

**INOVALIS REAL ESTATE INVESTMENT TRUST  
CONDENSED INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS**

**June 30, 2020**

**(Unaudited)**

## **Disclosure of non-review of interim condensed consolidated financial statements for the quarters ended June 30, 2020 and 2019**

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if the external auditors have not performed a review of the financial statements, the financial statements must be accompanied by a notice indicating that they have not been reviewed by the external auditors.

The accompanying unaudited interim condensed consolidated financial statements of the REIT for the quarters ended June 30, 2020 and 2019 have been prepared in accordance with International Accounting Standard 34, Interim Financial reporting, and are the responsibility of the REIT's management.

The REIT's external auditors, Ernst & Young LLP, have not performed a review of these interim condensed consolidated financial statements in accordance with the standards established by Chartered Professional Accountants Canada for a review of the financial statements by the external auditors of an entity.

**Inovalis Real Estate Investment Trust**  
**Interim Consolidated Balance Sheets**  
**(Unaudited)**

(All dollar amounts in thousands of Canadian dollars)

Assets	Note	As at June 30, 2020	As at December 31, 2019
<b>Non-current assets</b>			
Investment properties	5	501,339	478,700
Investments in joint ventures	7	89,382	100,782
Derivative financial instruments	-	-	10
Restricted cash	-	4,883	4,705
<b>Total non-current assets</b>		<b>595,604</b>	<b>584,197</b>
<b>Current assets</b>			
Trade receivables and other financial assets	-	7,023	4,437
Derivative financial instruments	-	10,288	10,828
Acquisition loan	-	26,180	24,744
Other current assets	-	2,625	2,093
Restricted cash	-	506	498
Cash	-	57,881	83,409
<b>Total current assets</b>		<b>104,503</b>	<b>126,009</b>
<b>Total assets</b>		<b>700,107</b>	<b>710,206</b>
Liabilities and equity	Note	As at June 30, 2020	As at December 31, 2019
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Interest-bearing loan	-	496	473
Mortgage loans	8	135,445	130,162
Lease liabilities	8	121,312	116,968
Lease equalization loans	-	179	343
Tenant deposits	-	2,054	1,930
Derivative financial instruments	-	3,693	2,734
Deferred tax liabilities	-	13,161	12,295
Exchangeable securities	10	-	2,695
<b>Total non-current liabilities</b>		<b>276,340</b>	<b>267,600</b>
<b>Current liabilities</b>			
Interest-bearing loan	-	4	4
Promissory notes	9	34,180	47,909
Mortgage loans	8	3,771	4,198
Lease liabilities	8	7,466	6,910
Lease equalization loans	-	367	1,676
Tenant deposits	-	171	577
Derivative financial instruments	-	1,805	1,494
Exchangeable securities	10	7,725	6,867
Trade and other payables	11	12,309	34,336
Deferred income	-	697	5,491
<b>Total current liabilities</b>		<b>68,495</b>	<b>109,462</b>
<b>Total liabilities</b>		<b>344,835</b>	<b>377,062</b>
<b>Equity</b>			
Trust units	-	256,045	259,526
Retained earnings	-	69,537	57,827
Accumulated other comprehensive income	17	28,392	14,591
<b>Total Unitholders' equity</b>		<b>353,974</b>	<b>331,944</b>
Non-controlling interest	-	1,298	1,200
<b>Total equity</b>		<b>355,272</b>	<b>333,144</b>
<b>Total liabilities and equity</b>		<b>700,107</b>	<b>710,206</b>

Subsequent events – see Note 23

*The accompanying notes are an integral part of these interim condensed consolidated financial statements.*

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

Daniel Argiros  
Chairman and Trustee

Jo-Ann Lempert  
Audit Chair and Trustee

**Inovalis Real Estate Investment Trust**  
**Interim Consolidated Statements of Earnings**  
**(Unaudited)**

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

	Note	For the three months ended June 30, 2020	For the three months ended June 30, 2019 Restated (Note 2)	For the six months ended June 30, 2020	For the six months ended June 30, 2019 Restated (Note 2)
Rental revenue	12	7,119	6,593	13,997	12,636
Property operating cost recoveries	12	1,554	2,162	3,125	4,595
Property operating costs	13	(1,279)	(1,847)	(5,450)	(7,360)
Other revenues	-	84	-	87	-
Other property operating expenses	-	(79)	(184)	(113)	(242)
<b>Net rental income</b>		<b>7,399</b>	<b>6,724</b>	<b>11,646</b>	<b>9,629</b>
General and administrative expenses	13	(2,110)	(1,627)	(4,352)	(3,399)
Foreign exchange gain (loss)	-	(845)	(29)	1,803	-
Net change in fair value of investment properties	5	(2,288)	(1,577)	(586)	743
Loss on disposal of investment properties	-	-	42	-	(56)
Share of net income from joint ventures	7	(849)	(369)	(666)	544
<b>Operating earnings</b>		<b>1,307</b>	<b>3,164</b>	<b>7,845</b>	<b>7,461</b>
Net change in fair value of financial derivatives	-	85	(707)	207	(1,628)
Net change in fair value of Exchangeable securities	10	(1,727)	319	2,579	(330)
Net change in fair value of Promissory notes	9	(8,050)	1,034	13,703	(2,427)
Finance income	14	1,911	2,131	4,175	4,147
Finance costs	14	(2,608)	(2,503)	(5,076)	(5,024)
Distributions on Exchangeable securities	-	(203)	(178)	(392)	(355)
<b>Income (loss) before income taxes</b>		<b>(9,285)</b>	<b>3,260</b>	<b>23,041</b>	<b>1,844</b>
Current income tax expense	-	(40)	(78)	(49)	(127)
Deferred income tax expense	-	(65)	(116)	(283)	(728)
<b>Net income (loss)</b>		<b>(9,390)</b>	<b>3,066</b>	<b>22,709</b>	<b>989</b>
<b>Net income (loss) attributable to :</b>					
Non-controlling interest	-	(5)	39	6	7
Unitholders of the Trust	-	(9,385)	3,027	22,703	982
		<b>(9,390)</b>	<b>3,066</b>	<b>22,709</b>	<b>989</b>

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

**Inovalis Real Estate Investment Trust**  
**Interim Consolidated Statements of Comprehensive income**  
**(Unaudited)**

(All dollar amounts in thousands of Canadian dollars)

	Note	For the three months ended June 30, 2020	For the three months ended June 30, 2019 Restated (Note 2)	For the six months ended June 30, 2020	For the six months ended June 30, 2019 Restated (Note 2)
Net income (loss) for the period		(9,390)	3,066	22,709	989
Other comprehensive income (loss)		-			
Items that may be reclassified subsequently to income :					
Net gains (losses) on derivatives designated as a hedge of the net investment in a foreign entity	-	925	269	(2,248)	1,406
Derivatives designated as cash flow hedges - Net gains	-	-	143	-	295
Change in cumulative translation adjustment account	-	(5,747)	(1,585)	16,141	(15,853)
Other comprehensive income (loss)		(4,822)	(1,173)	13,893	(14,152)
Total comprehensive income (loss)		(14,212)	1,893	36,602	(13,163)
Total comprehensive income (loss) attributable to :					
Non-controlling interest	-	7	66	98	2
Unitholders of the Trust	-	(14,219)	1,827	36,504	(13,165)
Total comprehensive income (loss)		(14,212)	1,893	36,602	(13,163)

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

**Interim Consolidated Statements of Changes in Equity**

**For the six months ended June 30,**

**(Unaudited)**

(All dollar amounts in thousands of Canadian dollars, unless otherwise stated)

