INOVALIS REAL ESTATE INVESTMENT TRUST
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2019

(Unaudited)

Unaudited Interim Consolidated Balance Sheets

(All dollar amounts in thousands of Canadian dollars)

Assets	Note	As at September 30, 2019	As at December 31, 2018
Non-current assets			
Investment properties	7	462 813	421 937
Investments in joint ventures	8	90 797	98 703
Acquisition loan	-	24 400	25 719
Derivative financial instruments	-	321	306
Restricted cash	-	5 155	1 644
Total non-current assets		**583 486**	**548 309**
Current assets			
Trade receivables and other financial assets	-	5 413	4 000
Derivative financial instruments	-	9 662	6 814
Other current assets	-	2 140	1 080
Cash	-	11 595	19 110
Total current assets		**28 810**	**31 004**
Assets held for sale	6	-	40 027
Total assets		**612 296**	**619 340**

Liabilities and equity	Note	As at September 30, 2019	As at December 31, 2018
Non-current liabilities			
Interest-bearing loan	-	469	-
Mortgage loans	-	130 391	83 391
Lease liabilities	-	116 641	120 547
Lease equalization loans	-	1 160	2 130
Tenant deposits	-	1 922	2 180
Derivative financial instruments	-	4 001	1 396
Deferred tax liabilities	-	9 038	8 428
Exchangeable securities	10	2 642	4 779
Deferred income	-	-	1 099
Total non-current liabilities		**266 264**	**223 950**
Current liabilities			
Promissory notes	-	46 965	42 471
Mortgage loans	-	4 016	14 588
Lease liabilities	-	6 897	6 637
Lease equalization loans	-	1 084	1 185
Tenant deposits	-	596	687
Derivative financial instruments	-	1 366	1 207
Exchangeable securities	10	6 371	3 203
Trade and other payables	-	11 912	7 145
Deferred income	-	2 886	4 394
Total current liabilities		**82 093**	**81 517**
Liabilities directly associated with assets held for sale	6	-	21 792
Total liabilities		**348 357**	**327 259**
Equity			
Trust units	-	210 414	207 442
Retained earnings	-	40 680	47 974
Accumulated other comprehensive income	13	11 714	36 146
Total Unitholders' equity		**262 808**	**291 562**
Non-controlling interest	-	1 131	519
Total equity		**263 939**	**292 081**
Total liabilities and equity		**612 296**	**619 340**

See accompanying notes to the condensed interim consolidated financial statements

On behalf of the Board of Trustees of Inovalis Real Estate Investment Trust:

“Daniel Argiros”
Chairman and Trustee

“Jo-Ann Lempert”
Audit Chair and Trustee

Unaudited Interim Consolidated Statements of Income

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

	Note	For the three months ended September 30, 2019	For the three months ended September 30, 2018 Restated (Note 2)	For the nine months ended September 30, 2019	For the nine months ended September 30, 2018 Restated (Note 2)
Rental revenue	-	6 627	6 142	19 263	19 395
Property operating cost recoveries	-	1 528	1 903	6 123	6 007
Property operating costs	-	(1 519)	(1 635)	(8 881)	(8 528)
Other revenues	-	411	328	409	752
Other property operating expenses	-	(66)	(70)	(305)	(233)
Net rental income		**6 981**	**6 668**	**16 609**	**17 393**
Administration expenses	-	(1 360)	(1 126)	(4 758)	(4 173)
Foreign exchange gain	-	(4)	2	(6)	85
Net change in fair value of investment properties	*7*	3 746	(1 062)	4 488	276
Loss on disposal of investment proporties	-	-	-	(56)	-
Share of net income from joint ventures	*8*	342	925	886	2 499
Operating earnings		**9 705**	**5 407**	**17 163**	**16 080**
Net change in fair value of financial derivatives	-	85	1 107	(1 543)	2 928
Net change in fair value of Exchangeable securities	*10*	(367)	135	(697)	201
Net change in fair value of Promissory notes	-	(2 031)	(1 981)	(4 494)	(3 661)
Finance income	*11*	2 435	2 058	6 743	6 161
Finance costs	*11*	(2 627)	(2 589)	(7 774)	(7 606)
Distributions on Exchangeable securities	-	(173)	(265)	(528)	(819)
Income before income taxes		**7 027**	**3 872**	**8 870**	**13 284**
Current income tax expense	-	(64)	(11)	(191)	(25)
Deferred income tax expense	-	(926)	(302)	(1 305)	(5 622)
Net income		**6 037**	**3 559**	**7 374**	**7 637**
Net income attributable to :					
Non-controlling interest	-	14	(14)	21	(13)
Unitholders' of the Trust	-	6 023	3 573	7 353	7 650
		6 037	**3 559**	**7 374**	**7 637**

See accompanying notes to the condensed interim consolidated financial statements

Unaudited Interim Consolidated Statements of Comprehensive (Loss) Income

(All dollar amounts in thousands of Canadian dollars)

