INOVALIS

REAL ESTATE INVESTMENT TRUST

(Revised April 13, 2018)

Notice to Reader

This management's discussion and analysis of operations and financial condition ("MD&A") for the three months and year ended December 31, 2017 has been amended to correct typographical errors in the tables on pages 27, 32 & 37. These tables have been replaced. There has been no material change in the reported results in any of the periods except with respect to the table on page 32 where earnings before income taxes for the three months ended December 31, 2017 increased by $1,777,000 and earnings for the three month period ended December 31, 2017 increased $1,776,000 respectively.

Contents

Letter to Unitholders

Four years after becoming a publicly traded REIT, Inovalis REIT has managed to demonstrate the breadth of its real estate knowledge in France and Germany, two major markets in continental Europe, and has built its credibility in the Canadian capital markets by delivering solid returns to unitholders, while simultaneously forging joint ventures to further enlarge its asset base and improve its risk diversification.

I am pleased to present our report for Q4 2017, which marks the end of an important year for the REIT. The REIT's NAV surpassed $265 million this quarter, marking a year-over-year increase of 10%.

Through a series of strategic transactions, including the successful negotiation of a $10.8 million convertible promissory note, the refinancing of our Baldi and Jeuneurs properties at a rate of 2%, both of which were done in October, as well as the disposition of our 49% interest in the Cologne as part of our capital recycling initiative, at a 5% cap rate at the end of December, we were able to redeploy the net proceeds from these operations into the acquisition of both Neu-Isenberg and Kosching in February 2018 which are both generating returns in excess of 8% resulting in an additional net cash flow of more than $2 m for the REIT.

The REIT sold its interest in the Cologne property at a value of €22.0 million at the time of sale which was in excess of its most recent appraisal value of €20.7 million.

The acquisition of the Neu-Isenburg property was effected through a 50% joint venture in December 2017. The property is a Class-A office building, anchored by a Fortune 500 tenant located less than 10km from central Frankfurt. As a leading financial hub, this location is expected to experience continued macroeconomic tailwinds driven by "Brexit" and the move to continental Europe by corporations.

We are also pleased to announce the acquisition of the Kösching asset which was completed in February 2018, which was immediately accretive to the REIT's funds from operations ("FFO") and adjusted funds from operations ("AFFO"), demonstrating Management's ability to identify attractive acquisitions in an increasingly competitive German market.

In Q4, our results were in line with the REIT-issued guidance and I am pleased to report that the REIT's FFO per unit and AFFO per unit, were $0.21 and $0.22 respectively for the 3-month period ended December 31, 2017.

The Q4 2017 debt to book value (net of cash), was 39.2% for the properties owned 100% by the REIT, a decrease from 42.1% in Q4 2016. For the entire portfolio including joint ventures, Q4 2017 debt to book value (net of cash) was 46.2% - in line with the debt to book value of 47.5% for Q4 2016. With a weighted average interest rate of approximately 2%, consistent with Q3, we are well positioned to take advantage of the favourable lending environment in our two main markets and move forward on our pipeline of potential acquisitions.

Finally, I would like to thank our Board of Trustees, colleagues, advisors, investors and lenders for helping us further expand Inovalis REIT, for showing such great confidence in us and for being extremely committed to our unique story. I look forward to your continued support as we grow our business together.

Stéphane Amine

Chairman of the Board

March 20, 2018

Management's discussion and analysis

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

OVERVIEW - GAAP and Non-GAAP

The table below presents a summary of both GAAP and Non-GAAP measures. For Non-GAAP, which include our proportionate share of income from investments in joint ventures, please refer to "*Non- GAAP Reconciliation*".

	December 31, 2017		December 31, 2016	
Operational information	GAAP Measures	NON-GAAP Measures (1)	GAAP Measures	NON-GAAP Measures (1)
Number of properties	7	13	7	11
Gross leasable area (sq.ft)	772,403	1,280,542	772,403	1,050,336
Occupancy rate (end of period) (2)	95.4%	97.0%	92.5%	95.9%
Occupancy rate (including Vendor Leases) (2)	95.4%	97.0%	92.5%	95.9%
Weighted average lease term	5.3 years	5.1 years	5.2 years	5.3 years
Weighted Average capitalization rate (3)	5.7%	5.4%	5.8%	5.9%
Financing information				
Level of debt (debt-to-book value) (4)	42.7%	50.0%	46.5%	51.3%
Level of debt (debt-to-book value, net of cash) (4)	39.2%	46.2%	42.1%	47.5%
Weighted average term of principal repayments of debt	6.5 years	5.9 years	7.3 years	7.2 years
Weighted average interest rate (5)	2.16%	2.10%	2.11%	2.11%
Interest coverage ratio (6)	3.9 x	3.9 x	3.7 x	4.4 x

	Three months ended		Twelve months ended	
(thousands of CAD$ except per Unit)	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Operating results				
Rental income	6,381	6,706	24,946	24,404
Adjusted Rental income (1)	8,977	8,188	33,307	31,036
Net rental earnings	7,411	7,023	24,130	22,381
Adjusted net rental earnings (1)	9,891	8,698	31,797	29,100
Earnings for the period attributable to Unitholders	13,651	2,984	19,167	23,284
Funds from Operations (FFO) (7)	5,369	4,302	19,548	15,757
Adjusted Funds from Operations (AFFO) (7)	5,823	4,640	21,243	16,973
FFO per Unit (diluted) (7) (8)	0.21	0.19	0.80	0.77
AFFO per Unit (diluted) (7) (8)	0.22	0.20	0.87	0.83
Distributions				
Declared distributions on Units and Exchangeable sec.	4,941	4,732	19,491	17,078
Declared distributions on Units and Exchangeable sec. & Promissory note	5,476	4,732	20,347	17,078
Declared distribution per Unit (diluted) (9)	0.21	0.21	0.83	0.83
FFO payout ratio (7)	102.0%	110.0%	99.7%	104.8%
AFFO payout ratio (7)	94.0%	102.0%	91.8%	100.6%

(1) Taking into account the interest the REIT has in joint venture partnerships.
(2) Calculated on weighted areas (activity, storage and intercompany restaurant areas being accounted for only a third of their effective areas).
(3) Calculated on annualized net rental earnings (based on net rental earnings for the year-to-date period).
(4) The definition of *debt-to-book value* and of *debt-to-book value, net of cash* can be found under the section *Non-GAAP Financial Measures.*
(5) Calculated as the weighted average interest rate paid on the finance leases and the mortgage loans (excluding derivatives)
(6) Calculated as net rental earnings plus interest expense, less administrative expenses, divided by interest expense on the financial leases and mortgage financings.
(7) The reconciliation of FFO and AFFO to earnings can be found under the section *Non-GAAP Reconciliation (FFO and AFFO).*
(8) Based on the fully diluted weighted average number of Units during the period including conversion of Private placement promissory note.
(9) Based on the fully diluted weighted average number of Units during the period excluding conversion of Private placement promissory note.

KEY FACTS

- Inovalis REIT ("Inovalis REIT", or the "REIT" or "we") is a Canadian REIT managed by Inovalis S.A. ("Inovalis SA"), a local cross-border French and German real estate asset manager, managing $10 billion of real estate and financial assets. As of December 31, 2017, Inovalis SA and Inovalis SA's founding partners had a 13.7% interest in the REIT's equity (directly and indirectly).
- On October 4, 2017, the REIT completed the issuance of a €7.3 million ($10.8 million) second convertible promissory note on the same terms as the promissory note issued on June 26, 2017. The convertible promissory note has a fixed interest rate of 8.13%, which is equivalent to the distribution yield on REIT units on October 4, 2017, the date of issuance of the convertible promissory note.
- On October 26, 2017, the REIT completed a mortgage refinancing of the Baldi and Jeuneurs properties, securing loans of €44.5 million ($65.6 million). After the reimbursement of the existing loans amounting to €39.0 million ($57.5 million), which includes a €6.9 million ($10.2 million) partial early repayment of the loan associated with the Courbevoie property, the outstanding loan balance related to Courbevoie amounted to €7,7 million ($11.3 million) – resulting in a LTV ratio for Courbevoie of 28%. The proceeds from refinancing were €4.8 million ($7.1 million).
- On December 27, 2017, the REIT completed the acquisition of Neu-Isenburg, a property in the greater Frankfurt area located less than 10km from downtown Frankfurt, with highway and public transport connections. The property is a 12,500m^2 (134,550 sq.ft) modern and sustainable office building with 330 parking units, anchored by an American Fortune 500 manufacturer of electronic components. The property is currently 100% leased with a 5.2-year weighted average lease term. This acquisition, which valued the property at €38.3 million ($57.6 million) was completed through a share purchase agreement and was funded using cash raised through the private placements completed in Q4 2017. This transaction is a 50-50 joint-venture with an affiliate of Inovalis SA. Subsequent to the quarter, the Neu-Isenburg property was refinanced by the REIT on February 23, 2018, with a €22.8 million ($34.41 million) loan.
- On December 31, 2017, as part of its ongoing strategic plan to crystallize intrinsic value and recycle capital through the disposition of assets that offer lower long-term returns, the REIT elected to divest its holding in the Cologne property. The property was acquired in Q4 2015 at a total acquisition price of approximately €20.0 million (CAD$34.4 million), of which the REIT acquired a 49% ownership. The property was appraised at €20.7 million (CAD$32.3 million) in Q4 2017, and the sale of the property was completed based on a valuation of €22.0 million (CAD$34.4 million). 43% of the 49% owned by the REIT was transferred as at December 31, 2017, with the remaining 6% to be transferred at a later date.
- Subsequent to the quarter, in February 2018, the REIT completed the acquisition of the Kösching asset, for approximately €24.4 million (CAD$38.1 million). The property is strategically located less than 10km from the global headquarters of Audi AG in Ingolstadt, Germany. The recently constructed modern office building and R&D facility, with a gross leasable area of approximately 9,900m2 (106,563 sq.ft), is fully occupied with a weighted average lease term of 10.0 years. The REIT's 50% interest in the property was principally funded with cash on had raised through the private placements completed in Q4 2017.
- Subsequent to the quarter, the Board of Trustees of the REIT approved the extension of the management agreement between the REIT and Inovalis S.A. The Board of Trustees and the Manager agree that, given the REIT's relative size, it is in the REIT's best interest to not internalize the asset and property management function at the current time. As part of the terms of the extension of the agreement, the following modifications were approved:
    - Term: The initial term will be for three (3) years, not to exceed April 1, 2021. The Agreement shall be automatically renewed for an additional two (2) years if the REIT's AFFO per unit for the year ended December 31, 2020 is greater than 115% of the AFFO per unit of the REIT as at December 31, 2017. The AFFO calculation shall be consistently applied and approved by the Audit Committee. Internalization can occur at any time at the discretion of the Board of Trustees.
    - Asset Management Fees: Will be reduced from 0.75% to 0.50% and calculated based on the book value of assets. Fees will be payable in cash and/or exchangeable securities, the exact composition of which will be determined by the Board annually based on the REIT's cash resources.
    - Acquisition Fees: 1.00% of the purchase price of properties acquired that are not currently owned or managed by the Manager and paid in cash consideration.

- FFO / AFFO

	Q4 2017 (1)	Q4 2016 (2)	REIT Guidance (3)
Including private placement in the form of a promissory note			
FFO per unit	0.21	0.19	0.21 - 0.23
FFO payout ratio	102.0%	110.0%	90% - 96%
AFFO per unit	0.22	0.20	0.22 - 0.24
AFFO payout ratio	94.0%	102.0%	88% - 94%

(1) $1.4652 C$/€ foreign exchange rate
(2) $1.4666 C$/€ foreign exchange rate
(3) $1.4101 C$/€ foreign exchange rate

In the table above, FFO and AFFO for the three-month period ended December 31, 2017 are compared to the Q4 2016 and the REIT's guidance.

The Q4 2017 FFO of $0.21 per unit is $0.02 higher than Q4 2016 FFO and in line with the REIT's guidance. AFFO for Q4 2017 of $0.22 per unit is $0.02 higher than Q4 2016 AFFO and in line with the run rate going forward as estimated by management.

The Q4 2017 FFO payout ratio is 102.0%, the increase from Q3 2017 to Q4 2017 is attributed to the timing of the investment of the proceeds of the Private Placement in the acquisition of the Neu-Isenburg property. The Q4 2017 AFFO payout ratio of 94% is in line with the REIT's guidance.

- NOI (GAAP)

In the table below is the NOI presentation prepared under GAAP. The REIT guidance includes the application of 2017 forecast indexation for French assets. Indexation has not been applied to the German asset forecast as it is not applied until the index increases exceed 5%. Between 2013 and 2016, on average, the German index increased 0.50% per year. Over the last year the index has been increasing at a rate of 1.74% per year, indicating an accelerating trend. If this trend continues, the indexation threshold of 5% could be reached between 2018 and 2021 at which time it will be applied to the German assets. These calculations include consideration of the contractual specificities of each lease. See the section *Rental Indexation* for details on French and German indices.

	Q1 2017 (1)	Q2 2017 (2)	Q3 2017 (3)	Q4 2017 (4)	REIT Guidance (5)
NOI (GAAP)	3,247	6,744	6,729	7,410	
IFRIC 21 impact	2,411	(763)	(815)	(833)	
NOI (excluding IFRIC 21 impact)	5,658	5,981	5,914	6,577	5,600 - 6,000
% Increase compared to the previous quarter		6%	-1%	11%	

(1) $1.4101 C$/€ foreign exchange rate
(2) $1.4455 C$/€ foreign exchange rate
(3) $1.4547 C$/€ foreign exchange rate
(4) $1.4652 C$/€ foreign exchange rate
(5) $1.4101 C$/€ foreign exchange rate

The Q4 2017 NOI is $7,410, a 10% increase over Q3 2017 - of which approximately 6% corresponds to other revenue related to investments in joint-ventures. (The reader is cautioned that REIT's guidance information is forward-looking and actual results may vary from those reported).