	Note	Number of Units issued and outstanding	Trust Units	Retained earnings	Accumulated other comprehensive income	Total attributable to the Unitholders' of the Trust	Non-controlling interest	Total equity
As at December 31, 2018		23,513,652	207,442	41,282	35,998	284,722	519	285,241
Issuance of units	16	90,500	792	-	-	792	-	792
Distributions earned by or declared to Unitholders	15	-	-	(9,740)	-	(9,740)	-	(9,740)
Distributions under the Trust's reinvestment plan	15	139,466	1,365	-	-	1,365	-	1,365
Non-controlling interests on acquisition of subsidiary							930	930
Non-controlling interests on disposal of subsidiary							(389)	(389)
Capital increase from minority interest							91	91
		229,966	2,157	(9,740)	-	(7,583)	632	(6,951)
Net income for the six months as restated		-	-	982	-	982	7	989
Other comprehensive loss as restated		-	-	-	(14,147)	(14,147)	(5)	(14,152)
Comprehensive income (loss) as restated in 2019		-	-	982	(14,147)	(13,165)	2	(13,163)
<b>As at June 30, 2019 - Restated</b>	<b>21</b>	<b>23,743,618</b>	<b>209,599</b>	<b>32,524</b>	<b>21,851</b>	<b>263,974</b>	<b>1,153</b>	<b>265,127</b>
As at December 31, 2019		28,742,306	259,526	57,827	14,591	331,944	1,200	333,144
Issuance costs		-	(56)	-	-	(56)	-	(56)
Issuance of units		12,811	131	-	-	131	-	131
Repurchase of Trust Units	16	(531,390)	(4,769)	886	-	(3,883)	-	(3,883)
Distributions earned by or declared to Unitholders	15	-	-	(11,879)	-	(11,879)	-	(11,879)
Distributions under the Trust's reinvestment plan	15	145,616	1,213	-	-	1,213	-	1,213
		(372,963)	(3,481)	(10,993)	-	(14,474)	-	(14,474)
Net income for the six months		-	-	22,703	-	22,703	6	22,709
Other comprehensive income		-	-	-	13,801	13,801	92	13,893
Comprehensive income		-	-	22,703	13,801	36,504	98	36,602
<b>As at June 30, 2020</b>	<b>16</b>	<b>28,369,343</b>	<b>256,045</b>	<b>69,537</b>	<b>28,392</b>	<b>353,974</b>	<b>1,298</b>	<b>355,272</b>

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Inovalis Real Estate Investment Trust  
**Interim Consolidated Statements of Cash Flows**  
**For the six months ended June 30,**  
**(Unaudited)**  
(All dollar amounts in thousands of Canadian dollars)

	<i>Note</i>	For the six months ended June 30, 2020	For the six months ended June 30, 2019
<b>Operating activities</b>			
Income before income taxes	-	23,041	1,844
Interest received	-	3,961	4,109
Interest paid	-	(4,893)	(4,961)
Income tax paid	-	(49)	(127)
Distributions in respect of exchangeable securities paid in cash	-	(318)	(370)
Adjustments for non-cash items and other reconciling items	21	(15,312)	5,145
		<u>6,430</u>	<u>5,640</u>
Working capital adjustments	21	(18,592)	(1,767)
<b>Net cash flows related to operating activities</b>		<u>(12,162)</u>	<u>3,873</u>
<b>Investing activities</b>			
Investment properties (additions and capitalized letting fees)	6	(637)	(352)
Acquisitions of subsidiary, net of cash acquired	5	2,175	(26,983)
Proceeds from sale of investment property	6	-	15,916
Investments in joint ventures	7	(1,211)	
Loan repayments received from joint ventures	7	1,600	816
Increase / decrease in other financial assets	-	57	(1,506)
Decrease in financial current assets	-	-	1,623
<b>Net cash flows related to investing activities</b>		<u>1,984</u>	<u>(10,486)</u>
<b>Financing activities</b>			
Distributions to unitholders	-	(10,670)	(8,357)
Repayment of promissory notes	15	(26)	-
Proceeds from issuance of unit	20	131	-
Issuance unit costs	-	(56)	-
Repurchase of Trust units	16	(3,883)	
Mortgage loans net of transaction costs	8	-	14,093
Lease liabilities net of transaction costs	8	-	63,418
Repayment of mortgage loans	8	(1,634)	(12,676)
Repayment of lease liabilities	8	(921)	(54,095)
Repayment of lease equalization loans	-	(1,546)	(568)
<b>Net cash flows related to financing activities</b>		<u>(18,605)</u>	<u>1,815</u>
<b>Net decrease in cash</b>		<u>(28,783)</u>	<u>(4,798)</u>
Effects of foreign exchange adjustments on cash	-	3,255	(857)
<b>Cash at the beginning of the period</b>		<u>83,409</u>	<u>19,994</u>
<b>Cash at the end of the period</b>		<u>57,881</u>	<u>14,339</u>

*The accompanying notes are an integral part of these interim condensed consolidated financial statements.*

**Inovalis Real Estate Investment Trust**  
**Notes to the condensed interim consolidated financial statements**  
**June 30, 2020**

**Note 1 – Organization**

The Inovalis Real Estate Investment Trust (the “Trust”) is an open-ended real estate investment trust created pursuant to a Declaration of Trust dated February 8, 2013, under the laws of the Province of Ontario, Canada. These Consolidated Financial Statements include the accounts of the Trust and its subsidiaries (together the “REIT”). The REIT’s investment property portfolio, owned directly or through joint arrangements, is comprised of office rental properties located in France and Germany.

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

The REIT’s Condensed Interim Consolidated Financial Statements for the six months ended June 30, 2020, were authorized for issuance by the Board of Trustees on August 12, 2020.

The REIT has hired Inovalis S.A. (“Inovalis SA”), a real estate asset manager having operations in France and Germany, to manage certain functions. Refer to Note 1 of the Annual Consolidated Financial Statements for more information about the relationship between Inovalis SA and the REIT, and to Note 19 – Transactions with related parties, for information regarding the services provided by Inovalis SA to the REIT.

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

**Note 2 – Basis of presentation and statement of compliance**

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”), and thus do not contain all of the disclosures applicable to the annual audited consolidated financial statements.

These condensed interim consolidated financial statements use the same accounting policies and methods of their application as the REIT’s most recent annual consolidated financial statements and should be read in conjunction with the 2019 audited consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the IASB.

The condensed interim consolidated financial statements for the quarter and the six months ended June 30, 2019 have been restated to recognize an increase of 10% in the withholding tax rate used for the calculation of the deferred income tax liability following the Double Taxation Treaty (the “New Treaty”), ratified by France in March 2018 and Luxembourg on July 2, 2019, and effective as of January 1, 2020. Refer to the Note 34 of the Annual Consolidated Financial Statements for more information about the nature of the restatement, and to Note 22 – Restatement of financial results.

**Note 3 – Recent Accounting Pronouncements Adopted**

***Amendments to IFRS 16, Leases***

On May 28, 2020, the IAS published COVID-19-Related Rent concessions (Amendment to IFRS 16), amending the standard to provide lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. The REIT decided to early adopt this amendment for its quarter ended June 30, 2020 and has applied the practical expedient provided by this amendment to all rent concessions that meet its condition.

## Note 4 – Critical Accounting Judgments and Estimates

In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the REIT's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2019, except for the impact of COVID-19 as detailed below.

The recent outbreak of COVID-19, which the World Health Organization has declared to constitute a pandemic, has impacted global commercial activity and contributed to significant volatility in certain equity and debt markets. The extent and duration of the impact of COVID-19 on communities and the economy remains unclear. In the preparation of these unaudited condensed interim consolidated financial statements, the REIT has incorporated the potential impact of COVID-19 into its estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amount of earnings for the reporting period using the best available information as of June 30, 2020. Actual results could differ from those estimates. The estimates and assumptions that the REIT considers critical and/or could be impacted by COVID-19 include those underlying the valuation of investment properties, the valuation of its investments in joint ventures, the estimate of any expected credit losses on amounts receivable including loans to joint ventures, and the acquisition loan receivable, and determining the fair values of derivative financial instruments, such as the call option related to the acquisition loan.

