INOVALIS

REAL ESTATE INVESTMENT TRUST

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

OVERVIEW – GAAP AND NON-GAAP

Our key performance indicators are set out below. "Non-GAAP" measures include our proportionate interest in joint ventures, please refer to "*Non- GAAP Reconciliation*".

	December 31, 2018		December 31, 2017	
Operational information	GAAP Measures	NON-GAAP Measures (1)	GAAP Measures	NON-GAAP Measures (1)
Number of properties	7	14	7	13
Gross leasable area (sq.ft)	772,403	1,326,797	772,403	1,280,542
Occupancy rate (end of period) (2)	88.6%	93.0%	95.4%	97.0%
Weighted average lease term	4.9 years	4.5 years	5.3 years	5.1 years
Average capitalization rate (3)	5.8%	5.8%	5.7%	5.4%
Financing information				
Level of debt (debt-to-book value) (4)	38.3%	47.7%	42.7%	51.2%
Level of debt (debt-to-book value, net of cash) (4)	36.3%	45.8%	40.6%	49.2%
Weighted average term of principal repayments of debt	5.5 years	5.1 years	6.5 years	5.9 years
Weighted average interest rate (5)	2.15%	2.11%	2.16%	2.10%
Interest coverage ratio (6)	4.5 x	3.9 x	3.9 x	3.9 x

	Three months ended		Year ended	
(thousands of CAD$ except per Unit and other data)	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Operating results				
Rental income	6,039	6,381	25,434	24,946
Adjusted Rental income (1)	9,581	8,976	38,515	33,307
Net rental earnings	6,136	7,410	23,529	24,130
Adjusted net rental earnings (1)	9,246	9,891	35,489	31,797
Earnings attributable to unitholders	16,566	13,651	22,152	19,167
Funds from Operations (FFO) (7) (8)	9,014	5,370	27,413	19,550
Adjusted Funds from Operations (AFFO) (7) (8)	5,520	5,823	24,094	21,245
FFO per Unit (diluted) (7) (8)	0.31	0.21	0.98	0.80
AFFO per Unit (diluted) (7) (8)	0.19	0.22	0.86	0.87
Distributions				
Declared distributions on Units and Exchangeable securities	5,013	4,941	19,943	19,491
Declared distributions on Units, Exchangeable securities and Promissory notes	6,054	5,476	23,571	20,347
Declared distribution per Unit	0.21	0.21	0.83	0.83
FFO payout ratio (7)	65.9%	100.2%	84.3%	103.4%
AFFO payout ratio (7)	107.6%	92.4%	95.9%	95.1%

(1) Taking into account the interest the REIT has in joint venture partnerships.
(2) Calculated on weighted areas (activity, storage and inter-company restaurant areas being accounted for only a third of their effective areas), including vendor leases.
(3) Calculated on annualized net rental 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.* The figures presented for the period ended December 31, 2017 have been reclassified, when appropriate, in order to ensure comparability with the figures for the period ending December 31, 2018.
(5) Calculated as the weighted average interest rate paid on the finance leases and the mortgage.
(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 diluted weighted average number of Units, Exchangeable Units and the conversion of Private Placement Promissory Note.

BASIS OF PRESENTATION

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of Inovalis Real Estate Investment Trust (the "REIT") should be read in conjunction with the REIT's consolidated financial statements for the year ended December 31, 2018, and the notes thereto.

The REIT has historically, within the MD&A, presented operating results based on financial information developed using proportionate consolidation for all the REIT's joint ventures, which are accounted for using the equity method, as required by IFRS 11 "Joint Arrangements". This manner of presentation provided current and prospective investors with, in management's view, the relevant information to assist them in understanding the REIT's financial performance, while providing for a reconciliation of such Non-Generally Accepted Accounting Principles ("GAAP") information to the REIT's financial statements as reported under IFRS in the relevant sections of the MD&A. The MD&A will begin with an Overview, providing a summary of the REIT's performance and operations for the period, including both GAAP and non-GAAP metrics. Management believes this presentation provides users of this MD&A additional information about the source of the revenue used by the REIT to pay distributions on its units, as joint venture structures represent significant equity investments (joint ventures account for approximately 33% of the total value of all properties held by the REIT, including those owned by joint venture), are a significant component of the REIT's business.

This MD&A has been prepared considering material transactions and events up to and including April 1, 2019. 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 and Euro, except per unit amounts and where otherwise stated. Historical results, including trends which might appear in this MD&A, should not be taken as indicative of future operations or results. Additional information about Inovalis REIT has been filed with applicable Canadian securities regulatory authorities and is available at www.sedar.com. The exchange rate used throughout this MD&A for statement of earnings items is the average rate during the applicable period which for the year ended December 31, 2018 is $1.5297 Canadian dollars per Euro and for the three months ended December 31 2018 is $1.5078. For balance sheet items, projections or market data, the exchange rate used is $1.5637 (exchange rate as at December 31, 2018).

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. The 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 the REIT believes it to be reliable, the 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

The REIT is an unincorporated open-ended real estate investment trust governed by the laws of the Province of Ontario. The REIT was founded and sponsored by Inovalis SA, 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 ($30 million) to €60 million ($90 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]

Investment

Following an expected slowdown over Q4, the Greater Paris Region investment market posted a spectacular end to 2018 with a record performance of over €10 billion in investments over the last three months of the year. Thanks to this remarkable performance, the full-year investment volume for the Greater Paris Region stood at a record of €23.1 billion, representing a 19% year-on-year increase; this is over 70% higher than the long-period average.

These results are largely linked to strong activity for transactions involving lot sizes over €100 million. There were 62 such transactions for a total of over €14.7 billion or 64% of investments in the Greater Paris Region during 2018. This record level was predominantly achieved due to transactions for lot sizes from €100 to €300 million, of which there were 10 for €4.3 billion, rather than for very large transactions. There were the same number of disposals of lot sizes over €500 million as last year (4), although these were in fact for more modestly sized assets. These included the recent acquisitions of "Capital 8" by INVESCO for close to €850 million and 87 Rue de Richelieu by CNP ASSURANCES from ALTAFUND for €560 million. But other market segments were also active; whereas the small transactions segment (<€20 million) had been falling since the beginning of the year, it ended the year with a 2% year-on-year increase with only 2

[1] *Sources: Jones Lang LaSalle and Knight Frank*

fewer transactions than in 2017. Transactions in the €50-to-€100 million segment posted a 38% year-on-year increase with almost €4.1 billion in investments over 57 transactions, setting yet another record for 2018.
Across all segments, the number of transactions in 2018 represents a record of 366 (compared with an average of 253 for the last 10 years).

Absorption

Take-up volumes were stable in Paris in 2018 and exceeded one million sq.m for the third consecutive year. The excellent results of the CBD and Paris Centre West, whose cumulative volumes increased by 11% in 2018 due to lettings activity in the intermediate and over 5,000 sq.m area categories. Murex, for example, leased the 16,600 sq.m "Freedom" building in the 17th district. This transaction – the largest signed in 2018 in western Paris – is symbolic of the increase in pre-lettings, a trend also illustrated by Lazard's very early positioning on the 10,900 sq.m in "173 Haussmann" in the 8th district. While take-up also increased in Paris North East, activity in Paris South stalled. Despite some notable transactions, such as ESMA's recent letting of 8,000 sq.m in "Ibox" in the 12th district, it was difficult for this sector to live up to 2017 which was notable for Natixis' lease on almost 90,000 sq.m in "Duo". The rate of lettings has generally remained steady in Paris, which benefits from demand from a wide variety of companies, concerned about centrality and surroundings that are conducive to retaining or attracting talent. The capital's best supply is thus coveted by traditional occupiers, in fields such as consultancy, luxury or finance, but also by more recent and fast-growing fields such as New Tech and Coworking. The latter accounted for 25% of the volume of large transactions signed in Paris in 2018, a significant proportion related to the strong increase in the number of transactions and the increase in the average size of movements, from 1,500 sq.m in 2015 to more than 4,000 sq.m in 2018 due to the greater share of leases of more than 5,000 sq.m.

Rents

Prime rental values posted year-on-year increases in most markets across the Greater Paris Region. Some submarkets, such as Saint-Quentin-en-Yvelines or Paris' 3rd ,4th, 10th and 11th arrondissements, saw double-digit growth with levels reaching €240 and €540 per sq m/year respectively over Q4 2018. In the Paris CBD, the benchmark for the Greater Paris Region, the prime rent reached €810 per sq m/year (+4% year on year); this was due to a high level of transactions at rents over €800 as well as some for in excess of €850.

Average rents for existing space also continued to rise and reached record levels by the end of the year. The average rent in the Greater Paris Region therefore stood at €372 per sq m/year by the end of Q4 2018. Due to a growing imbalance between supply and demand in the CBD, average values have been rising for the last 4 years, and have reached €590 per sq m/year.