- NOI (Non-GAAP) (Excluding IFRIC 21 impact)

In the table below is NOI presentation for the whole portfolio including the REIT's proportionate interest in properties held in partnership. The REIT guidance includes the application of 2017 forecast indexation for French assets. Indexation has not been applied to the German asset forecast as it is not applied until index increases exceed 5%.

	Q1 2017 (1)	Q2 2017 (2)	Q3 2017 (3)	Q4 2017 (4)	REIT Guidance (5)
NOI (excluding IFRIC 21 impact)	7,177	7,697	8,221	8,902	7,900 - 8,400
% Increase compared to the previous quarter		7%	7%	8%	

(1) $1.4101 C$/€ foreign exchange rate
(2) $1.4455 C$/€ foreign exchange rate
(3) $1.4547 C$/€ foreign exchange rate
(4) $1.4652 C$/€ foreign exchange rate
(5) $1.4101 C$/€ foreign exchange rate

The Q4 2017 NOI, in the amount of $8,902, increased by 8% compared to Q3 2017 NOI, and is ahead of the REIT's guidance. (The reader is cautioned that REIT's guidance information is forward-looking and actual results may vary from those reported).

- Debt to Book Value (GAAP)

  The REIT's debt to book value, in accordance with GAAP, was 42.7% as at December 31, 2017, compared to 46.5%, one year ago. The decrease was predominantly due to of the amortization of $18,022, in spite the refinancing of the Jeuneurs and Baldi properties. Net of cash available, the debt to book value was 39.2% as at December 31, 2017, compared to 42.1% one year before.

- Debt to Book Value (Non-GAAP)

  The REIT's Non-GAAP debt to book value for the whole portfolio, including the REIT's proportional share in joint-ventures was 50.0% as at December 31, 2017, slightly lower than 51.3%, one year ago. Net of cash available, the debt to book value was 46.2% as at December 31, 2017, compared to 47.5% one year before.

BASIS OF PRESENTATION

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of Inovalis REIT should be read in conjunction with the REIT's consolidated financial statements for the period from January 1, 2017 to December 31, 2017, and the notes thereto.

The REIT has historically, within the MD&A, presented operating results based on financial information developed using proportionate consolidation for all the REIT's joint ventures, which are accounted for using the equity method, as required by IFRS 11 "Joint Arrangements". This manner of presentation provided current and prospective investors with, in management's view, the most relevant information to assist them in understanding the REIT's financial performance, while providing for a reconciliation of such Non-Generally Accepted Accounting Principles ("GAAP") information to the REIT's financial statements as reported under IFRS in the relevant sections of the MD&A. The MD&A will begin with an Overview, providing a summary of the REIT's performance and operations for the period, including both GAAP and non-GAAP metrics. Management believes this presentation provides users of this MD&A additional information about the source of the revenue used by Inovalis to pay distributions on its units, as joint venture structures represent significant equity investments (joint ventures account for approximately 30% of the total value of all properties held by the REIT, including those owned by joint venture), are a significant part of the growth of the REIT and represent of an important part of the REIT's revenue and expenses. Management believes that this reformatting of the MD&A will provide greater prominence to the GAAP measures while still allowing for a reconciliation to the comparable non-GAAP measures.

This MD&A has been prepared considering material transactions and events up to and including March 20, 2018. Financial data provided in the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. All amounts in this MD&A are in thousands of Canadian dollars, except per unit amounts and where otherwise stated. Historical results, including trends which might appear, should not be taken as indicative of future operations or results. Additional information about Inovalis REIT has been filed with applicable Canadian securities regulatory authorities and is available at www.sedar.com. The exchange rate used throughout this MD&A for statement of earnings items is the average rate during the said period, i.e. 1.4652 Canadian dollars per Euro for the three-month period ended December 31, 2017. For balance sheet items, projections or market data, the exchange rate used is 1.5090 (exchange rate as at December 31, 2017).

FORWARD-LOOKING INFORMATION

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

MARKET AND INDUSTRY DATA

This MD&A includes market and industry data and forecasts that were obtained from third-party sources, industry publications and publicly available information as well as industry data prepared by Inovalis SA based on its knowledge of the commercial real estate industry in which we operate (including Inovalis SA estimates and assumptions relating to the industry based on that knowledge). Inovalis SA's knowledge of the real estate industry has been developed through its 20 years of experience and participation in the industry. Inovalis REIT believes that its industry data is accurate and that its estimates and assumptions are reasonable, but there can be no assurance as to the accuracy or completeness of this data. Third-party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. Although Inovalis REIT believes it to be reliable, Inovalis REIT has not verified any of the data from third-party sources referred to in this MD&A, or analyzed or verified the underlying studies or surveys relied upon or referred to by such sources, or ascertained the underlying assumptions relied upon by such sources.

BUSINESS OVERVIEW AND STRATEGY

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

Our long-term objectives are to:

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

The REIT's Investment criteria encompasses office properties outside of Canada with an occupancy level above 80% (unless AFFO accretive), secured rental cash flows, a property value between €20 million ($28 million) to €60 million ($85 million) (unless AFFO accretive) and a potential future upside with respect to matters including rent and area development. According to management, the target investment size falls within a very liquid segment of the real estate market in Europe, and debt financing for such acquisitions is readily available from local lenders.

BUSINESS ENVIRONMENT

French commercial real estate investment market [(1)]

Overview
The year 2017 ended with new financial laws being adopted for 2018, another new step achieved in the government's reform agenda. Both household and business confidence increased approaching levels last seen in 2007. Driven by a robust global economic recovery, French GDP growth drivers are consumption, boosted by labor market, and investments always supported by low interest rates. 2017 anticipated growth was revised upward to 1.9%, a level not seen since 2011 (2.1 %). In the past year, the unemployment rate decreased by 47 basis points and now stands at 9.6%. It reflects the steady growth of net job creations (+68,000 for H2 2017) and a decrease in unemployment.

Paris commercial real estate investment market [(1)]

Occupier focus
Q4 occupancy uptake stood at 854,000 sq. m, the best performance ever for a fourth quarter. Thus, total 2017 up take - at 2.6 million sq. m – was 8% higher when compared with 2016. The market dynamic is led by a significant number of large transactions (5,000 sq. m +): 88, up from 65 in 2016. Their volume represents 1.1 million sq. m (43% of total volume), a 27% year-on-year growth. The most dynamic submarkets were the Western Crescent (660,400 sq. m, up by 40% year on year) and the Inner Suburbs (413,100 sq. m, +52% for the year). Acceleration in leasing transactions in Paris (348,000 sq. m in Q4) increased annual up take to 1.1 million sq. m, in line with 2016. With an annual take-up reaching 179,600 sq. m, La Defense failed to repeat its 2016 exceptional performance (- 36% year on year) but ends 2017 in line with its 10-year average.

Investment focus
In the French office sector, €18.8 billion were invested in 2017 as a whole, down from the €19.1 billion recorded last year. Q4 dynamic activity seen on deals over €200 m boosted the investment volume to €7.4 billion (+21% in volume year on year) an exceptional level comparable to 2007's (€7.5 billion). Mega deals benefitted the Greater Paris Region which concentrates 87% of annual investment volume. Yield compression led investors to seek new opportunities outside Paris or to focus on 'value-add' opportunities. After impressive investment in 2016, the Paris Central Business District reverted to its 10-year average level (€2.5 billion invested in 2017, -41% year on year).

(1) Source Cushman

Greater Paris Region commercial real estate investment market [(2)]

Rental market
For the year 2017, take-up in the Greater Paris Region stands at 2,633,000 sq m, representing 8% increase compared with the 2016. There were 88 transactions for spaces over 5,000 sq m; a level of performance that has not been seen since 2012. By the end of December, immediate supply remained at 3.4 million sq m with a decrease vacancy rate of 6.4%. With an average vacancy rate of close to 3%, Paris is currently experiencing lack of supply. There was a slight increase change in prime asking rents which stood at €775 sq m in the Central Business District and €510 sq.m in La Défense for Q4 2017.

Investment market
Q4 results for the Greater Paris Region investment market set a record with almost €9 billion in investments. This took the overall performance for 2017 to €18.5 billion; this represents an 8% year-over-year decrease. This decrease was mainly due to a lack of mega-transactions as only one transaction for more than over €500 million was recorded. Foreign investors were more active towards the end of the year. Prime office cap rates remained stable in Paris over Q4 2017 at 3.00%. However, the wave of cap rates compression continues to travel across the Western Crescent and the Inner Suburbs.

(2) Source Jones Lang LaSalle

German commercial real estate investment market [3]

Overview

The economy continually improved throughout 2017. According to latest forecasts, the gross domestic product increased by around 2.3% in real terms in 2017 and therefore outperformed the rate of the previous three years. Consensus Forecasts also predicts GDP growth of roughly 2.2% in 2018. The strong growth in the economy was accompanied by an increase in employee figures. According to preliminary figures from the Federal Statistical Office, around 44.3 million people with a place of residence in Germany were employed in 2017 (+1.5% compared to the previous year).

This positive momentum was also reflected by the IFO, the employment monitor. This is based on approximately 9,500 monthly reports from companies in the manufacturing industry, the construction industry, wholesale and retail, and the service sector – an ideal type of leading indicator for demand in the office sector. The effects of the barometer are felt on the lettings markets around three months after the respective assessment.

Rental prices rise particularly in sub-markets with very low vacancies

Strong demand combined with a decline in the availability of space inevitably leads to rising prices. By the end of 2017, the prime rental rate had increased in all cities in the Big 7*. The biggest rises were registered in Berlin (+11%), Stuttgart (+5%), Munich, Hamburg (+4% each) and Frankfurt (+2.7%). The prime rental price index increased by an average 4.1% last year, but in 2018 should slow to a lower rate (+2%). The trend towards higher rental prices in sub-markets outside the city centres should also continue. Provided that micro locations are suitable for users in terms of transport connections and infrastructure, they will increasingly become an option for new company locations. Indeed, in the Big 7 there is a strong demand and an ever-decreasing supply of space. Companies decide to move to sub-markets outside the city centre to benefit from their influence and a lower rent. Such was the case for Neu-Isenburg and Bad Homburg, which are located in direct vicinity of Frankfurt. Due to the increase in demand in this region, the rent rose to 2% in 2017. The occupancy rate in Neu-Isenburg has been steadily increasing since 2014. In 2016 it increased by 7.6% and vacancy stood at 96,400 sq.m by the end of 2017.

Other cities benefit from a specialization in a sector, as is the case for Ingolstadt. Ingolstadt is the fifth largest city in Bavaria and one of the most dynamic economic locations in Germany. This can be attributed to the automotive industry which is represented by Audi's headquarters and its many suppliers. The increased demand for office space in 2017 is likely to cause the prime rent of over €13/sq.m, which is quite high given the small size of the office location. Vacancy rate has gone down from 3% to 2%.

Investment focus

The transaction volume in the German commercial property market amounted to approximately €56.8 billion, beating the previous record set in 2015 by €1.7 billion. Compared to 2016, this represents an increase of 7%. However, the latter issue has two aspects to it. On one hand, it is to be assumed that some investors refrained from making an investment because prices were too high for them. On the other hand, the increased prices played a considerable role in enabling the transaction volume to reach a new record figure. If transactions carried out in 2017 were valued at 2015 prices, a new record level would not have been achieved in real terms since purchase prices have risen by a stronger rate than the 7% increase in the transaction volume. The scarcity of products was a feature of the past year, and was particularly evident in the office property segment. As a result, investors turned to markets outside the Big 7 – their share stood at around 21% by the end of the year – while more investors focused on the search for yields and attractive investment opportunities in project developments, although these are mainly to be found in the Big 7. These so-called forward deals for individual transactions doubled in volume within two years to account for 12% of the total transaction volume. Most of these project developments have already been let, but this trend appears to illustrate acceptance of greater risk.

Indexation has not been applied to the German asset forecast as it is not applied until index increases exceed 5%. Between 2013 and 2017, on average, the German index increased 0.50% per year. Over the last 12 months the index has been increasing at a rate of 1.74% per year, indicating an accelerating trend. If this trend continues, the indexation threshold of 5% could be reached between 2018 and 2021 at which time it will be applied to the German assets. These calculations include consideration of the contractual specificities of each lease. See the section Rental Indexation for details on French and German indices.

* Seven major cities in Germany: Berlin, Dusseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart

(3) Source Source Jones Lang LaSalle

REAL ESTATE MANAGEMENT AND ADVISORY SERVICES

Pursuant to a management agreement, Inovalis SA is the 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.

Under the terms of the management agreement signed in April 2013, the agreement was scheduled to terminate upon the earlier of (i) the REIT achieving a market capitalization of $750 million (including any Exchangeable securities held by Inovalis SA) based on the volume weighted average price (VWAP) over a 20-day trading period and (ii) April 10, 2018. Following the termination of the management agreement, the management of the REIT was scheduled to be internalized at no additional cost.

- In early 2018, in anticipation of the term end of the Management Agreement, the Board of Trustees of the REIT formed an independent committee to review the option of internalization of management. The independent committee determined that, given the REIT's relative size, it is in the REIT's best interest to not internalize the asset and property management function at the current time and recommended to the Board of Trustees to approve the extension of the management agreement. As part of the terms of the extension of the agreement, the Management Agreement was extended for an initial term of three years, not to exceed April 1, 2021. The Agreement shall be automatically renewed for an additional two years if the REIT's AFFO per unit for the year ended December 31, 2020 is greater than 115% of the AFFO per unit of the REIT as at December 31, 2017. The AFFO calculation shall be consistently applied and approved by the audit committee. Internalization can occur at any time at the discretion of the Board of Trustees.