## Note 5 – Investment properties

Reconciliations of the carrying amounts of investment properties at the beginning and end of the current financial period are as follow:

	For the six months ended June 30, 2020	For the year ended December 31, 2019
<b>Balance, beginning of period</b>	<b>478,700</b>	<b>421,937</b>
Capex	609	1,545
Acquisition of Trio investment properties including acquisitions costs	-	71,443
Acquisition of Arcueil investment property	-	134,005
Capitalized letting fees	28	274
Disposition of Vanves investment property	-	(136,330)
Rent free periods	40	141
Net change in fair value of investment properties	(586)	16,722
Foreign currency translation adjustment	22,548	(31,037)
<b>Balance, end of period</b>	<b>501,339</b>	<b>478,700</b>

### Appraisal capitalization and discount rates

The fair value of investment properties is determined using recognized valuation techniques. Until Q1 2020, the methods principally used by the REIT were the Direct Capitalization Method (“DC”) and the Discounted Cash Flow Method (“DCF”). Since Q2 2020, the REIT uses only the DC method.

On the DC method, the cash generated during the term of the lease as well as the cash generated at reversion are capitalized on using the same capitalization rate. The capitalization rates 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 analysis of the future cash flow generated by the property on a 10-year period associated with a market derived discount rate and exit cap rate. The duration of the cash flow and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewals and related lease up periods, reletting, 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.



Emergency measures enacted by governments in response to the COVID-19 pandemic, including travel restrictions, physical distancing, and temporary closure of non-essential businesses, have created estimation uncertainty in the determination of the fair market value of investment property as at June 30, 2020. There has been a scarcity of recently observed market transactions to support changes in the discount and capitalization rates, as well as market rents. The REIT has made assumptions with respect to the duration and severity of these emergency measures as well as the duration of the subsequent economic recovery in estimating the amount and timing of the cash flows generated from investment properties and used in determination of fair value of the investment properties as at June 30, 2020.

The adjusted market-value and stabilized capitalization rates by country are set out in the following table:

	As at June 30, 2020			As at December 31, 2019		
	France	Germany	Total	France	Germany	Total
Fair value of investment properties for financial reporting purposes						
Market value (in Euros) as estimated by external appraisers	282,980	46,900	329,880	283,670	47,000	330,670
IFRIC 21 adjustment	903	-	903	-	-	-
Option costs	(2,057)	-	(2,057)	(2,006)	-	(2,006)
<b>Adjusted market value in Euros</b>	<b>281,826</b>	<b>46,900</b>	<b>328,726</b>	<b>281,664</b>	<b>47,000</b>	<b>328,664</b>
Exchange adjustment	147,986	24,627	172,613	128,580	21,456	150,036
<b>Adjusted market value in CAD\$</b>	<b>429,812</b>	<b>71,527</b>	<b>501,339</b>	<b>410,244</b>	<b>68,456</b>	<b>478,700</b>
Principal method used to value property	Direct Capitalization Method	Direct Capitalization Method		Direct Capitalization Method	Discounted cash flow	
Number of years used in cash flow projection					10	
Capital rate / discount rate	4,20% to 7,00%	4,90%		4,20% to 7,00%	5,25%	
Terminal capitalization rate	5,38%	4,90%		5,38%	-	
Weighted average discount rate	-	-		-	5,25%	
Impact on the fair value of investment properties of:						
an increase of 25 bps on the cap rate and/or discount rates	(19,704)	(3,472)	(23,176)	(18,793)	(3,112)	(21,905)
a decrease of 25 bps on the cap rate and/or discount rates	21,766	3,846	25,612	20,759	3,423	24,182

## Right-of-use asset

The REIT leases various investment properties with a carrying amount of \$247,078 (2019 – \$235,217) under leases expiring in less than 7 years (2019: 8 years).

## Note 6 – Acquisitions and sales of investment properties

### Transactions that occurred in 2019

#### *Trio*

The REIT, through a controlled subsidiary, together with a company controlled by Inovalis SA, acquired on March 27, 2019 a property (“Trio property”) located near Frankfurt, for approximately €45,755 (\$69,090). The Trio property is financed by a new senior bank loan of €31,200 (\$47,112) bearing interest at a fixed rate of 1.56%. Pursuant to the loan agreement, a €2,700 (\$4,077) reserve for capital expenditures was established and is considered restricted cash. The REIT owns 94.1% of the subsidiary and the company controlled by Inovalis SA owns 5.1% of the subsidiary.

The REIT has elected to apply the "concentration test" authorized by the amendment to IFRS 3. As the fair value of the acquired gross assets is substantially concentrated in the Trio property, the transaction has been qualified as an acquisition of assets. As a consequence, the cost of such an acquisition of €47,430 (\$71,619), includes transaction costs for €1,675 (\$2,529).

## Note 7 – Investments in joint ventures

Outlined below is a breakdown of the carrying amounts of the components of the investments in joint ventures:

	CCD	Walpur	Arcueil <sup>2</sup>	Cologne	Stuttgart	Delizy	Neu Isenburg	Kösching	Total
<b>Balance -December 31, 2018</b>	<b>20,574</b>	<b>9,376</b>	<b>15,573</b>	<b>982</b>	<b>16,455</b>	<b>8,753</b>	<b>15,464</b>	<b>10,427</b>	<b>97,604</b>
Share of net income (loss) from investments <sup>1</sup>	7,273	800	(105)	41	2,700	332	5	736	11,782
Loan to joint ventures repayments	-	-	-	-	(451)	-	(922)	(350)	(1,723)
Exchange differences	(1,551)	(658)	(1,052)	(68)	(1,173)	(606)	(1,042)	(731)	(6,881)
<b>Balance -December 31, 2019</b>	<b>26,296</b>	<b>9,518</b>	<b>14,416</b>	<b>955</b>	<b>17,531</b>	<b>8,479</b>	<b>13,505</b>	<b>10,082</b>	<b>100,782</b>
Additional investment of the period	662	-	-	-	-	549	-	-	1,211
Share of net income (loss) from investments <sup>1</sup>	(666)	206	(17)	3	(41)	(535)	(10)	394	(666)
Loan to joint ventures repayments	-	-	-	-	(264)	-	(1,021)	(315)	(1,600)
Exchange differences	1,239	452	6	45	821	400	621	476	4,060
Acquisition of control	-	-	(14,405)	-	-	-	-	-	(14,405)
<b>Balance - June 30, 2020</b>	<b>27,531</b>	<b>10,176</b>	<b>-</b>	<b>1,003</b>	<b>18,047</b>	<b>8,893</b>	<b>13,095</b>	<b>10,637</b>	<b>89,382</b>

- (1) The share of net earnings includes the interest expense in relation to the loans granted to the joint ventures. The interest earned by the REIT in relation to these loans amounts to \$ 1,986 (2019 – \$ 2,598) and are included in “Finance income” (see note 14).
- (2) On January 22, 2020, the REIT became the only shareholder of the Arcueil joint venture following the repurchase of the 75% share interest owned by the other partner and began consolidating this entity.

