



Q1 2018

INOVALIS

REAL ESTATE INVESTMENT TRUST

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Letter to Unitholders

Inovalis REIT has marked its fifth year as a publicly traded REIT by continuing to demonstrate its real estate knowledge in France and Germany, and building its credibility in the Canadian capital markets. The REIT is delivering solid, consistent returns to unitholders, while simultaneously forging joint ventures to further enlarge its asset base and improve its risk diversification.



We are pleased to present the results of the REIT for Q1, 2018. The REIT has had a strong start to the year evidenced by a new acquisition, the refinancing of an existing asset on more favorable terms and, subsequent to quarter end, the completion of a successful private placement. Our Q1 results were ahead of REIT-issued guidance and I am pleased to report that the REIT's FFO per unit and AFFO per unit, were \$0.24 and \$0.26 respectively for the 3-month period ended March 31, 2018.

In February 2018, we completed the acquisition of the Kösching property, a recently constructed, fully occupied modern office building with a gross leasable area of approximately 9,900m², which was acquired as part of a forward purchase agreement entered into in 2016. This addition to the REIT's portfolio underscores management's ability to identify and compete for attractive acquisitions in an increasingly competitive German market.

In February the REIT completed the successful refinancing of the Neu-Isenburg property with a ten-year senior term loan, enabling the REIT to benefit from the historically low interest rates still available in the European market.

Subsequent to quarter end, in April 2018, we announced the completion of a \$22 million private placement with an institutional investor. This private placement is structured as a convertible note, carrying an interest rate of 7.95%. The advantages to the REIT of this funding arrangement are the savings from lower issuance costs and preservation of equity which would otherwise be issued at a discount to the market price. The funds will be used to fund acquisitions.

Subsequent to quarter end, we announced the extension of our foreign exchange hedging program for an additional eighteen months. The Euro has continued to significantly outperform, relative to the Canadian dollar and the REIT has capitalized on this foreign exchange movement by extending its hedging program up to and including October 2020 at an average rate of \$1.6414/€. This hedging program is a safeguard for consistent monthly distributions from the REIT.

At our recent Annual and Special Meeting, we welcomed Mr. Robert Picard to the Board of Trustees. Robert has been a partner at Gardiner Roberts LLP since 1991 and brings with him a wealth of experience in dealing with complex investment arrangements, structured projects and public and private financings. We would also like to extend our sincere thanks to Raymond Paré and Michael Zakuta who have stepped down from their roles as Trustees after five years and whose guidance and expertise has been instrumental in the growth of the REIT since inception. We further reduced the size of the Board to seven Trustees and I did not stand for re-election as Trustee. By doing so, we established a fully independent board, comprised of a majority of Canadian residents. Dan Argiros, the REIT's long-term lead trustee has been appointed Chairman. I am continuing to provide leadership to the REIT as President, and will continue to deliver value to Unitholders through my leadership of Inovalis SA, the manager of the REIT.

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

A handwritten signature in black ink, appearing to read 'Stéphane Amine'.

Stéphane Amine

Chairman of the Manager – Inovalis S.A.

May 15, 2018

Management's discussion and analysis

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

OVERVIEW - GAAP and Non-GAAP

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

	March 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⁾	94.9%	96.8%	95.4%	97.0%
Weighted average lease term	5.1 years	4.9 years	5.3 years	5.1 years
Average capitalization rate ⁽³⁾	5.5%	5.5%	5.7%	5.4%
Financing information				
Level of debt (debt-to-book value) ⁽⁴⁾	43.9%	52.2%	42.7%	50.0%
Level of debt (debt-to-book value, net of cash) ⁽⁴⁾	41.2%	49.1%	39.2%	46.2%
Weighted average term of principal repayments of debt	6.3 years	5.9 years	6.5 years	5.9 years
Weighted average interest rate ⁽⁵⁾	2.16%	2.10%	2.16%	2.10%
Interest coverage ratio ⁽⁶⁾	3.8 x	4.6 x	3.9 x	3.9 x

	Three months ended	
(thousands of CAD\$ except per Unit and other data)	March 31, 2018	March 31, 2017
Operating results		
Rental income	6,714	5,970
Adjusted Rental income ⁽¹⁾	9,718	7,571
Net rental earnings	3,842	3,247
Adjusted net rental earnings ⁽¹⁾	5,915	4,601
Earnings for the period	(3,604)	3,141
Funds from Operations (FFO) ⁽⁷⁾⁽⁸⁾	6,698	4,334
Adjusted Funds from Operations (AFFO) ⁽⁷⁾⁽⁸⁾	6,385	4,559
FFO per Unit (diluted) ⁽⁷⁾⁽⁸⁾	0.25	0.19
AFFO per Unit (diluted) ⁽⁷⁾⁽⁸⁾	0.24	0.20
Distributions		
Declared distributions on Units and Exchangeable sec.	4,952	4,823
Declared distributions on Units and Exchangeable sec. & Promissory note	5,530	5,202
Declared distribution per Unit (diluted) ⁽⁹⁾	0.21	0.21
FFO payout ratio ⁽⁷⁾	82.6%	120.0%
AFFO payout ratio ⁽⁷⁾	86.6%	114.1%

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

KEY FACTS

- Inovalis REIT (“Inovalis REIT”, or the “REIT” or “we”) is a Canadian TSX-listed REIT managed by Inovalis S.A. (“Inovalis SA”), a local cross-border French and German real estate asset manager, managing \$10 billion of real estate and financial assets. As of March 31, 2018, Inovalis SA and Inovalis SA’s founding partners had a 9.7% interest in the REIT’s equity (directly and indirectly).
- In February 2018, the REIT completed the acquisition of the Kösching asset, for approximately €24.4 million (CAD\$38.8 million). The property is strategically located less than 10km from Ingolstadt, Germany – a major industrial center. The recently constructed modern office building and R&D facility, with a gross leasable area of approximately 9,900m² (106,563 sq.ft), is fully occupied with a weighted average lease term of ten years. The REIT’s 50% interest in the property was principally funded with cash on hand raised through the private placements completed in Q4 2017.
- The Board of Trustees of the REIT approved the extension of the management agreement between the REIT and Inovalis S.A. The Board of Trustees and the External Manager agree that, given the REIT’s relative size, it is in the REIT’s best interest to not internalize the asset and property management function at the current time. As part of the terms of the extension of the agreement, the following modifications were approved:
 - Term: The initial term will be for three (3) years, not to exceed April 1, 2021. The Agreement shall be automatically renewed for an additional two (2) years if the REIT’s AFFO per unit for the year ended December 31, 2020 is greater than 115% of the AFFO per unit of the REIT as at December 31, 2017. The AFFO calculation shall be consistently applied and approved by the Audit Committee.
 - Asset Management Fees: Will be reduced from 0.75% to 0.50% and calculated based on the book value of assets. Fees will be payable in cash and/or exchangeable securities, the exact composition of which will be determined by the Board annually based on the REIT’s cash resources.
 - Acquisition Fees: 1.00% of the purchase price of properties acquired that are not currently owned or managed by the Manager and paid in cash consideration.
- At the Annual and Special Meeting on May 9, 2018, Unitholders approved the issuance of up to 3,500,000 Units of the REIT pursuant to the Unit Based Compensation Plan as potential payment of Asset Management Fees payable pursuant to the Management Agreement.
- As part of the completion of the closing of the Neu-Isenburg asset, the asset has been refinanced for €22.8 million (CAD\$36.2 million) at a competitive fixed rate of 2.0%, with the loan maturing at the end of December 2023.
- Subsequent to quarter end, in April 2018, the REIT extended its EUR/CAD hedging program for an additional eighteen months. The extension to the program, based on an average rate of \$1.6414, capitalises on the Euro’s continued outperformance relative to the Canadian dollar.
- Also, subsequent to quarter end, the REIT successfully raised €13.6 million (CAD\$21.5 million) through the completion of a private placement with a non-Canadian, institutional investor. Similar to the previous private placements completed in June and October 2017, the proceeds were raised through the issuance of a convertible note, paying interest at 7.95% and maturing on April 19, 2021. The convertible note may be converted at any time after April 19, 2019. Concurrent to the issuance of the Note, the investor and the REIT entered into a put/call agreement whereby the REIT may satisfy its obligation to the investor by delivering 2,121,008 REIT units. Management intends to use the proceeds from the private placements to fund acquisitions.