OUR OPERATIONS – GAAP and Non-GAAP

Performance indicators, incorporating both GAAP and Non-GAAP measures

As at	December 31, 2017		December 31, 2016	
	GAAP Measures	Non-GAAP Measures (1)	GAAP Measures	Non-GAAP Measures (1)
Gross leasable area (sq.ft)	772,403	1,280,542	772,403	1,050,336
Number of properties	7	13	7	11
Number of tenants	34	66	33	42
Occupancy rate (2)	95.4%	97.0%	92.5%	95.9%
Occupancy rate (including Vendor Leases) (2)	95.4%	97.0%	92.5%	95.9%
Weighted average lease term (3)	5.3 years	5.1 years	5.2 years	5.3 years

(1) Taking into account the interest the REIT has in the properties held in partnerships.
(2) Calculated on weighted areas (activity, storage and intercompany restaurant areas being accounted only for a third of their effective areas).
(3) Excluding early termination rights. Considering early termination rights, the weighted average lease term is 3.8 years as at December 31, 2017 compared to 2.9 years as at December 31, 2016 (4.0 years vs 3.5 years for Non-GAAP respectively)

Portfolio

The REIT has an interest in 13 properties, of which 7 are entirely owned by the REIT (Baldi, Courbevoie, Jeuneurs, Metropolitain, Sablière and Vanves in France and Hanover in Germany) and 6 are held through partnerships with various global institutional funds (Arcueil and Pantin in France, Bad Homburg, Neu-Isenburg, Duisburg and Stuttgart in Germany). Seven properties are in France and 6 properties are in Germany.

The above performance indicators do not take the following underlying assets into account: (i) forward purchased property in Ingolstadt (which was delivered in the first quarter of 2018) (ii) redevelopment loan granted to the property in Rueil (Paris Western periphery).

Occupancy

The 95.4% weighted average occupancy rate at December 31, 2017 across the 7 properties owned entirely by the REIT slightly increased from 92.5% at December 31, 2016 due to new lease contracts on the Vanves and Courbevoie properties signed during 2017. Including properties owned through partnerships and including vendor leases, the weighted average occupancy rate across the 13 properties is up from 95.9% as at December 31, 2016 to 97%. In addition to the new leases for the Vanves and Courbevoie properties previously mentioned, the increase can be attributed to the two-year vendor lease on Pantin property signed in August 2017 and the acquisition of the Neu-Isenburg property which has been fully occupied since acquisition.

With the acquisition of the 50% interest in Pantin, Stuttgart and Neu-Isenburg properties (collectively, 198,109 sq.ft) and the sale of the interest in the Cologne property (32,097sq.ft), the REIT’s total gross leasable area including properties held through joint-ventures increased since December 2016 from 1,050,336 square feet to 1,280,542 square feet as at December 31, 2017.

The average term lease increased to 5.3 years as at December 31, 2017 from 5.2 years as at December 31, 2016, due a new 10-year lease in Hanover property with one of the largest banks in Germany that will take over the lease of the current tenant as from 1, effective January 1, 2019 signed in June 2017. The average term lease including properties held through joint-ventures remained stable at 5.1 years compared to 5.3 December 31,2016.

Tenants

The tenant base in the portfolio is well diversified from an industry segment standpoint, with many national and multinational tenants. As at December 31, 2017, the REIT had 34 tenants across the 7 properties owned entirely by the REIT and 66 tenants in aggregate including properties held through joint ventures.

65.6% of 2017 gross rental income is attributable to French public agency tenants, is guaranteed by large German or international banks, or from investment grade corporations or affiliates of investment grade corporations. This amount is increases to 65.8% including properties held through joint-ventures.

The following table shows our five largest tenants, sorted by contribution to gross leasable area (GLA) in our 7 fully owned properties.

Tenant	Tenant Sector	GLA (sq.ft.)	Weighted Areas (sq.ft) (1)	% of Weighted Areas
Orange (formerly France Telecom)	Telecommunications	186,070	181,096	24.77%
Facility Services Hannover	Banking / Real estate	124,074	124,074	17.0%
Rue Du Commerce	E-commerce	51,926	51,926	7.1%
CNAM	Education & Training	50,407	49,543	6.8%
Ademe	Government Agency	49,460	49,460	6.8%
Top 5 tenants		**461,935**	**456,098**	**62.4%**
Other tenants	Diversified	258,469	241,806	33.1%
Vacant		51,999	33,321	4.6%
Total GAAP Measures		**772,403**	**731,225**	**100.0%**

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

The REIT's five largest tenants in the 13 properties which includes the 7 fully owned properties plus the additional 6 properties held in joint-ventures, is presented in the table below. As at December 31, 2017, the REIT held a 50% interest in the Duisburg, Walpur, Pantin, Stuttgart and Neu-Isenburg properties and a 25% interest in the Arcueil property.

Tenant	Tenant Sector	GLA (sq.ft.) (1)	Weighted Areas (sq.ft) (1) (2)	% of Weighted Areas
Orange (formerly France Telecom)	Telecommunications	269,703	253,652	21.2%
Facility Services Hannover	Banking / Real estate	124,074	124,074	10.4%
Mitsuibishi Hitachi Power Systems Europe GmbH	Manufacturer	108,959	104,046	8.7%
Daimler AG	Manufacturer	109,136	100,486	8.4%
Arrow Central Europe	E-commerce	55,871	51,949	4.3%
Top 5 tenants		**667,742**	**634,206**	**53.1%**
Other tenants	Diversified	544,613	491,726	43.9%
Vacant		68,187	36,019	3.0%
Total Non-GAAP Measures		**1,280,542**	**1,161,951**	**100.0%**

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

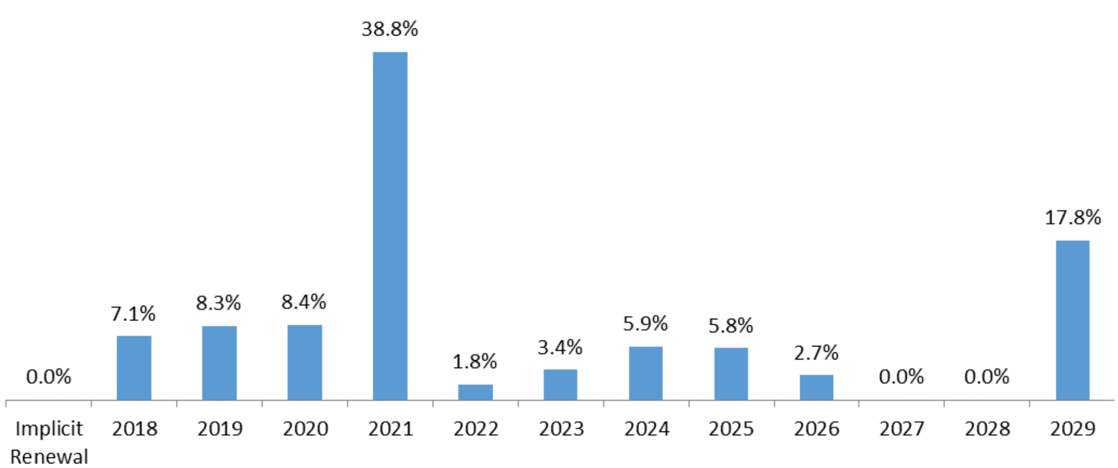
Our largest tenant Orange is rated BBB+/Baa1/BBB+ by S&P/Moody's/Fitch and has leases in two of our properties, the Vanves property and the Arcueil property (held in partnership).

Leasing profile

Lease rollover profile

The REIT has an average remaining lease term of 5.3 years in fully owned properties (not including tenant early termination rights). Assuming all tenants leave at the earliest possible early termination rights, which the REIT believes is unlikely, the average remaining lease term in our portfolio is 3.8 years. The following graph sets out the amount of GLA and percentage of total GLA of the properties subject to leases expiring during the periods shown (excluding early lease terminations).

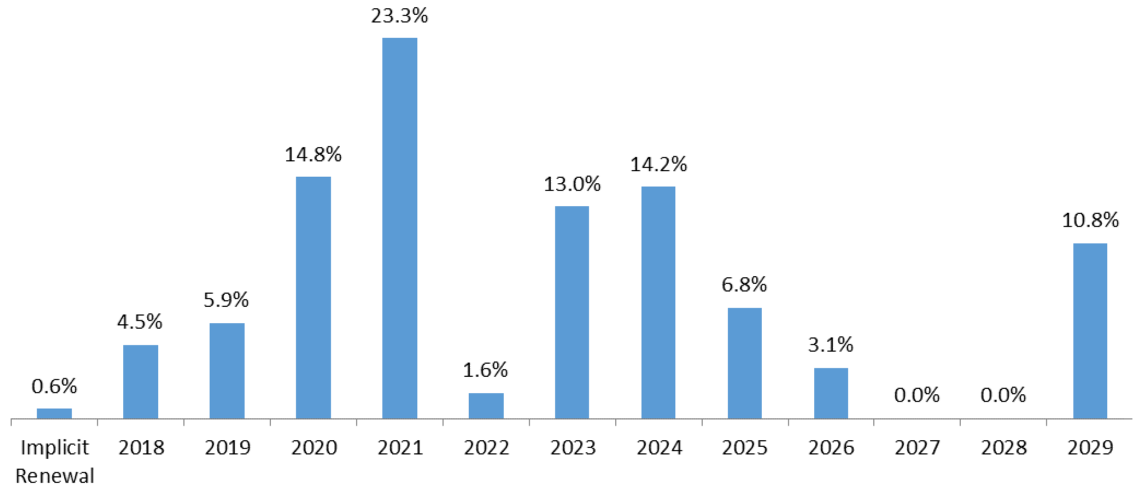
Lease Maturity Profile as at December 31, 2017
(% of total GLA)



Including properties held in joint-ventures, the average remaining lease term is 5.1 years (not including tenant early termination rights) and 4.0 years including early termination rights.

The following graph presents the amount of GLA and percentage of total GLA of the properties subject to leases expiring during the periods shown (excluding early lease terminations) across the 13 invested properties. The GLA shown for these tenants reflects the percentage of ownership that the REIT has in the underlying property.

Lease Maturity Profile as at December 31, 2017
Entire portfolio including joint ventures
(% of total GLA)



Rental indexation
All leases contracts have rental indexation based on the French ICC (construction cost index), ILAT (index averaging construction costs and CPI indexes) or the German Consumer Price Index, as applicable.

CONSOLIDATED FINANCIAL INFORMATION

Consolidated Statements of Earnings

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

	Three months ended December 31		Twelve months ended December 31	
(in thousands of CAD$)	**2017**	**2016**	**2017**	**2016**
Rental income	6,381	6,706	24,946	24,404
Service charge income	1,633	1,951	6,908	6,546
Service charge expenses	(883)	(1,545)	(8,287)	(8,525)
Other revenues	415	(1)	834	170
Other property operating expenses	(136)	(88)	(271)	(214)
Net rental earnings	**7,411**	**7,023**	**24,130**	**22,381**
Administration expenses	(1,420)	(1,199)	(5,293)	(5,152)
Foreign exchange gain (loss)	62	579	(179)	640
Net change in fair value of investment properties	1,903	(3,570)	892	3,632
Gain resulting from exercice of the purchase option	-	-	-	9,213
Acquisition costs	(14)	163	(210)	(575)
Share of profit of an investment (equity method)	3,575	1,247	2,638	1,107
Operating earnings	**11,517**	**4,243**	**21,978**	**31,246**
Gain (loss) on financial instruments at fair value through P&L	2,668	1,078	1,066	(1,269)
Loss on exercise of early payment option on finance leases	(122)	-	(122)	(1,242)
Loss on refinancing of a debt	843	-	843	-
Gain on disposal on investment in joint venture	-	-	-	(605)
Finance income	1,557	(710)	6,601	4,344
Finance costs	(2,166)	(1,680)	(7,123)	(6,488)
Additionnal income (loss) from Arcueil's JV	-	-	-	-
Distributions on Exchangeable securities	(431)	(363)	(1,618)	(1,890)
Net change in fair value of Exchangeable securities	939	1,427	(904)	589
Net change in fair value of Promissory notes	(513)	-	(513)	-
Earnings before income taxes	**14,292**	**3,995**	**20,208**	**24,685**
Current income tax expense	(107)	(232)	(186)	(336)
Deferred income tax expense	(399)	(614)	(658)	(944)
Earnings for the period	**13,785**	**3,149**	**19,364**	**23,405**
Non-controlling interest	134	165	197	121
Earnings for the period (part attributable to the Trust)	**13,651**	**2,984**	**19,167**	**23,284**

Discussion of Consolidated Statements of Earnings

The exchange rate difference from Euro to Canadian dollar between Q4 2017 and Q4 2016 has not been considered by Management to be immaterial and, as such, we have removed the exchange rate impact from our analysis below.

Net rental earnings

Rental income for the three-month period ended December 31, 2017 was $6,381 compared to $6,706 in Q4 2016. The $324 decrease year over year derives mainly from the sale of the main non-office component of the Baldi property.

Rental income for the year ended December 31, 2017 of $24,946 increased by $542 compared to $24,404 for the same period in 2016. The increase comes principally from new acquisitions (Metropolitain) and new leases on Courbevoie, Vanves, Baldi and Sablière properties, which were partially offset by the sale of the main non-office component of the Baldi property and the end of the vendor lease on the Vanves property.

Net rental earnings for the three-month period ended December 31, 2017 were $7,411 compared to $7,023 in Q4 2016. The $387 increase in net rental earnings, resulted chiefly from the increase in recoverable operating expenses in Q4.

