gains or losses on monetary items not forming part of an investment in a foreign operation, (ix) gain on disposal of an interest in a subsidiary and the non-cash portion of earnings from investments accounted for using the equity method, (x) finance income earned from loans to joint ventures (if any), (xi) loss on refinancing of debts and other non-recurring finance costs, (xii) deferred taxes, (xiii) gains or losses from non-recurring items, (xiv) additional non-recurring income (loss) from JVs, (xv) minority interest, and (xvi) goodwill / bargain purchase gains upon acquisition. These distributions are recognized in profit and loss consistent with the classification of the Exchangeable securities as a liability. However, they are not to be considered when determining distributions for the Unitholders as indeed they are subordinated to the distributions to the Unitholders.

Exchangeable securities and private placement promissory notes (2020 only) are recorded as liabilities. Exchangeable securities and promissory notes are recorded at fair value through profit and loss in accordance with IFRS. However, both are considered as equity for the purposes of calculating FFO and AFFO as they are economically equivalent to the REIT's Units, with the same features and distribution rights that are economically equivalent to the distribution received by Unitholders.

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

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

The reconciliation of FFO and AFFO for the three- and six-month periods ended June 30, 2021 and 2020, based on proportionate consolidation figures, is as follows:

	Three months ended June 30,		Six months ended June 30,	
(in thousands of CAD$)	**2021**	**2020**	**2021**	**2020**
Net income attributable to the Trust	9,247	(9,385)	13,411	22,703
Add/(Deduct):				
Net change in fair value of investment properties	(4,499)	3,596	(6,441)	1,798
Net change in fair value of financial derivatives	1,836	217	(1,031)	86
Net change in fair value of derivative on acquisition loan	-	(150)	33	(150)
Loss on sale of investment in joint venture	108	-	108	-
Adjustment for property taxes accounted for under IFRIC 21	(891)	(822)	1,640	1,564
Interest on promissory notes	-	906	-	1,778
Distributions on Exchangeable securities	222	203	452	392
Net change in fair value of Exchangeable securities	95	1,727	774	(2,579)
Net change in fair value of Promissory Notes	-	8,050	-	(13,703)
Foreign exchange loss (gain) (3)	61	845	988	(1,803)
Income tax adjustment	2,057	-	2,057	-
Deferred income tax recovery (expense)	(4,486)	78	(4,714)	331
Other adjustments (2)	610	158	1,179	475
Minority interest	(65)	(5)	(22)	6
FFO	**4,295**	**5,418**	**8,434**	**10,898**
Add/(Deduct):				
Non-cash effect of straight line rents	11	(477)	(111)	(617)
Cash effect of the lease equalization loans	8	(149)	(177)	(1,546)
Amortization of transaction costs on mortgage loans	24	81	48	159
Non-cash part of asset management fees paid in Exchangeable securities (1)	-	388	-	762
Capex net of cash subsidy	(11)	(51)	(122)	(307)
AFFO	**4,327**	**5,210**	**8,072**	**9,349**
FFO / Units (diluted) *(in CAD$)*	**0.13**	**0.16**	**0.25**	**0.32**
AFFO / Units (diluted) *(in CAD$)*	**0.13**	**0.15**	**0.24**	**0.27**

(1) For purposes of this presentation, 50% of the asset management fee is included in the AFFO reconciliation. 50% of the asset management fees were paid in Exchangeable securities in 2020. For Q1 and Q2 2021, asset management fees have been fully paid in cash.

(2) Other adjustments line refers non-recurring administrative expenses related to Strategic review, aborted asset acquisitions and SIF conversion. Due to their specific nature, Management has decided to exclude these expenses from the FFO calculation, although REALPAC does not expressively provide guidance on such exclusion.

(3) REALPAC guidance suggest that the FX gain or loss be included in the FFO calculation. However, due to the volatility of the Canadian dollar against the Euro, the REIT has elected to exclude from the FFO calculation the unrealized gain or loss on the cash held in Canada in Euro.

SUBSEQUENT EVENT

Jeuneurs – Future Sale of Property

Subsequent to the quarter end, the REIT received an unsolicited offer for the Jeuneurs property from a third party. The Jeuneurs property has a gross leasable area of 5,536 m2 (59,589 sq. ft.) and is located in the Paris periphery. On July 28, in connection with this offer, the REIT entered into an agreement to sell the property to the offering party. The net sale price is CAD$105 million (EUR71 million), excluding closing costs. The buyer has demonstrated their commitment by agreeing to a CAD$10.5 million) (EUR7.1 million) deposit, of which CAD$5.25 million (EUR3.55 million) was paid on the day of signing under the unilateral commitment to sell which will be applied against the selling price of the property at the transaction date.