Incentives stabilized over Q4 2018 and stood at 20.7% across the Greater Paris Region with a low-point of 9.5% in Paris - North East, 23.3% in the Inner Suburbs and up to 24.1% in Western Crescent and La Défense.

German Commercial Real Estate Market [1]

Investment

It is clear that investors are still primarily interested in the Big 7 cities, and this situation was further reinforced in the last quarter of the year. In 2018, Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart accounted for well over half of the total transaction volume (€46 billion of €79 billion). The dominance of the most sought-after asset class, office real estate, is of particular significance.

Here, around 80% on average has been invested in property in the Big 7 over the past few years (since 2012). And in Frankfurt, the commercial property investment volume managed to break through the €10 billion barrier following the completion of a number of large-volume office transactions at the end of the quarter. Including residential real estate, the metropolitan area recorded a transaction volume of €11.6 billion, representing a significant increase of 49% compared to

[1] *Source: Jones Lang LaSalle*

2017. Stuttgart experienced even stronger growth, with an increase in the total transaction volume of more than 50% to €2.5 billion.

The high level of interest in the established markets is primarily owing to the strong lettings market, which provides purchases of foreign investors a fundamental basis for investments as well as the prospect of further rent increases following refurbishments or the renting out of vacancies in a property. In the face of diminishing yield compression, rental growth in particular is becoming increasingly important as a way of generating added value. This is also why value-add properties with short remaining leases, or properties with vacancies, are currently in demand. Here, it is more likely that higher rents can be enforced through the signing of new contracts. Non-core sub-markets and CBDs in the Big 7 are the preferred choice for office investors, ahead of smaller and therefore riskier markets in terms of potential re-letting opportunities. In addition, significantly higher rents can be realized here than in the prime locations.

Office property remains the most popular asset class. Office properties alone accounted for approx. 37% of the total transaction volume including the “Living” asset class. From January to the end of December, around €29 billion was invested in office real estate. Residential properties, including various subcategories, is ranked in second place and has become of particular importance for the German market (with a share of 27% in the past year) and has long established itself as an alternative use class for investors - including investors that have previously invested almost exclusively in the traditional asset classes of offices or retail.

Demand by companies for office space also remains at a high level because of the rising employment figures. In 2018 as a whole, office space take-up in the Big 7 [2] reached close to 4 million sqm. This puts 2018 in second place behind 2017 in the all-time statistics, although take-up last year fell by only a moderate level of 6.5%. It’s also important to put this into perspective: Given the fact that employment levels are rising, the decrease in take-up is not to be attributed to flagging expansion efforts or a lack of enthusiasm on the part of companies to relocate. It’s more the case that some planned relocations were not possible to realize because of the unavailability of suitable office space. This correlation is also evident from the increased net absorption, which last year amounted to 1.2 million sqm in aggregate for the Big 7. As well as being 10% higher than in the previous year, this figure also represents the highest level of the last five years — which is despite the more efficient use of space in new lettings with correspondingly less space per workplace.

Looking ahead to 2019, a further reduction in office space take-up can be expected, again primarily because of the short supply of available space. However, an additional fall in demand may occur over the year because of a further economic slowdown. We can only talk about this in the conditional tense given the current unstable and uncertain economic outlook. However, we are certain that take-up by the end of 2019 will remain at a high level in a historical context. Regarding individual markets, take-up fell in six of the seven property strongholds. Düsseldorf was the only market to register an increase compared to 2017, with take-up rising 6% to 415,000 sqm. However, Munich and Berlin again generated the highest take-up volumes in 2018. The Bavarian capital once again only just failed to reach the 1-million-sqm mark in 2018, recording a moderate decline of 2% to 975,000 sqm compared to 2017.

The Frankfurt office market is still on the upswing. With a take-up of 678,000 sqm, the second-best result of the last 15 years was achieved, even though the extraordinary result of the previous year was not quite achieved as expected (-15 %). In the GIF [3] defined market area, a take-up of 631,000 sqm was recorded, which corresponds to a decline of about 10 %. Just how dynamic demand was can be seen above all in the fact that the ten-year average was exceeded by an impressive 25 %. In a nationwide comparison, Frankfurt ranks third behind Munich and Berlin. In contrast to 2017, the very good take-up was achieved without a disproportionately high number of large contracts, which underscores the broad demand base. Among the most important deals are the contracts signed by Commerzbank in the City West for 38,500 sqm, the Frankfurter Allgemeine Zeitung (FAZ) in the Europaviertel for 24,000 sq.m and Siemens in the vicinity of the airport (20,000 sqm).

Situation on the office property market [4]

Above-average take-up is also expected for 2019. Although the GDP forecasts have been adjusted somewhat, in a long-term comparison everything is pointing towards very solid growth.

For the office markets, a further reduction in unemployment coupled with rising employment is the basis for lively demand. Therefore, a take-up in office space of more than 3.5 million m² and thus well above the ten-year average seems realistic. It remains to be seen whether the 4 million m² mark can again be surpassed. Vacancy rates will continue to fall, at least in

the first half of the year, although the decline is likely to slow down. This is due to the increase in construction activity, which is not far from its peak levels at the beginning of the millennium. In contrast to that time, however, a higher pre-letting rate is currently being recorded. Only 41 % of the construction volume is still available to the rental markets. This is the lowest value ever recorded. Top and average rents will continue to rise noticeably. This is supported on the one hand by the fact that the greater part of the space under construction will not be completed until 2020, but on the other hand by the increased land prices and construction costs, which can only be compensated by higher rents. The prospects can be summarized as follows:

‣ Despite reduced GDP forecasts, there are signs of solid economic growth with unemployment falling at the same time, so that above-average office space take-up is also expected in 2019.
‣ Vacancy will fall even further in the first quarters of the year, before the markets are slowly being supplied with somewhat more new completed space due to increased construction activity.
‣ Both prime and average rents will continue to rise on a broad front.

[1] *Source: Jones Lang LaSalle*

[2] Seven major cities in Germany: Berlin, Dusseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart

[3] *German Society for Property Business Research*

[4] *Source: BNP Real Estate*

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.

OUR OPERATIONS – GAAP AND NON-GAAP

Performance indicators, incorporating both GAAP and Non-GAAP measures

As at	December 31, 2018		December 31, 2017	
	GAAP Measures	Non-GAAP Measures (1)	GAAP Measures	Non-GAAP Measures (1)
Gross leasable area (sq.ft)	772,403	1,326,797	772,403	1,280,542
Number of properties	7	14	7	13
Number of tenants	37	67	34	66
Occupancy rate (2)	88.6%	93.0%	95.4%	97.0%
Weighted average lease term (3)	4.9 years	4.5 years	5.3 years	5.1 years

(1) Taking into account the interest the REIT has in the properties held in partnerships.
(2) Calculated on weighted areas and including vendor leases (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 3.6 years as at December 31, 2018 compared to 3.8 years as at December 31, 2017 (3.5 years as compared to 4.0 years for Non-GAAP respectively)

Portfolio

The REIT has an interest in fourteen properties, of which seven are entirely owned by the REIT (Baldi, Courbevoie, Jeuneurs, Metropolitain, Sablière and Vanves in France and Hanover in Germany) and seven are held through partnerships with various global institutional funds (Arcueil and Pantin in France, Bad Homburg, Neu-Isenburg, Duisburg, Stuttgart and Kösching in Germany). Eight properties are in France and six properties are in Germany, excluding the residual interest in the Cologne asset.

Asset	% owned	REIT Ownership Valuation as at December 31, 2018	% of REIT's Portfolio Value	Gross Leaseable Area (GLA)	Contribution to GLA	# of tenants	Occupancy rate (including vendor leases)	WALT (end of lease)
		(CAD)	%	sq. ft.	%		%	Years
Jeuneurs	100%	73,478	11%	50,407	4%	1	100%	2.0
Courbevoie	100%	42,813	7%	96,118	7%	7	86%	3.0
Vanves	100%	133,546	21%	258,672	19%	6	81%	2.9
Sablière	100%	37,843	6%	41,043	3%	7	93%	4.1
Baldi	100%	38,467	6%	123,657	9%	8	72%	3.5
Metropolitain	100%	95,790	14%	72,014	5%	7	100%	6.5
Arcueil	25%	35,028	5%	83,633	6%	1	100%	4.2
Pantin	50%	20,616	3%	71,627	5%	16	100%	3.2
Subtotal France		**477,581**	**72%**	**797,171**	**60%**	**53**	**87%**	**3.6**
Hannover	100%	39,030	6%	124,076	9%	1	100%	11.0
Duisburg	50%	40,179	6%	108,959	8%	1	100%	2.0
Bad Homburg	50%	17,747	3%	54,552	4%	6	93%	4.3
Cologne	6%	2,195	0%					
Stuttgart	50%	36,183	5%	121,416	9%	4	96%	5.2
Neu-Isenburg	50%	33,147	5%	67,566	5%	4	100%	1.6
Kösching	50%	22,657	3%	53,058	4%	1	100%	8.9
Subtotal Germany		**191,138**	**28%**	**529,627**	**40%**	**17**	**98%**	**5.7**
Total - France and Germany		**668,719**	**100%**	**1,326,798**	**100%**	**70**	**92%**	**4.5**

Occupancy

The 88.6% weighted average occupancy rate at December 31, 2018 across the seven properties owned entirely by the REIT decreased from 95.4% as at December 31, 2017. The weighted average occupancy rate across the fourteen properties, including properties owned through joint-ventures and the vendor lease relating to the Delizy (Pantin) property, fell to 93.0% from 97% as at December 31, 2017. The decline in occupancy rates is predominantly due to the departure of tenants from the Vanves, Sablière, Courbevoie and Metropolitain properties.