The balance of investments in joint ventures as at June 30, 2020 includes loans to joint ventures for an amount of \$ 46,695 which is detailed as follows:

Loans to joint ventures	CCD	Walpur	Cologne	Stuttgart	Delizy	Neu Isenburg	Kösching	Total
Balance - June 30, 2020	15,851	5,033	805	10,791	8,893	3,508	1,814	46,695
Balance -December 31, 2019	14,497	4,806	769	11,550	8,479	3,350	2,038	45,489
Maturity date	06/30/2020	06/30/2020	11/06/2024	05/30/2023	08/31/2022	12/29/2023	12/31/2023	
Interest rate	10%	8.75%	10.50%	6.50%	9%	8.70%	6.50%	

### Arcueil

In accordance with the agreement signed between the two investors on December 18, 2019, the partner to the Arcueil joint venture, holding 75% interest, was bought out of the partnership on January 22, 2020.

## Note 8 – Mortgage loans, lease liabilities and interest-bearing loan

Mortgage loans, leases liabilities and interest-bearing loan payable consist of the following:

Entity	Nominal value (in 000's of €)	Nominal value (in 000's of \$)	Interest rate	Maturity	As at June 30, 2020		
					Total	Non-current	Current
Mortgage loan - Jeûneurs SCI	27,723	42,280	Euribor 3M + 1.75%	26/10/2027	42,099	40,879	1,220
Mortgage loan - Véronèse SCI	8,135	12,407	Euribor 3M + 1.90%	21/03/2031	12,279	11,648	631
Mortgage loan - Sablière SCI	11,880	18,118	Euribor 3M + 1.59%	23/06/2026	18,113	17,588	525
Mortgage loan - Cancorp Trio	30,810	46,988	1.56%	15/03/2024	46,675	46,016	659
Mortgage loan - Baldi SCI	13,176	20,095	Euribor 3M + 1.75%	26/10/2027	20,050	19,314	736
<b>Mortgage loans</b>	<b>91,724</b>	<b>139,888</b>			<b>139,216</b>	<b>135,445</b>	<b>3,771</b>
Lease liabilities - Lenine Arcueil SCI	41,511	63,308	Euribor 3M + 2.20%	08/07/2027	66,708	60,659	6,049
Lease liabilities - Metropolitain SCI	41,498	63,289	Euribor 3M + 1.84%	18/03/2031	62,070	60,653	1,417
<b>Lease liabilities</b>	<b>83,009</b>	<b>126,597</b>			<b>128,778</b>	<b>121,312</b>	<b>7,466</b>
<b>Total mortgage loans and lease liabilities</b>	<b>174,733</b>	<b>266,485</b>			<b>267,994</b>	<b>256,757</b>	<b>11,237</b>

As at December 31, 2019

Entity	Nominal value (in 000's of €)	Nominal value (in 000's of \$)	Interest rate	Maturity	Total	Non-current	Current
Mortgage loan - Jeûneurs SCI	28,168	41,027	Euribor 3M + 1.75%	26/10/2027	40,769	39,631	1,138
Mortgage loan - Véronèse SCI	8,476	12,345	Euribor 3M + 1.75%	05/05/2019	12,158	11,011	1,147
Mortgage loan - Sablière SCI	12,015	17,500	Euribor 3M + 1.59%	23/12/2025	17,432	16,659	773
Mortgage loan - Cancorp Trio	30,966	45,102	Euribor 3M + 1.75%	26/10/2027	44,515	44,060	455
Mortgage loan - Baldi SCI	13,434	19,567			19,486	18,801	685
<b>Mortgage loans</b>	<b>93,059</b>	<b>135,541</b>			<b>134,360</b>	<b>130,162</b>	<b>4,198</b>
Lease liabilities - Lenine Arcueil SCI	42,093	61,308	Euribor 3M + 2.00%	20/06/2026	64,493	59,301	5,192
Lease liabilities - Métropolitain SCI	41,801	60,883	Euribor 3M + 1.85%	20/03/2028	59,385	57,667	1,718
<b>Lease liabilities</b>	<b>83,894</b>	<b>122,191</b>			<b>123,878</b>	<b>116,968</b>	<b>6,910</b>
<b>Total mortgage loans and lease liabilities</b>	<b>176,953</b>	<b>257,732</b>			<b>258,238</b>	<b>247,130</b>	<b>11,108</b>

The aggregate principal repayments and balances maturing on the mortgages payables in the year indicated, are as follows:

	As at June 30, 2020		As at December 31, 2019	
	Carrying value	Minimum payments	Carrying value	Minimum payments
Within 1 year	3,771	6,427	4,198	6,941
After 1 year, but not more than 5 years	64,149	73,890	61,955	70,637
More than 5 years	71,296	75,413	68,207	74,041
	<b>139,216</b>	<b>155,730</b>	<b>134,360</b>	<b>151,619</b>
Less : future interest costs		(16,514)		(17,259)
<b>Total mortgage loans</b>	<b>139,216</b>	<b>139,216</b>	<b>134,360</b>	<b>134,360</b>

The aggregate principal repayments and balances maturing on the lease liabilities in the year indicated, are as follows:

	As at June 30, 2020		As at December 31, 2019	
	Carrying value	Minimum lease payments	Carrying value	Minimum lease payments
Within 1 year	7,466	9,725	6,910	8,168
After 1 year, but not more than 5 years	27,878	35,918	27,523	32,347
More than 5 years	93,434	100,314	89,445	95,458
	<b>128,778</b>	<b>145,957</b>	<b>123,878</b>	<b>135,973</b>
Less : future interest costs		(17,179)		(12,095)
<b>Total lease liabilities</b>	<b>128,778</b>	<b>128,778</b>	<b>123,878</b>	<b>123,878</b>

## Loan concessions

Given the unprecedented and pervasive impact of changing circumstances surrounding the COVID-19 pandemic, there is inherently more economic uncertainty and expectations as compared to prior periods. At this time, the REIT has accepted deferral plans whenever proposed by banks / financial lessors, further to government incentives.

The plan unfolds as follows:

### *Sablière SCI*

The REIT has accepted to defer the interest and principal payments due in periods ending June 30 and September 30, 2020 in respect of its outstanding mortgage liability due 2025 by six months from their due dates. The next payment will be on December 23, 2020 and the term of the loan has been extended by six months.

### *Veronese SCI*

The REIT has accepted to defer the interest and principal payments due in periods ending June 30 and September 30, 2020 in respect of its outstanding mortgage loan due 2031. The interest payment due on these quarters will be paid on December 21, 2020 and amortization will be reduced by the interest paid as to not increase future quarterly payments. The principal unpaid will be settled at the maturity date.

These loan modifications were non-substantial, and as a result, the REIT recognized a gain of €40 (\$61) in the consolidated statement of earnings for the three and six months ended June 30, 2020.

### *Metropolitain SCI*

The REIT has accepted to defer the quarterly payments due on June 18 and Sept 18, 2020 under this lease liability. Payment will resume on December 18, 2020. Starting March 18, 2021 eight quarterly payments will be proportionally increased by the total amount of the two deferred quarterly payments. In addition to these proportional increases, interest payments for the eight quarters starting March 18, 2021 will also be increased by a combined amount of EU 16,205 to account for the time value of the deferred payments. In accordance with the amendment to IFRS 16, the payment deferral was not treated as a modification to the lease. The approach taken by the REIT was to continue to account for the lease liability and right-of-use asset using the rights and obligations of the existing lease, unchanged.

## **Note 9 – Promissory notes**

The REIT entered into three private placements in the form of Euro denominated interest bearing promissory notes (“Note 1”, “Note 2”, “Note 3” and collectively the “Promissory Notes”) through its subsidiary CCE to a single non-Canadian investor (the “Investor”) as summarized below. The REIT incurred issuance fees of 3% and may incur financing fees equal to the product of the amount of the monthly distribution payable on a REIT Unit that exceeds a stated amount (the “Distribution Threshold”) and the Equivalent REIT Units. CCE has the option to repay all or any portion of the promissory notes following the first anniversary of the issue date of each promissory note.