- FFO / AFFO

In the table below, FFO and AFFO for the three-month period ended March 31, 2018 are compared to the Q1 2017 and Management's guidance.

	Q1 2018 ⁽¹⁾	Q1 2017 ⁽²⁾	Management's Guidance ⁽³⁾
<u>Including private placement in the form of a promissory note</u>			
FFO per unit	0.25	0.19	0.21 - 0.24
FFO payout ratio	82.6%	111.3%	90% - 96%
AFFO per unit	0.24	0.20	0.22 - 0.25
AFFO payout ratio	86.6%	105.8%	88% - 94%

(1) \$1.5542 C\$/€ foreign exchange rate

(2) \$1.4101 C\$/€ foreign exchange rate

(3) \$1.5542 C\$/€ foreign exchange rate

During the period, the REIT recognized \$2.0 million in interest related to the Rueil development loan, of which \$1.1 million related to the years 2016 and 2017. This interest adjustment was made to recognize the effective rate of 13.89% on the loan, compared to the initial rate of 8.5%. The effective rate was recognized following the signing in Q1 2018 of a 12-year lease for the entire Rueil property with Danone. The lease term will commence following the completion of construction in Q2 2020.

The Q1 2018 FFO of \$0.25 per unit is \$0.06 higher than Q1 2017 FFO of \$0.19 and ahead of Management's guidance, excluding the \$1.1m outlined above, the FFO for the quarter is in line with Management's guidance. The AFFO for Q1 2018 of \$0.24 per unit is \$0.04 higher than Q1 2017 AFFO of \$0.20 and in line with the run rate going forward as estimated by management.

The Q1 2018 FFO/AFFO payout ratios of 82.6% and 86.6% respectively, are ahead of guidance. Excluding the \$1.1 million interest on the Rueil development loan related to the years 2016 and 2017 discussed above, the REIT's FFO/AFFO is in accordance with Management's guidance.

- NOI (GAAP)

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

	Q1 2018 ⁽¹⁾	Management's Guidance ⁽¹⁾
NOI (GAAP)	3,842	
IFRIC 21 impact	(2,602)	
NOI (excluding IFRIC 21 impact)	6,444	5,900 - 6,300

(1) \$1.5542 C\$/€ foreign exchange rate

The Q1 2018 NOI is \$6,444 - of which approximately 4% corresponds to other revenue related to investments in joint ventures. Excluding this other revenue related to investments in joint ventures, the NOI is within management's range of guidance for the quarter.

Management has established a new guidance range for 2018 based on the annualized NOI for the current portfolio. The reader is cautioned that Management's guidance information is forward-looking and actual results may vary from those reported.

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

In the table below is NOI presentation for the whole portfolio including the REIT's proportionate interest in properties held in partnership. Management's guidance includes the application of 2018 forecast indexation for French assets. Indexation has not been applied to the German asset forecast as it is not applied until index increases exceed 5%. See the section *Rental Indexation* for details on French and German indices.

	Q1 2018 ⁽¹⁾	Management's Guidance ⁽¹⁾
NOI	5,915	
IFRIC 21 impact	(3,157)	
NOI (excluding IFRIC 21 impact)	9,072	8,800 - 9,300

(1) \$1.5542 C\$/€ foreign exchange rate

The Q1 2018 NOI, in the amount of \$9,073 and is in-line with Management's guidance.

- Debt to Book Value (GAAP)

The REIT's debt to book value, in accordance with GAAP, was 43.9% as at March 31, 2018, compared to 42.7%, one year ago. Net of cash available, the debt to book value was 41.2% as at March 31, 2018, compared to 39.2% as at December 31, 2017. This increase in debt to book value is mainly driven by the increase in deferred tax liabilities for Q1, 2018, related to the increase in deferred tax liabilities in Q1, 2018.

- Debt to Book Value (Non-GAAP)

The REIT's Non-GAAP debt to book value for the whole portfolio, including the REIT's proportional share in joint-ventures was 52.2% as at March 31, 2018, an increase from 50.0% as at December 31, 2017. Net of cash available, the debt to book value was 49.1% as at March 31, 2018, compared to 46.2% as at December 31, 2017. This increase in debt to book value is mainly driven by the increase in deferred tax liabilities for Q1, 2018, related to the increase in deferred tax liabilities in Q1, 2018 and the acquisition of the Kösching property in Q1, 2018.

- Following the signature of a new Double Tax Treaty (DTT) on March 20, 2018 between France and Luxembourg (Please refer to Note 8 of the financial statements for further details regarding this new treaty) the REIT has recognized deferred tax expenses of \$5,054 (\$7,083 including the investments in the Arcueil joint venture) relating to the temporary differences arising from the unrealized gains on investment properties located in France. In accordance with the terms of the joint venture agreement, \$1,353 of the \$2,029 related to Arcueil has been recorded in the "Additional Profit/(Loss) from Arcueil" line item.

BASIS OF PRESENTATION

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of Inovalis REIT should be read in conjunction with the REIT's condensed interim consolidated financial statements for the period from January 1, 2018 to March 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 most relevant information to assist them in understanding the REIT's financial performance, while providing for a reconciliation of such Non-Generally Accepted Accounting Principles ("GAAP") information to the REIT's financial statements as reported under IFRS in the relevant sections of the MD&A. The MD&A will begin with an Overview, providing a summary of the REIT's performance and operations for the period, including both GAAP and non-GAAP metrics. Management believes this presentation provides users of this MD&A additional information about the source of the revenue used by Inovalis to pay distributions on its units, as joint venture structures represent significant equity investments (joint ventures account for approximately 30% of the total value of all properties held by the REIT, including those owned by joint venture), are a significant part of the growth of the REIT and represent of an important part of the REIT's revenue and expenses. Management believes that this

reformatting of the MD&A will provide greater prominence to the GAAP measures while still allowing for a reconciliation to the comparable non-GAAP measures.

This MD&A has been prepared considering material transactions and events up to and including May 14, 2018. Financial data provided in the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. All amounts in this MD&A are in thousands of Canadian dollars, except per unit amounts and where otherwise stated. Historical results, including trends which might appear, should not be taken as indicative of future operations or results. Additional information about Inovalis REIT has been filed with applicable Canadian securities regulatory authorities and is available at www.sedar.com. The exchange rate used throughout this MD&A for statement of earnings items is the average rate during the said period, i.e. 1.5542 Canadian dollars per Euro for the three-month period ended March 31, 2018. For balance sheet items, projections or market data, the exchange rate used is 1.5893 (exchange rate as at March 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. Inovalis REIT believes that its industry data is accurate and that its estimates and assumptions are reasonable, but there can be no assurance as to the accuracy or completeness of this data. Third-party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. Although Inovalis REIT believes it to be reliable, Inovalis REIT has not verified any of the data from third-party sources referred to in this MD&A, or analyzed or verified the underlying studies or surveys relied upon or referred to by such sources, or ascertained the underlying assumptions relied upon by such sources.