In February, 2018, the REIT, through a joint-venture partnership acquired a 50% interest in the fully occupied Kösching property. This acquisition accounts for the increase in gross leasable area under Non-GAAP measures from 1,280,542 sq. ft. as at December 31, 2017 to 1,326,798 sq. ft as at December 31, 2018.

The average lease term decreased to 5.5 years as at December 31, 2018 from 6.5 years as at December 31, 2017. The average lease term including properties held through joint-ventures decreased to 5.1 years compared to 5.9 as at December 31, 2017.

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, 2018, the REIT had 37 tenants across the seven properties owned entirely by the REIT, and 67 tenants in aggregate including properties held through joint ventures.

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

Tenant	Tenant Sector	GLA (sq.ft.) (1)	Weighted Areas (sq.ft) (1)	% of Weighted Areas
Orange (Formerly France Telecom)	Telecommunications	186,070	181,096	24.8%
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%
SAS Smart & Co	Internet and direct marketing retail	43,481	39,796	5.4%
Top 5 tenants		**455,957**	**446,435**	**61.1%**
Other tenants	Diversified	215,665	201,524	27.6%
Vacant		100,781	83,266	11.4%
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 across the portfolio of fourteen properties which includes the seven fully owned properties plus the additional seven properties held through joint-ventures, are presented in the table below. As at December 31, 2018, the REIT held a 50% interest in the Duisburg, Walpur (Bad Homburg), Pantin, Stuttgart, Neu-Isenburg and Kösching 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	198,907	20.6%
Facility Services Hannover	Banking/ Real estate	124,074	124,074	12.9%
Daimler AG	Manufacturer	109,136	50,243	5.2%
Hitachi Power	Manufacturer	108,959	52,023	5.4%
Arrow Central Europe	E-commerce	55,871	25,974	2.7%
Top 5 tenants		**667,743**	**451,221**	**46.8%**
Other tenants	Diversified	550,179	427,579	44.4%
Vacant		108,875	84,615	8.8%
Total Non-GAAP Measures		**1,326,797**	**963,415**	**100.0%**

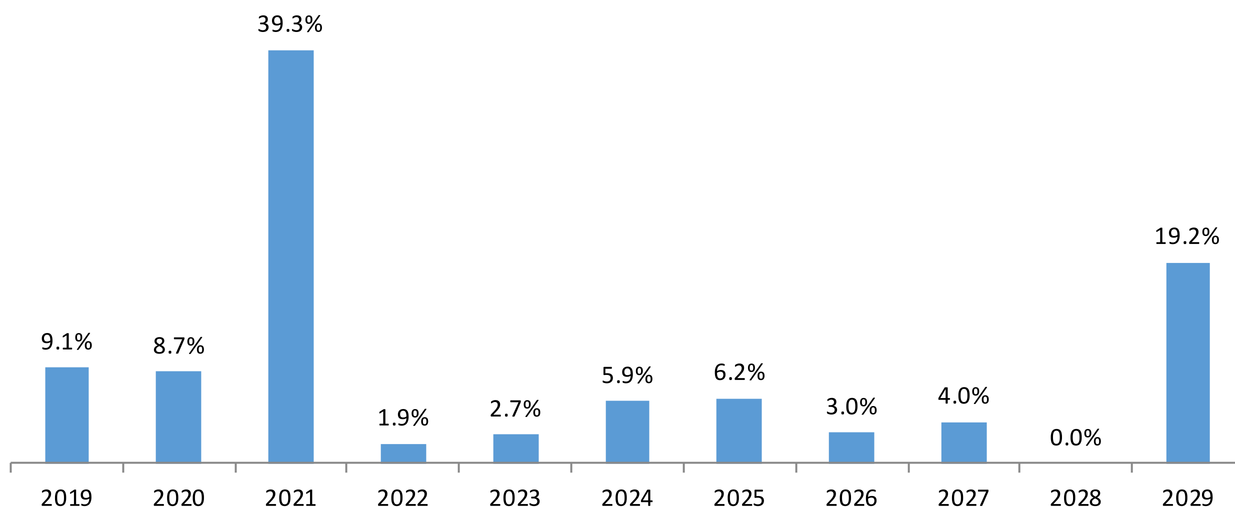
(1) Taking into account the interest the REIT has in the properties held in partnerships
(2) Activity, storage and intercompany restaurant areas are weighted by being accounted for a third of their effective areas.

Our largest tenant, Orange (formerly France Telecom), 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).

Lease profile

The REIT has an average remaining lease term of 4.9 years in the seven 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 3.6 years. The following graph sets out the percentage of total GLA of the properties subject to leases expiring during the periods shown (excluding early lease terminations).

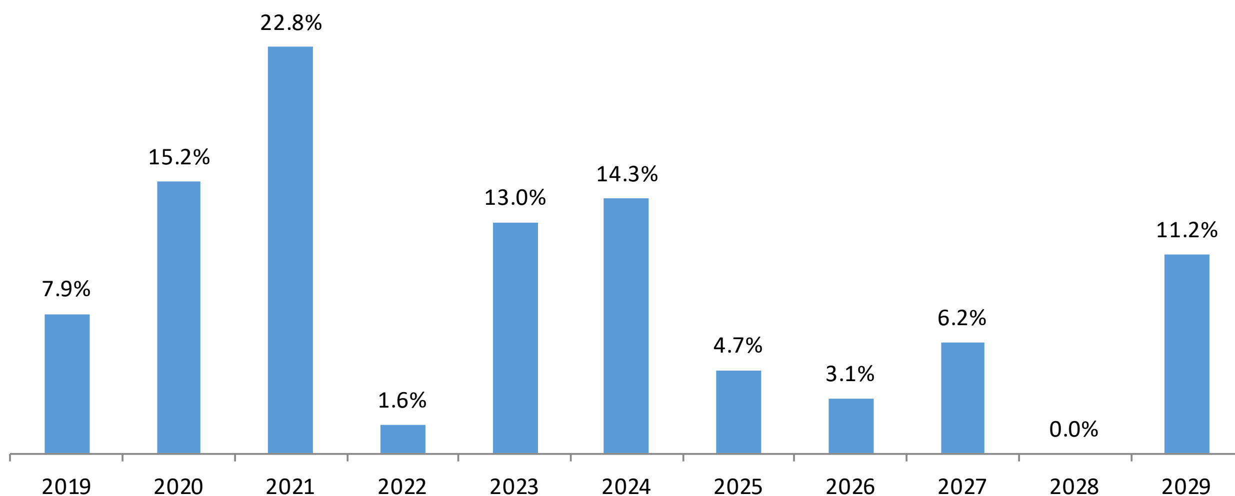
Lease Maturity Profile as at December 31, 2018
(% of total GLA)



Including properties held in joint-ventures, the average remaining lease term is 4.5 years (not including tenant early termination rights) and 3.5 years including early termination rights.

The following graph presents the percentage of total GLA expiring in the fourteen properties during the periods shown (excluding early lease terminations), including the vendor lease at the Delizy property (Pantin).