Net rental earnings for the year ended December 31, 2017 was $24,130 compared to $22,381 for 2016. The $1,749 increase, includes a $600 year-over-year increase coming from the acquisition of the Metropolitain property and $529 from new leases on Courbevoie, Vanves, Sablière and Metropolitain properties, were partially offset by the sale of the main non-office component of the Baldi property and the end of the vendor lease on the Vanves property and $620 of other revenue.

Administration expenses

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

Administration expenses for the quarter ended December 31, 2017 amounted to $1,420 vs. $1,199 for the same quarter in 2016. $746 is related to the asset management fees paid to Inovalis SA vs. $683 for the quarter ended December 31, 2016 and $646 to other expenses vs. $516 for the quarter ended December 31, 2016. The increase in other expenses is due to increased activity at the Luxembourg holding company level arising from new acquisitions. Other expenses do not accrue evenly throughout the year – on an annual basis the increase in other expenses is less than $13, despite the increase in portfolio activity.

Administration expenses for the year ended December 31, 2017 amounted to $5,293 vs. $5,152 for the same period in 2016. $2,919 is related to the asset management fees paid to Inovalis SA vs. $2,791 for the same period in 2016 and $2,374 to other expenses vs. $2,361 for the same period ended December 31, 2016. The increase in asset management fees is linked to the expanding portfolio size driven by the acquisition of the Metropolitain property. The other expenses charge for the year has remained broadly consistent with 2016.

Net change in fair value of investment properties

During the quarter ended December 31, 2017, the net change in fair value of investment properties recognized in earnings was a gain of $1,903, which is mainly attributable to the increase in value for the Hanover property (see section on Property Capital Investment – Fair Value) compared to the $3,570 loss in the quarter ended December 31, 2016 when most of the additional value of this very class of assets, based especially on the nature of building and WALT (weighted average lease term) was already appraised.

Gain (loss) on financial instruments at fair value through profit and loss

Please refer to Note 8 – Investments accounted for using the equity method in the consolidated financial statements.

Finance income

- For the three-month period ended December 31, 2017, finance income of $1,557 consists of $448 in interest on the acquisition loans related to the Rueil property with the remainder of the balance arising from joint ventures.
- For the year ended December 31, 2017, finance income of $6,601 consists of $1,884 in interest on the acquisition loan related to the Rueil and Pantin properties, with the remaining balance of $4,771 arising from joint ventures of and other finance income, including income from the foreign exchange hedging program.
- As at December 31, 2017, the REIT had deployed €17.2 million ($25.9 million) of the €21.75 million ($31.4 million) acquisition and redevelopment loan to a company 80%-owned by Inovalis SA, related to the Rueil property, in the Paris Western periphery. The loan bears an annual interest rate of 8.50% and, upon the eventual sale of the property to a third party, 20% of the profit will accrue the REIT. The final portion of the loan commitment of €4.6 million ($6.9 million) is expected to be deployed in 2018.

Finance costs

For the three-month period ended December 31, 2017, the finance costs amounted to $2,166 vs $1,680 for the same period in 2016 including $1,164 for interest costs related to finance leases, mortgage loans and the lease equalization loans, $857 of interest costs on the promissory note, $467 of interest related to SWAP contracts and $61 of other finance costs (including amortization of fair value adjustment on finance leases assumed at a discount at the time of a business acquisition, amortization of transaction costs on mortgage loans and other miscellaneous costs).The increase of $486 year on year is largely attributable to interest costs related to the promissory note.

For the year ended December 31, 2017, the finance costs amounted to $7,123 vs $6,488 for the previous year including $4,562 of interest costs related to finance leases, mortgage loans and the lease equalization loans, $857 of interest costs on the promissory note, $1,235 of interest related to SWAP contracts and $469 of other finance costs (including amortization of fair value adjustment on finance leases assumed at a discount at the time of a business acquisition, amortization of transaction costs on mortgage loans and other miscellaneous costs). The increase of $635 was primarily due to the $857 attributable to interest costs on promissory notes issued during the year.

Distributions on Exchangeable securities

Distributions to the holders of Exchangeable securities (see note 18 in Consolidated Financial Statements as at December 31, 2017) are calculated in a manner to provide a return that is economically equivalent to the distributions received by the Unitholders. During the three-month period ended December 31, 2017 the distributions recognized on Exchangeable securities were $431 compared to $363 for the same period in 2016, for the year ended December 31, 2017 the distributions recognized on Exchangeable securities were $1,618 compared to $1,890 for the same period in 2016. The decrease is accounted for by the conversion by Inovalis S.A. of 920,000 Exchangeable securities into Units in 2016, partially offset by the increase due to the additional Exchangeable securities received by Inovalis SA in lieu of asset management fees.

Net change in fair value of Exchangeable securities

The net change in value of the Exchangeable securities, as well as the cost of distributions recognized on Exchangeable securities, are recognized in profit and loss because, for financial reporting purposes, the Exchangeable securities have been classified as a liability at fair value through profit or loss.

For the three-month period ended December 31, 2017, the REIT reported a gain of $939 which is the result of the decrease in the amount of the debt of $188 resulting from the change of the closing price of the units which was $9.97 on December 31, 2017 compared to $10.06 on September 30, 2017 and the impact of the conversion of 500,014 Exchangeable securities in December, 2018.

For the year ended December 31, 2017 the REIT reported a loss of $904 which is the result of the increase in the closing price of the units which was $9.97 on December 31, 2017 compared to $9.18 on December 31, 2016 partially offset by the issuance of $3,711 in Exchangeable securities in payment of Asset Management fees.

Current income tax expense

The current income tax expense of $107 for the quarter ended December 31, 2017 and $186 for the year ended December 31, 2017 is mainly due tax paid by the REIT's Luxembourg holding entity.

Last 24 Months - Key Financial Information

The information provided in the table below has been calculated in accordance with GAAP.

	3-month period ended							
(in thousands of CAD$)	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	March 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	March 31, 2016
Rental income	6,382	6,323	6,271	5,970	6,706	6,172	5,853	5,673
Net rental earnings	7,411	6,729	6,610	3,247	7,023	6,556	6,065	2,737
Earnings for the period	13,651	2,216	159	3,141	2,984	11,833	5,839	2,628
Earnings per Unit (CAD$)	0.63	0.10	0.01	0.15	0.14	0.60	0.37	0.15

PROPERTY CAPITAL INVESTMENTS

Fair value

The fair value of the REIT's investment property portfolio as at December 31, 2017 was $440.8 million (vs. $412.2 million as at December 31, 2016). The fair value of the French properties was $402.2 million (91.2% of investment properties value) and the fair value of the German properties was $38.6 million (8.8% of investment properties value).

The $28.6 million increase is accounted for by $1.6 million Capex, $26.8 million increase due to foreign exchange fluctuations and other charges of $0.2 million. The other charges include rent free periods, capitalized letting fees and net change in present value.

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

Please refer to note 7 of the consolidated financial statements for a more complete discussion on our investment properties and valuation rates used by the evaluators.

Building improvements

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

Since the IPO in April 2013, a total of $1.7 million has been spent on the four initial properties, funded by a reserve that was set aside by the vendors of the four initial properties. Additionally, improvement works of $2.2 million on Courbevoie property began in Q2 2017, of which $1.1 million worth of improvements have been carried out as at December 31, 2017. These works are expected to be completed in 2018. An additional $0.5 million of improvement works were completed on the Metropolitain and Sabliere properties.

Guarantees, commitments and contingencies

The REIT and its subsidiaries have provided guarantees in connection with the finance lease liabilities and the mortgage loans, including pledge of affiliates of the REIT, first mortgages and assignment of receivables and future receivables. As at December 31, 2017, guarantees provided by the REIT with respect to its long-term debts include a preferential claim held by mortgage lenders on the Jeuneurs, Baldi, Veronese, Sablière and Hanover properties in the amount of $95.3 million.

OTHER SIGNIFICANT ASSETS

Investments accounted for using the equity method

This section encompasses the 50% interest the REIT (through its subsidiaries) has in the Duisburg property, the 50% interest in the Walpur property, the 25% interest in the Arcueil property, 50% in the Pantin property, the 50% interest in the Neu-Isenburg property and 50% in the Stuttgart property. Our share of fair value of the investment properties accounted for using the equity method was $79,094 as at December 31, 2017 compared to $43,887 as at December 31, 2016, the year over year increase of $35,207 corresponds to $33,706 for the acquisition of the Pantin Stuttgart, and Neu-Isenburg properties, the partial disposal of Cologne for $4,709, share of net earnings for the period of $2,421and the FX movement of $3,789.

Acquisition loans and deposit

As at December 31, 2017, Acquisition loans and deposit of $27.04 million consisted mainly of the $25.9 million loan commitment for the Rueil project and the $1.13 million deposit for the Ingolstadt forward purchase.

Trade and other receivables

Trade and other receivables as at December 31, 2017 amounted to $4,566 excluding the REIT's interests in the properties held in partnerships compared to $3,368 as at December 31, 2016. The increase of $1,198 corresponds to mainly $878 of OPEX down payments.

Other current assets

Other current assets as at December 31, 2017 amounted to $2,021 compared to $1,638 as at December 31, 2016. This includes VAT receivable of $1,289, Interest Receivable from Joint Ventures $626 and Prepaid Expenses of $106. This results in a difference between December 2017 and December 2016 of $383. The balance at year end 2017 consists mainly of tax receivable.

PRESENTATION OF OUR CAPITAL

Liquidity and capital resources

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

The REIT's cash available was $20.3 million as at December 31, 2017 compared to $9.7 million as at December 31, 2016. The increase in Cash and cash equivalents arises chiefly from the successful completion of the second private placement operation of 2017. This cash balance was subsequently used to fund the Kösching acquisition in Q1, 2018.

Financing activities

Our debt strategy is to have secured mortgage financing with a term to maturity that is appropriate in relation to the lease maturity profile of our portfolio and then to put in place, when appropriate, interest-only financings. We intend to search for fixed rate financings or floating rate financings with a cap. As such, 91.2% of the REIT's senior debt benefits from an interest rate protection (68.0% in the form of a swap and 23.1% in the form a cap). Our preference is to have staggered debt maturities to mitigate interest rate risk and limit refinancing exposure in any particular period. With no financial institution representing more than 34% of our senior debt commitment, we also make sure that the REIT has a diversified base of senior debt providers. Our debt to book value stands at 42.7% and net of the $20 million of cash available (including financial current assets) as at December 31, 2017 (including the REIT's interest in the joint ventures), debt to book value stands at 39.2%.

Debt-to-book value

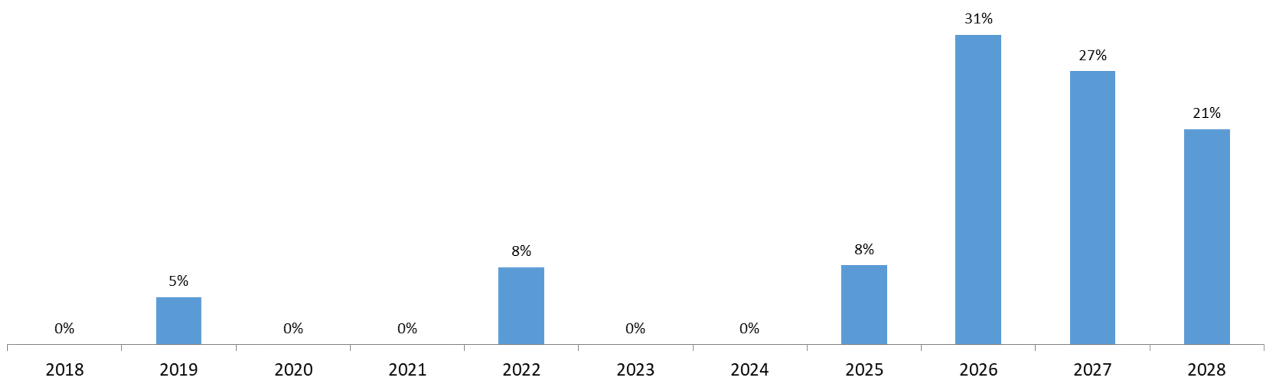
Indebtedness is calculated as the sum of (i) finance lease liabilities, (ii) mortgage loans, (iii) lease equalization loans, (iv) other long-term liabilities and (v) deferred tax liabilities. Indebtedness does not include the contribution from Unitholders that is recorded as a liability, as is the case at the REIT level for the Exchangeable securities, Private placement promissory note and at the partnership level for the contribution from the REIT and its partners.

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

	As at December 31, 2017	As at December 31, 2016
Weighted average interest rate [1]	2.16%	2.11%
Debt-to-book value [2]	42.7%	46.5%
Debt-to-book value, net of cash [2]	39.2%	42.1%
Interest coverage ratio [3]	3.9 x	3.7 x
Debt due in next 12 months in thousand of CAD$	9,921	24,720
Weighted average term to maturity of debt [4]	6.5 years	7.3 years

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

Leasehold and Mortgage Financing Maturity Profile
(% of amount outstanding as at December 31, 2017)



ANALYSIS OF DISTRIBUTED CASH

	Three months ended December 31		Year ended December 31	
	2017	2016	2017	2016
Cash flows from operating activities (A)	5,558	2,851	27,549	17,769
Earnings before income taxes (B)	10,917	3,995	20,208	24,685
Declared distribution on Units (C)	4,512	4,368	17,873	15,188
Excess (shortfall) of cash flows from operating activities over distributions declared (A - C)	1,046	(1,517)	9,676	2,581
Excess (shortfall) of profit or loss over distributions declared (B - C)	6,405	(373)	2,335	9,497

As shown in the table above, the cash flows related to operating activities as reported in the REIT's consolidated statement of cash flows exceeded the distributions declared for the year ended December 31, 2017.