	Note	For the three months ended September 30, 2019	For the three months ended September 30, 2018 Restated (Note 2)	For the nine months ended September 30, 2019	For the nine months ended September 30, 2018 Restated (Note 2)
Net income	-	**6 037**	**3 559**	**7 374**	**7 637**
Other comprehensive loss					
Items that may be reclassified subsequently to income :					
Net losses on derivatives designated as a hedge of the net investment in a foreign entity	-	364	832	1 770	874
Reclassification of net losses to income	-	109	166	404	514
Change in cumulative translation adjustment account	-	(10 217)	(6 169)	(26 051)	(1 680)
Share of other comprehensive loss of joint ventures	-	(247)	(365)	(595)	(400)
Items that may not be reclassified subsequently to income :					
Disposal of a part of interest		-	-	(389)	-
Acquisition of investment properties				930	
Capital increase from minority interest		-	-	90	-
Other comprehensive loss net of tax		**(9 991)**	**(5 536)**	**(23 841)**	**(692)**
Total comprehensive income (loss)		**(3 954)**	**(1 977)**	**(16 467)**	**6 945**
Total comprehensive income (loss) attributable to :					
Non-controlling interest	-	(22)	(34)	612	(21)
Unitholders of the Trust	-	(3 932)	(1 943)	(17 079)	6 966
Total comprehensive income (loss)		**(3 954)**	**(1 977)**	**(16 467)**	**6 945**

Unaudited Interim Consolidated Statements of Changes in Equity

(All dollar amounts in thousands of Canadian dollars, except number of Units)

	Note	Number of Units issued and outstanding	Trust Units	Retained earnings	Accumulated other comprehensive income	Total attributable to the Unitholders' of the Trust	Non-controlling interest	Total equity
As at December 31, 2018		23 513 652	207 442	47 974	36 146	291 562	519	292 081
Issuance of units	-	90 500	792	-	-	792	-	792
Distributions earned by Unitholders	*12*	-	-	(14 647)	-	(14 647)	-	(14 647)
Distributions reinvestment Plan	*12*	222 809	2 180	-	-	2 180	-	2 180
		313 309	2 972	(14 647)	-	(11 675)	-	(11 675)
Net income (loss)		-	-	7 353	-	7 353	21	7 374
Other comprehensive income (loss)		-	-	-	(24 432)	(24 432)	591	(23 841)
Comprehensive income (loss)		-	-	7 353	(24 432)	(17 079)	612	(16 467)
As at September 30, 2019		**23 826 961**	**210 414**	**40 680**	**11 714**	**262 808**	**1 131**	**263 939**
As at December 31, 2017		22 235 421	195 739	44 749	24 436	264 924	353	265 277
Issuance of units	-	847 854	7 816	-	-	7 816	-	7 816
Distributions earned by Unitholders	*12*	-	-	(14 111)	-	(14 111)	-	(14 111)
Distributions reinvestment Plan	*12*	168 282	1 642	-	-	1 642	-	1 642
		1 016 136	9 458	(14 111)	-	(4 653)	-	(4 653)
Net income (loss)		-	-	7 650	-	7 650	(13)	7 637
Other comprehensive income		-	-	-	(684)	(684)	(8)	(692)
Comprehensive income		-	-	7 650	(684)	6 966	(21)	6 945
As at September 30, 2018		**23 251 557**	**205 197**	**38 288**	**23 752**	**267 237**	**332**	**267 569**

See accompanying notes to the condensed interim consolidated financial statements

Unaudited Interim Consolidated Statements of Cash Flows

(All dollar amounts in thousands of Canadian dollars)

	Note	For the three months ended September 30, 2019	For the three months ended September 30, 2018 Restated (Note 2)	For the nine months ended September 30, 2019	For the nine months ended September 30, 2018 Restated (Note 2)
Operating activities					
Income (loss) before income taxes	-	7 027	3 872	8 870	13 284
Interest received	-	2 113	2 544	6 222	8 184
Interest paid (on mortgage, lease liabilities and lease equalization loans)	-	(2 230)	(3 053)	(7 191)	(7 705)
Income tax paid	-	(64)	(11)	(191)	(25)
Distributions in respect of exchangeable securities paid in cash	-	(175)	(180)	(545)	(814)
Adjustments for non-cash items and other reconciling items	*16*	(1 139)	2 028	4 004	2 510
		5 532	**5 200**	**11 169**	**15 434**
Working capital adjustments	*16*	1 609	(599)	(158)	(1 547)
Net cash flows related to operating activities		**7 141**	**4 601**	**11 011**	**13 887**
Investing activities					
Investment properties (additions and capitalized letting fees)	*7*	(1 062)	(342)	(1 414)	(2 663)
Acquisitions of investment property	*5*	-	-	(26 928)	-
Proceeds from sale of investment property	*6*	-	-	15 960	-
Investments in joint ventures	*8*	-	(35)	-	(11 307)
Loan repayments received from joint ventures	*8*	359	533	1 175	1 408
Reimbursement of acquisition loans	-	-	(6)	-	1 153
Investment in other financial assets	-	(215)	-	(1 721)	-
Decrease in financial current assets	-	335	(6)	1 958	1 153
Net cash flows related to investing activities		**(583)**	**144**	**(10 970)**	**(10 256)**
Financing activities					
Distributions on Units paid in cash	*12*	(4 085)	(4 222)	(12 445)	(12 399)
Proceeds from promissory notes	-	-	76	-	20 182
Issuance (reimbursement) of mortgage loans and finance lease liabilities net of tansaction costs	*9*	(673)	-	76 838	-
Repayment of mortgage loans and lease liabilities	-	(3 980)	(2 093)	(70 751)	(5 996)
Repayment of lease equalization loans	*16*	(276)	(265)	(844)	(862)
Net cash flows related to financing activities		**(9 014)**	**(6 504)**	**(7 202)**	**925**
Net increase (decrease) in cash		**(2 456)**	**(1 759)**	**(7 161)**	**4 556**
Effects of foreign exchange adjustments on cash	-	(387)	(490)	(1 238)	(155)
Cash at the beginning of the period [(1)]		**14 438**	**26 995**	**19 994**	**20 345**
Cash at the end of the period		**11 595**	**24 746**	**11 595**	**24 746**