Lease Maturity Profile as at December 31, 2018
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

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

(in thousands of CAD$)	For the three month ended December 31 2018	For the three month ended December 31 2017	For the year ended December 31 2018	For the year ended December 31 2017
Rental income	6,039	6,381	25,434	24,946
Service charge income	1,241	1,633	7,248	6,908
Service charge expenses	(1,140)	(883)	(9,668)	(8,287)
Other revenues	52	415	804	834
Other property operating expenses	(56)	(136)	(289)	(271)
Net rental earnings	**6,136**	**7,410**	**23,529**	**24,130**
Administration expenses	(1,070)	(1,420)	(5,223)	(5,293)
Foreign exchange gain (loss)	35	62	120	(179)
Net change in fair value of investment properties	59	1,903	335	892
Acquisition costs	21	(14)	-	(210)
Share of net earnings from joint ventures	4,427	3,358	6,926	2,421
Operating earnings	**9,608**	**11,299**	**25,687**	**21,761**
Net change in fair value of financial derivatives	4,771	2,668	4,372	1,066
Loss recognized on exercise of early payment option on finance lease	-	(122)	-	(122)
Gain on partial disposal of investment in joint venture	-	843	-	843
Finance income	(129)	1,774	7,775	6,818
Finance costs	(2,826)	(2,166)	(10,797)	(7,123)
Distributions on Exchangeable Securities	(197)	(431)	(1,016)	(1,618)
Net change in fair value of Exchangeable Securities	1,281	939	1,482	(904)
Net change in fair value of Promissory Notes	5,318	(513)	1,543	(513)
Earnings before income taxes	**17,826**	**14,291**	**29,046**	**20,208**
Current income tax expense	(106)	(107)	(131)	(186)
Deferred income tax expense	(997)	(399)	(6,619)	(658)
Earnings for the period	**16,723**	**13,785**	**22,296**	**19,364**
Non-controlling interest	157	134	144	197
Earnings for the period (part attributable to the Trust)	**16,566**	**13,651**	**22,152**	**19,167**

DISCUSSION OF STATEMENT OF CONSOLIDATED EARNINGS

Net rental earnings

Net rental earnings (Ex-IFRIC) for the three-month period ended December 31, 2018 were $7,215 compared to $7,410 in Q4 2017.

Net rental earnings for the year ended December 31, 2018 were $23,529 compared to $24,130 in 2017. The decrease in net rental earnings, was mainly due to a reduction in rental income resulting from the departure of ADEME from the Vanves property, offset by increases in rent through new leases and indexation.

In accordance with IFRIC 21 (Ex-IFRIC), the annual French property tax is expensed in full in the first quarter of the respective fiscal year, even though payment is required in the fourth quarter. This results in a reduction to net rental income in the first quarter of each year, with relatively higher net rental income in the subsequent three quarters.

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, 2018 amounted to $1,070 as compared to $1,420 for the same quarter in 2017.

Administration expenses for the year ended December 31, 2018 amounted to $5,223 as compared to $5,293 for the same period in 2017. $1,947 of this expense related to the asset management fees paid to Inovalis SA as compared to $2,919 for the year ended December 31, 2017.

Net change in fair value of investment properties

During the year and three months ended December 31, 2018, the net change in fair value of investment properties recognized in earnings was a small gain. During the year the REIT recognize a gain of $4,820 attributable to our Metropolitian property, which was offset by loss attributable to Vannes ($3,070) and Hanover ($1,742).

Share of net earnings from joint ventures

Growth in earning from joint ventures for the three months for the year ended December 31, 2018, is mainly attributable to the investments completed in late 2017 and early 2018. Our share of net rental revenues in 2018 increased to $11,960 compared to $7,667 in 2018. In 2016 we entered into a purchase agreement to acquire our 50% interest in the Kosching property, which we closed in early 2018. At the time of the acquisition the fair value of the property was significantly above our purchase price and accordingly we recorded a gain of $1,339. In addition, the net change in fair value of our share of the joint venture properties was $1,859.

Net change in fair value of financial derivatives

Included in the increase in fair value of financial derivatives is an increase of $5,050 related to the call option to acquire 20% of the Rueil SCCV. The REIT would crystalize its 20% interest in the development profit on the project which it partially financed through the acquisition loan.

Finance income

For the three months ended December 31, 2018, finance income consists predominantly from finance income arising from joint ventures. For the year ended December 31, 2018, finance income of consists predominantly from acquisition loan related to the Rueil property and finance income arising from joint ventures.

Finance costs

For the three-month period ended December 31, 2018, the finance costs amounted to $2,824 as compared to $2,166 for the same period in 2017, mainly largely attributable to finance expenses associated with joint ventures and to the promissory notes issued in 2017 and 2018.

For the year ended December 31, 2018, the finance costs amounted to $10,795 as compared to $7,123 in 2017, of which $2,771 is attributable to the promissory notes.

Distributions on Exchangeable Securities

Distributions to the holders of Exchangeable Securities are calculated in a manner to provide a return that is economically equivalent to the distributions received by the Unitholders. During the three-month period ended December 31, 2018 the distributions on Exchangeable Securities were $197 compared to $431 for the same period in 2017. For the year ended December 31, 2018 distributions on Exchangeable Securities were $1,016 compared to $1,618 2017. The year-over-year decrease arises from the reduction in the number of Exchangeable Securities outstanding. In 2017, Inovalis SA converted 500,014 Exchangeable Securities into Units and converted 1,064,437 Exchangeable Securities into Units in 2018.

Net change in fair value of Exchangeable securities

The value of the Exchangeable securities is dependent on the trading price of the REIT Units. Exchangeable Securities are considered a liability and decrease in value results in a gain, whereas increase in value results in a loss. For the year ended and for the three months ended December 31, 2018, gains were recognized.

Net change in fair value of Promissory notes

The value of the Promissory notes is dependent on the trading price of the REIT Units. Promissory notes are considered a liability and decrease in value results in a gain, whereas increase in value results in a loss. For the year ended and for the three months ended December 31, 2018, gains were recognized.

Deferred tax expense

The deferred income tax expense (and deferred income tax liabilities) corresponds to the origination of temporary differences primarily arising from investment properties.

The governments of France and Luxembourg signed a new Double Taxation Treaty ("DTT") and accompanying protocol in 2018. The new DTT is currently pending ratification before it comes into force. If the new DTT is ratified before December 31, 2019 by both parties it will come into effect in 2020.

Under the existing DTT, the REIT, through its subsidiary located in Luxembourg, incurs French withholding tax at the 5% treaty rate on the dividend received from French OPCI[1]. Under the anticipated DTT, such dividend distributions would be subject to withholding tax at a rate of approximately 30%, which can be reduced to 15% under specific cases.

Management is currently implementing a structure that will allow the REIT to benefit from a reduced rate of 15% once the new DTT comes into effect. Deferred income tax liabilities are based on the reduced rate of 15% and the assumption of the distribution of 50% of the OPCIs' net profits arising from capital gains upon disposition (which results in an effective rate of 7.5%).

[1] "INOPCI" refers to *Organisme de placement collectif en immobilier* which refers to French real estate collective investment undertakings. OPCIs are they are tax exempt vehicles once they distribute 50% of their net profit.

PROPERTY CAPITAL INVESTMENTS

Fair value

The fair value of the REIT's investment property portfolio as at December 31, 2018 was $421,937 compared to $441,813 at December 31, 2017. The reduction is mainly attributable to Hanover being classified as held for sale. The fair value of each of our investment properties is set out in a table above.

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, in conformity with the *Charte de l'expertise immobilière*, *European Valuation Standards of TEGoVA* (the European Group of Valuers' Association) and IFRS 13.

Building improvements

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

In 2018, the REIT completed capital expenditures of $3,858 on its investment properties, compared to $1,616 in 2017.

OTHER SIGNIFICANT ASSETS

Investments accounted for using the equity method

Investments accounted for using the equity method encompasses the 50% interest the REIT (through its subsidiaries) has in the Duisburg property, the 50% interest in the Walpur (Bad Homburg) property, the 25% interest in the Arcueil property, the 50% interest in the Neu-Isenburg property, 50% in the Stuttgart property and 50% in the Kösching property. The REIT's share of fair value of the investment properties accounted for using the equity method was $98,703 as at December 31, 2018 compared to $79,094 as at December 31, 2017. This increase is mainly attributable to the acquisition of Kösching and earnings generated in 2018.

Acquisition loans and deposit

As at December 31, 2018, acquisition loan of $25,719 consists of loan for the Rueil project.

Trade and other receivables

Trade and other receivables as at December 31, 2018 amounted to $4,000 compared to the $6,459 at December 31, 2017. In 2018, interest receivables from joint ventures were reclassified from "Other current assets" to "Trade and other receivables" on adoption of IFRS 9 Financial Instruments.

PRESENTATION OF OUR CAPITAL

Liquidity and capital resources

The 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 $19,110 as at December 31, 2018 compared to $20,345 million as at December 31, 2017. The cash held as at December 31, 2017 was used to fund the acquisition of the Kösching asset in Q1, 2018. The increase in cash is a result of the private placement completed during the April, 2018, which will be used to fund future acquisitions.

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, 91.1% of the REIT's senior debt benefits from an interest rate protection (67.8% in the form of a swap and 23.3% in the form a cap). Management's preference is to have staggered debt maturities to mitigate interest rate risk and limit refinancing exposure in any particular period. With no financial institution representing more than 31% of our senior debt commitment, we also make sure that the REIT has a diversified base of senior debt providers. At December 31, 2018 our debt to gross book value was 38.3%.