On June 22, 2020, the REIT obtained an extension to its promissory note issued in June 2017 with REIT Notes Program Ltd (Note 1). As part of the amended agreement, the term of the Promissory Note is extended to the maturity date of December 31, 2020, all other conditions and features as per above have not been modified. The principal amount outstanding as of June 30, 2020 is €8,607. In accordance with IFRS 9, the original liability was extinguished, and the REIT recognized a new liability.

Promissory notes are a liability recorded at fair value based on the market price of the REIT Units. Due to the decrease in the REIT’s unit price, the fair value of the Promissory Notes (including the Put Option and Call Option) present a reduction and is estimated at \$34,180 as at June 30, 2020 (December 31, 2019 - \$47,909). The variance for the three and six months ended June 30, 2020 is respectively a loss of \$(8,050) and a profit of \$13,703 and it is presented in net change in fair value of promissory notes.

Promissory Notes were issued as follows:

	As at June 30, 2020				
	Principal (in 000's of €)	Principal (in 000's of \$)	Interest rate	Equivalent Trust Units	Carrying value of the Promissory Notes
Notes 1	8,607	13,126	8.18%	1,280,208	9,741
Notes 2	7,262	11,075	8.13%	1,091,103	8,302
Notes 3	13,584	20,717	7.95%	2,121,008	16,137
<b>Total Promissory Notes</b>	<b>29,453</b>	<b>44,918</b>		<b>4,492,319</b>	<b>34,180</b>

As at December 31, 2019

	Principal (in 000's of €)	Principal (in 000's of \$)	Interest rate	Equivalent Trust Units	Carrying value of the Promissory Notes
Notes 1	8,620	12,555	8.18%	1,282,190	13,668
Notes 2	7,262	10,576	8.13%	1,091,103	11,631
Notes 3	13,584	19,786	7.95%	2,121,008	22,610
<b>Total Promissory Notes</b>	<b>29,466</b>	<b>42,917</b>		<b>4,494,301</b>	<b>47,909</b>

## Note 10 – Exchangeable Securities

Exchangeable securities issued and outstanding	Exchangeable securities	
	Number of Exchangeable securities	Carrying amount of Exchangeable securities
<b>Balance -December 31, 2018</b>	<b>844,673</b>	<b>7,982</b>
Asset management fees paid in exchangeable securities	142,909	1,501
Conversion of exchangeable securities into units of the REIT	(90,500)	(792)
Net change in fair value of exchangeable securities	-	871
<b>Balance -December 31, 2019</b>	<b>897,082</b>	<b>9,562</b>
Asset management fees paid in exchangeable securities	118,063	742
Net change in fair value of exchangeable securities	-	(2,579)
<b>Balance - June 30, 2020</b>	<b>1,015,145</b>	<b>7,725</b>

### Distribution in respect of Exchangeable Securities :

The Exchangeable Securities entitle the holders, Inovalis SA, to cash distributions from CCE equal, on a per unit basis to the distributions paid to holders of units by the REIT.

The following table breaks down distribution payments for the three and six months ended June 30 :

	For the three months ended June 30, 2020	For the three months ended June 30, 2019	For the six months ended June 30, 2020	For the six months ended June 30, 2019
Amount payable at the beginning of the period	282	254	250	249
Declared and recognized in earnings during the period	203	178	392	355
Distribution on exchangeable securities paid in cash	(161)	(198)	(318)	(370)
<b>Amount payable at the end of the period</b>	<b>324</b>	<b>234</b>	<b>324</b>	<b>234</b>

## Note 11 – Trade and other payables

	Note	As at June 30, 2020	As at December 31, 2019
Trade payables		6,769	5,614
Trade payables - Inovalis SA		200	795
<b>Trade payables</b>		<b>6,969</b>	<b>6,409</b>
Other payables		1,484	1,115
Other payables - Inovalis SA		106	407
Other payables - Joint ventures		-	13,748
Distributions payable	15	1,974	1,978
Distributions payable - Inovalis SA	19	324	250
VAT payable		1,452	10,429
<b>Other payables</b>		<b>5,340</b>	<b>27,927</b>
<b>Total trade and other payables</b>		<b>12,309</b>	<b>34,336</b>

## Note 12 – Revenue from investment properties

Revenue from investment properties consists of the following:

	For the three months ended June 30, 2020	For the three months ended June 30, 2019	For the six months ended June 30, 2020	For the six months ended June 30, 2019
Regular rents	7,158	6,858	14,048	13,106
Amortization of rent free periods (lease incentives)	(39)	(265)	(51)	(470)
<b>Rental income</b>	<b>7,119</b>	<b>6,593</b>	<b>13,997</b>	<b>12,636</b>
Property operating cost recoveries	1,554	2,162	3,125	4,595
<b>Total revenue</b>	<b>8,673</b>	<b>8,755</b>	<b>17,122</b>	<b>17,231</b>

For the six months ended June 30, the property operating cost recoveries were as follows:

	For the three months ended June 30, 2020	For the three months ended June 30, 2019	For the six months ended June 30, 2020	For the six months ended June 30, 2019
Taxes	408	697	1,010	1,418
Insurance	63	31	86	61
Property management fees	225	254	543	563
Utilities and other cost recoveries	858	1,180	1,486	2,553
<b>Property operating cost recoveries</b>	<b>1,554</b>	<b>2,162</b>	<b>3,125</b>	<b>4,595</b>

## Note 13 – Expenses

Property operating costs consist of the following:

	For the three months ended June 30, 2020	For the three months ended June 30, 2019	For the six months ended June 30, 2020	For the six months ended June 30, 2019
Taxes	47	8	(2,834)	(3,417)
Insurance	(68)	(38)	(95)	(74)
Property management fees	(322)	(289)	(665)	(614)
Utilities	(936)	(1,528)	(1,856)	(3,255)
<b>Total property operating costs</b>	<b>(1,279)</b>	<b>(1,847)</b>	<b>(5,450)</b>	<b>(7,360)</b>

In accordance with IFRS Interpretations Committee (IFRIC) 21, Levies, the Company recognizes the full amount of annual property tax liabilities at the point in time when the realty tax obligation is imposed. For the six months ended June 30, 2020, the amount recognized is \$ 1,358 (2019 - \$ 1,741).

General and administrative expenses consist of the following:

	For the three months ended June 30, 2020	For the three months ended June 30, 2019	For the six months ended June 30, 2020	For the six months ended June 30, 2019
Asset management fees - Inovalis SA	(775)	(791)	(1,524)	(1,586)
Less : amount invoiced to joint ventures	328	384	646	771
	(447)	(407)	(878)	(815)
Professional fees for accounting, tax and audit	(707)	(561)	(1,698)	(1,257)
Legal expenses	(479)	(248)	(963)	(446)
Trustee fees	(182)	(151)	(319)	(225)
Travel expenses	25	(80)	(22)	(168)
Bank expenses	(9)	(45)	(63)	(73)
Other general and administrative expenses	(311)	(135)	(409)	(415)
<b>Total general and administrative expenses</b>	<b>(2,110)</b>	<b>(1,627)</b>	<b>(4,352)</b>	<b>(3,399)</b>