Every quarter, the REIT ensures that sufficient funds were being generated from rental operations to continue making distributions at the planned rate. To perform this assessment, management uses the FFO and AFFO measures presented in the section entitled Non-GAAP reconciliation (FFO and AFFO). These measures are used to determine the amount of funds generated by ongoing rental operations that are available for distribution. These measures remove from consideration those gains and losses that are recognized for accounting purposes but that do not impact cash flow. They also remove from consideration various revenues and expenses that are recognized in profit or loss for accounting purposes but which do not arise from ongoing rental operations, for example because they were incurred to acquire revenue generating assets.

As quantified in the FFO and AFFO calculations, the funds used to make the distributions during the current quarter were generated through the REIT's ongoing rental operations.

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

RISK AND UNCERTAINTIES

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

Risks relating to the REIT and its business

Risks inherent in the real estate industry may adversely affect our financial performance
Real estate ownership is generally subject to numerous factors and risks, including changes in general economic conditions, local economic conditions, the attractiveness of properties to potential tenants or purchasers, competition with other landlords with similar available space, and the ability of the owner to provide adequate maintenance at competitive costs.

The properties generate income through rent payments made by our tenants. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. Furthermore, the terms of any subsequent lease may be less favorable than the existing lease. Our cash flows and financial position would be adversely affected if our tenants were to become unable to meet their obligations under their leases or if a significant amount of available space in our properties could not be leased on economically favorable lease terms. In the event of default by a tenant, we may experience delays or limitations in enforcing our rights as sub-lessor and incur substantial costs in protecting our investment. Furthermore, at any time, a tenant may seek the protection of bankruptcy, insolvency or similar laws, which could result in the rejection and termination of the lease of the tenant and, thereby, cause a reduction in the cash flows available to us.

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

Concentration of tenants may result in significant vacancies on the Properties
Five of our largest tenants, by percentage of total GLA, occupy approximately 62% of the total weighted areas. Although all five tenants are committed to multi-year leases, which are set to expire gradually between 2018 and 2029, there is no assurance that such tenants will continue to occupy such premises for the remainder of their lease terms. Some of them have break options before the end of their leases, and the earliest dates on which those five largest tenants may effectively move range between 2018 and 2021. To minimize this risk of vacancy, Inovalis REIT will continue to closely monitor all leases and ensure that they work with the current tenants to determine their future leasing plans, which would allow Inovalis REIT to source tenants in advance of the current tenants vacating the property.

Lease renewals, rental increases, lease termination rights and other lease matters
Expiries of leases for our properties will occur from time to time over the short and long-term. No assurance can be provided that we will be able to renew any or all of the leases upon their expiration or that rental rate increases will occur or be achieved upon any such renewals. 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.

Although certain, but not all, leases contain a provision requiring tenants to maintain continuous occupancy of leased premises, there can be no assurance that such tenants will continue to occupy such premises which may have an adverse effect on us and could adversely impact our financial condition and results of operations and decrease the amount of cash available for distribution. In addition, certain leases contain a provision which gives tenants the right to terminate their leases upon payment of a penalty.

Moreover, pursuant to the lease agreement with the National Conservatory of Arts and Crafts, none of the value-added taxes on expenses legally due by the REIT are recoverable. However, property taxes and office taxes are recoverable. Similarly, pursuant to the Fresh & Co. and French Environment and Energy and Management Agency lease agreements, several forms of taxes, including but not limited to, property taxes, household refuse taxes and annual office taxes will be borne by the REIT. As a result, we will bear the economic cost of increases to these taxes.

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

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

We are subject to various federal, state and municipal laws relating to environmental matters. Such environmental laws impose actual and contingent liabilities on us 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.

We have 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 similar to ours.

We make the necessary capital and operating expenditures to ensure compliance with environmental laws and regulations. Although there can be no assurance, we do 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.

We may incur significant capital expenditures and other fixed costs
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. In order 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 us 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 letting contracts. Any such event could have a material adverse effect on our cash flows, financial condition and results of operations and our ability to make distributions on the Units.

Financing risks, leverage and restrictive covenants may limit our ability for growth
The real estate industry is capital intensive. We will require 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. Our failure to access required capital could adversely impact our

investments, cash flows, operating results or financial condition, our ability to make distributions on the Units and our ability to implement our growth strategy.

A high level of indebtedness increases the risk that we may default on our debt obligations. Our ability to make scheduled payments of the principal of, or interest on, and to otherwise satisfy our debt obligations depends on future performance, which is subject to the financial performance of our properties, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond our control.

Changes in government regulations may affect our investment in our properties
We are subject to laws and regulations governing the ownership and leasing of real property, employment standards, environmental and energy efficiency matters, taxes and other matters. It is possible that future changes in applicable federal, state, local or common laws or regulations or changes in their enforcement or regulatory interpretation could result in changes in the legal requirements affecting us (including with retroactive effect). In addition, the political conditions in the jurisdictions in which we operate 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 we are subject in the jurisdictions in which we operate could materially affect the rights and title to the properties. All of the properties are located in France and Germany. Although the governments in France and Germany are stable and generally 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 we are subject or the effect of any such change on our investments.

Failure to receive deductions for interest payments may adversely affect our cash flows, results of operations and financial condition
In the course of the acquisition of the properties, we entered into financing transactions with third parties and affiliates. These financing agreements will require us to pay 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 our 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 our investments and operations are conducted in currencies other than Canadian dollars; however, we pay distributions to Unitholders in Canadian dollars. We also raise funds primarily in Canada from the sale of securities in Canadian dollars and invest such funds indirectly through our 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 our financial results, which are denominated and reported in Canadian dollars, and on our ability to pay cash distributions to Unitholders. We have implemented active hedging programs 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 our cash flows and our ability to pay distributions and make interest payments
When concluding financing agreements or extending such agreements, we depend on our ability to agree on terms for interest payments that will not impair our desired profit and on amortization schedules and that do not restrict our ability to pay distributions. In addition to the variable rate portion of the leaseholds in respect of the properties, we 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 us and our subsidiaries to service debt, resulting in a decrease in distributions to Unitholders, and could impact the market price of the Units.

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

- While the Trustees have similar oversight responsibility with respect to the services provided by Inovalis SA pursuant to the management agreement, the services provided by Inovalis SA are not performed by employees of the REIT, but by Inovalis SA directly and through entities to which it may subcontract. In early 2018, in anticipation of the term end of the Management Agreement, the Board of Trustees of the REIT formed an independent committee to review the option of internalization of management. The independent committee determined that, given the REIT's relative size, it is in the REIT's best interest to not internalize the asset and property management function at the current time and recommended to the Board of Trustees to approve the extension of the management agreement. As part of the terms of the extension of the agreement, the Management Agreement was extended for an initial term will be of three years, not to exceed April 1, 2021. The Agreement shall be automatically renewed for an additional two years if the REIT's AFFO per unit for the year ended December 31, 2020 is greater than 115% of the AFFO per unit of the REIT as at December 31, 2017. The AFFO calculation shall be consistently applied and approved by the audit committee. Internalization can occur at any time at the discretion of the Board of Trustees.

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
We carry 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 we intend 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). We also carry boiler and machinery insurance covering all boilers, pressure vessels, HVAC systems and equipment breakdown. There are, however, certain types of risks (generally of a catastrophic nature such as from war or nuclear accident) that are uninsurable under any insurance policy. Furthermore, there are other risks that are not economically viable to insure at this time. We partially self-insure against terrorism risk for our entire portfolio. We have insurance for earthquake risks, subject to certain policy limits, deductibles and self-insurance arrangements. Should an uninsured or underinsured loss occur, we could lose our investment in, and anticipated profits and cash flows from, one or more of our properties, but we would continue to be obligated to repay any recourse mortgage indebtedness on such properties. We do not carry title insurance on the properties. If a loss occurs resulting from a title defect with respect to a property where there is no title insurance or the loss is in excess of insured limits, we could lose all or part of our investment in, and anticipated profits and cash flows from, such property.

GAAP reporting may result in our consolidated statement of financial position and consolidated statement of earnings being subject to volatility as the fair value of our portfolio changes
The fair value of our 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 us, may have a material impact to the fair value of our properties. Our chosen accounting policy under GAAP 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, our statement of financial position and our statement of earnings are subject to volatility as the fair value of its real estate portfolio changes and these changes may be material.

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

Income taxes

Canadian income taxes
The Trust is considered a mutual fund trust for income tax purposes in Canada. In Canada, mutual fund trusts are not taxed on income earned in a taxation year, to the extent that such income has been distributed to Unitholders prior to the end of the taxation year. Indeed, according to article 11 of the REIT's Amended and Restated Declaration of Trust, dated April 10, 2013, the trustees shall make payable to Unitholders a distribution of sufficient net realized capital gains and income that the Trust shall not be liable to pay taxes under Part 1 of the Tax Act. As a result, there is generally little possibility of the Trust being taxable on ordinary income under Part 1 of the Income Tax Act. Consequently, the Trust does not recognize Canadian income taxes under IAS 12 Income taxes because it has an "in-substance" exemption.

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

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

Arceuil SCS is a Luxembourg partnership that is tax transparent for Luxembourg corporate income tax purposes, i.e. all the income and expenses are deemed to be realized directly by the partners. As CCE holds 25% of the partnership interest, 25% of the income and expenses will be allocated to the latter from a Luxembourg tax perspective.

Since 2016, CCH holds 94% of Hannover CanCorp GmbH & KG ("HCC"), investment property holding a building in Germany. The latter is considered as tax transparent entity from a German as well as Luxemburgish tax perspective.
CCD and TFICC (collectively called the "Lux Co") are Luxembourg limited liability companies that are managed in Luxembourg and, therefore, should not be considered to be tax resident of Germany for German tax purposes. Similarly, Cologne is an SCI and should not be considered to be tax resident of Germany for German tax purposes (the Lux Co, Cologne and CCH are collectively called the "German Co"). However, the German Co would be subject to corporate income tax ("CIT") in Germany on their German source income (or in case German Co is a partnership and therefore transparent for CIT purposes its partners). As the German Co's rental revenues would be German source income, such (net) income would be subject to CIT, even if the German Co (and their shareholders) are not German tax residents. This is true irrespective of whether German Co is a corporation or a partnership and therefore transparent. The right to tax such income by Germany should not be waived under the double tax treaty between Germany and Luxembourg and the double tax treaty between Germany and France because the German Co's properties are located in Germany and income from German real estate is taxed in the country where the real estate is located. To determine taxable income for CIT purposes, a tax payer may deduct certain expenses incurred in connection with its German source income (e.g., with respect to the acquisition and ownership of real property (in particular depreciation) and certain operating expenses) provided that such costs are incurred on arm's length terms. Square Isenburg GmbH is a German limited liability company fully taxable in Germany. That means the income from the real estate is not only subject to CIT but in principle also subject to trade tax. However, trade tax reductions or trade tax exemptions might be applicable.

OUTLOOK

We believe that the current market environment is a favorable one for the REIT to prosper. In addition to actively managing our properties, we are continuously assessing potential acquisitions in our target markets and will focus on the ones offering value and stability. Our long-term credit worthy tenants, low cost of debt with proper maturity and the foreign exchange rate contracts for our distributions until April 2019, not only provide investors with steady cash flows, but also serve as a basis for future growth. In addition of the cash available, we can also sell some portion of assets that we own to get access to additional cash and at the same time diversify our portfolio risk.

CRITICAL ACCOUNTING POLICIES

The preparation of the REIT's audited consolidated financial statements in conformity with GAAP requires management to make judgments and estimates affecting the reported amounts of revenues and investment properties owned directly and indirectly at the reporting date. However, uncertainty about these estimates could result in outcomes requiring a material adjustment to the carrying amount of the asset or liability affected in future periods.

We consider the following policies and estimates to be the most critical in understanding the assumptions and judgments that are involved in preparing our financial statements and the uncertainties that could affect our financial results, financial condition and cash flows: (i) recognition and valuation of investment properties; (ii) distinction between business combinations or asset acquisitions and (iii) classification of and accounting for joint arrangements.

A more detailed description of significant accounting policies and critical accounting judgment and estimates that we apply under GAAP is provided in notes 3 and 4 of the consolidated financial statements as at December 31, 2017.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The REIT’s Chief Executive Officer (the “CEO”), and the Chief Financial Officer (the “CFO”) of the REIT are responsible for establishing and maintaining the REIT’s disclosure controls and procedures (“DCP”) including adherence to the Disclosure Policy adopted by the Board of Trustees. The Disclosure Policy requires all staff and certain other personnel providing services to the REIT to keep senior management fully apprised of all material information affecting the REIT so that they may evaluate and discuss this information and determine the appropriateness and timing for public release.

The REIT’s CEO and the CFO are also responsible for the design of internal controls over financial reporting (“ICFR”). Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the REIT, (2) provide reasonable assurance that all transactions are recorded as necessary to permit the preparation of financial statements in accordance with International Financial Reporting Standards, and that receipts and expenditures of the REIT are being made only in accordance with authorizations of the management and Trustees of the REIT, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the REIT’s assets that could have a material effect on the REIT’s financial statements.

The CEO and CFO have evaluated the effectiveness of the Company’s DCP and ICFR as required by National Instrument 52-109F2 issued by the Canadian Securities Administrators. With the exception of a significant deficiency in internal control which was identified with respect to accounting for complex financial instruments, management concluded that as of December 31, 2017, the REIT’s design and operation of its DCP and ICFR were effective in providing reasonable assurance that material information regarding this report, and the consolidated financial statements and other disclosures was made known to them on a timely basis and reported as required and that the financial statements present fairly, in all material aspects, the financial condition, results of operations and cash flows of the REIT as of December 31, 2017. Management has taken corrective measures to ensure the deficiency in internal control is resolved. There was no resulting impact on the financial statements or MD&A at year-end, and had no impact on financial information reported in prior periods.