Debt-to-book value

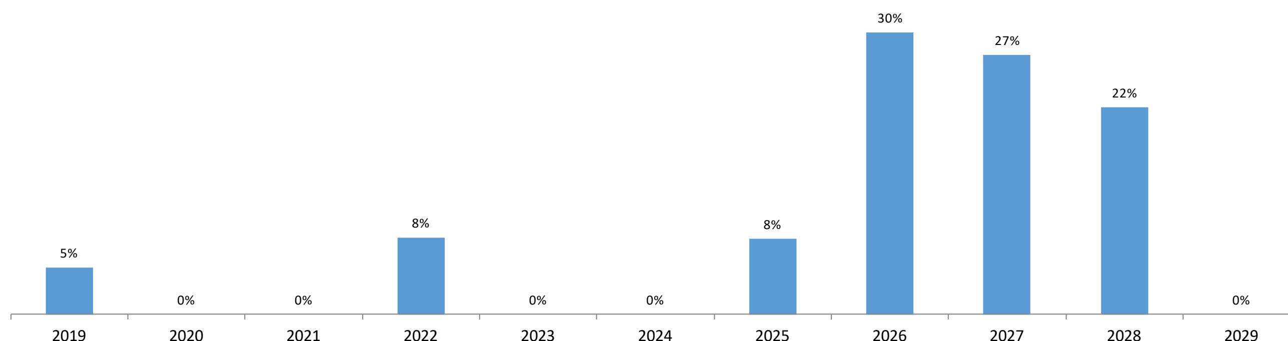
Our debt-to-book value ratio is calculated on a look-through basis and takes into account the REIT's apportioned amount of indebtedness at the partnership level. Indebtedness at the REIT level, as well as at the different partnership levels is calculated as the sum of (i) finance lease liabilities, (ii) 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, 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.

Entire portfolio including joint ventures	As at December 31, 2018	As at December 31, 2017
Weighted average interest rate (1)	2.11%	2.10%
Debt-to-book value (2)	47.7%	51.2%
Debt-to-book value, net of cash (2)	45.8%	49.2%
Interest coverage ratio (3)	3.9 x	3.9 x
Debt due in next 12 months in thousand of CAD$	23,918	11,690
Weighted average term to maturity of debt (4)	5.1 years	5.9 years

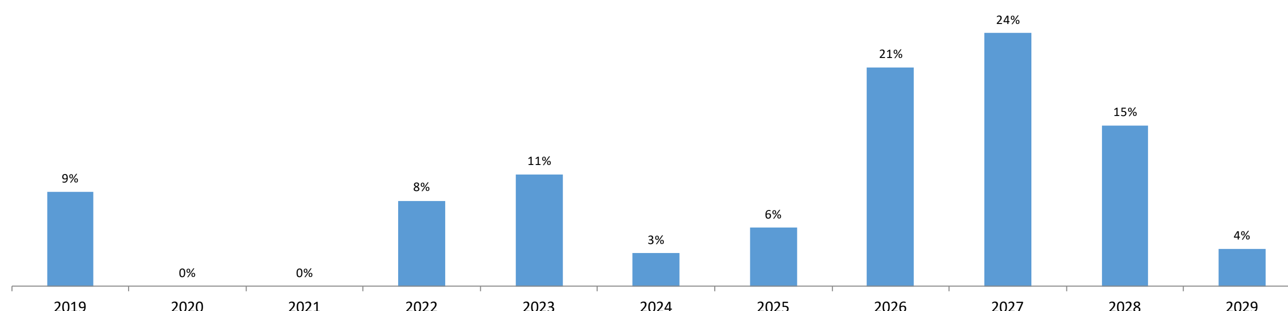
(1) Calculated as the weighted average interest rate paid on the finance leases and the mortgage financing.
(2) The definition of *debt-to-book value* and of *debt-to-book value, net of cash* can be found in the *Debt-to-book value* note above.
(3) Calculated as net rental earnings plus interest, less 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, 2018)



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

Leasehold and Mortgage Financing Maturity Profile
(Entire portfolio including joint-ventures)
(% of amount outstanding as at December 31, 2018)



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

ANALYSIS OF DISTRIBUTED CASH

	Three months ended December 31		Year ended December 31	
	2018	**2017**	**2018**	**2017**
Cash flows from operating activities (A)	5,410	5,658	20,131	27,597
Earnings before income taxes (B)	17,826	14,291	29,046	20,208
Declared distribution on Units (C)	4,816	4,512	18,927	17,873
Excess (shortfall) of cash flows from operating activities over distributions (A-C)	594	1,146	1,204	9,724
Excess (shortfall) of earnings before income taxes over distributions (B - C)	13,010	9,779	10,119	2,335

Cash flows from operating activities exceeded the distributions declared for the three months and the year ended December 31, 2018.

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 operations that are available for distribution. 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 operations.

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

RISKS AND UNCERTAINTIES

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

Risks relating to the REIT and its business

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

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 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 61% of the total weighted areas. Although all five tenants are committed to multi-year leases, which are set to expire gradually between 2019 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 2019 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. lease agreement, 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 leases. Any such event could have a material adverse effect on our cash flows, financial condition and results of operations and our ability to make distributions on the Units.

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

The real estate industry is capital intensive. 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's 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. On April 1, 2018, the extension of the management agreement became effective for an initial term of three years, not to exceed April 1, 2021 and will be automatically renewed for an additional two years if the REIT's AFFO per unit for the year ended December 31, 2020 is greater than 115% of the AFFO per unit of the REIT as at December 31, 2017.

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

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 January 20, 2016, the trustees shall make payable to Unitholders a distribution of sufficient net realized capital gains and income that the Trust shall not be liable to pay taxes under Part 1 of the Tax Act. As a result, there is 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[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, CanCorpCologne Sarl, TFI CanCorp Isenburg S.à.r.l and TFI CanCorp Kosching S.à.r.l 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 and CanCorpCologne Sarl.

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.

The current Double Taxation Treaty ("DTT") in force between France and Luxembourg require that the REIT incurs French withholding tax of 5% on the dividend received from their France based OPCI. In 2018 the Governments of France and Luxembourg signed a new DTT and accompanying Protocol which represents additional risk to the REIT. See the section of the MD&A *"Deferred Tax Expense"*.

Since 2016, CCH holds 94% of Hannover CanCorp GmbH & KG ("HCC"), investment property holding a building in Germany. The latter is considered a 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

[1]"INOPCI" refers to *Organisme de placement collectif en immobilier* which refers to French real estate collective investment undertakings. OPCIs are they are tax exempt vehicles once they distribute 50% of their net profit.

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.

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 October 2020, 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, estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities. Management basis its judgements, estimates and assumptions on experience and other factors it believes to be reasonable under the circumstances. However, uncertainty about these judgements, estimates and assumptions could result in outcomes requiring a material adjustment to the carrying amount of the asset or liability affected in future periods. Our critical accounting judgements, estimates and assumptions in applying accounting policies are described in Note 4 to the annual audited consolidated financial statements of the REIT for the year ended December 31, 2018.

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:

Judgments

Business combination

The REIT performs an assessment of each acquisition of investment property to determine whether the acquisition is to be accounted for as an asset acquisition or business combination.

Accounting for business combinations under IFRS 3, Business Combinations (“IFRS 3”) only applies if it is considered that a business has been acquired. Under IFRS 3, a business is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to the REIT. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. The purchase of investment properties is classified as a business acquisition on the basis that it involves the acquisition of leasable space (inputs), management processes to lease that space to tenants and leasing arrangements with tenants that generated rental income (processes). In the absence of such criteria, a group of assets is deemed to have been acquired. When the acquisition does not represent a business combination, it is accounted for as an acquisition of a group of assets and liabilities.

Joint arrangements

The classification of joint arrangements in accordance with IFRS 11 - Joint Arrangements ("IFRS 11") may require the judgement of management, particularly if there are several agreements related to the joint arrangements.

Because the terms of the agreements clearly stipulate that decisions about the relevant activities relating to the joint ownership require unanimous consent of both shareholders and that the parties have a right only on the net assets, all the investments in joint arrangements are accounted for as joint ventures.

Deferred tax liabilities

The deferred tax liabilities correspond to the deferred tax expense relating to the origination of temporary differences arising from the unrealized gains on investment properties located in France and Germany.

The current Double Taxation Treaty (DTT) in force between France and Luxembourg require that the REIT should incur French withholding tax of 5% on the dividend received from their France based OPCIs. OPCI refers to Organisme de placement collectif en immobilier which refers to French real estate collective investment undertakings. OPCIs are French real estate collective undertakings and are considered tax-exempt vehicles provided they distribute 50% of their net profit arising from capital gains.