(1) For the nine months ended September 30, 2019 the cash at the beginning of the period include cash from assets held for sale $884.

See accompanying notes to the condensed interim consolidated financial statements

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2019

Note 1 – Organization

Inovalis Real Estate Investment Trust (the "REIT") is an open-ended real estate investment trust created pursuant to a Declaration of Trust dated February 8, 2013, under the laws of the Province of Ontario, Canada, as amended and restated on January 20, 2016. The REIT's investment property portfolio, owned directly or through joint arrangements, is comprised of office rental properties located in France and Germany.

The REIT's head and registered office is located at 151 Yonge Street, 11th floor, Toronto, Ontario, M5C 2W7. The REIT's units are listed on the Toronto Stock Exchange ("TSX") under the symbol INO.UN.

The REIT engages Inovalis S.A. ("Inovalis SA"), a real estate asset manager having operations in France and Germany, to manage certain functions.

Note 2 – Basis of preparation of consolidated financial statements

Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. They are condensed and do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 2018 audited consolidated annual financial statements.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Trustees of the REIT on November 14, 2019.

Basis of presentation

These condensed interim consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars. All financial information has been rounded to the nearest thousand except when otherwise indicated.

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for investment properties, exchangeable securities, promissory notes and derivative financial instruments, which are measured at their fair values.

The figures presented for the period ended September 30, 2018 have been restated, when appropriate, in order to ensure comparability with the figures for the period ending September 30, 2019:

- Part of the change in fair value of Promissory notes is reclassified from "Change in cumulative translation adjustment account" to "Net change in fair value of Promissory notes" for an amount of $ 479 as at September 30, 2018;
- The adjustment of the acquisition loan interest at 14% due to the recognition of the call option derivative decreases "Finance income" for an amount of $ (1,744) and increases "Net change in fair value of financial derivatives" for an amount of $ 3,327 as at September 30, 2018 ;

Some of the prior period's data have been reclassified to conform to the presentation adopted in the current period:

- Distributions in respect of exchangeable securities paid in cash are reclassified from "Financing activities" to "Operating activities" in the cash-flows statements.
- Amortization of issuance costs on promissory notes are reclassified from "Finance costs" to "Net change in fair value of Promissory notes" in the statement of income.

Note 3 – Significant accounting policies

The condensed interim consolidated financial statements have been prepared in accordance with the same accounting policies and methods of computation as compared with the REIT's most recent annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of a new accounting policy described below.

Amendment to IFRS 3 R Business combinations

On October 22, 2018, the IASB issued amendments to IFRS 3 that revises the definition of a business. Entities shall apply these amendments to business combinations and assets acquisitions for which the acquisition date is on or after the beginning of the first annual reporting periods beginning on or after January 1, 2020. Early application is permitted. Inovalis REIT has elected to apply this amendment starting January 1, 2019.

In particular, this amendment introduces an optional "concentration test" to perform a simplified assessment whether the transaction is an acquisition of a business or of assets. An entity may elect to apply, a "concentration test" that, if met, eliminates the need for further assessment. Under this optional test, where substantially all the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. This election is made separately for each transaction or other event. Gross assets acquired shall exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is not met, or if the entity elects not to apply the test, the entity shall then perform the detailed assessment whether the transaction is an acquisition of a business or of assets.

Other changes introduced by this amendment are:

- To qualify as a business, an acquisition has to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process exist. To be a business without outputs, there will now need to be an organized workforce;
- The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and excludes returns in the form of lower costs and other economic benefits;
- It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets.

IFRIC 21 – Levies

In accordance with IFRS Interpretations Committee (IFRIC) 21, Levies, the Company recognizes the full amount of annual property tax liabilities at the point in time when the realty tax obligation is imposed. This is the obligating event that gives rise to a liability to pay the property taxes.

IFRIC 23 – Uncertainty over Income Tax Treatments issued

On June 7, 2017, the IASB issued an interpretation to IAS 12 which clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. There is no impact on first application by the REIT.

IFRS 16 – Leases

In January 2016, the IASB published IFRS 16 which now replaces IAS 17 *Leases*. For lessees, IFRS 16 introduces a single accounting model, requiring lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain circumstances.