## Note 14 – Finance costs and finance income

	For the three months ended June 30, 2020	For the three months ended June 30, 2019	For the six months ended June 30, 2020	For the six months ended June 30, 2019
Interest costs related to mortgage loans	(598)	(625)	(1,186)	(1,089)
Interest costs related to leases liabilities	(588)	(677)	(1,164)	(1,300)
Interest costs related to lease equalization loans	(16)	(51)	(43)	(87)
Interest costs related to promissory notes	(905)	(897)	(1,778)	(1,794)
	<b>(2,107)</b>	<b>(2,250)</b>	<b>(4,171)</b>	<b>(4,270)</b>
Interest SWAP & CAP	(391)	(402)	(705)	(747)
Other finance costs	(29)	230	(41)	141
	<b>(2,527)</b>	<b>(2,422)</b>	<b>(4,917)</b>	<b>(4,876)</b>
Amortization of transaction costs on mortgage loans	(81)	(81)	(159)	(148)
<b>Finance costs</b>	<b>(2,608)</b>	<b>(2,503)</b>	<b>(5,076)</b>	<b>(5,024)</b>
Finance income from a company controlled by Inovalis SA relating to the acquisition loan	522	834	1,324	1,533
Finance income from joint venture loans	1,002	1,287	1,986	2,598
Other finance income	387	10	865	16
<b>Finance income</b>	<b>1,911</b>	<b>2,131</b>	<b>4,175</b>	<b>4,147</b>

## Note 15 – Distributions

	For the three months ended June 30, 2020	For the three months ended June 30, 2019	For the six months ended June 30, 2020	For the six months ended June 30, 2019
Amount payable at the beginning of the year	1,983	1,622	1,978	1,618
Declared and recognised during the period	5,937	4,880	11,879	9,740
Distributions paid in units	(233)	(690)	(1,213)	(1,365)
Paid in cash	(5,713)	(4,176)	(10,670)	(8,357)
<b>Amount payable at the end of the period</b>	<b>1,974</b>	<b>1,636</b>	<b>1,974</b>	<b>1,636</b>

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

## Note 16 – Trust Units

The REIT is authorized to issue an unlimited number of units and an unlimited number of Special Voting Units. The beneficial interests of the REIT are comprised of a single class of units which represent a unitholders’ proportionate undivided beneficial interest in the REIT. No unit has any preference over any other unit. Each unit confers the right to one vote at any meeting of unitholders and to participate on a pro rata basis in any distributions by the REIT and, in the event of the termination of the REIT, in the net assets of the REIT remaining after the settlement of all liabilities of the Trust. The units of the Trust are redeemable at the demand of the unitholders at the fair market value of the units at that time. Special Voting Units have no economic entitlement in the REIT but entitle the holder to one vote per Special Trust Unit at any meeting of the unitholders of the REIT. Special Voting Units may only be issued in connection with or in relation to Exchangeable Securities (see Note 10 – Exchangeable Securities) for the purpose of providing voting rights with respect to the REIT to the holders of such securities. As at June 30, 2020, 1,015,145 Special Voting Units were issued and outstanding (2019 – 826,135).

A Distribution Reinvestment Plan (“DRIP”) has been put in place starting from the July 2013 distribution, providing unitholders with the opportunity to accumulate additional units plus additional bonus units in an amount equal to three percent of the distributions reinvested by the unitholders (see Note 18). Until further notice, in response to the market disruption caused by the COVID-19 pandemic, the REIT has suspended its Distribution Reinvestment and Unit Purchase Plan (the “DRIP”) effective as of the distribution payable on May 15, 2020 to unitholders of record as at April 30, 2020.

## Normal course issuer bid

On April 17, 2020 the Toronto Stock Exchange (the "TSX") has approved the REIT's intention to make a normal course issuer bid ("NCIB") to acquire up to a maximum of 2,622,412 of its units, or approximately 10% of its public float as of April 15, 2020 over the next 12 months for cancellation.

The number of units that can be purchased pursuant to the NCIB is subject to a current daily maximum of 20,890 Units (which is equal to 25% of 83,562, being the average daily trading volume during the last six months), subject to the REIT's ability to make one block purchase of Units per calendar week that exceeds such limits. Until June 30, 2020, pursuant to temporary blanket relief granted by the TSX in connection with the COVID-19 pandemic, daily purchases of up to 41,781 units, other than block purchases, were permitted.

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

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

As June 30, 2020, the 28,369,343 units already include the upcoming cancellations of 320,600 and 20,890 units.

## Note 17 – Accumulated other comprehensive income

	As at June 30, 2020	As at December 31, 2019
Net unrealized gains on derivatives designated as a hedge of the net investment in foreign entities	215	2,463
Cumulative translation adjustment account	28,177	12,128
<b>Accumulated other comprehensive income</b>	<b>28,392</b>	<b>14,591</b>

## Note 18 - Unit-based compensation plan

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

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

The DSU Plan allows the Board of Trustees to grant DSUs to its senior officers at the Board's discretion ("Granted DU"). The Granted DU will vest 1/3 over each anniversary date from date of grant over three years. The cost of Granted DU is recognized in the interim consolidated statement of earnings consistent with the vesting feature of each grant.

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



	For the three months ended June 30, 2020	For the three months ended March 31, 2020
Outstanding at beginning of period	15,811	11,782
Granted DU	19,094	-
Elected DU	3,581	4,029
ADUs earned	205	-
<b>Outstanding at end of period</b>	<b>38,691</b>	<b>15,811</b>

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

For the three months ended June 30, 2020, the REIT recorded an expense of \$129 and a liability in the same amount (under Trade and other payables item).

## Note 19 – Transactions with related parties

### Inovalis SA – Asset manager

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

Inovalis and its subsidiaries	Financial statement line item	Note	For the six months ended June 30, 2020	For the six months ended June 30, 2019
<b>Revenues</b>				
Interest income from acquisition loan	Finance income	13	1,324	1,533
			<b>1,324</b>	<b>1,532</b>
<b>Expenses</b>				
Asset management fees	Administration expenses	A	(878)	(815)
Facilities management fees	Service charge expenses	B	(147)	(347)
Property management Fees	Service charge expenses	C	(674)	(676)
Expenses related to the distribution for exchangeable securities	Distributions on exchangeable securities		(392)	(355)
Interest expense on lease equalization loans	Finance costs	13	(43)	(87)
Reimbursement of travel expenses	Administration expenses		(22)	(168)
Trustee fees	Administration expenses		(319)	(225)
			<b>(2,475)</b>	<b>(2,673)</b>
<b>Assets</b>				
Acquisition fees capitalized for the period	Investment properties	D	-	1,439
			<b>0</b>	<b>1,439</b>
<b>Liabilities</b>				
Exchangeable securities issued for the period	Exchangeable securities	10	742	733
			<b>742</b>	<b>733</b>

(A) Asset management fees of \$1,524 and \$1,586 as at June 30, 2020, and June 30, 2019, respectively, correspond to the asset management fees earned for the entire portfolio, including \$646 and \$771 attributable to assets held through joint ventures. Fees are payable in cash and/or exchangeable securities, the exact composition of which is determined by the Board annually.

(B) A facility management fee related to the management of service charges that are rebilled directly to tenants;

(C) An annual property management fee (the "Property Management Fee") in an amount equal to 3.0% of the gross revenue of the properties, approximately 90% of which is rebilled to tenants;

(D) Includes fees to Inovalis SA of \$764 and to an entity related to Inovalis SA of \$675 as at June 30, 2019.

Inovalis and its subsidiaries	Due from (to) Inovalis SA	
	As at June 30, 2020	As at December 31, 2019
<b>Assets</b>		
Acquisition loan	26,180	24,744
Derivative financial instruments - Call option related to the acquisition loan	9,553	9,124
Trade and other receivables	188	288
	<u>35,921</u>	<u>34,156</u>
<b>Liabilities</b>		
Interest-bearing loan	500	477
Lease equalization loans	546	2,019
Distributions payable	324	250
Exchangeable securities	7,725	9,562
Trade and other payables	306	1,202
	<u>9,401</u>	<u>13,510</u>

In performing its obligations under the Management Agreement, Inovalis SA is entitled to receive the following fees from the REIT:

- A. An annual asset management fee in the amount of 0.5% of assets under management
- B. A leasing fee in an amount equal to (i) 10% of the first-year annual rent for lease renewals signed by existing tenants, or (ii) 20% of the first-year annual rent for leases by new tenants;
- C. A construction management fee in respect of capital projects in an amount equal to 5% of all hard construction costs incurred on a project;
- D. An acquisition fee in the amount of 1% of the purchase price of any property acquired (excluding of properties owned or managed by the Manager);
- E. An annual property management fee (the "Property Management Fee") in an amount equal to 3.0% of the gross revenue of the properties, unless otherwise stipulated in any tenant lease provided the Property Management Fee is fully recoverable by the landlord.