On March 20, 2018 the Governments of France and Luxembourg signed a new DTT and accompanying Protocol. The revised DTT is currently pending ratification before it comes into force. If the DTT is ratified by both parties before December 31, 2019 it will come into effect in 2020. Management's assessment is that the DTT is substantively enacted as of March 20, 2018

The revised DTT requires that these dividend distributions be subject to a withholding tax rate of as much as 30% which can potentially be reduced to a 15% withholding tax in some specific cases.

The increase in tax rates may have a significant impact on the REIT. Management is currently implementing a structure to benefit from the reduced rate of 15% once the DTT comes into effect. Deferred income tax liabilities are based on the reduced rate of 15% and the assumption of the distribution of 50% of the OPCIs' net profits arising from capital gains upon disposition (which results in an effective rate of 7.5%).

Estimates

Valuation of the acquisition loan and the related call option

The fair value of the acquisition loan was determined using the Discounted Cash Flow Method ("DCF"). The DCF method involves the projection of a series of cash flows associated with an investment property, discounted using an appropriate market-derived discount rate to establish the present value of the cash inflows associated with the investment property.

The duration of the cash flow and the specific timing of inflows are determined by the two following events: the repayment of the loan and the distribution of the gain on sale. The gain on sale is deemed certain given the fact that the rent agreement has been signed.

Valuation of investment properties

The fair value of investment properties is determined using recognized valuation techniques. The techniques principally used are the Direct Capitalization Method ("DC") and the Discounted Cash Flow Method ("DCF"). In some cases, the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the REIT assets.

Under the DCF method, a property's fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. The DCF method involves the projection of a series of cash flows associated with an investment property. To this projected cash flow series, an appropriate market-derived discount rate is applied to establish the present value of the cash inflows associated with the investment property.

The duration of the cash flow and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related lease up periods, re-letting, redevelopment, or refurbishment. In the case of investment

properties, periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net cash inflows, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Changes in accounting policies

IFRS 9 – Financial Instruments

The REIT has initially adopted IFRS 9 Financial Instruments from January 1, 2018.

With the exception of hedge accounting, which the REIT applied prospectively, the REIT has applied IFRS 9 retrospectively, with the date of initial application of January 1, 2018 and without restating comparative periods with respect to classification and measurement (including impairment) requirements. Management performed an analysis of the carrying values of assets and liabilities held at January 1, 2018 to determine whether any impairments were necessary following the adoption of IFRS 9. Based on the results of this analysis, no impairments to the carrying values of assets and liabilities held at January 1, 2018 have been deemed necessary.

In 2017, the REIT discontinued the application of hedge accounting to its interest rate swap and cap relationships. Accordingly, the REIT began in 2017 the reclassification of a portion of the cumulative gain or loss on the interest rate swaps or caps that were initially recognized in other comprehensive income through profit or loss. Since these hedging relationships were discontinued prior to the adoption of IFRS 9 and the accounting for the discontinuance of a cash flow hedging relationship is the same under IFRS 9, the adoption of IFRS 9 had no impact on the REIT's consolidated financial statements and the same method will be used under IFRS 9 for the reclassification of the cumulative loss from other comprehensive income through profit or loss.

Reclassifications of financial instruments on adoption of IFRS 9

On the date of initial application, 1 January 2018, the financial instruments of the REIT were as follows, with any reclassifications noted:

	Measurment category		Carrying amount		
	Original (IAS 39)	New (IFRS 9)	Original	New	Difference
Financial assets					
Loans to Joint Ventures	Amortized cost	Amortized cost	46,346	46,346	-
Acquisition loan	Amortized cost	Amortized cost	25,903	25,903	-
Trade receivables and other financial assets	Amortized cost	Amortized cost	6,459	6,459	-
Derivative instruments	FVTPL	FVTPL	59	59	-
Financial liabilities					
Mortgage loans	Amortized cost	Amortized cost	116,002	116,002	-
Lease equalization loans	Amortized cost	Amortized cost	4,443	4,443	-
Tenant deposits	Amortized cost	Amortized cost	2,454	2,454	-
Promissory notes	FVTPL	FVTPL	23,789	23,789	-
Exchangeable securities	FVTPL	FVTPL	16,743	16,743	-
Trade and other payables	Amortized cost	Amortized cost	6,341	6,341	-
Derivative financial instruments	FVTPL	FVTPL	1,966	1,966	-

IFRS 15 – Revenue from Contracts with Customers

The REIT has mainly a lessor activity, so the activity is out of scope of IFRS 15 (except for the service charge revenue). There is no significant impact of adoption of IFRS 15.

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, 2018. Further, note 5 outlines the changes and future changes in accounting policies.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures (DCP)

The CEO and CFO of the Trust have designed or caused to be designed under their direct supervision the Trust's DCP to provide reasonable assurance that: i) material information relating to the Trust is made known to management by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Trust in its annual and interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. The CEO and CFO are assisted in this responsibility by Management. The CEO and CFO evaluated, or caused to be evaluated under their direct supervision, the design and operating effectiveness of disclosure controls and procedures as at December 31, 2018, and based on that evaluation, have concluded that such disclosure controls and procedures were not effective as a result of material weaknesses in the Trust's internal control over financial reporting, as further described below.

Notwithstanding the material weaknesses identified, the Trust has concluded that the financial statements, as at December 31, 2018, are fairly represented in all material respects, in accordance with IFRS.

Internal Controls over Financial Reporting (ICFR)

Management is responsible for establishing and maintaining adequate ICFR to provide reasonable assurance regarding the reliability of the Trust's financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS. Management, including the CEO and CFO, have assessed or caused an assessment under their direct supervision, of the design and operating effectiveness of the Trust's ICFR as at December 31, 2018 on the criteria set forth in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, it was determined that, as at December 31, 2018, the trust's ICFR were not effective as a result of the identification of material weaknesses pertaining to the design and operational effectiveness of ICFR. The material weaknesses in risk assessment, control activities, information and communication, and monitoring activities contributed to the following:

- Non-performance of a fraud risk assessment and resulting mitigation program;
- Incomplete design and assessment of business process controls and information technology general controls;
- Failure to record significant transactions on a timely basis;
- Ineffective accounting policies related to acquisitions, new accounting pronouncements; (ex. IFRS 9), and complex financial instruments;
- Improper accounting treatment for significant contracts;
- Incomplete reconciliation processes; and
- Inadequate evidence of review and approval over source documentation.

As defined by National Instrument 52-109 of the Canadian Securities Administration, a material weakness means a deficiency, or a combination of deficiencies, in ICFR such that there is a reasonable possibility that a material misstatement of the reporting issuer's annual or interim financial statements will not be prevented or detected on a timely basis.

Accordingly, a reasonable possibility exists that material misstatements in the Trust's financial statements will not be prevented or detected on a timely basis.

Notwithstanding the material weaknesses identified, the Trust has concluded that the financial statements, as at December 31, 2018, are fairly represented in all material respects, in accordance with IFRS.

Remediation Plans and Actions Undertaken

A remediation plan and actions to resolve the aforementioned DCP & ICFR material weaknesses have been communicated to the Audit Committee by the CEO and CFO. The Board, with direction by the Audit Committee, will continue to review progress on the remediation activities determined on a regular and ongoing basis. The remediation plan and actions include, but are not limited to, the following:

- In April, 2019, the Trust will engage an independent accounting firm to perform a risk assessment, re-assess the design, and conduct operational effectiveness testing of the Trust's ICFR Program. The independent accounting firm will also evaluate Management's remedial actions to address the existing material weaknesses previously identified.
- The ongoing evaluation and assessment of the Trust's ICFR Program by the independent accounting firm throughout Fiscal 2019 will be monitored and evaluated by the CEO, CFO and the Audit Committee. Any additional control deficiencies identified as part of this process will be evaluated and actioned-upon by Management, as required.

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

Inherent Limitations

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

SELECTED FINANCIAL INFORMATION

	For the year ended December 31,		
(in thousands of CAD$)	**2018**	**2017**	**2016**
Revenue (excluding finance income)	33,486	32,688	31,120
Revenue (including finance income)	41,261	39,506	35,464
Earnings attributable to Unitholders	22,152	19,167	23,284
Earnings	22,296	19,364	23,405
Assets	622,932	576,709	510,125
Non-current liabilities	223,947	255,441	219,573
Distributions per unit	$ 0.825	$ 0.825	$ 0.825

NON-GAAP FINANCIAL MEASURES

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.