There is no material impact of IFRS 16 on the condensed interim consolidated financial statements, since existing leases are already accounted for as finance leases.

Note 4 – Critical accounting judgments and estimates

The preparation of the REIT's condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments and estimates that affect the reported amounts of revenues, expenses, assets and liabilities. Uncertainty about these estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The condensed interim consolidated financial statements have been prepared in accordance with the REIT's most recent annual financial statements for the year ended December 31, 2018, for all the areas involving a higher degree of judgment or complexity or the areas where assumptions and estimates are significant.

The Double Taxation Treaty between France and Luxembourg was ratified on July 2, 2019. As the instruments of ratification have been exchanged between the two countries, the new Double Taxation Treaty will come into effect in calendar year 2020.

The increase in tax rates may have a significant impact on the REIT. Management is restructuring the Luxembourg holding company into a regulated entity, that will be subject to the reduced rate of 15% once the DTT comes into effect (instead of 30%). Deferred income tax liabilities are based on the reduced rate of 15% and the assumption of the distribution of 50% of the OPCIs' net profits arising from capital gains upon disposition (which results in an effective rate of 7,5%). These assumptions are the same as in the consolidated financial statements for the year ended December 31, 2018, as management's assessment was that the DTT was substantively enacted as of December 31, 2018.

Note 5 – Acquisition of investment properties

The REIT, through a controlled subsidiary, together with a company controlled by Inovalis SA, acquired on March 27, 2019 a property ("Trio property") located near Frankfurt, for approximately €45,755 ($69,106). The Trio property is financed by a new senior bank loan of €31,200 ($47,123) bearing interest at a fixed rate of 1.56% which maturity date is March 15, 2024. Pursuant to the loan agreement, a €2,700 ($4,078) reserve for capital expenditures was established and is considered restricted cash. The REIT owns 94.9% of the subsidiary and a company controlled by Inovalis SA owns 5.1% of the subsidiary.

The REIT has elected to apply the "concentration test" authorized by the amendment to IFRS 3. As the fair value of the acquired gross assets is substantially concentrated in the Trio property, the transaction has been qualified as an acquisition of assets. As a consequence, the cost of such an acquisition (€47,338), includes transaction costs (€1,583). No goodwill or deferred tax is recognized.

The TRIO acquisition includes an unrecognized deferred tax liability of $2,965 in relation with the IAS 12 recognition exemption on acquisition of assets.

Purchase price allocation	**(in 000's of €)**	**(in 000's of $)**
Recognized amounts of identifiable assets acquired and liabilities assumed		
Investment property	47,338	71,497
Mortgage loan	(30,799)	(46,517)
Other liabilities (1)	(448)	(679)
Total liabilities assumed	**(31,247)**	**(47,196)**
Net asset acquired	**16,091**	**24,301**
Consideration transferred by the REIT for the acquisition consists of the following :		
Cash	17,900	27,037
Restricted cash	(2,700)	(4,078)
Consideration transferred by the REIT	**15,200**	**22,959**
Consideration for minority interest :		
OCI - Acquisition of investment properties	616	930
Interst-bearing loan	275	412
	891	**1,342**

(1) *Including cash for €72 ($109).*

Note 6 – Assets held for sale

In January 2019, the REIT sold its interest in the Hanover property to a third party.

To facilitate the transaction, entities owned by Inovalis SA and a company controlled by a Trustee were engaged to facilitate a structure and as such hold the voting interests in the property. However, pursuant to the structure, such interests have been pledged to the purchaser and such parties have no economic interest in the property, other than the receipt of fees for providing their services.

Assets held for sale and Liabilities related to assets held for sale were:

Assets	At the date of disposal	As at December 31, 2018
Non-current assets		
Investment property	37 378	39 030
Total non-current asset	**37 378**	**39 030**
Current assets		
Trade and financial assets	9	62
Other current assets	34	51
Cash	952	884
Total current assets	**995**	**997**
Total assets	**38 373**	**40 027**

Liabilities	At the date of disposal	As at December 31, 2018
Non-current liabilities		
Mortgage loans	18 730	19 523
Deferred tax liabilities	1 444	1 508
Total non-current liabilities	**20 174**	**21 031**
Current liabilities		
Trade and other payables	842	723
Other current liabilities	47	38
Total current liabilities	**889**	**761**
Total liabilities	**21 063**	**21 792**
Net assets held for sale	**17 310**	**18 235**

The loss on disposal of the net assets held for sale was €36 ($56).