BUSINESS OVERVIEW AND STRATEGY

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

Our long-term objectives are to:

- generate predictable and growing cash distributions on a tax-efficient basis from investments in income-producing office properties;

- maximize the long-term value of both our properties and Units through active and efficient management;
- grow our asset base, primarily in France and Germany, but also opportunistically in other European countries where assets meet our investment criteria; and
- increase the cash available for distribution to holders of Units (“Unitholders”), through an accretive acquisition program that successfully leverages Inovalis SA’s extensive relationships and depth of commercial property and financing.

The REIT’s Investment criteria encompasses office properties outside of Canada with an occupancy level above 80% (unless AFFO accretive), secured rental cash flows, a property value between €20 million (\$31.8 million) to €60 million (\$95.4 million) (unless AFFO accretive) and a potential future upside with respect to matters including rent and area development. According to management, the target investment size falls within a very liquid segment of the real estate market in Europe, and debt financing for such acquisitions is readily available from local lenders.

BUSINESS ENVIRONMENT

French commercial real estate investment market ⁽¹⁾

Overview

A preliminary GDP estimate shows that the French economy decelerated in the first quarter slowed by a sluggish growth in private consumption and a deceleration in fixed investment. Despite the downtrend, France’s macroeconomic fundamentals remain in good shape, with unemployment in February at multi-year lows. Survey-based indicators including consumer confidence and the manufacturing PMI remained above their respective long-term averages in April. On 11 April, the government unveiled its 2018–2022 Stability Program, laying out fiscal consolidation plans for the next five years. The government envisages a reduction in the fiscal deficit and public debt through implementation of strong reforms in pensions, unemployment benefits and public service. The government remains committed to streamlining the state-run train operator, SNCF as well which will bring about positive impacts to the French economy.

Paris commercial real estate investment market

Rental market

The supply of vacant space remains limited in Paris, with a vacancy rate of approximately 2.5% at the end of March 2018. Despite this situation of strained availability, the Central Business District (“CBD”) had strong leasing activity at a level last seen in 2006. This marks the CBD’s 2nd best performance for a Q1 period since 2000. Co-working space operators are contributing significantly to the market activity. The CBD thus compensates for the slower growth in Q1 in the rest of Paris.

Investment market

Paris recorded almost €1.6 billion of investment in 1st quarter 2018. The La Défense market, which recorded more than €3.3 billion in investment in 2017, returned to more normal levels of activity with €190 million invested in Q1 2018. The acquisition by Aermont Capital of the “Aurore” tower accounted for more than €100 million and is the largest deal to date in 2018.

Greater Paris Region commercial real estate investment market

Rental market

The Greater Paris Region office market performance continued its strength from 2017 right through Q1 2018. As such, the leasing activity grew 13% in Q1 as compared to this period last year. All area categories recorded positive changes from one year to the next. Vacant office space fell below 5.8% (3.2 million square meters available) at the end of March 2018. Prime rents remain stable in the two main Greater Paris Region markets.

Investment market

The Greater Paris Region investment market grew 10% during Q1 2018 as compared to Q1 2017, with almost €2.7 billion invested and ten deals over €100 million. Foreign investors, who were very active in the market at the end of 2017, had a continued presence during Q1 2018 investing almost €1.1 billion, equating to 41% of all investment activity in a normal year. Prime office yields in the most established Paris Region office markets remain stable, an increase in yields is trending large office deals, shopping centers (4.3 %) and retail parks (5.0 %).

(1) Source Jones Lang LaSalle

German Commercial Real Estate Market ⁽²⁾

Overview

Most economic indicators support a positive economic forecast for the year. According to Consensus Economics, GDP is expected to increase by 2.4%. The labour market improved as unemployment fell to 5.5% in March and is expected to reach 5.3% by the end of the year. However, the skills shortage in many industries and companies is slowing down planned business expansions. Positive labor market developments have a direct impact on the office property market. Demand is outstripping the supply of office space. Many companies planning to relocate are hampered by the low availability of suitable space and in effect are being forced to extend expiring leases for their existing spaces. As in every quarter of last year, Munich and Berlin topped the leasing deal rankings in the first three months of 2018 however overall, leasing activity fell in Munich by just under 12% year-on-year, and in Berlin it dropped by almost 17%. Positive news came from Frankfurt and Stuttgart, where leasing improved by 31% and 21%, respectively.

Office market: Rents continue to rise with strong momentum in Berlin and Stuttgart

Despite the decline in leasing at the beginning of the year, rental prices continue to rise. This is found in particular in sub-markets where there are or will be new building developments or where the supply of available space is extremely low. In a 12-month review, the Berlin and Stuttgart markets registered the strongest rental growth among the seven largest German cities (the “Big 7”)*, with an increase of almost 11% in Berlin and 7% in Stuttgart. There is significant demand in Frankfurt and almost all submarkets such as Neu-Isenburg and Bad Homburg.

Transaction market: Transaction volume just below last year’s level

The transaction volume on the German commercial property market reached €12.3 billion, which is similar to the level recorded for the same period of the previous year. The number of Q1 transactions suggests an active and investment market in 2018. In Germany, transaction volume is forecast to be €55 billion for the full year. The environment for investments still appears to be stable and, coupled with the positive economic data, long-term investors are focusing on further rental growth and are not deterred by the current high prices and suboptimal financing conditions.

At the end of March 2018, the JLL Prime Rental Price Index for the Big 7 was 4.3% higher compared to a year previously and represented the highest level since the third quarter of 2001. By the end of the year, JLL expects to see a further year-on-year increase in the index of 3.2%. 2018 will again be a year of strong user demand. Great importance is placed on the timely completion of new construction projects planned for the coming years as it would be detrimental to the market if the scarcity of space became even more acute.

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

(2) Source Jones Lang LaSalle

REAL ESTATE MANAGEMENT AND ADVISORY SERVICES

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

- In early 2018, in anticipation of the term end of the Management Agreement signed in April 2013, the Board of Trustees of the REIT formed an independent committee to review the option of internalization of management.

The independent committee determined that, given the REIT's relative size, it was in the REIT's best interest to not internalize the asset and property management functions at the time and recommended to the Board of Trustees to approve the extension of the management agreement. As part of the terms of the extension of the agreement, the Management Agreement was extended for an initial term of three years, not to exceed April 1, 2021. The Agreement shall be automatically renewed for an additional two years if the REIT's AFFO per unit for the year ended December 31, 2020 is greater than 115% of the AFFO per unit of the REIT as at December 31, 2017. Based on the management agreement being renewed for an additional two years, internalization of the REIT's management will occur upon the earlier of the REIT achieving a market capitalization of \$750 million and April 1, 2023.

- At the Annual and Special Meeting on May 9, 2018, Unitholders approved the issuance of up to 3,500,000 Units of the REIT pursuant to the Unit Based Compensation Plan as potential payment of Asset Management Fees payable pursuant to the Management Agreement.