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

	For the year ended December 31, 2018			For the year ended December 31, 2017		
(in thousands of CAD$)	Amounts per consolidated financial statements	Share from investments in joint ventures	Total	Amounts per consolidated financial statements	Share from investments in joint ventures	Total
Rental income	25,434	13,081	**38,515**	24,946	8,361	**33,307**
Service charge income	7,248	3,041	**10,289**	6,908	2,262	**9,170**
Service charge expenses	(9,668)	(3,791)	**(13,459)**	(8,287)	(2,353)	**(10,640)**
Other revenues	804	(298)	**506**	834	(704)	**130**
Other property operating expenses	(289)	(73)	**(362)**	(271)	101	**(170)**
Net rental earnings	**23,529**	**11,960**	**35,489**	**24,130**	**7,667**	**31,797**
Administration expenses	(5,223)	(2,013)	**(7,236)**	(5,293)	(1,124)	**(6,417)**
Foreign exchange gain (loss)	120	-	**120**	(179)	-	**(179)**
Net change in fair value of investment properties	335	1,859	**2,194**	892	3,961	**4,853**
Gain on bargain purchase	-	-	**-**	-	1,455	**1,455**
Acquisition costs	-	467	**467**	(210)	(1,713)	**(1,923)**
Share of profit of an investment (equity method)	6,926	(6,926)	**-**	2,421	(2,421)	**-**
Operating earnings	**25,687**	**5,347**	**31,034**	**21,761**	**7,825**	**29,586**
Net change in fair value of financial derivatives	4,372	(25)	**4,347**	1,066	42	**1,108**
Net change in fair value of the acquisition loan	-	-	**-**	-	-	**-**
Loss on exercise of early payment option on finance leases	-	-	**-**	(122)	(473)	**(595)**
Gain on partial disposal of investment in joint venture	-	-	**-**	843	(124)	**719**
Finance income	7,775	(3,457)	**4,316**	6,818	(4,650)	**2,168**
Finance costs	(10,797)	(2,938) [1]	**(13,733)**	(7,123)	(1,637) [1]	**(8,760)**
Fair value of investment property acquired in excess of cost	-	1,339	**1,339**	-	-	**-**
Additional income (loss) from Arcueil's JV	-	605 [2]	**605**	-	(156) [2]	**(156)**
Distributions on Exchangeable securities	(1,016)	-	**(1,016)**	(1,618)	-	**(1,618)**
Net change in fair value of Exchangeable Securities	1,482	-	**1,482**	(904)	-	**(904)**
Net change in fair value of Promissory Notes	1,543	-	**1,543**	(513)	-	**(513)**
Earnings before income taxes	**29,046**	**871**	**29,917**	**20,208**	**827**	**21,034**
Current income tax expense	(131)	(111)	**(242)**	(186)	(30)	**(216)**
Deferred income tax expense	(6,619)	(760)	**(7,379)**	(658)	(796)	**(1,454)**
Earnings for the period	**22,296**	**-**	**22,296**	**19,364**	**-**	**19,364**
Non-controlling interest	144	-	**144**	197	-	**197**
Earnings for the period attributable to the Trust	**22,152**	**-**	**22,152**	**19,167**	**-**	**19,167**

(1) Includes the REIT's share of the hedging cost of Acrueil's partner.
(2) Reflects the income (loss) in reference to the REIT's 75% interest in the net profit of the Arcueil JV.

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

	For the three month ended December 31		For the year ended December 31	
(in thousands of CAD$)	**2018**	**2017**	**2018**	**2017**
Rental income	6,039	6,381	25,434	24,946
Service charge income	1,241	1,633	7,248	6,908
Service charge expenses	(1,140)	(883)	(9,668)	(8,287)
Other revenues	52	415	804	834
Other property operating expenses	(56)	(136)	(289)	(271)
Net rental earnings	**6,136**	**7,410**	**23,529**	**24,130**
Administration expenses	(1,070)	(1,420)	(5,223)	(5,293)
Foreign exchange gain (loss)	35	62	120	(179)
Net change in fair value of investment properties	59	1,903	335	892
Acquisition costs	21	(14)	-	(210)
Share of net earnings from joint ventures	4,427	3,358	6,926	2,421
Operating earnings	**9,608**	**11,299**	**25,687**	**21,761**
Net change in fair value of financial derivatives	4,771	2,668	4,372	1,066
Loss recognized on exercise of early payment option on finance lease	-	(122)	-	(122)
Gain on partial disposal of investment in joint venture	-	843	-	843
Finance income	(129)	1,774	7,775	6,818
Finance costs	(2,826)	(2,166)	(10,797)	(7,123)
Distributions on Exchangeable Securities	(197)	(431)	(1,016)	(1,618)
Net change in fair value of Exchangeable Securities	1,281	939	1,482	(904)
Net change in fair value of Promissory Notes	5,318	(513)	1,543	(513)
Earnings before income taxes	**17,826**	**14,291**	**29,046**	**20,208**
Current income tax expense	(106)	(107)	(131)	(186)
Deferred income tax expense	(997)	(399)	(6,619)	(658)
Earnings for the period	**16,723**	**13,785**	**22,296**	**19,364**
Non-controlling interest	157	134	144	197
Earnings for the period (part attributable to the Trust)	**16,566**	**13,651**	**22,152**	**19,167**

(1) Includes the REIT's share of the hedging cost of Acrueil's partner.
(2) Reflects the income (loss) in reference to the REIT's 75% interest in the net profit of the Arcueil JV.

LAST 24 MONTHS – KEY FINANCIAL INFORMATION

The information provided in the table below includes our proportionate share of income from investments in joint ventures. Refer to "Non-GAAP section" for reconciliation to our condensed interim consolidated financial statements. During the financial statement closing process, management established the fair value of the call option related to the acquisition loan (see note 9 to the annual consolidated financial statements). The increase in the fair value of such call option was recognized entirely in the fourth quarter of fiscal 2018. However, management believes a portion of the increase in fair value should have been recognized in prior quarter of fiscal 2018 and is currently assessing the impact on each quarter. The following fiscal 2018 quarterly information does not reflect any adjustment that might be required.

	Three month period ended							
(in thousands of CAD$)	**Dec. 31, 2018**	**Sept. 30, 2018**	**June 30, 2018**	**March 31, 2018**	**Dec. 31, 2017**	**Sept. 30, 2017**	**June 30, 2017**	**March 31, 2017**
Rental income	6,039	6,142	6,539	6,714	6,381	6,323	6,271	5,970
Adjusted rental income	***9,581***	***9,386***	***9,830***	***9,718***	***8,977***	***8,659***	***8,100***	***7,571***
Net rental earnings	6,136	6,668	6,882	3,842	7,411	6,729	6,610	3,247
Adjusted net rental earnings	***9,246***	***10,013***	***10,314***	***5,915***	***9,891***	***9,012***	***8,292***	***4,601***
Earnings for the period	16,566	2,514	5,031	(1,972)	13,651	2,219	214	3,146

NON-GAAP RECONCILIATION

Investments in joint ventures

The REIT's proportionate share of the financial position and results of operation of its investment in joint ventures, which are accounted for using the equity method under IFRS in the condensed interim consolidated financial statements, are presented below using the proportionate consolidation method (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 condensed interim 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 joint venture" in the consolidated statement of earnings reconciliation to condensed interim 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 and nine-month periods ended December 31, 2018, 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, Neu-Isenburg and Kösching and 25% for Arcueil.

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

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, subject to certain adjustments including adjustments for: (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 certain 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

Promissory Notes (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 finance costs associated with Promissory Notes. 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 Promissory Notes are recorded as liability in accordance with However, both are considered as equity for the purposes of calculating FFO and AFFO

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 (iii) amortization of fair value adjustment on assumed debt, (iv) the non-cash portion of the asset management fees paid in Exchangeable securities, (v) capital expenditures, (vi) amortization of transaction costs on mortgage loans.

FFO and AFFO should not be construed as alternatives to net earnings or cash flow from operating activities, determined in accordance with IFRS, as indicators of 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.