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

### Joint ventures

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

	Financial statement line item	For the six months ended June 30, 2020	For the six months ended June 30, 2019
Management fees invoiced to joint ventures	Administration expenses	646	771
Finance income	Finance income	1,986	2,598
		<u>2,632</u>	<u>3,369</u>
<b>Due from joint ventures</b>			
	Financial statement line item	As at June 30, 2020	As at December 31, 2019
<b>Assets</b>			
Loan receivable	Investments accounted for using the equity method	46,695	45,489
Interest receivables	Other current assets	594	360
Accounts receivable	Trade and other receivables	-	507
		<u>47,289</u>	<u>46,356</u>
<b>Liabilities</b>			
Balance of sale payable	Trade and other payables	-	13,748
		<u>-</u>	<u>13,748</u>

For more information on joint ventures, please refer to Note 7 – Investments in joint ventures.

## Remuneration of key management personnel

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

	For the six months ended June 30, 2020	For the six months ended June 30, 2019
Wages, fees and other benefits	(319)	(626)
	<u>(319)</u>	<u>(626)</u>

## Note 20 – Financial instruments and risk management

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

	As at June 30, 2020			
	Level 1	Level 2	Level 3	Total
Investment properties	-	-	501,339	501,339
Derivative financial instruments - assets	-	735	-	735
Call option related to the acquisition loan	-	-	9,553	9,553
Derivative financial instruments - liabilities	-	(5,498)	-	(5,498)
Exchangeable securities	-	(7,725)	-	(7,725)
Promissory notes	-	(34,180)	-	(34,180)
	As at December 31, 2019			
	Level 1	Level 2	Level 3	Total
Investment properties	-	-	478,700	478,700
Derivative financial instruments - assets	-	1,714	-	1,714
Call option related to the acquisition loan	-	-	9,124	9,124
Derivative financial instruments - liabilities	-	(4,228)	-	(4,228)
Exchangeable securities	-	(9,562)	-	(9,562)
Promissory notes	-	(47,909)	-	(47,909)

The REIT's financial assets and liabilities comprise cash, trade receivables, trade payables and accrued liabilities, mortgages loans and interest-bearing loan. Fair values of financial assets and liabilities and discussion of risks associated with financial assets and liabilities are presented as follows.

### Fair Value of Financial Assets and Liabilities

The fair values of cash, trade receivables, trade payables and accrued liabilities approximate their carrying values due to the short-term maturities of these instruments.

#### (a) Mortgage loans

Mortgage loans are carried at amortized cost using the effective interest rate method of amortization. The estimated fair values of long-term borrowings are based on market information, where available, or by discounting future payments of interest and principal at estimated interest rates expected to be available to the REIT as at June 30, 2020.

The fair value of the mortgage loans has been determined by discounting the cash flows of these financial obligations using June 30, 2020, market rates for debts of similar terms (Level 2). Based on these assumptions, the fair value as at June 30, 2020, of the mortgage loans has been estimated at \$156,346 (December 31, 2019 – \$150,823) compared with the carrying value before deferred financing costs of \$139,216 (December 31, 2019 –

\$134,360). The fair value of the mortgages payable varies from the carrying value due to fluctuations in interest rates since their issue.

**(b) Call option related to the acquisition loan**

Related to the acquisition loan is determined based mainly on (i) the expected gain on the sale of the property and (ii) the probability of realization of that gain.

**(c) Exchangeable Securities and Promissory Notes**

The fair value of the Exchangeable Securities and the Promissory Notes is based on the quoted price of the REIT's own units, on the basis that they are exchangeable on a one to one basis throughout their life at the request of the unit holders, and upon maturity of the underlying notes, at the request of the REIT. Other features of the Exchangeable Securities and the Promissory Notes have no significant impact on their fair value.

**Risks Associated with Financial Assets and Liabilities**

The REIT is exposed to financial risks arising from its financial assets and liabilities. The financial risks include interest rate risk, credit risk and liquidity risk. The REIT's overall risk management program focuses on establishing policies to identify and analyze the risks faced by the REIT, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the REIT's activities. The REIT aims to develop a disciplined control environment in which all employees understand their roles and obligations.

The continued spread of the COVID-19 pandemic and the ensuing actions being taken by governments, businesses and individuals to limit its effects, including business closures, physical distancing and partial unemployment has impacted the global economy and the available income and liquidity of our tenants, effectively increasing the credit risk associated with our receivables, limiting our ability to respond quickly to changes in credit risk, extending the time to completion and occupancy of major assets and potentially reducing our ability to serve our tenants in the future. As of end of June 2020, the potential impact of such uncertainties on our future financial results is difficult to reliably measure.

As at June 30, 2020	Fair value hierarchy level	Carrying amount	Fair value
<b>Financial assets</b>			
Loans to Joint Ventures	3	46,695	46,695
Acquisition loan	3	26,180	26,180
<b>Financial liabilities</b>			
Mortgage loan	2	139,216	156,346
Lease equalization loans	2	546	546
Tenant deposits	2	2,225	2,225
<hr/>			
As at December 31, 2019	Fair value hierarchy level	Carrying amount	Fair value
<b>Financial assets</b>			
Loans to Joint Ventures	3	45,489	45,489
Acquisition loan	3	24,744	24,744
<b>Financial liabilities</b>			
Mortgage loan	2	134,360	150,823
Lease equalization loans	2	2,019	2,019
Tenant deposits	2	2,507	2,504

## Note 21 – Cash flow information

	Note	For the six months ended June 30, 2020	For the six months ended June 30, 2019 Restated (Note 2)
<b>Adjustments for non-cash items and other reconciling items:</b>			
Gains or losses on disposal	-	-	56
Rent free period	5	(40)	469
Management fees paid in Exchangeable securities	10	742	733
Net change in fair value of investment properties	5	586	(743)
Net change in fair value of financial derivatives	-	(207)	1,628
Distributions recognized on Exchangeable securities	10	392	355
Net change in fair value of Exchangeable securities	10	(2,579)	330
Net change in fair value of Promissory notes	-	(13,703)	2,427
Finance income	14	(4,175)	(4,147)
Finance costs	14	5,076	5,024
Share of net earnings from investments in joint venture	7	666	(544)
Net unrealized exchange loss (gain)	-	(1,803)	-
Acquisition loan	-	(267)	(443)
		<b>(15,312)</b>	<b>5,145</b>
<b>Working capital adjustments</b>			
Increase in trade and other receivables	-	(3,024)	(4,894)
Increase in tenant deposits	-	(334)	(3)
(Decrease) Increase in trade and other payables	-	(15,234)	3,130
		<b>(18,592)</b>	<b>(1,767)</b>

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

Liabilities	As at December 31, 2019	Cash-flows <sup>1</sup>					As at June 30, 2020
			Interest capitalized	Issuance of exchangeable securities	Foreign exchange movement	Fair value changes	
Promissory notes	47,909	(26)	-	-	-	(13,703)	34,180
Exchangeable securities	9,562	-	-	742	-	(2,579)	7,725
Mortgage loans	134,360	(1,634)	183	-	6,307	-	139,216
Lease liabilities	123,878	(921)	-	-	5,821	-	128,778
Lease equalization loans	2,019	(1,546)	-	-	73	-	546

(1) Cash-flows includes issuance and repayment

The current economic, operating and capital market environment resulting from COVID-19 pandemic has led to an increased emphasis on liquidity. While management has not changed the REIT's objectives in managing capital, the current focus is on increasing the control of cash flows and ensuring parsimonious use of our existing liquidity.