OUR OPERATIONS – GAAP and Non-GAAP

Performance indicators, incorporating both GAAP and Non-GAAP measures

As at	March 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⁾	94.9%	96.8%	95.4%	97.0%
Weighted average lease term ⁽³⁾	5.1 years	4.9 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 3.8 years as at March 31, 2018 compared to 3.8 years as at December 31, 2017 (3.9 years vs 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, Metropolitan, 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.

The above performance indicators do not take into account the redevelopment loan granted to the property in Rueil (Paris Western periphery).

Occupancy

The 94.9% weighted average occupancy rate at March 31, 2018 across the seven properties owned entirely by the REIT slightly decreased from 95.4% as at December 31, 2017. The weighted average occupancy rate across the fourteen properties decreased slightly from 97% as at December 31, 2017 to 96.8%; this includes properties owned through partnerships and the vendor lease relating to the Delizy (Pantin) property. The slight decline in occupancy rates is predominantly due to the departure of tenants in the Sablière, Courbevoie and Metropolitan properties. REIT management refurbished the space left vacant at the Metropolitan property and have now re-let this space beginning June 1, 2018, at a significantly more favourable rent/m².

During the quarter, the REIT completed the acquisition of the 100% occupied Kösching property, acquired as part of a joint-venture transaction. This acquisition accounts for the increase in gross leasable area under Non-GAAP measures from 1,280,542 sq.ft. to 1,326,797 sq.ft.

The average term lease decreased to 5.1 years as at March 31, 2018 from 5.3 years as at December 31, 2017. The average term lease including properties held through joint-ventures decreased slightly to 4.9 years compared to 5.1 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 March 31, 2018, the REIT had thirty-four tenants across the seven properties owned entirely by the REIT, and sixty-seven tenants in aggregate including properties held through joint ventures.

Approximately 66.7% of quarter's gross rental income is attributable to French public agency tenants, is guaranteed by large German or international banks, or from investment grade corporations or affiliates of investment grade corporations. This percentage, including properties held through joint-ventures, equates to 65.7%.

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%
ADEME	Government Agency	49,460	49,460	6.8%
Top 5 tenants		461,935	456,098	62.4%
Other tenants	Diversified	256,348	238,522	32.6%
Vacant		54,119	36,604	5.0%
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 March 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	199,235	20.8%
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		667,742	451,549	47.1%
Other tenants	Diversified	596,841	468,686	48.9%
Vacant		62,213	37,953	4.0%
Total Non-GAAP Measures		1,326,797	958,189	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.

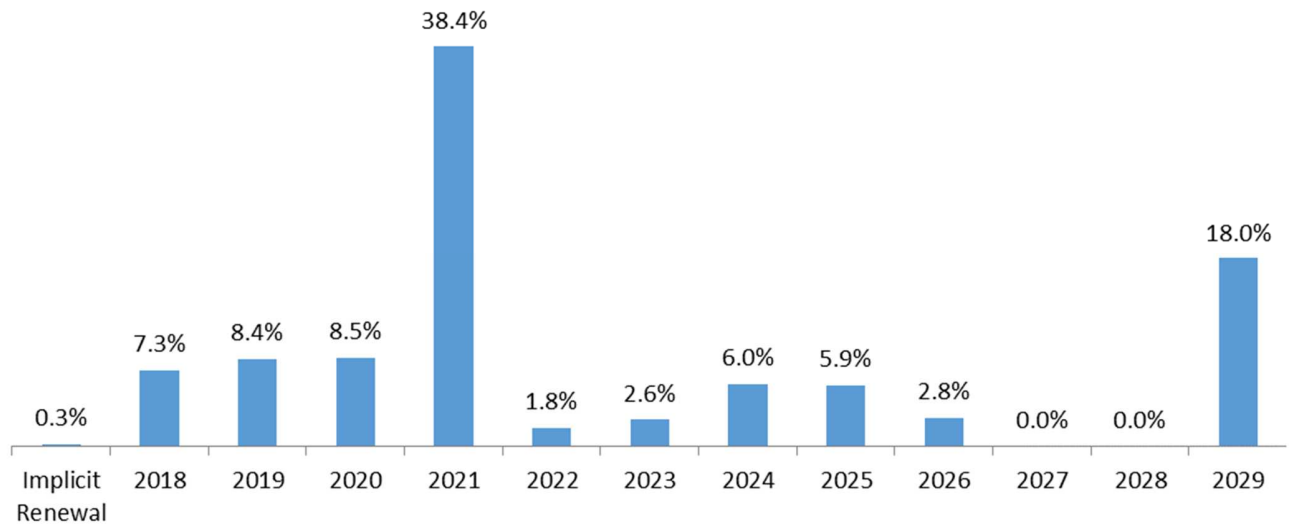
Our largest tenant, Orange (formerly France Telecom), is rated BBB+/Baa1/BBB+ by S&P/Moody's/Fitch and has leases in two of our properties, the Vanves property and the Arcueil property (held in partnership).

Leasing profile

Lease rollover profile

The REIT has an average remaining lease term of 5.1 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 3.8 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).

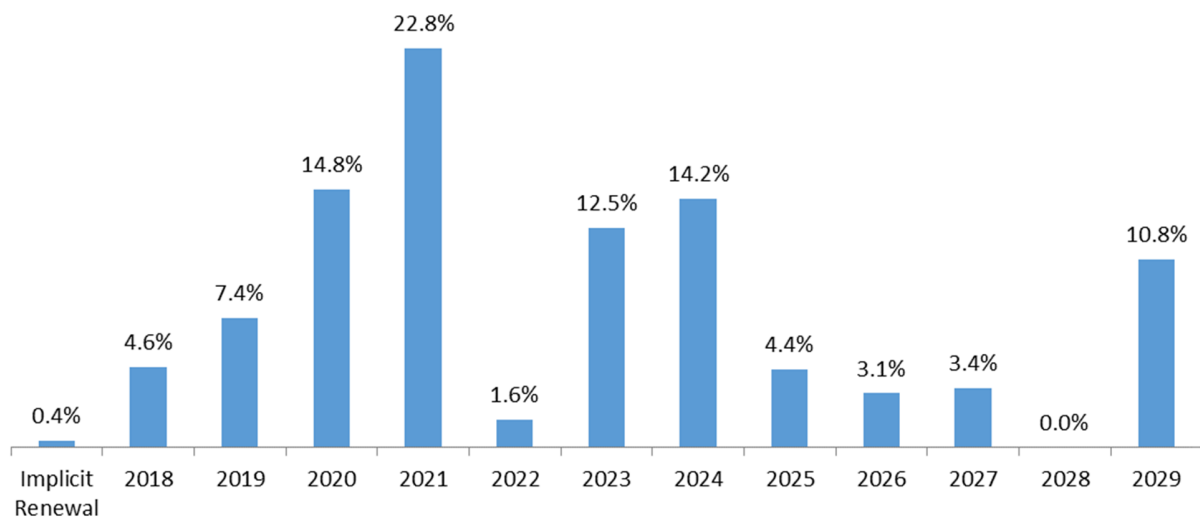
Lease Maturity Profile as at March 31, 2018
(% of total GLA)



Including properties held in joint-ventures, the average remaining lease term is 4.9 years (not including tenant early termination rights) and 3.9 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 March 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