(in thousands of CAD$)	Three months ended December 31 2018	Three months ended December 31 2017	Year ended December 31 2018	Year ended December 31 2017
Earnings attributable to Unitholders	18,107	13,650	22,152	19,167
Add/(Deduct):				
Adjustment to related acquisition costs	(1,516)	715	(467)	1,923
Gain on bargain purchase and option costs	-	(10)	-	(1,455)
Gain on disposal on investment in joint venture	-	(691)	-	(718)
Loss recognized on exercise of early payment option on finance leases	-	125	-	595
Excess of net fair value of identifiable assets and liabilities over cost	(1,339)	-	(1,339)	-
Net change in fair value of investment properties	(1,384)	(3,997)	(2,194)	(4,853)
Net change in fair value of financial derivatives	(4,750)	(2,585)	(4,347)	(1,107)
Net change in fair value of derivative on acquisition loan	5,050	-	5,050	-
Adjustment for property taxes accounted for under IFRIC 21	(1,079)	(990)	-	-
Additional income (loss from Arcueil's JV)	(206)	(1,764)	(605)	156
Interest on promissory notes	1,041	535	3,628	857
Distributions on Exchangeable securities	197	431	1,016	1,618
Change in fair value of Exchangeable securities	(1,281)	(939)	(1,482)	904
Change in fair value of Promissory Notes	(5,318)	513	(1,543)	513
Foreign exchange (loss) gain	(35)	(62)	(120)	179
Other non-recurring finance costs	116	(551)	141	120
Deferred income tax expense	1,254	856	7,379	1,454
Non-controlling interest	157	134	144	197
FFO	**9,014**	**5,370**	**27,413**	**19,550**
Add/(Deduct):				
Non-cash effect of straight line rents	277	265	857	893
Cash effect of the lease equalization loans	(366)	(285)	(1,261)	(1,099)
Amortization of fair value adjustment on assumed debt	-	1	-	65
Amortization of transaction costs on mortgage loans	69	(38)	289	79
Non-cash part of asset management fees paid (1) in Exchangeable securities	(605)	510	1,740	1,857
Improvements to investment properties	(2,869)	-	(4,944)	(100)
AFFO	**5,520**	**5,823**	**24,094**	**21,245**
FFO / Units (diluted) *(in CAD$) (2)*	**0.31**	**0.21**	**0.9784**	**0.7982**
AFFO / Units (diluted) *(in CAD$) (2)*	**0.19**	**0.22**	**0.8600**	**0.8674**

(1) For purposes of this presentation, 50% of the asset management fee is included in the AFFO reconciliation.
(2) 50% of the asset management fees for Q2 2018 and Q4 2018 were paid in Exchangeable securities.
(3) 100% of the asset management fee for Q1 2018, Q1 2017, Q2 2017 and Q4 2017 were paid in Exchangeable securities.
(4) Based on the weighted average number of Units (fully diluted, including promissory notes issued in June and October 2017), i.e. 28,709,557 and 24,944,609 for the 3-month periods ended December 31, 2018 and December 31, 2017 respectively and 27,757,684 and 23,952,564 for the 9-month periods ended December 31, 2018 and December 31, 2017 respectively.

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.

Balance sheet reconciliation to consolidated financial statements

Assets	As at December 31, 2018			As at December 31, 2017		
	As per REIT's	Share from	Proportionate	As per REIT's	Share from	Proportionate
Non-current assets						
Investment properties	421,937	207,752	**629,689**	440,813	173,256	**614,069**
Investments accounted for using the equity method	98,703	(98,703)	**0**	79,094	(79,094)	**0**
Deposit	0	0	**0**	1,132	334	**1,466**
Acquisition loan	25,719	0	**25,719**	25,903	0	**25,903**
Derivative financial instruments	306	28	**334**	59	90	**149**
Restricted cash	1,644	280	**1,924**	1,509	0	**1,509**
Total non-current assets	548,309	109,357	**657,666**	548,510	94,586	**643,096**
Current assets						
Trade and other receivables	4,000	1,126	**5,126**	6,459	1,355	**7,814**
Derivative financial instruments	64	20	**84**	0	20	**20**
Call option related to the acquisition loan	6,750	0	**6,750**			
Other current assets	1,080	1,166	**2,246**	1,395	1,063	**2,458**
Restricted cash	0	0	**0**	0	797	**797**
Cash and cash equivalents	19,110	6,444	**25,554**	20,345	5,305	**25,650**
Total current assets	31,004	8,756	**39,760**	28,199	8,540	**36,739**
Assets classified as held for sale	40,027	0	**40,027**	0	0	**0**
Total assets	619,340	118,113	**737,453**	576,709	103,126	**679,835**
Liabilities and Unitholders' equity						
Liabilities						
Non-current liabilities						
Mortgage loans	83,391	76,850	**160,241**	113,342	62,113	**175,455**
Finance lease liabilities	120,547	28,442	**148,989**	122,735	28,714	**151,449**
Other long-term liabilities	0	638	**638**	0	754	**754**
Lease equalization loans	2,130	0	**2,130**	3,196	0	**3,196**
Tenant deposits	2,180	134	**2,314**	2,292	105	**2,397**
Exchangeable securities	4,779	0	**4,779**	6,907	0	**6,907**
Derivative financial instruments	1,396	107	**1,503**	650	148	**798**
Deferred tax liabilities	8,428	7,274	**15,702**	3,059	2,174	**5,233**
Deferred income	1,099	0	**1,099**	3,260	0	**3,260**
Total non-current liabilities	223,950	113,445	**337,395**	255,441	94,008	**349,449**
Current liabilities						
Promissory Notes	42,471	0	**42,471**	23,789	0	**23,789**
Mortgage loans	14,588	35	**14,623**	2,660	590	**3,250**
Finance lease liabilities	6,637	1,313	**7,950**	6,014	1,180	**7,194**
Lease equalization loans	1,185	0	**1,185**	1,247	0	**1,247**
Tenant deposits	687	23	**710**	162	67	**229**
Exchangeable securities	3,203	0	**3,203**	9,836	0	**9,836**
Derivative financial instruments	1,207	0	**1,207**	1,316	0	**1,316**
Trade and other payables	7,145	3,042	**10,187**	6,772	6,993	**13,765**
Other current liabilities	0	0	**0**	0	0	**0**
Deferred income	4,394	255	**4,649**	4,195	290	**4,485**
Total current liabilities	81,517	4,668	**86,185**	55,991	9,120	**65,111**
Liabilities directly associated with assets classified as held for sale	21,792	0	**21,792**	0	0	**0**
Total liabilities	327,259	118,113	**445,372**	311,432	103,128	**414,560**
Equity						
Trust units	207,442	0	**207,442**	195,739	0	**195,739**
Retained earnings	47,974	0	**47,974**	44,749	0	**44,749**
Accumulated other comprehensive income	36,146	0	**36,146**	24,436	0	**24,436**
	291,562	0	**291,562**	264,924	0	**264,924**
Non-controlling interest	519	0	**519**	353	0	**353**
Total liabilities and equity	619,340	118,113	**737,453**	576,708	103,128	**679,837**

(1) Balance sheet amounts presented for the REIT were taken from the audited consolidated financial statements as at December 31, 2018 and 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 condensed interim consolidated financial statements, the Exchangeable securities are classified as a combination of current and non-current liabilities under GAAP because of the conversion feature that can be exercised by the holder of those securities.

As at April 1, 2019 the REIT has 23,583,406 Units issued and outstanding.

	3-month period ended December 31, 2018	Year ended December 31, 2018
Units		
Number at beginning of period	23,251,557	22,235,421
Increase/(Decrease) in number during the period	216,583	1,064,437
Units issued pursuant to the DRIP	45,512	213,794
Number at end of period	23,513,652	23,513,652
Weighted average number during the period	23,332,519	22,884,926
Exchangeable securities		
Number at beginning of period	1,014,880	1,679,370
Increase/(Decrease) in number during the period	(170,207)	(834,697)
Number at end of period	844,673	844,673
Weighted average number during the period	960,084	1,258,022
Promissory notes		
Number at beginning of period	4,507,112	2,386,104
Increase/(Decrease) in number during the period	(12,811)	2,108,197
Number at end of period	4,494,301	4,494,301
Weighted average number during the period	4,498,618	3,874,156
Units, Exchangeable securities and Promissory notes		
Number at beginning of period	28,773,549	26,300,895
Increase/(Decrease) in number during the period	79,077	2,551,731
Number at end of period	28,852,626	28,852,626
Weighted average number during the period	28,791,221	28,017,104

Further to the Distribution Reinvestment Plan ("DRIP"), 47,877 Units were issued to Unitholders during Q4 2018. As at December 31, 2018, 10.6% 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.

Contracts Maturing by Quarter	Hedge Value (EUR)	Weighted average hedging rate
Q1 2019	2,588,582	1.507
Q2 2019	2,468,780	1.580
Q3 2019	2,400,448	1.625
Q4 2019	2,387,176	1.634
Q1 2020	2,373,135	1.643
Q2 2020	2,360,637	1.652
Q3 2020	2,348,270	1.661
Q4 2020	780,312	1.666
	17,707,340	

To mitigate risk of foreign exchange fluctuations on the distributions to our Unitholders, we have established an active foreign exchange hedging program. As at December 31, 2018, the REIT was committed to sell €812 (on average) at an average rate of 1.603 and to receive $1,300 on a monthly basis until October 2020 (included).

	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Cash flows from operating activities (A)	5,669	5,658	20,390	27,597
Earnings before income taxes (B)	17,826	14,291	29,046	20,208
Declared distribution on Units (C)	4,816	4,512	18,927	17,873
Excess (shortfall) of cash flows from operating activities over distributions (A-C)	853	1,146	1,463	9,724
Excess (shortfall) of earnings before income taxes over distributions (B - C)	13,010	9,779	10,119	2,335

Monthly distributions to Unitholders have been $0.06875 per Unit, or $0.825 per Unit on an annual basis, for the years ended December 31, 2018 and 2017

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REAL ESTATE INVESTMENT TRUST