	(in 000's of €)	(in 000's of $)
Net assets held for sale	11 559	17 310
Minority interest	(230)	(342)
Total attributable to the Unitholders' of the Trust	**11 329**	**16 968**
Cash received	11 313	16 942
Disposal costs	(20)	(30)
Loss on disposal of investment properties	**(36)**	**(56)**

Note 7 – Investment properties

	For the nine months ended September 30, 2019	For the year ended December 31, 2018
Balance, beginning of period	**421 937**	**440 813**
Acquisition of Trio Property	71 497	-
Capex	1 105	3 858
Capitalized letting fees	309	818
Rent free periods	(588)	(926)
Net change in fair value of investment properties	4 488	335
Foreign currency translation adjustment	(35 935)	16 069
Assets classified as held for sale	-	(39 030)
Balance, end of period	**462 813**	**421 937**

	As at September 30, 2019			As at December 31, 2018		
	France	Germany	Total	France	Germany (1)	Total
Fair value of investment properties for financial reporting purposes						
Market value (in Euros) as estimated by external appraisers	270 270	46 900	317 170	271 570	24 960	296 530
IFRIC 21 adjustment	577	-	577			
CAPEX	-	93	93			
Option costs	(1 670)	-	(1 670)	(1 737)	-	(1 737)
Adjusted market value in Euros	**269 177**	**46 993**	**316 170**	**269 833**	**24 960**	**294 793**
Exchange adjustment	125 825	20 818	146 643	152 104	14 070	166 174
Adjusted market value in CAD$	**395 002**	**67 811**	**462 813**	**421 937**	**39 030**	**460 967**
Principal method used to value property	Direct Capitalization Method	Discounted cash flow		Discounted cash flow & Direct Capitalization Method	Discounted cash flow	
Number of years used in cash flow projection	10	10		10	10	
Capital rate / discount rate	4,20% to 6,75%	5,50%		4,20% to 6,75%	5,20%	
Weighted average discount rate	5,59%	5,50%		5,63%	5,20%	
Weighted average ending capitalization rate	5,59%	5,50%		5,63%	5,20%	
Impact on the fair value of investment properties of :						
an increase of 25 bps in discount rates	(17 341)	(2 948)	(20 289)	(18 792)	(1 790)	(20 582)
a decrease of 25 bps in discount rates	19 125	3 229	22 354	20 722	1 971	22 693

(1) Presented as an asset held for sale

Finance leases

The REIT leases various investment properties with a carrying amount of $212,104 (2018 – $229,336) under leases expiring within seven to eight years.

Note 8 – Investments in joint ventures

Outlined below is a breakdown of the carrying amounts of the components of the investment in the Joint Ventures:

	CCD	Walpur	Arcueil²	Cologne	Stuttgart	Delizy	Neu Isenburg	Kösching	Total
Balance -December 31, 2017	**20 298**	**8 786**	**13 780**	**698**	**15 635**	**8 375**	**11 522**	**-**	**79 094**
Additional investment of the year	-	-	-	-	-	-	2 334	9 086	11 420
Share of net income (loss) from investments [1]	(450)	266	2 340	253	1 135	73	1 739	1 570	6 926
Loan to joint ventures repayments	-	-	-	-	(887)	-	(625)	(338)	(1 850)
Exchange differences	726	324	552	31	572	305	494	109	3 113
Balance -December 31, 2018	**20 574**	**9 376**	**16 672**	**982**	**16 455**	**8 753**	**15 464**	**10 427**	**98 703**
Additional investment of the period	-	-	-	-	-	-	-	-	-
Share of net income (loss) from investments [1]	88	251	213	5	(254)	6	222	355	886
Loan to joint ventures repayments	-	-	-	-	(242)	-	(742)	(191)	(1 175)
Exchange differences	(1 591)	(732)	(1 295)	(76)	(1 256)	(676)	(1 172)	(819)	(7 617)
Balance - September 30, 2019	**19 071**	**8 895**	**15 590**	**911**	**14 703**	**8 083**	**13 772**	**9 772**	**90 797**

(1) *The share of net income (loss) from investments includes the interest expense in relation to the loans granted to the joint ventures. The interest earned by the REIT in relation to these loans amounts to $ 3,849 (For the nine months ended September 30,2018 – $ 4,012) and are included in "Finance income" (see note 12).*

(2) *The share of net income (loss) from investments regarding Arcueil property includes the variance of the foreign exchange derivative (conversion from € to KRW). The REIT is entitled to receive a 25% share of the net earnings and, upon asset disposal, 75% of the variance of fair value of investment properties, reduced by 100% loss of foreign exchange derivative. As at September 30, 2019 the forward contract had an unrealized loss of $ (3,372) ($ (2,551) as at December 31, 2018).*

The balance of the investments in joint ventures as at September 30, 2019 includes loans to Joint Ventures for a recoverable amount of $ 45,095 which is detailed as follows:

Loans to joint ventures	CCD	Walpur	Arcueil	Cologne	Stuttgart	Delizy	Neu Isenburg	Kösching	Total
Balance - September 30, 2019	14 363	4 565	-	762	11 648	8 083	3 314	2 360	**45 095**
Balance -December 31, 2018	15 564	4 946	-	825	12 876	8 753	4 568	2 557	**50 089**

Note 9 – Mortgage loans, finance lease liabilities and interest bearing loan

On March 18, 2019 the REIT entered into a new finance lease for the Metropolitan property in the amount of €43,000 ($ 64,775), with a twelve-year term and a fixed rate of interest of 2.07% for five years, after which the interest rate is variable based on 1.84% + Euribor 3M. Expenditures associated with obtaining the new financing of €901 ($1,357) will be amortized over the twelve year term. The loan is secured by the Metropolitan investment property. On closing, the REIT repaid an outstanding balance of €34,020 ($ 51,248) under the previous lease arrangement.