Interim Consolidated Statements of Earnings

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

<i>(in thousands of CAD\$)</i>	Three months ended March 31	
	2018	2017
Rental income	6,714	5,970
Service charge income	2,146	1,850
Service charge expenses	(5,172)	(4,167)
Other revenues	244	85
Other property operating expenses	(90)	(41)
Net rental earnings	3,842	3,247
Administration expenses	(1,517)	(1,245)
Foreign exchange gain (loss)	55	-
Net change in fair value of investment properties	1,925	2,290
Acquisition costs	(20)	(37)
Share of profit of an investment (equity method)	835	(724)
Operating earnings	5,120	3,531
Gain (loss) on financial instruments at fair value through P&L	(983)	571
Finance income	3,363	1,783
Finance costs	(5,249)	(1,653)
Distributions on Exchangeable securities	(268)	(379)
Net change in fair value of Exchangeable securities	114	(664)
Net change in fair value of Promissory notes	1,128	-
Earnings before income taxes	3,225	3,189
Current income tax expense	(119)	(10)
Deferred income tax expense	(5,078)	(33)
Earnings for the period	(1,972)	3,146
Non-controlling interest	2	5
Earnings for the period (part attributable to the Trust)	(1,974)	3,141

Discussion of Consolidated Statements of Earnings

Net rental earnings

Rental income for the three-month period ended March 31, 2018 was \$6,714 compared to \$5,970 in Q1 2017. The \$744 increase year over year increase comes principally from \$686 attributable to FX rate movements, furthered by new leases on Courbevoie, Vanves and Baldi properties and the indexation of the portfolio, which were partially offset by departures at Courbevoie, Sablière and Metropolitan.

Net rental earnings for the three-month period ended March 31, 2018 were \$3,842 compared to \$3,247 in Q1 2017. The \$595 increase in net rental earnings, resulted chiefly from the positive FX rate impact of \$393, an increase in recoverable operating expenses and the increase in rental income outlined above.

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 March 31, 2018 amounted to \$1,517 vs. \$1,245 for the same quarter in 2017. The \$744 is related to the asset management fees paid to Inovalis SA vs. \$700 for the quarter ended March 31, 2017 and \$773 to other expenses vs. \$545 for the quarter ended March 31, 2017. The overall increase in management fees is driven by the movement in foreign exchange of \$87 less the impact of the sale of Cologne. Other expenses increased \$228 year over year, of which \$68 is attributable to foreign exchange movement, the remaining increase of \$160 arises from increased activity at the Luxembourg holding company level arising from new acquisitions (joint ventures).

Net change in fair value of investment properties

During the quarter ended March 31, 2018, the net change in fair value of investment properties recognized in earnings was a gain of \$1,925, which is mainly attributable to the impact of IFRIC 21 for recoverable French property taxes of \$2,602, offset by capital expenditures of \$975 and the Rent Free Period adjustment of \$329 compared to the \$2,290 gain in the quarter ended March 31, 2017.

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

The REIT recognized a loss on financial instruments for the quarter of \$983 compared to a gain of \$571 for the same period in 2017. The loss for the quarter corresponds to changes in value in the interest rate derivatives held by the REIT. Please refer to Note 5 – Investments accounted for using the equity method in the condensed interim consolidated financial statements for further details.

Finance income

For the three-month period ended March 31, 2018, finance income of \$3,363 consists predominantly of \$2,026 in interest on the acquisition loans related to the Rueil property, with \$1,315 of finance income arising from joint ventures. The increase of \$1,580 for the quarter from \$1,783 in Q1 2017 corresponds mainly to the increase in interest income from the Rueil loan

As at March 31, 2018, the REIT had deployed €17.2 million (\$27.3 million) of the €21.75 million (\$34.6 million) acquisition and redevelopment loan to a company 80%-owned by Inovalis SA, related to the Rueil property, in the Paris Western periphery. The loan bears an annual interest rate of 8.50%, with an effective interest rate of 13.89% which incorporates the 20% of the profit that will accrue to the REIT upon the sale of the property to a third party. The final portion of the loan commitment of €4.55 million (\$7.3 million) is expected to be deployed in 2018.

Finance costs

For the three-month period ended March 31, 2018, the finance costs amounted to \$5,249 vs \$1,653 for the same period in 2017 including \$1,222 for interest costs related to finance leases, mortgage loans and the lease equalization loans, \$578 of interest costs on the promissory note, \$320 of interest related to SWAP contracts, \$2,858 related to joint ventures (including the fair value variance of the Arcueil derivative which is supported 100% by the REIT) and \$272 of other finance costs (including amortization of fair value adjustment on finance leases assumed at a discount at the time of a business acquisition, amortization of transaction costs on mortgage loans and other miscellaneous costs). The increase of \$3,596 year on year is largely attributable to finance expenses associated with joint ventures and also to promissory note interest paid on the notes issued in 2017.

Distributions on Exchangeable securities

Distributions to the holders of Exchangeable securities (see note 11 in Condensed Interim Consolidated Financial Statements as at March 31, 2017) are calculated in a manner to provide a return that is economically equivalent to the distributions received by the Unitholders. During the three-month period ended March 31, 2018 the distributions

recognized on Exchangeable securities were \$268 compared to \$379 for the same period in 2017. The year-on-year decrease arises from the reduction in the number of Exchangeable securities in issuance following the conversion by Inovalis S.A. of 500,014 Exchangeable securities into Units in December 2017 and a further conversion of 419,059 Exchangeable securities in January 2018, partially offset by the increase due to the additional Exchangeable securities received by Inovalis SA in lieu of asset management fees.

Net change in fair value of Exchangeable securities

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

For the three-month period ended March 31, 2018, the REIT reported a gain of \$114 which is the result of the increase in the closing price of the units which was \$10.05 on March 31, 2018 compared to \$9.97 on December 31, 2017 and the impact of the conversion of 419,059 Exchangeable securities in January, 2018.

Current income tax expense

The current income tax expense of \$119 for the quarter ended March 31, 2018 is mainly due tax paid by the REIT's Luxembourg holding entity.

Deferred tax expense

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

On 20 March 2018, the Luxembourg and French Governments signed a new double tax treaty (DTT) with France, together with an accompanying Protocol. The tax treaty will enter into force once both parties complete the ratification process. Under the current DTT, the REIT, through its subsidiary located in Luxembourg, should suffer French withholding tax at the 5% treaty rate on the dividend received from French OPCI. Under the new DTT, such dividend distributions would be subject to withholding tax at a 30% rate which can potentially be reduced to 15% in some specific cases.

Management has estimated that the REIT should benefit from the reduced rate of 15% and has revised the deferred income tax liabilities on that basis for the period ending March 31, 2018. Since the French OPCI is required to distribute 50% of the capital gains realized on the disposal of assets, the deferred tax has been calculated on 50% of the unrealized capital gain.

Last 24 Months - Key Financial Information

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

<i>(in thousands of CAD\$)</i>	March 31, 2018	Dec. 31, 2017	Sept. 30, 2017	3-month period ended				
				June 30, 2017	March 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016
Rental income	6,714	6,381	6,323	6,271	5,970	6,706	6,172	5,853
Net rental earnings	3,842	7,410	6,729	6,610	3,247	7,023	6,556	6,065
Earnings for the period	(1,972)	13,651	2,216	159	3,141	2,984	11,833	5,839
Earnings per Unit (CAD\$)	(0.09)	0.63	0.10	0.01	0.15	0.14	0.60	0.37

PROPERTY CAPITAL INVESTMENTS

Fair value

The fair value of the REIT's investment property portfolio as at March 31, 2018 was \$466.9 million (vs. \$440.8 million as at December 31, 2017). The fair value of the French properties was \$426.2 million (91.3% of investment properties value) and the fair value of the German properties was \$40.7 million (8.7% of investment properties value).