A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. As a result of 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, amongst other items: (i) that Management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors. Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by Management override. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals.

SUBSEQUENT EVENTS

Acquisition of the Kösching asset

On February 28, 2018, the REIT completed the acquisition of the Kösching asset, for approximately €24.4 million (CAD$38.1 million). The property is strategically located less than 10km from the global headquarters of Audi AG in Ingolstadt, Germany. The recently constructed modern office building and R&D facility, with a gross leasable area of approximately 9,900m2 (106,563 sq.ft), is fully occupied with a weighted average lease term of 10.0 years. The REIT's 50% interest in the property was principally funded with cash on hand raised through the private placements completed in Q4 2017. The acquisition will be immediately accretive to the REIT's FFO/unit and AFFO/unit.

Extension of the Management Agreement and Modification

In Q1 2018, in anticipation of the April 2018 expiry date, the Board of Trustees of the REIT approved the extension of the management agreement between the REIT and Inovalis S.A. The Board of Trustees and the Manager agree that, given the REIT's relative size, it is in the REIT's best interest to not internalize the asset and property management function at the current time. As part of the terms of the extension of the agreement, the following modifications were approved:

- Term: The initial term will be for three (3) years, not to exceed April 1, 2021. The Agreement shall be automatically renewed for an additional two (2) years if the REIT's AFFO per unit for the year ended December 31, 2020 is greater than 115% of the AFFO per unit of the REIT as at December 31, 2017. The AFFO calculation shall be consistently applied and approved by the audit committee. Internalization can occur at any time at the discretion of the Board of Trustees.
- Asset Management Fees: Will be reduced from 0.75% to 0.50% and calculated based on the book value of assets. Fees will be payable in cash and/or exchangeable securities, the exact composition of which will be determined by the Board annually based on the REIT's cash resources.
- Acquisition Fees: 1.00% of the purchase price of properties acquired that are not currently owned or managed by the Manager and paid 100% in cash.

Discussion of Non-GAAP metrics

NON-GAAP FINANCIAL MEASURES

Funds from Operations and Adjusted Funds from Operations

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

FFO is defined as net earnings in accordance with IFRS, excluding: (i) acquisition costs, (ii) gain on bargain purchase and option costs, (iii) net change in fair value of investment properties, (iv) net change in fair value of financial instruments at fair value through profit and loss, (v) changes in fair value of Exchangeable securities and Private placement promissory note, (vi) distribution on Exchangeable securities and Private placement promissory note (vii) adjustment for property taxes accounted for under IFRIC 21 (if any), (viii) loss on exercise of lease option, (ix) adjustment for foreign exchange gains or losses on monetary items not forming part of an investment in a foreign operation, (x) gain on disposal of an interest in a subsidiary and the non-cash portion of earnings from investments accounted for using the equity method, (xi) finance income earned from loans to joint-ventures, (xii) loss on refinancing of debts and other non-recurring finance costs, (xiii) deferred taxes and (xiv) gains or losses from non-recurring items, (xv) additional non-recurring income (loss) from JVs, (xvi) minority interest. It has also been adjusted to exclude the distributions declared on Exchangeable securities and on Private placement promissory note. 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 note are recorded as liability. Exchangeable securities are recorded at fair value through profit and loss in accordance with IFRS and Private placement promissory note is recorded at fair value. 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.

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

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

AFFO is defined as FFO subject to certain adjustments, including adjustments for: (i) the non-cash effect of straight line rents, (ii) the cash effect of the lease equalization loans (equalizing the rent payments, providing the REIT with stable and predictable monthly cash flows over the term of the France Telecom leases in the Vanves property, the Smart & Co. lease in the Courbevoie property and the Rue du Commerce leases in the Baldi property (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, including those paid by the vendors of the leasehold interest in the properties and/or tenants and (vi) amortization of transaction costs on mortgage loans.

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

Debt-to-book value

Our debt-to-book value ratio is calculated on a look-through basis and takes into account the REIT apportioned amount of indebtedness at the partnership level. Indebtedness at the REIT level, as well as at the different partnership levels is calculated as the sum of (i) finance lease liabilities, (ii) mortgage loans, (iii) lease equalization loans, (iv) other long-term liabilities and (v) deferred tax liabilities. Indebtedness does not take into account the contribution from Unitholders that is recorded as a liability, as is the case at the REIT level for the Exchangeable securities, Private placement promissory note and at the partnership level for the contribution from the REIT and its partners.

CONSOLIDATED FINANCIAL INFORMATION

This presentation takes into account REIT's proportionate share of income and expenses from investments in joint venture. Please refer to "Non-GAAP reconciliation".

	Three months ended December 31		Twelve months ended December 31	
(in thousands of CAD$)	**2017**	**2016**	**2017**	**2016**
Rental income	8,977	8,188	33,307	31,036
Service charge income	2,394	2,427	9,170	7,823
Service charge expenses	(1,517)	(1,884)	(10,640)	(9,753)
Other revenues	71	54	130	208
Other property operating expenses	(33)	(88)	(170)	(214)
Net rental earnings	**9,891**	**8,697**	**31,797**	**29,100**
Administration expenses	(1,808)	(1,407)	(6,417)	(6,001)
Foreign exchange gain (loss)	62	579	(179)	640
Net change in fair value of investment properties	3,997	(2,417)	4,853	4,013
Gain on bargain purchase	10	-	1,455	-
Gain resulting from exercice of the purchase option	-	-	-	9,213
Acquisition costs	(714)	185	(1,923)	(552)
Operating earnings	**11,438**	**5,638**	**29,586**	**36,413**
Gain (loss) on financial instruments at fair value through P&L	2,585	1,149	1,107	(1,320)
Loss on exercise of early payment option on finance leases	(125)	-	(595)	(1,242)
Loss on refinancing of a debt	-	-	-	(605)
Gain on disposal on investment in joint venture	692	-	718	-
Finance income	457	82	2,167	1,253
Finance costs	(2,058)	(2,197)	(8,760)	(7,984)
Additionnal income (loss) from Arcueil's JV	1,764	(1,762)	(156)	(481)
Distributions on Exchangeable securities	(431)	(363)	(1,618)	(1,890)
Net change in fair value of Exchangeable securities	939	1,427	(904)	589
Net change in fair value of Promissory notes	(513)	-	(513)	-
Earnings before income taxes	**14,749**	**3,974**	**21,033**	**24,735**
Current income tax expense	(108)	(238)	(216)	(367)
Deferred income tax expense	(857)	(587)	(1,454)	(963)
Earnings for the period	**13,784**	**3,149**	**19,363**	**23,405**
Non-controlling interest	134	165	197	121
Earnings for the period (part attributable to the Trust)	**13,650**	**2,984**	**19,167**	**23,284**

Net rental earnings

Rental income for the three-month period ended December 31, 2017 was $8,977 compared to $8,188 in Q4 2016. The $789 increase year over year is accounted for by $883 comes from new acquisitions the Stuttgart, Pantin and Neu-Isenburg properties partially offset by the sale of the main non-office component of the Baldi property and the end of the vendor lease on the Vanves property.

Rental income for the year ended December 31, 2017 of $33,307 vs. $31,036 for the same period in 2016. Of the $2,271 increase, $1,649 comes from new joint-venture acquisitions - Pantin, Stuttgart and Neu-Isenburg properties -

and $622 corresponds mainly to new leases, partially offset by the sale of the main non-office component of the Baldi property and the end of the vendor lease on the Vanves property.

Net rental earnings for the three-month period ended December 31, 2017 was $9,891 compared to $8,697 in Q4 2016. The $1,194 increase year over year, $1,033 of which is attributable to the Pantin, Stuttgart and Neu-Isenburg properties with the balance mainly resulting from new leases partially offset by the sale of the main non-office component of the Baldi property and the end of the vendor lease on the Vanves property.

Net rental earnings for the year ended December 31, 2017 were $31,797 compared to $29,100 in the same period in 2016. The $2,697 increase includes a $2,715 year-over-year increase with $1,733 coming from the acquisition of new JV properties - Pantin Stuttgart and Neu-Isenburg and the remaining $982 corresponding mainly to the Metropolitain acquisition and new leases partially offset by the sale of the main non-office component of the Baldi property and the end of the vendor lease on the Vanves property.

Administration expenses

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

Administration expenses for the quarter ended December 31, 2017 amounted to $1,808 vs. $1,407 for the same quarter in 2016. $1,020 is related to the asset management fees paid to Inovalis SA vs. $837 for the quarter ended December 31, 2016 and $788 to other expenses vs. $570 for the quarter ended December 31, 2016. The increase in asset management fees is linked to the expanding portfolio size driven by the acquisition of the Metropolitain, Stuttgart, Delizy and Neu-Isenburg properties. The rise in the other expenses charge was driven by new JV acquisitions and increased activity at the Luxembourg holding company level. Of these expenses, $76 are acquisition-related costs that will be subsequently reimbursed to the REIT.

Administration expenses for the year ended December 31, 2017 amounted to $6,417 vs. $6,001 for the same period in 2016. $3,715 is related to the asset management fees paid to Inovalis SA vs. $3,380 for the same period in 2016 and $2,702 to other expenses vs. $2,621 for the same period ended December 31, 2016. The increase in asset management fees is linked to the expanding portfolio size driven by the acquisition of the Metropolitain, Stuttgart, Delizy and Neu-Isenburg properties. The 3% year on year rise in the other expenses charge, $81, was driven by new JV acquisitions and activity at the Luxembourg holding company level.

Net change in fair value of investment properties

During the quarter ended December 31, 2017, the net change in fair value of investment properties recognized in earnings was a gain of $3,997 (see section on Property Capital Investment – Fair Value) which relates to the increase in fair value of $4.3 million, mainly attributed to the German assets. This is reduced by $347 relating to other factors, including IFRIC 21, rent free periods and capex. The gain compares to the $2,417 loss in the quarter ended December 31, 2016.

For the year ended December 31, 2017 the gain of $4,853 which relates to the increase in fair value of $4.3 million, mainly attributed to the German assets. The remaining balance of $553 relates to other factors, including rent free periods and capex. The gain compares to the $4,013 gain in the year ended December 31, 2016.

Acquisition costs

Acquisition costs of $714 for the quarter ended December 31, 2017 correspond to the Neu-Isenburg acquisition and $1,923 for the year ended December 31, 2017 are related to the Stuttgart, Pantin and Neu-Isenburg asset acquisitions.

For the three-month and the year ended December 31, 2016, the acquisition costs were respectively ($185) and $552 mainly attached to the Metropolitain acquisition and the exercise of the acquisition option on the Hanover property.

Gain (loss) on financial instruments at fair value through profit and loss

The REIT recognized a gain on financial instruments at fair value through profit and loss for the quarter ended December 31, 2017 of $2,585 vs a gain of $1,149 for the same period in 2016. For the year ended December 31, 2017, the REIT recognized a gain of $1,107 vs a loss of $1,320 for the year ended December 31, 2016. These gains are mostly the result of the variation in value realized on the interest rate derivative contracts.

Finance income

For the three-month period ended December 31, 2017, finance income of $457 consists chiefly of interest on the acquisition loans related to the Rueil and Pantin properties.

For the year ended December 31, 2017, finance income of $2,167 consists of $1,884 in interest on the acquisition loan related to the Rueil and Pantin properties and $283 in other finance income corresponding mainly to the foreign exchange hedging program.

Finance income for the year ended December 31, 2016, of $1,253 was mostly comprised of the interest received from the acquisition loan related to the Metropolitain property (reimbursed in Q1 2016).

As at December 31, 2017, the REIT had deployed €17.2 million ($25.9 million) of the €21.7 million ($31.4 million) acquisition and redevelopment loan to a company 80%-owned by Inovalis SA, related to the Rueil property, in the Paris Western periphery. The loan bears an annual interest rate of 8.50% and, upon the eventual sale of the property to a third party, 20% of the profit will accrue the REIT. The final portion of the loan commitment of €4.5 million ($6.8 million) is expected to be deployed in 2018.

Finance costs

For the year ended December 31, 2017, the finance costs amounted to $8,760 vs $7,984 for the same period in 2016 including $6,977 for interest costs related to finance leases, mortgage loans and the lease equalization loans, $1,311 of interests related to SWAP contracts, $857 relating to promissory note interest and $500 of other finance costs corresponding mainly to the foreign exchange hedge maintained on the Arcueil property in line with the Arcueil JV agreement.

For the three-month period ended December 31, 2017, the finance costs amounted to $2,058 vs $2,197 for the previous year including $1,611 of interest costs related to finance leases, mortgage loans, the lease equalization loans, $336 of interests related to SWAP contracts, $535 relating to the promissory note and ($423) of other finance costs corresponding mainly to the foreign exchange hedge maintained on the Arcueil property in line with the Arcueil JV agreement. The decrease primarily due to gains realized in the foreign exchange program.

Additional income (loss) from Arcueil's JV

For the Arcueil joint venture, the consolidation presentation reflects a 25% proportionate share of results which aligns with the REIT 25% ownership interest. Per the joint venture agreement, and as reflected in the consolidated financial statements, 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% of foreign exchange derivative costs. This additional loss from Arcueil's joint venture is $1,764 for the three-month period ended December 31, 2017 vs $(1,762) in Q4 2017 and $(156) for the year ended December 31, 2017 vs $(481) in the same period in 2016. The year on year variance is mainly due to the foreign exchange derivative valuation.