On March 21, 2019 the REIT closed a new mortgage loan in the amount of €9,500 ($14,311), with a twelve-year term and a fixed rate of 2.13%, after which the interest rate is variable based on 1.90% + Euribor 3M. The issuance costs amounted to €144 ($218). The loan is secured by the Veronese investment property. On closing, the REIT repaid an outstanding loan of €7,675 ($11,563).

The interest bearing loan of $ 469 at September 30, 2019 corresponds to a debt held by the "TRIO" subsidiary payable to Inovalis Luxembourg which is a subsidiary of Inovalis SA. This loan has a 6 years and 9 months term and bears interest at a fixed rate of 6.5%.

Note 10 – Exchangeable securities

Exchangeable securities issued and outstanding	Exchangeable securities: Number of Exchangeable securities	Exchangeable securities: Carrying amount of Exchangeable securities
Balance -December 31, 2017	**1 679 370**	**16 743**
Asset management fees paid in exchangeable securities	229 740	2 280
Conversion of exchangeable securities into units of the REIT	(1 064 437)	(9 559)
Net change in fair value of exchangeable securities	-	(1 482)
Balance -December 31, 2018	**844 673**	**7 982**
Asset management fees paid in exchangeable securities	108 378	1 126
Conversion of exchangeable securities into units of the REIT	(90 500)	(792)
Net change in fair value of exchangeable securities	-	697
Balance - September 30, 2019	**862 551**	**9 013**

Note 11 – Finance costs and finance income

	For the three months ended September 30, 2019	For the three months ended September 30, 2018	For the nine months ended September 30, 2019	For the nine months ended September 30, 2018
Interest costs related to mortgage loans	(572)	(539)	(1 660)	(1 616)
Interest costs related to leases liabilities	(673)	(615)	(1 972)	(1 867)
Interest costs related to lease equalization loans	(36)	(44)	(123)	(144)
Interest costs related to promissory notes	(902)	(891)	(2 660)	(2 222)
	(2 183)	**(2 089)**	**(6 415)**	**(5 849)**
Interest SWAP & CAP	(258)	(461)	(1 005)	(1 123)
Other finance costs	(107)	33	(127)	(414)
	(2 548)	**(2 517)**	**(7 547)**	**(7 386)**
Amortization of transaction costs on mortgage loans	(79)	(72)	(227)	(220)
Finance costs	**(2 627)**	**(2 589)**	**(7 774)**	**(7 606)**
Finance income from a company controlled by Inovalis SA relating to the acquisition loan	787	721	2 319	2 107
Financial income from joint ventures loans	1 251	1 325	3 849	4 012
Other finance income	397	12	575	42
Finance income	**2 435**	**2 058**	**6 743**	**6 161**

Note 12 – Distributions

	For the three months ended September 30, 2019	For the three months ended September 30, 2018	For the nine months ended September 30, 2019	For the nine months ended September 30, 2018
Amount payable at the beginning of the period	1 632	1 566	1 618	1 528
Declared and recognised during the period	4 908	4 733	14 647	14 111
Distributions paid in units (Distribution Reinvestment Plan)	(815)	(479)	(2 180)	(1 642)
Paid in cash	(4 085)	(4 222)	(12 445)	(12 399)
Amount payable at the end of the period	**1 640**	**1 598**	**1 640**	**1 598**

The amount of distributions payable is included in “Trade and other payables”.

Note 13 – Accumulated other comprehensive income

	As at September 30, 2019	As at December 31, 2018
Net unrealized gains on derivatives designated as a hedge of the net investment in foreign entities	2 632	863
Net unrealized losses on interest rate derivatives formerly designated as a cash flow hedge	-	(404)
Cumulative translation adjustment account	9 082	35 687
Accumulated other comprehensive income	**11 714**	**36 146**

The movement in Cumulative Translation Adjustment Account is due to strengthening of the Canadian Dollar relative to the Euro

Note 14 – Transactions with related parties

Inovalis SA – Asset manager

Pursuant to the Management Agreement, Inovalis SA 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.

Unless otherwise stated, none of these transactions incorporated special terms and conditions. Outstanding balances are usually settled in cash, with the exception of asset management fees that were settled quarterly through the issuance of exchangeable securities until Q1 2018 included. The amended and restated Management Agreement effective April 1, 2018 permits the asset management fees can be settled quarterly through the issuance of either exchangeable securities or in cash. Since April 1, 2018, the asset management fees were settled half in exchangeable securities and half in cash following the approval of the Board of Trustees.