The increase of \$26.1 million is accounted for by a \$23.5 million increase due to foreign exchange fluctuations, rent free periods of (\$329) and CapEx charges of \$980 and the net change in fair value of \$1,925.

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

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.

Since the IPO in April 2013, a total of \$1.7 million has been spent on the three initial French properties (Jeuneurs, Courbevoie, Vanves), funded by a reserve that was set aside by the vendors of the four initial properties. In Q1 2018, \$975 was spent on improvement works chiefly for the Courbevoie, Metropolitan and Sablière properties.

Guarantees, commitments and contingencies

The REIT and its subsidiaries have provided guarantees in connection with the finance lease liabilities and the mortgage loans, including pledge of affiliates of the REIT, first mortgages and assignment of receivables and future receivables. As at March 31, 2018, guarantees provided by the REIT with respect to its long-term debts include a preferential claim held by mortgage lenders on the Jeuneurs, Baldi, Veronese, Sablière and Hanover properties in the amount of \$99.67 million.

OTHER SIGNIFICANT ASSETS

Investments accounted for using the equity method

This section encompasses the 50% interest the REIT (through its subsidiaries) has in the Duisburg property, the 50% interest in the Walpur (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. Our share of fair value of the investment properties accounted for using the equity method was \$91,916 as at March 31, 2018 compared to \$79,094 as at December 31, 2017. This increase is due to the costs of \$10,908 related to the acquisition of Kösching and refinancing of Neu-Isenburg, loan repayments on the Stuttgart property of (\$462), the REIT's share of net losses from investments accounted for using the equity method of (\$2,023) and foreign exchange differences of \$4,399.

Acquisition loans and deposit

As at March 31, 2018, Acquisition loans and deposit of \$27.28 million consisted of the million loan commitment for the Rueil project.

Trade and other receivables

Trade and other receivables as at March 31, 2018 amounted to \$5,771 compared to \$5,192 as at December 31, 2017. The increase of \$579 corresponds mainly to an increase of \$243 arising from foreign exchange movements and an increase in trade receivables in relation recharged expenses relate to new joint venture acquisitions.

Other current assets

Other current assets as at March 31, 2018 amounted to \$1,804 compared to \$1,395 as at December 31, 2017. This resulted in an increase of \$409 for the quarter. This increase is attributable to foreign exchange movements of \$108 and an increase in VAT receivables.

PRESENTATION OF OUR CAPITAL

Liquidity and capital resources

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

The REIT's cash available was \$16.96 million as at March 31, 2018 compared to \$20.3 million as at December 31, 2017. The reduction in this balance is a result of cash used to fund the Kösching acquisition in Q1, 2018.

Financing activities

Our debt strategy is to have secured mortgage financing with a term to maturity that is appropriate in relation to the lease maturity profile of our portfolio and then to put in place, when appropriate, interest-only financings. We intend to search for fixed rate financings or floating rate financings with a cap. As such, 91.1% of the REIT's senior debt benefits from an interest rate protection (68.0% in the form of a swap and 23.1% in the form a cap). Our preference is to have staggered debt maturities to mitigate interest rate risk and limit refinancing exposure in any particular period. With no financial institution representing more than 31% of our senior debt commitment, we also make sure that the REIT has a diversified base of senior debt providers. Our debt to book value stands at 43.9% and net of the \$16.9 million of cash available (including financial current assets) as at March 31, 2018 (including the REIT's interest in the joint ventures), debt to book value stands at 41.1%.

Debt-to-book value

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

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

	As at March 31, 2018	As at December 31, 2017
Weighted average interest rate ⁽¹⁾	2.16%	2.16%
Debt-to-book value ⁽²⁾	43.9%	42.7%
Debt-to-book value, net of cash ⁽²⁾	41.2%	39.2%
Interest coverage ratio ⁽³⁾	3.8 x	3.9 x
Debt due in next 12 months in thousand of CAD\$	11,261	9,921
Weighted average term to maturity of debt ⁽⁴⁾	6.3 years	6.5 years

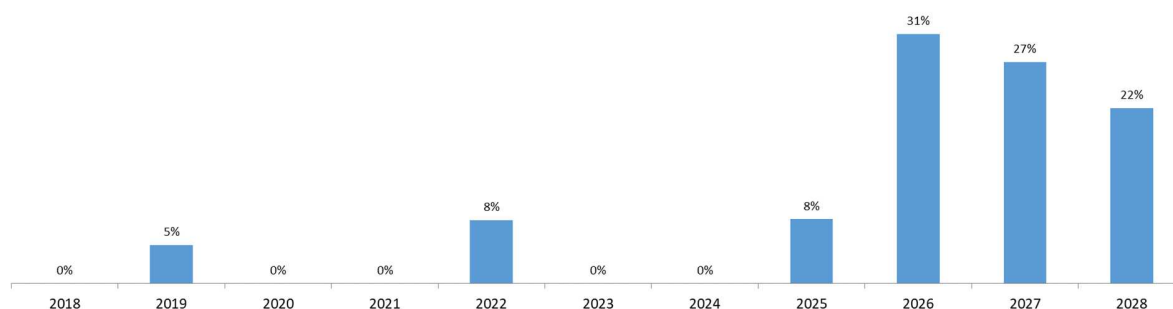
(1) Calculated as the weighted average interest rate paid on the finance leases and the mortgage financing.

(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 March 31, 2018)



ANALYSIS OF DISTRIBUTED CASH

	Three months ended March 31	
	2018	2017
Cash flows from operating activities (A)	12,178	9,804
Earnings before income taxes (B)	3,225	3,189
Declared distribution on Units (C)	4,684	4,444
Excess (shortfall) of cash flows from operating activities over cash distributions paid (A-C)	7,494	5,360
Excess (shortfall) of profit or loss over cash distributions paid (B - C)	(1,459)	(1,255)

As shown in the table above, the cash flows related to operating activities as reported in the REIT's consolidated statement of cash flows exceeded the distributions declared for the three-period ended March 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 rental operations that are available for distribution. These measures remove from consideration, those gains and losses that are recognized for accounting purposes but that do not impact cash flow. They also remove from consideration various revenues and expenses that are recognized in profit or loss for accounting purposes but which do not arise from ongoing rental operations, for example because they were incurred to acquire revenue generating assets.

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

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

RISK AND UNCERTAINTIES

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

Risks relating to the REIT and its business

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

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

The properties generate income through rent payments made by our tenants. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. Furthermore, the terms of any subsequent lease may be less favorable than the existing lease. Our cash flows and financial position would be adversely affected if our tenants were to become unable to meet their obligations under their leases or if a significant amount of available space

in our properties could not be leased on economically favorable lease terms. In the event of default by a tenant, we may experience delays or limitations in enforcing our rights as sub-lessor and incur substantial costs in protecting our investment. Furthermore, at any time, a tenant may seek the protection of bankruptcy, insolvency or similar laws, which could result in the rejection and termination of the lease of the tenant and, thereby, cause a reduction in the cash flows available to us.

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

Concentration of tenants may result in significant vacancies on the Properties

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

Lease renewals, rental increases, lease termination rights and other lease matters

Expiries of leases for our properties will occur from time to time over the short and long-term. No assurance can be provided that we will be able to renew any or all of the leases upon their expiration or that rental rate increases will occur or be achieved upon any such renewals. The failure to renew leases or achieve rental rate increases may adversely impact our financial condition and results of operations and decrease the amount of cash available for distribution.