Distributions on Exchangeable securities

Distributions to the holders of Exchangeable securities (see note 18 in Consolidated Financial Statements as at December 31, 2017) are calculated in a manner to provide a return that is economically equivalent to the distributions received by the Unitholders. During the three-month period ended December 31, 2017 the distributions recognized on Exchangeable securities were $431 compared to $363 for the same period in 2016, for the year ended December 31, 2017 the distributions recognized on Exchangeable securities were $1,618 compared to $1,890 for the same period in 2016. The decrease is accounted for by the conversion by Inovalis S.A. of 920,000 Exchangeable securities into Units in 2016, partially offset by the increase due to the additional Exchangeable securities received by Inovalis SA in lieu of asset management fees.

Net change in fair value of Exchangeable securities

The net change in value of the Exchangeable securities, as well as the cost of distributions recognized on Exchangeable securities, are recognized in profit and loss because, for financial reporting purposes, the Exchangeable securities have been classified as a liability at fair value through profit or loss.

For the three-month period ended December 31, 2017, the REIT reported a gain of $939 which is the result of the decrease in the amount of the debt of $188 resulting from the change of the closing price of the units which was $9.97 on December 31, 2017 compared to $10.06 on September 30, 2017 and the impact of the conversion of 500,014 Exchangeable securities in December, 2018.

For the year ended December 31, 2017 the REIT reported a loss of $904 which is the result of the increase in the closing price of the units which was $9.97 on December 31, 2017 compared to $9.18 on December 31, 2016 partially offset by the issuance of $3,711 in Exchangeable securities in payment of Asset Management fees.

Current income tax expense

The current income tax expense of $108 for the quarter ended December 31, 2017 and $216 for the year ended December 31, 2017 is mainly due to a withholding tax paid by the REIT's Luxembourg holding company on the dividends it received from affiliates and tax paid by the REIT's Luxembourg entities.

Last 24 Months – Key Financial Information

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

	3-month period ended							
(in thousands of CAD$)	**Dec. 31, 2017**	**Sept. 30, 2017**	**June 30, 2017**	**March 31, 2017**	**Dec. 31, 2016**	**Sept. 30, 2016**	**June 30, 2016**	**March 31, 2016**
Rental income	6,381	6,323	6,271	5,970	6,706	6,172	5,853	5,673
Adjusted rental income	***8,977***	***8,659***	***8,100***	***7,571***	***8,188***	***7,617***	***7,797***	***7,431***
Net rental earnings	7,410	6,729	6,610	3,247	7,023	6,556	6,065	2,737
Adjusted net rental earnings	***9,891***	***9,012***	***8,292***	***4,601***	***8,698***	***7,902***	***8,349***	***4,135***
Earnings for the period	13,651	2,216	159	3,141	2,984	11,833	5,839	2,628
Earnings per Unit (CAD$)	0.63	0.10	0.01	0.15	0.14	0.60	0.37	0.15

NON-GAAP RECONCILIATION

Funds from Operations ("FFO")

The REIT presents its FFO calculations in accordance with the Real Estate Property Association of Canada ("REALPAC") *White Paper on FFO & AFFO for IFRS* issued in February 2017.

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 (with the exception of Arcueil), which is a non-GAAP measure. For the purpose of the proportionate consolidation, the initial investment of both partners in the joint ventures were considered as being equity investments as opposed to a combination of equity and loans and accordingly, the related proportionate consolidation balance sheet items were eliminated as well as the associated finance income and finance costs.

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

For the three-month period and year ended December 31, 2017, the proportional financial results include the following proportion of the revenues and expenses of each one of the joint ventures: 50% respectively for Duisburg, Walpur (Bad Homburg), Stuttgart, Pantin and Neu-Isenburg and 25% for Arcueil.

FFO and AFFO

(in thousands of CAD$)	Three months ended December 31		Year ended December 31	
	2017	**2016**	**2017**	**2016**
Earnings for the period	13,651	2,985	19,167	23,284
Add/(Deduct):				
Adjustment to related acquisition costs	715	(185)	1,923	553
Gain on bargain purchase	(10)	-	(1,455)	(9,213)
Gain on disposal on investment in joint venture	(691)	-	(718)	-
Loss recognized on exercise of early payment option on finance leases	125	-	595	1,242
Loss on refinancing of a debt	-	-	-	605
Net change in fair value of investment properties	(3,997)	2,417	(4,853)	(4,013)
(Gain) loss on financial instruments at fair value through profit and loss	(2,585)	(1,149)	(1,107)	1,320
Adjustment for property taxes accounted for under IFRIC 21	(990)	(872)	-	-
Additional income (loss from Arcueil's JV)	(1,764)	1,762	156	481
Interest on promissory notes	535	-	857	-
Distributions on Exchangeable securities	431	363	1,618	1,890
Change in fair value of Exchangeable securities	(939)	(1,427)	904	(589)
Change in fair value of Promissory Notes	513	-	513	-
Foreign exchange (loss) gain	(62)	(579)	179	(640)
Non-recurring finance income from Inovalis relating to the acquisition loan	-	-	-	(797)
Other non-recurring finance costs	(551)	235	120	551
Deferred income tax expense	856	587	1,454	963
Minority interest	134	165	197	122
FFO	**5,370**	**4,302**	**19,548**	**15,759**
Add/(Deduct):				
Non-cash effect of straight line rents	265	57	893	182
Cash effect of the lease equalization loans	(285)	(166)	(1,099)	(851)
Amortization of fair value adjustment on assumed debt	1	94	65	239
Amortization of transaction costs on mortgage loans	(38)	68	79	302
Non-cash part of asset management fees paid in Exchangeable securities (1)	510	385	1,857	1,690
Capex net of cash subsidy	-	(100)	(100)	(400)
Adjustement from investment	-	-	-	54
AFFO	**5,823**	**4,640**	**21,243**	**16,975**
FFO / Units (diluted) (in CAD$) (2)	**0.21**	**0.19**	**0.80**	**0.77**
AFFO / Units (diluted) (in CAD$) (2)	**0.22**	**0.20**	**0.87**	**0.83**

(1) For purposes of this presentation, 50% of non-cash part of the asset management fee is included in the AFFO reconciliation. Notwithstanding, 100% of the asset management fee is paid in Exchangeable securities

(2) Based on the weighted average number of Units (fully diluted, including promissory notes issued in June and October 2017), i.e. 26,092,543 and 23,221,198 for the 3-month periods ended December 31, 2017 and December 31, 2016 and 24,491,940 and 20,361,577 for the years ended December 31, 2017 and December 31, 2016.

Management believes FFO is an important measure of our operating performance and is indicative of our ability to pay distributions. However, it does not represent cash flow from operating activities as defined by IFRS and is not necessarily indicative of cash available to fund Inovalis REIT's needs. This non-IFRS measurement is commonly used for assessing real estate performance. Our FFO and AFFO calculations are based on the average foreign exchange rate for the period (1.4652 Canadian dollars per Euro for the period ended December 31, 2017).

Balance sheet reconciliation to consolidated financial statements

Assets	As at December 31, 2017			As at December 31, 2016		
	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	440,813	173,256	**614,069**	412,231	97,401	**509,633**
Investments accounted for using the equity method	79,094	(79,094)	-	43,887	(43,887)	-
Acquisition loans and deposit	27,035	334	**27,369**	8,906	-	**8,906**
Derivative financial instruments	59	90	**149**	590	-	**590**
Restricted cash	1,509	-	**1,509**	-	-	-
Total non-current assets	548,510	94,586	**643,096**	465,615	53,515	**519,129**
Current assets						
Trade and other receivables	4,566	1,783	**6,349**	3,368	(35)	**3,333**
Derivative financial instruments	-	20	**20**	520	152	**672**
Other current assets	2,021	635	**2,656**	1,638	375	**2,013**
Financial current assets	1,267	-	**1,267**	27,910	-	**27,910**
Restricted cash	-	797	**797**	-	-	-
Cash and cash equivalents	20,345	5,305	**25,650**	11,074	2,446	**13,520**
Total current assets	28,199	8,540	**36,739**	44,510	2,938	**47,448**
Total assets	**576,709**	**103,126**	**679,835**	**510,125**	**56,452**	**566,577**
Liabilities and Unitholders' equity						
Liabilities						
Non-current liabilities						
Mortgage loans	113,342	62,113	**175,454**	83,998	34,547	**118,545**
Finance lease liabilities	122,735	28,714	**151,449**	120,891	16,389	**137,279**
Other long-term liabilities	-	754	**754**	-	947	**947**
Lease equalization loans	3,196	-	**3,196**	4,051	-	**4,051**
Tenant deposits	2,292	105	**2,397**	2,178	-	**2,178**
Exchangeable securities	6,907	-	**6,907**	4,603	-	**4,603**
Derivative financial instruments	650	148	**798**	1,616	206	**1,822**
Deferred tax liabilities	3,059	2,175	**5,234**	2,236	1,273	**3,509**
Total non-current liabilities	252,181	94,008	**346,190**	219,573	53,361	**272,934**
Current liabilities						
Promissory Notes	23,789	-	**23,789**	-	-	-
Mortgage loans	2,660	590	**3,249**	541	-	**541**
Finance lease liabilities	6,014	1,180	**7,193**	24,180	637	**24,816**
Lease equalization loans	1,247	-	**1,247**	1,184	-	**1,184**
Tenant deposits	162	67	**228**	198	-	**198**
Exchangeable securities	9,836	-	**9,836**	11,995	-	**11,995**
Derivative financial instruments	1,316	1	**1,316**	1,225	6	**1,231**
Trade and other payables	6,342	6,308	**12,650**	7,392	2,142	**9,534**
Other current liabilities	431	683	**1,114**	734	277	**1,011**
Deferred income	7,455	290	**7,745**	1,975	29	**2,004**
Total current liabilities	59,251	9,118	**68,369**	49,423	3,091	**52,514**
Total liabilities	311,432	103,126	**414,558**	**268,996**	**56,452**	**325,448**
Equity						
Trust units	195,739	-	**195,739**	189,158	-	**189,158**
Retained earnings	44,749	-	**44,749**	43,455	-	**43,455**
Accumulated other comprehensive income	24,436	-	**24,436**	8,395	-	**8,395**
	264,924	-	**264,924**	241,008	-	**241,008**
Non-controlling interest	353	-	**353**	121	-	**121**
Total liabilities and equity	**576,709**	**103,126**	**679,835**	**510,125**	**56,452**	**566,577**

[(1)] Balance sheet amounts presented for the REIT were taken from the audited financial statements as at December 31, 2017 and December 31, 2016.

Consolidated statement of earnings reconciliation to consolidated financial statements

	Three months ended					
	December 31, 2017			December 31, 2016		
(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 net earnings from investments in joint ventures	Total
Rental income	6,381	2,595	**8,976**	6,706	1,482	**8,188**
Service charge income	1,633	761	**2,394**	1,951	476	**2,427**
Service charge expenses	(883)	(634)	**(1,517)**	(1,545)	(339)	**(1,884)**
Other revenues	415	(344)	**71**	(1)	55	**54**
Other property operating expenses	(136)	103	**(33)**	(88)	-	**(88)**
Net rental earnings	**7,410**	**2,481**	**9,891**	**7,023**	**1,674**	**8,698**
Administration expenses	(1,420)	(388)	**(1,808)**	(1,199)	(208)	**(1,407)**
Foreign exchange gain	62	-	**62**	579	-	**579**
Net change in fair value of investment properties	1,903	2,094	**3,997**	(3,570)	1,153	**(2,417)**
Gain on bargain purchase	-	10	**10**	-	-	-
Acquisition costs	(14)	(700)	**(714)**	163	22	**185**
Share of profit of an investment (equity method)	3,575	(3,575)	-	1,247	(1,247)	-
Operating earnings	**11,516**	**(77)**	**11,438**	**4,243**	**1,394**	**5,638**
Gain (loss) on financial instruments at fair value through P&L	2,668	(82)	**2,586**	1,078	72	**1,149**
Loss on exercise of early payment option on finance leases	(122)	(3)	**(125)**	-	-	-
Gain on disposal on investment in joint venture	843	(151)	**692**	-	-	-
Finance income	1,557	(1,100)	**457**	(710)	792	**82**
Finance costs	(2,166)	108 [2]	**(2,058)**	(1,680)	(517)	**(2,197)**
Additionnal income (loss) from Arcueil's JV	0	1,764	**1,764**	-	(1,762)	**(1,762)**
Distributions on Exchangeable securities	(431)	-	**(431)**	(363)	-	**(363)**
Net change in fair value of Exchangeable securities	939	-	**939**	1,427	-	**1,427**
Net change in fair value of Promissory notes	(513)	-	**(513)**	-	-	-
Earnings before income taxes	**14,290**	**459**	**14,749**	**3,995**	**(21)**	**3,974**
Current income tax expense	(107)	(1)	**(108)**	(232)	(6)	**(238)**
Deferred income tax expense	(399)	(458)	**(857)**	(614)	27	**(587)**
Earnings for the period	**13,785**	**-**	**13,784**	**3,149**	**-**	**3,149**
Non-controlling interest	134	-	134	**165**	**-**	**165**
Earnings for the period (part attributable to the Trust)	**13,651**	**-**	**13,650**	**2,984**	**-**	**2,984**

(1) Income statement amounts presented for the REIT were taken from the consolidated financial statements as at December 31, 2017 and December 31, 2016.
(2) Includes the REIT's share of the hedging cost of Arcueil's partner
(3) Reflects the additional loss assumed by the REIT in reference to its 75% right to the net profit/loss of the Arcueil joint venture.