Inovalis and its subsidiaries	Financial statement line item	Note	For the nine months ended September 30, 2019	For the nine months ended September 30, 2018
Revenues				
Other services	Other revenues		-	469
Acquisition fees reimbursed	Other revenues	D	-	241
Recharge of costs	Other revenues		-	1
Interest income from acquisition loan	Finance income	11	2 319	2 107
			2 319	**2 818**
Expenses				
Asset management fees	Administration expenses	A	(1 184)	(1 689)
Facilities management fees	Service charge expenses	B	(452)	(352)
Property management Fees	Service charge expenses	C	(1 006)	(1 039)
Expenses related to the distribution for exchangeable securities	Distributions on Exchangeable securities		(528)	(819)
Interest expense on lease equalization loans	Finance costs	11	(123)	(144)
Reimbursment of travel expenses	Administration expenses		(251)	(146)
Trustee fees	Administration expenses		(327)	(211)
			(3 871)	**(4 400)**
Unitholders' Equity				
Interest on notes				
Reimbursement of debt	Distributions recognized on Exchangeable securities			
Conversion of Exchangeable securities into units of the REIT	Issuance of Units	10	(792)	(7 816)
			(792)	**(7 816)**
Assets				
Acquisition fees capitalized for the period	Investments in joint ventures or in subsidiaries	D	-	411
Acquisition fees capitalized for the period	Investment properties	E	1 426	-
			1 426	**411**
Liabilities				
Exchangeable securities issued for the period	Exchangeable securities	10	1 126	1 974
			1 126	**1 974**

(A) Asset management fees of $1,184 and $1,689 for the nine months ended September 30, 2019 and September 30, 2018 respectively, correspond to the asset management fees earned for the entire portfolio, including $1,146 and $1,212 attributable to assets held through joint-ventures. Since April 1, 2018 asset management fees have been reduced from 0.75% to 0.50% and calculated based on the book value of assets. Fees are payable in cash and/or exchangeable securities, the exact composition of which is determined by the Board annually.

(B) Following a tender process, the REIT engaged to continue with the existing terms in place for facility management fees. Under the terms of this contract, the REIT will be subject to fees of 10% of the operating budget of buildings ($260) and a variable project management charge based on works completed ($192). These facility management fees are fully rechargeable to tenants.

(C) An annual property management fee (the "Property Management Fee") in an amount equal to 3.5% of the gross paid revenue from the REIT's properties, payable quarterly in arrears, approximately 90% of which is rebilled to tenants;

(D) See the transactions and balances with joint ventures entities below

(E) Includes fees to Inovalis SA of $759 and to an entity related to Inovalis SA of $667.

Inovalis and its subsidiaries	Due from (to) Inovalis SA As at September 30, 2019	As at December 31, 2018
Assets		
Acquisition loan	24 400	25 719
Call option related to the acquisition loan	7 554	6 750
Trade and other receivables	91	848
	32 045	**33 317**
Liabilities		
Interest-bearing loan	469	-
Lease equalization loans	2 244	3 315
Distributions payable	232	249
Exchangeable securities	9 013	7 982
Trade and other payables	1 525	2 327
	13 483	**13 873**

Certain service charge expenses and other costs are paid to third parties by Inovalis SA and its subsidiaries on behalf of the REIT and are reimbursed from time to time.

Joint ventures

The transactions and balances with joint ventures entities are summarized below:

Joint ventures	Financial statement line item	For the nine months ended September 30, 2019	For the nine months ended September 30, 2018
Management fees invoiced to joint ventures	Administration expenses	1 146	1 213
Acquisition fees [1]	Acquisition costs	-	100
Finance income	Finance income	3 849	4 012
		4 995	**5 325**

(1) *An acquisition fee ("Acquisition Fee") in the amount of 1% of the purchase price of any property acquired by the REIT, payable in cash, on completion of each acquisition, provided that no such Acquisition Fee will be payable in respect of the acquisition of properties owned or managed by the Manager. Acquisition fees of 183 € ($ 281) at September 30, 2018 correspond to the acquisition fees earned for the entire portfolio, including 274 € ($411) of acquisition fees capitalized in the investments in joint ventures and 157 € ($ 241) of reimbursement to CCE.*

		Due from joint ventures As at September 30, 2019	As at December 31, 2018
Loan receivable	Investments accounted for using the equity method	45 095	50 089
Interest receivables	Other current assets	319	-
Accounts receivable	Trade and other receivables	602	243
		46 016	**50 332**

For more information, please refer to Note 8 – Investments in joint ventures.

Remuneration of key management personnel

The following table presents the remuneration of key management personnel, which for the purposes of this note are defined as the members of the board of trustees and the Chief Financial Officer. The other officers of the REIT are employed and remunerated by Inovalis SA rather than the REIT, and the costs of their services are not invoiced distinctly from the overall asset management fees.

	For the nine months ended September 30, 2019	For the nine months ended September 30, 2018
Wages, fees and other benefits	(672)	(211)
	(672)	(211)

Note 15 – Fair value measurements

The following table shows an analysis of the fair values of financial instruments and non-financial assets measured at fair value on a recurring basis recognized on the consolidated balance sheet by level of the fair value hierarchy:

	As at September 30, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment properties	-	-	462 813	462 813
Derivative financial instruments - assets	-	2 429	-	2 429
Call option related to the acquisition loan	-	-	7 554	7 554
Derivative financial instruments - liabilities	-	(5 367)	-	(5 367)
Exchangeable securities	-	(9 013)	-	(9 013)
Promissory notes	-	(46 965)	-	(46 965)

	As at December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment properties	-	-	421 937	421 937
Investment properties - Assets classified as held for sale	-	-	39 030	39 030
Derivative financial instruments - assets	-	370	-	370
Call option related to the acquisition loan	-	-	6 750	6 750
Derivative financial instruments - liabilities	-	(2 603)	-	(2 603)
Exchangeable securities	-	(7 982)	-	(7 982)
Promissory notes	-	(42 471)	-	(42 471)

The reconciliation of the carrying amounts of non-financial assets classified within Level 3 is in Note 7 – Investment properties. The gains or losses relating to the investment properties are recognized in the consolidated statement of earnings line entitled "Net change in fair value of investment properties". The entire amount of the gain or loss reported on this line in the reporting period is unrealized.