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

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

Head Lease for properties

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

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

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

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

We have insurance in place to protect against certain environmental liabilities in respect of certain of the properties, with limits, which are customary and available for portfolios similar to ours.

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

We may incur significant capital expenditures and other fixed costs

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

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

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

The real estate industry is capital intensive. We will require access to capital to maintain our properties, as well as to fund our growth strategy and significant capital expenditures from time to time. There is no assurance that capital will be available when needed or on favorable terms. Our failure to access required capital could adversely impact our investments, cash flows, operating results or financial condition, our ability to make distributions on the Units and our ability to implement our growth strategy.

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

Changes in government regulations may affect our investment in our properties

We are subject to laws and regulations governing the ownership and leasing of real property, employment standards, environmental and energy efficiency matters, taxes and other matters. It is possible that future changes in applicable federal, state, local or common laws or regulations or changes in their enforcement or regulatory interpretation could result in changes in the legal requirements affecting us (including with retroactive effect). In addition, the political conditions in the jurisdictions in which we operate are also subject to change. Any changes in investment policies or shifts in political attitudes may adversely affect our investments. Any changes in the laws to which we are subject in the jurisdictions in which we operate could materially affect the rights and title to the properties. All of the properties are located in France and Germany. Although the governments in France and Germany are stable and generally friendly to foreign investments, there are still political risks. It is not possible to predict whether there will be any further changes in the regulatory regime(s) to which we are subject or the effect of any such change on our investments.

Failure to receive deductions for interest payments may adversely affect our cash flows, results of operations and financial condition

In the course of the acquisition of the properties, we entered into financing transactions with third parties and affiliates. These financing agreements will require us to pay principal and interest. There are several rules in German tax laws restricting the tax deductibility of interest expenses for corporate income and municipal trade tax purposes. Such rules

have been changed considerably on several occasions in recent past. As a result, major uncertainties exist as to the interpretation and application of such rules, which are not yet clarified by the tax authorities and the tax courts. The tax deductibility of interest expenses depends on, among other things, the details of the security structure for debt financings, the annual amount of tax net-debt interest, the amounts and terms of unitholder or affiliate financings and our general tax structure. There is a risk of additional taxes being triggered on the rental income and capital gains in case the tax authorities or the tax courts adopt deviating views on the above. If this were the case, this would result in a higher tax burden and, consequently, could have a material adverse effect on our cash flows, financial condition and results of operations and ability to pay distributions on the Units.

Changes in currency exchange rates could adversely affect our business

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

Changes in interest rates could adversely affect our cash flows and our ability to pay distributions and make interest payments

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

We rely on Inovalis SA for management services

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

While the Trustees have similar oversight responsibility with respect to the services provided by Inovalis SA pursuant to the management agreement, the services provided by Inovalis SA are not performed by employees of the REIT, but by Inovalis SA directly and through entities to which it may subcontract. On March 15, 2018, the Board of Trustees announced its approval of the extension of the management agreement effective April 1, 2018. The Management Agreement was extended 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 April 10, 2013, the trustees shall make payable to Unitholders a distribution of sufficient net realized capital gains and income that the Trust shall not be liable to pay taxes under Part 1 of the Tax Act. As a result, there is generally little possibility of the Trust being taxable on ordinary income under Part 1 of the Income Tax Act. Consequently, the Trust does not recognize Canadian income taxes under IAS 12 Income taxes because it has an “in-substance” exemption.

Foreign income taxes

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

The REIT’s subsidiaries that hold the leasehold rights on the properties located in France are established in France and should therefore be considered as tax residents in France. Under current French tax legislation, income derived from the French REIT’s subsidiaries, incorporated under the form of Société Civile Immobilière subject to article 8 of the French Tax Code, and allocated to INOPCI 1 should be corporate income tax exempt in the hands of INOPCI* 1 on the basis that INOPCI 1 complies with its distribution obligations. A withholding tax should be levied in France on dividend distributions made by INOPCI 1 which is an OPCI (a collective undertaking for real estate investment) to CCE. CCE, CCH, Arcueil SI Sarl and CanCorpCologne Sarl are established in Luxembourg as fully taxable companies, subject to annual corporate income, municipal business and net wealth taxes. There is a minimum net wealth tax and corporate income tax in Luxembourg under certain condition. Dividends and liquidation dividends derived by CCE from the French OPCI may be tax exempt in Luxembourg for corporate income tax and municipal business tax purposes. CCE will benefit from the Luxembourg participation exemption on any dividend income or liquidation proceeds received from CCH, Arcueil SI Sarl, CanCorpCologne Sarl and Square Isenburg GmbH.

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

On 20 March 2018, the Luxembourg and French Governments signed a new double tax treaty (DTT) with France, together with an accompanying Protocol. The tax treaty will enter into force once both parties complete the ratification process. Under the current DTT, the REIT, through its subsidiary located in Luxembourg, should suffer French withholding tax at the 5% treaty rate on the dividend received from French OPCI. Under the new DTT, such dividend distributions would be subject to withholding tax at a 30% rate which can potentially be reduced to 15% in some specific cases.

Deferred income tax liabilities are recognized to the deferred income tax expense relating to the origination of temporary differences arising from the unrealized gains on investment properties located in France and Germany. Management has estimated that the REIT should benefit from the reduced rate of 15% and has revised the deferred income tax liabilities on that basis for the period ending March 31, 2018. Since the French OPCI is required to distribute 50% of the capital gains realized on the disposal of assets, the deferred tax has been calculated on 50% of the unrealized capital gain.

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

*“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 as long as they distribute 50% of their net profit.

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 and estimates affecting the reported amounts of revenues and investment properties owned directly and indirectly at the reporting date. However, uncertainty about these estimates could result in outcomes requiring a material adjustment to the carrying amount of the asset or liability affected in future periods.

We consider the following policies and estimates to be the most critical in understanding the assumptions and judgments that are involved in preparing our financial statements and the uncertainties that could affect our financial

results, financial condition and cash flows: (i) recognition and valuation of investment properties; (ii) distinction between business combinations or asset acquisitions and (iii) classification of and accounting for joint arrangements.

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

The CEO and CFO have evaluated the effectiveness of the Company's DCP and ICFR as required by National Instrument 52-109F2 issued by the Canadian Securities Administrators.

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

SUBSEQUENT EVENTS

In April 2018, after quarter end, management announced the completion of a \$22 million private placement with an institutional investor. This private placement is structured as a convertible note and pays interest at 7.95%. The proceeds of this placement; which has allowed the REIT to avoid the dilutive impact of brokerage fees and issuing equity at a discount to the market price, will be used fund imminent acquisitions.

We also announced the extension of our foreign exchange hedging program on April 25, 2018. The Euro has continued to significantly outperform relative to the Canadian dollar and the REIT has capitalized on this foreign exchange movement by extending its hedging program up to and including October 2020 at an average rate of \$1.6414/€. This hedging program is a safeguard for the consistent monthly distributions from the REIT.

Discussion of Non-GAAP metrics

NON-GAAP FINANCIAL MEASURES

Funds from Operations and Adjusted Funds from Operations

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

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

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

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

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

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

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

Debt-to-book value

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

Unitholders that is recorded as a liability, as is the case at the REIT level for the Exchangeable securities, Private placement promissory note and at the partnership level for the contribution from the REIT and its partners.