(in thousands of CAD$)	Twelve months ended December 31, 2017 Amounts per REIT's financial statements [1]	Share of net earnings from investments in joint ventures	Total	December 31, 2016 Amounts per REIT's financial statements [1]	Share of earnings from investments in joint ventures	Total
Rental income	24,946	8,361	**33,307**	24,404	6,633	**31,037**
Service charge income	6,908	2,262	**9,170**	6,546	1,278	**7,824**
Service charge expenses	(8,287)	(2,353)	**(10,640)**	(8,525)	(1,228)	**(9,753)**
Other revenues	834	(704)	**130**	171	38	**209**
Other property operating expenses	(271)	101	**(170)**	(214)	-	**(214)**
Net rental earnings	**24,130**	**7,667**	**31,797**	**22,382**	**6,721**	**29,103**
Administration expenses	(5,293)	(1,124)	**(6,417)**	(5,152)	(848)	**(6,000)**
Foreign exchange gain	(179)	-	**(179)**	640	-	**640**
Net change in fair value of investment properties	892	3,961	**4,853**	3,632	381	**4,013**
Gain on bargain purchase	-	1,455	**1,455**	-	-	-
Gain resulting from exercice of the purchase option	-	-	-	9,213	-	**9,213**
Acquisition costs	(210)	(1,713)	**(1,923)**	(575)	22	**(553)**
Share of profit of an investment (equity method)	2,638	(2,638)	-	1,107	(1,106)	**1**
Operating earnings	**21,978**	**7,608**	**29,586**	**31,247**	**5,170**	**36,417**
Gain (loss) on financial instruments at fair value through P&L	1,066	42	**1,108**	(1,269)	(51)	**(1,320)**
Loss on exercise of early payment option on finance leases	(122)	(473)	**(595)**	(1,242)	-	**(1,242)**
Gain on disposal on investment in joint venture	843	(124)	**719**	-	-	-
Loss on refinancing of a debt	-	-	-	(605)	-	**(605)**
Finance income	6,601	(4,433)	**2,168**	4,344	(3,090)	**1,254**
Finance costs	(7,123)	(1,637)	**(8,760)**	(6,488)	(1,495)	**(7,983)**
Additionnal income (loss) from Arcueil's JV	-	(156)	**(156)**	-	(481)	**(481)**
Distributions on Exchangeable securities	(1,618)	-	**(1,618)**	(1,890)	-	**(1,890)**
Net change in fair value of Exchangeable securities	(904)	-	**(904)**	589	-	**589**
Net change in fair value of Promissory notes	(513)	-	**(513)**	-	-	-
Earnings before income taxes	**20,208**	**827**	**21,034**	**24,686**	**53**	**24,739**
Current income tax expense	(186)	(30)	**(216)**	(336)	(31)	**(367)**
Deferred income tax expense	(658)	(796)	**(1,454)**	(944)	(18)	**(962)**
Earnings for the period	**19,364**	**-**	**19,364**	**23,406**	**-**	**23,410**
Non-controlling interest	197	-	197	**121**	**-**	**121**
Earnings for the period (part attributable to the Trust)	**19,167**	**-**	**19,167**	**23,285**	**-**	**23,289**

(1) Income statement amounts presented for the REIT were taken from the consolidated financial statements as at December 31, 2017 and December 31, 2016
(2) Includes the REIT's share of the hedging cost of Arcueil's partner
(3) Reflects the additional loss assumed by the REIT in reference to its 75% right to the net profit/loss of the Arcueil joint venture.

PROPERTY CAPITAL INVESTMENTS

Fair value

The fair value of the REIT's investment property portfolio as at December 31, 2017 was $614.1 million including the REIT's interests in the properties held in partnerships (vs. $509.6 million as at December 31, 2016). The fair value of the French properties was $457.6 million (75% of total asset value) and the fair value of the German properties was $156.5 million (25% of total asset value).

The $104.5 million increase is accounted for by a $81.1 million increase due to the Pantin, Stuttgart and Neu-Isenburg asset acquisitions, $33.1 million increase, a $14.8 million decrease corresponding to the sale of Cologne, an increase in the fair value of the investment properties of $4.8 and $33.4 million mainly due to foreign exchange fluctuations other charges. The other charges include rent free periods, capitalized letting fees.

Management principally uses discounted cash flows to determine the fair value of the investment properties. These values are supported by third party appraisals in conformity with the requirements of the *Royal Institution of Chartered*

Surveyors Standards, and for the French properties also in conformity with the *Charte de l’expertise immobilière*, *European Valuation Standards of TEGoVA* (the European Group of Valuers’ Association) and IFRS 13.

Please refer to note 4 of the consolidated financial statements for a more complete discussion on our investment properties and valuation rates used by the evaluators.

Building improvements

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

Since the IPO in April 2013, a total of $1.7 million has been spent on the properties, funded by a reserve that was set aside by the vendors of the four initial properties. Additionally, improvement works of $2.2 million on Courbevoie property began in Q2 2017, of which $1.1 million worth of improvements have been carried out as at December 31, 2017. These works are expected to be completed in 2018. An additional $0.5 million of improvement works were completed on the Metropolitain and Sabliere properties.

Guarantees, commitments and contingencies

The REIT and its subsidiaries have provided guarantees in connection with the finance lease liabilities and the mortgage loans, including pledge of affiliates of the REIT, first mortgages and assignment of receivables and future receivables. As at December 31, 2017, guarantees provided by the REIT with respect to its long-term debts include a preferential claim held by mortgage lenders on the Jeuneurs, Baldi Veronese, Sablière, Hanover and Neu-Isenburg properties in the amount of $91.7 million. Including the REIT’s interest in the properties held in partnerships, preferential claim held by mortgage lenders on the properties totals $138.3 million.

OTHER SIGNIFICANT ASSETS

Investments accounted for using the equity method

This section encompasses the 50% interest the REIT (through its subsidiaries) has in the Duisburg property, the 50% interest in the Walpur property, the 25% interest in the Arcueil property, the 50% interest in the Neu-Isenburg property and 50% in the Stuttgart property. Our share of fair value of the investment properties accounted for using the equity method was $79,094 as at December 31, 2017 compared to $43,887 as at December 31, 2016.

Acquisition loans and deposit

As at December 31, 2017, Acquisition loans and deposit of $27.4 million consisted mainly of the $25.9 million loan commitment for the Rueil project and the $1.13 million deposit for the Ingolstadt forward purchase.

Trade and other receivables

Trade and other receivables as at December 31, 2017 amounted to $6,349 including the REIT’s interests in the properties held in partnerships compared to $3,333 as at December 31, 2016. The difference of $3,016 includes $883 of OPEX down payments, $673 of balances to be recharged related to the acquisitions of Neu-Isenburg and Ingolstadt and $634 related to the Pantin acquisition.

Other current Assets

Other current assets as at December 31, 2017 amounted to $2,656 compared to $2,013 as at December 31, 2016. The increase of $643, with a negative exchange impact of $131, is principally linked to sales tax receivable.

PRESENTATION OF OUR CAPITAL

Liquidity and capital resources

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

Including the REIT's interest in the joint ventures, cash available totals $25.7 million as at December 31, 2017, compared to $13.5 million as at December 31, 2016. This includes the net proceeds private placements completed throughout the year, which explains the increase in cash held as at December 31, 2017.

Financing activities

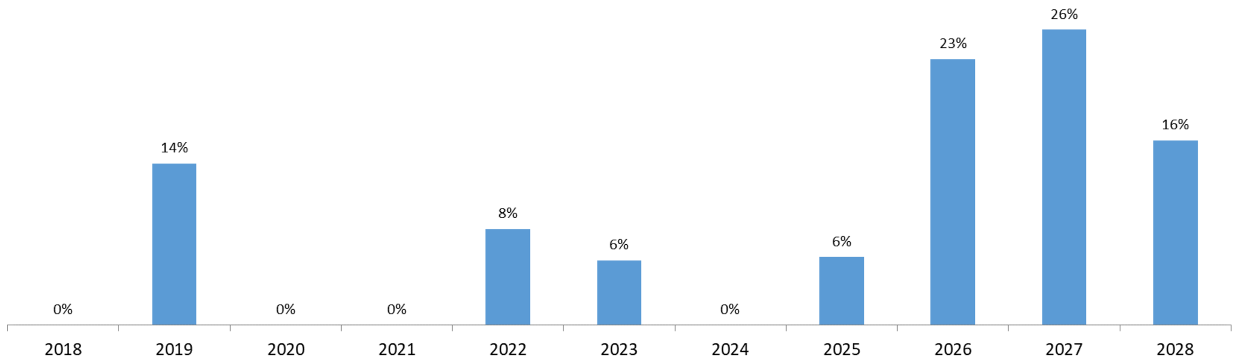
Our debt strategy is to have secured mortgage financing with a term to maturity that is appropriate in relation to the lease maturity profile of our portfolio and then to put in place, when appropriate, interest-only financings. We intend to search for fixed rate financings or floating rate financings with a cap. As such, 93.6% of the REIT's senior debt benefits from an interest rate protection (76.7% in the form of a swap and 16.9% in the form a cap). Our preference is to have staggered debt maturities to mitigate interest rate risk and limit refinancing exposure in any particular period. With no financial institution representing more than 23% of our senior debt commitment, we also make sure that the REIT has a diversified base of senior debt providers. Our debt to book value stands at 50% and net of the $25.7 million of cash available (including financial current assets) as at December 31, 2017 (including the REIT's interest in the joint ventures), this debt to book value stands at 46.2%.

Key performance indicators in the management of our debt are summarized in the following table, which also takes into account the interests the REIT has in all assets held in partnerships.

	As at December 31, 2017	As at December 31, 2016
Weighted average interest rate (1)	2.10%	2.11%
Debt-to-book value (2)	50.0%	51.3%
Debt-to-book value, net of cash (2)	46.2%	47.5%
Interest coverage ratio (3)	3.9 x	3.7 x
Debt due in next 12 months in thousand of CAD$	11,690	24,720
Weighted average term to maturity of debt (4)	5.9 years	7.2 years
Weighted average term to maturity of principal repayments of debt (5)	5.7 years	5.7 years

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

Leasehold and Mortgage Financing Maturity Profile
(Entire portfolio including joint-ventures)
(% of amount outstanding as at December 31, 2017)



Equity

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

	3-month period ended December 31, 2017	Year ended December 31, 2017
Units		
Number at beginning of period	21,657,719	21,525,775
Increase/(Decrease) in number during the period	500,014	500,014
Units issued pursuant to the DRIP	77,688	209,632
Number at end of period	22,235,421	22,235,421
Weighted average number during the period	21,783,159	21,635,553
Exchangeable securities		
Number at beginning of period	2,084,047	1,808,051
Increase/(Decrease) in number during the period	(404,677)	(128,681)
Number at end of period	1,679,370	1,679,370
Weighted average number during the period	1,958,859	1,915,075
Promissory notes		
Number at beginning of period	1,295,001	-
Increase/(Decrease) in number during the period	1,091,103	2,386,104
Number at end of period	2,386,104	2,386,104
Weighted average number during the period	2,350,525	941,312
Units, Exchangeable securities and Promissory notes		
Number at beginning of period	25,036,767	23,333,826
Increase/(Decrease) in number during the period	1,264,128	2,967,069
Number at end of period	26,300,895	26,300,895
Weighted average number during the period	26,092,543	24,491,940

Further to the Distribution Reinvestment Plan ("DRIP"), 77, 688 Units were issued to Unitholders during Q4 2017 and a total of 209,632 for the year ended December 31, 2017. As at December 31, 2017, 16.95% of the Units were enrolled in the DRIP.

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

In order to ensure the predictability of distributions to our Unitholders, we have established an active foreign exchange hedging program. As at December 31, 2017, the REIT was committed to sell €880 (on average) at an average rate of 1.4853 and to receive $1,300 on a monthly basis until April 2019 (included).

	Three months ended December 31		Twelve months ended December 31	
(in thousands of CAD$ except for per Unit amounts)	**2017**	**2016**	**2017**	**2016**
Declared distributions on Units	4,510	4,368	17,873	15,188
Declared distributions on Exchangeable securities	431	364	1,618	1,890
Total declared distributions	**4,941**	**4,732**	**19,491**	**17,078**
Distribution per Unit (diluted)	$ 0.20625	$ 0.20625	$0.82500	$0.82500

We currently pay monthly distributions to Unitholders of $0.06875 per Unit, or $0.825 per Unit on an annual basis.

SUBSEQUENT EVENTS

Acquisition of the Kösching asset

On February 28, 2018, the REIT completed the acquisition of the Kösching asset, for approximately €24.4 million (CAD$38.1 million). The property is strategically located less than 10km from the global headquarters of Audi AG in Ingolstadt, Germany. The recently constructed modern office building and R&D facility, with a gross leasable area of approximately 9,900m2 (106,563 sq.ft), is fully occupied with a weighted average lease term of 10.0 years. The REIT's 50% interest in the property was principally funded with cash on had raised through the private placements completed in Q4 2017. The acquisition will be immediately accretive to the REIT's FFO/unit and AFFO/unit.

Extension of the Management Agreement and Modification

In Q1 2018, in anticipation of the April 2018 expiry date, the Board of Trustees of the REIT approved the extension of the management agreement between the REIT and Inovalis S.A. The Board of Trustees and the Manager agree that, given the REIT's relative size, it is in the REIT's best interest to not internalize the asset and property management function at the current time. As part of the terms of the extension of the agreement, the following modifications were approved:

- Term: The initial term will be for three (3) years, not to exceed April 1, 2021. The Agreement shall be automatically renewed for an additional two (2) years if the REIT's AFFO per unit for the year ended December 31, 2020 is greater than 115% of the AFFO per unit of the REIT as at December 31, 2017. The AFFO calculation shall be consistently applied and approved by the audit committee. Internalization can occur at any time at the discretion of the Board of Trustees.
- Asset Management Fees: Will be reduced from 0.75% to 0.50% and calculated based on the book value of assets. Fees will be payable in cash and/or exchangeable securities, the exact composition of which will be determined by the Board annually based on the REIT's cash resources.
- Acquisition Fees: 1.00% of the purchase price of properties acquired that are not currently owned or managed by the Manager and paid 100% in cash.