## Note 22 – Restatement of financial results

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

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

Management had considered that it was probable as at June 30, 2019 that CCEU would obtain the necessary authorization allowing the conversion of CCEU into a SIF, which would result in the application of a reduced effective tax rate of 15%. Given that the regulatory approval required to convert to a SIF is considered a substantive process, the reduced effective tax rate should not have been considered in measuring the REIT's deferred taxes until such time as the regulatory approval is obtained. The application process to convert to a SIF is still ongoing as of the release date of these interim consolidated financial statements.

## Interim Consolidated Statements of Earning

	For the six months ended June 30, 2019			For the three months ended June 30, 2019		
	As restated	As previously reported <sup>(1)</sup>	Restatement	As restated	As previously reported <sup>(1)</sup>	Restatement
Rental income	12,636	12,636	-	6,593	6,593	-
Service charge income	4,595	4,595	-	2,162	2,162	-
Service charge expenses	(7,360)	(7,360)	-	(1,847)	(1,847)	-
Other revenues	-	-	-	-	-	-
Other property operating expenses	(242)	(242)	-	(184)	(184)	-
<b>Net rental earnings</b>	<b>9,629</b>	<b>9,629</b>	<b>-</b>	<b>6,724</b>	<b>6,724</b>	<b>-</b>
Administration expenses	(3,399)	(3,399)	-	(1,627)	(1,627)	-
Foreign exchange gain (loss)	-	-	-	(29)	(29)	-
Net change in fair value of investment properties	743	743	-	(1,577)	(1,577)	-
Loss on disposal of investment properties	(56)	(56)	-	42	42	-
Share of net earnings from joint ventures	544	544	-	(369)	(369)	-
<b>Operating earnings</b>	<b>7,461</b>	<b>7,461</b>	<b>-</b>	<b>3,164</b>	<b>3,164</b>	<b>-</b>
Net change in fair value of financial derivatives	(1,628)	(1,628)	-	(707)	(707)	-
Net change in fair value of Exchangeable securities	(330)	(330)	-	319	319	-
Net change in fair value of Promissory notes	(2,427)	(2,137)	-	1,034	1,183	-
Finance income	4,147	4,147	-	2,131	2,131	-
Finance costs	(5,024)	(5,314)	-	(2,503)	(2,652)	-
Distributions on Exchangeable securities	(355)	(355)	-	(178)	(178)	-
<b>Earnings before income taxes</b>	<b>1,844</b>	<b>1,844</b>	<b>-</b>	<b>3,260</b>	<b>3,260</b>	<b>-</b>
Current income tax expense	(127)	(127)	-	(78)	(78)	-
Deferred income tax expense	(728)	(379)	(349)	(116)	58	(174)
<b>Net loss for the period</b>	<b>989</b>	<b>1,338</b>	<b>(349)</b>	<b>3,066</b>	<b>3,240</b>	<b>(174)</b>
<b>Net loss for the period attributable to :</b>						
Non-controlling interest	7	7	-	39	39	-
Unitholders' of the Trust	982	1,331	(349)	3,027	3,201	(174)
	<b>989</b>	<b>1,338</b>	<b>(349)</b>	<b>3,066</b>	<b>3,240</b>	<b>(174)</b>

- (1) Amortization of issuance costs on promissory notes has been reclassified from “Finance costs” to “Net change in fair value of Promissory notes” in the consolidated statement of earnings.

## Interim Consolidated Statements of Comprehensive income

	For the six months ended June 30, 2019			For the three months ended June 30, 2019		
	As restated	As previously reported	Restatement	As restated	As previously reported	Restatement
<b>Earnings for the period</b>	<b>989</b>	<b>1,338</b>	<b>(349)</b>	<b>3,066</b>	<b>3,240</b>	<b>(174)</b>
<b>Other comprehensive income</b>						
Items that may be reclassified subsequently to earnings :						
Net losses on derivatives designated as a hedge of the net investment in a foreign entity	1,406	1,406	-	269	269	-
Derivatives designated as cash flow hedges - Net gains (losses)	295	295	-	143	143	-
Change in cumulative translation adjustment account	(15,853)	(15,834)	(19)	(1,585)	(1,624)	39
<b>Other comprehensive loss</b>	<b>(14,152)</b>	<b>(14,133)</b>	<b>(19)</b>	<b>(1,173)</b>	<b>(1,212)</b>	<b>39</b>
<b>Total comprehensive loss</b>	<b>(13,163)</b>	<b>(12,795)</b>	<b>(368)</b>	<b>1,893</b>	<b>2,028</b>	<b>(135)</b>
<b>Total comprehensive loss attributable to :</b>						
Non-controlling interest	2	2	-	66	66	-
Unitholders of the Trust	(13,165)	(12,797)	(368)	1,827	1,962	(135)
<b>Total comprehensive loss</b>	<b>(13,163)</b>	<b>(12,795)</b>	<b>(368)</b>	<b>1,893</b>	<b>2,028</b>	<b>(135)</b>

## Interim Consolidated Statements of Changes in Equity

	Total Unitholders' equity		
	As restated	As previously reported	Restatement
As at December 31, 2018	285,241	285,241	-
Issuance of units	792	792	-
Distributions earned by or declared to Unitholders	(9,740)	(9,740)	-
Distributions under the Trust's reinvestment plan	1,365	1,365	-
Non-controlling interests on acquisition of subsidiary	930	930	-
Non-controlling interests on disposal of subsidiary	(389)	(389)	-
Capital increase from minority interest	91	91	-
	<u>(6,951)</u>	<u>(6,951)</u>	<u>-</u>
Net income for the year	989	1,338	(349)
Other comprehensive income	(14,152)	(13,850)	(302)
Comprehensive income	<u>(13,163)</u>	<u>(12,512)</u>	<u>(651)</u>
<b>As at June 30, 2019</b>	<b><u>265,127</u></b>	<b><u>265,778</u></b>	<b><u>(651)</u></b>

### Note 23 – Subsequent events

#### *Walpur - future buy-back of joint venture*

Subsequent to the quarter, on July 27th, the REIT entered into an agreement with its joint venture partner to buy-back the 50% interest held in Bad Homburg property. Total purchase price of €5,873 (CAD\$8,957) including 50% share capital and receivables, is based on Q2 2020 asset valuation of €22,900 (CAD\$34,924; REIT share of CAD\$17,462) as per latest external appraisal. The transaction is expected to close on or before September 30, 2020 and is in line with REIT strategy to buy-back joint ventures to simplify ownership structure.

#### *Lenine Arcueil SCI - lease liability concession under negotiation*

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

## Corporate information

### Head office

Inovalis REIT

151 Yonge Street, 11<sup>th</sup> floor

Toronto, Ontario, M5C 2W7

### Investor relations

E-mail: [info@inovalis.com](mailto:info@inovalis.com)

Website: [www.inovalisreit.com](http://www.inovalisreit.com)

### Stock exchange listing

The Toronto Stock Exchange

Listing symbol: INO.UN.TO

### Distribution Reinvestment Plan

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



# INOVALIS

---

REAL ESTATE INVESTMENT TRUST

---

**INOVALIS REIT**

151 Yonge Street, 11<sup>th</sup> floor

Toronto, Ontario, M5C 2W7

**[www.inovalisreit.com](http://www.inovalisreit.com)**