The following methods and assumptions were used to estimate the above-mentioned fair values:

- The fair value of the call option is determined based mainly on (i) the level of expected gain on sale of the property and (ii) the probability of realization of that gain.
- The fair value of the derivative financial instruments is determined based on discounted cash flows using interest rate yield curves and volatilities 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 market price of REIT units, on the basis that they are exchangeable on a one for one basis throughout their life at the request of holder of the exchangeable securities, and upon maturity of the underlying notes, at the request of the REIT. Other features of the Exchangeable Securities have no significant impact on their fair value.
- The fair value of the promissory notes is based on the quoted market price of REIT units, on the basis that they are exchangeable into REIT units pursuant to a put option and a call option.

Note 16 – Cash flow information

	Note	For the three months ended September 30, 2019	For the three months ended September 30, 2018 Restated (Note 2)	For the nine months ended September 30, 2019	For the nine months ended September 30, 2018 Restated (Note 2)
Adjustments for non-cash items and other reconciling items:					
Elimination of gains or losses on disposal	*6*	-	-	56	-
Rent free period	*7*	119	(49)	588	600
Management fees paid in Exchangeable securities	*11*	393	408	1 126	1 974
Net change in fair value of investment properties	*7*	(3 745)	1 062	(4 488)	(276)
Net change in fair value of financial derivatives	-	(85)	(1 107)	1 543	(2 928)
Distributions recognized on Exchangeable securities	-	173	265	528	819
Net change in fair value of Exchangeable securities	*11*	367	(135)	697	(201)
Net change in fair value of Promissory notes	-	2 031	1 981	4 494	3 661
Finance income	*12*	(2 435)	(2 058)	(6 743)	(6 161)
Finance costs	*12*	2 627	2 589	7 774	7 606
Share of net earnings from investments in joint venture	*8*	(342)	(925)	(886)	(2 499)
Net unrealized exchange loss (gain)	-	5	(3)	5	(85)
Acquisition loan	-	(247)	-	(690)	-
		(1 139)	2 028	4 004	2 510
Working capital adjustments					
Increase in trade and other receivables	-	2 347	1 207	(2 547)	19
Increase in tenant deposits	-	38	229	35	254
(Decrease) Increase in trade and other payables	-	(776)	(2 035)	2 354	(1 820)
		1 609	(599)	(158)	(1 547)

Cash and non-cash changes in liabilities arising from financing activities:

Liabilities	As at December 31, 2018	Cash flows	Acquisition of investment properties	Disposal of a part of interest	Issuance of exchangeable securities	Conversion into units	Foreign exchange movement	Fair value changes	As at September 30, 2019
Promissory notes	42 471	-	-	-	-	-	-	4 494	46 965
Exchangeable securities	7 982	-	-	-	1 126	(792)	-	697	9 013
Mortgage loans [1]	117 502	(405)	46 517	(18 730)	-	-	(10 477)	-	134 407
Lease liabilities	127 184	6 492	-	-	-	-	(10 138)	-	123 538
Lease equalization loans	3 315	(844)	-	-	-	-	(227)	-	2 244

Of which $ 19,523 is presented in liabilities directly associated with assets held for sale at December 31, 2018.

Note 17 – Subsequent Events

On October 30th 2019, the REIT entered into an agreement to sell the Vanves property with a gross leasable area of 24,848 m2 (267,462 sq. Ft.) located in Paris periphery.

The net sale price is €95 million (CAD$137 million) (excluding closing costs), in excess of the carrying value of the property as of September 30th, 2019 by approximately 5%. The transaction is expected to close on or before December 26th, 2019.

The buyer has demonstrated his commitment by agreeing to a €9.5 million (c. CAD$13.7 million) deposit of which €4.75 million (CAD$6.9 million) was paid on the day of signing under the unilateral promise to sell. This amount will be applied against the selling price of the property at the transaction date, it will not be refunded in the event of the withdrawal of the buyer's offer.

Corporate information

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Stock exchange listing

The Toronto Stock Exchange

Listing symbol: INO.UN

Distribution Reinvestment Plan

Inovalis has implemented a Distribution Reinvestment Plan ("**DRIP**"). By participating in the Plan, Unitholders have cash distributions from Inovalis REIT reinvested in additional Units as and when cash distributions are made with a "bonus" distribution of Units equal to 3% of the amount of the cash distribution reinvested pursuant to the Plan.

INOVALIS

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