CONSOLIDATED FINANCIAL INFORMATION

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

<i>(in thousands of CAD\$)</i>	Three months ended March 31	
	2018	2017
Rental income	9,718	7,571
Service charge income	2,959	2,180
Service charge expenses	(6,678)	(5,193)
Other revenues	7	86
Other property operating expenses	(90)	(43)
Net rental earnings	5,916	4,601
Administration expenses	(1,956)	(1,441)
Foreign exchange gain (loss)	55	-
Net change in fair value of investment properties	2,869	2,480
Acquisition costs	(1,199)	(37)
Operating earnings	5,684	5,604
Gain (loss) on financial instruments at fair value through P&L	(988)	606
Finance income	2,068	557
Finance costs	(3,172)	(1,955)
Additional income (loss) from Arcueil's JV	(2,005)	(517)
Distributions on Exchangeable securities	(268)	(379)
Net change in fair value of Exchangeable securities	114	(664)
Net change in fair value of Promissory notes	1,128	-
Earnings before income taxes	2,561	3,251
Current income tax expense	(148)	(34)
Deferred income tax expense	(6,016)	(71)
Earnings for the period	(3,602)	3,146
Non-controlling interest	2	5
Earnings for the period (part attributable to the Trust)	(3,604)	3,141

Net rental earnings

Rental income for the three-month period ended March 31, 2018 was \$9,718 compared to \$7,571 in Q1 2017. The \$2,147 increase year over year is accounted for by \$1,414 from new acquisitions the Stuttgart, Pantin, Neu-Isenburg and Kösching properties partially offset by the sale of the Cologne property and a net reduction of \$65 resulting from departures of tenants at Courbevoie, Sablière and Metropolitan, offset by indexation and a positive variance of \$993 attributable to FX movement.

Net rental earnings for the three-month period ended March 31, 2018 was \$5,916 compared to \$4,601 in Q1 2017. Of the \$1,315 increase year over year, \$1,020 is attributable to the Pantin, Stuttgart, Neu-Isenburg and Kösching properties with the balance mainly resulting from new leases partially offset by the sale of the sale of the Cologne property and a positive variance of \$605 attributable to FX movement.

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 March 31, 2018 amounted to \$1,956 vs. \$1,441 for the same quarter in 2017. \$1,111 is related to the asset management fees paid to Inovalis SA vs. \$838 for the quarter ended March 31, 2017 and \$846 to other expenses vs. \$603 for the quarter ended March 31, 2017. The increase of \$273 in asset management fees is linked to the expanding portfolio size driven by the acquisition of the Stuttgart, Delizy, Neu-Isenburg and Kösching properties during the course of 2017/2018, reduced by the sale of the Cologne property which also includes \$116 positive FX impact. The rise of \$243 in the other expenses charge was driven by new JV acquisitions and increased activity at the Luxembourg holding company level and includes an increase of \$83 attributable to FX movements during the year.

Net change in fair value of investment properties

During the quarter ended March 31, 2018, the net change in fair value of investment properties recognized in earnings was a gain of \$2,869, which is mainly attributable to the impact of IFRIC 21 of \$3.2 million for recoverable French property taxes, offset by capital expenditures of \$975 and the Rent Free Period adjustment of \$329 compared to the \$2,480 gain in the quarter ended March 31, 2017.

Acquisition costs

Acquisition costs of \$1,199 for the quarter ended March 31, 2018 corresponding mainly to the acquisition of the Kösching asset. For the quarter ended March 31, 2017, the acquisition costs were respectively (\$37) and correspond to the Pantin asset.

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

For the quarter ended March 31, 2018, the REIT recognized a loss of \$987 on financial instruments at fair value through profit and loss compared to a gain of \$606 for the same period in 2017. This loss is mostly the result of the variation in value realized on the interest rate derivative contracts.

Finance income

For the three-month period ended March 31, 2018, finance income of \$2,068 consists chiefly of interest on the acquisition loans related to the Rueil property.

As at March 31, 2018, the REIT had deployed €17.2 million (\$27.3 million) of the €21.75 million (\$34.6 million) acquisition and redevelopment loan to a company 80%-owned by Inovalis SA, related to the Rueil property, in the Paris Western periphery. The loan bears an annual interest rate of 8.50%, with an effective interest rate of 13.89% which incorporates the 20% of the profit that will accrue to the REIT upon the sale of the property to a third party. The final portion of the loan commitment of €4.55 million (\$7.3 million) is expected to be deployed in 2018.

Finance costs

For the three-month period ended March 31, 2018, the finance costs amounted to \$3,172 vs \$1,955 for the Q1 2017. The \$3,172 includes \$1,806 of interest costs related to finance leases, mortgage loans, the lease equalization loans, \$338 of interests related to SWAP contracts, \$578 relating to the promissory note and \$449 of other finance costs corresponding mainly to the foreign exchange hedge maintained on the Arcueil property in line with the Arcueil JV agreement and an FX rate movement of (\$324). The interest on promissory notes, which were issued during 2017 and new loans related to JV acquisitions were responsible for the year-on-year increase of \$1,217.

Additional income (loss) from Arcueil JV

For the Arcueil joint venture, the consolidation presentation reflects a 25% proportionate share of results which aligns with the REIT 25% ownership interest. Per the joint venture agreement, and as reflected in the condensed interim consolidated financial statements, the REIT is entitled to receive a 25% share of the net earnings and, upon asset

disposal, 75% of the variance of fair value of investment properties, reduced by 100% of foreign exchange derivative costs. This additional loss from the Arcueil joint venture is \$2,005 for the three-month period ended March 31, 2018 vs \$517 in Q1 2017. The year-on-year variance is includes a \$768 loss from the foreign exchange hedge, a \$1,353 loss on deferred tax arising from the new Double Taxation Treaty between France and Luxembourg and \$116 net profit allocated to the REIT under the terms of the joint venture agreement due to deferred tax of \$1.4 million and the change in foreign exchange derivative valuation.

Distributions on Exchangeable securities

Distributions to the holders of Exchangeable securities (see note 11 in Condensed Interim Consolidated Financial Statements as at March 31, 2018) 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 March 31, 2018 the distributions recognized on Exchangeable securities were \$268 compared to \$379 for the same period in 2017. The year-on-year decrease arises from the reduction in the number of Exchangeable securities in issuance following the conversion by Inovalis S.A. of 500,014 Exchangeable securities into Units in December 2017 and a further conversion of 419,059 Exchangeable securities in January 2018, partially offset by the increase due to the additional Exchangeable securities received by Inovalis SA in lieu of asset management fees.

Net change in fair value of Exchangeable securities

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

For the three-month period ended March 31, 2018, the REIT reported a gain of \$114 which is the result of the increase in the closing price of the units which was \$10.05 on March 31, 2018 compared to \$9.97 on December 31, 2017 and the impact of the conversion of 419,059 Exchangeable securities in January 2018.

Current income tax expense

The current income tax expense of \$148 for the quarter ended March 31, 2017 is mainly due to a withholding tax paid by the REIT's Luxembourg holding company on the dividends it received from affiliates and tax paid by the REIT's Luxembourg entities.

Deferred tax expense

The deferred income tax expense of \$6,016 (and deferred income tax liabilities) corresponds to the origination of temporary differences arising from investment properties located in France and Germany. The increase of \$5,945 results principally from the anticipated change in the withholding tax rate between France and Luxembourg. Please refer to *Income Tax* for further details.

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.

(in thousands of CAD\$)	3-month period ended							
	March 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	March 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016
Rental income	6,714	6,381	6,323	6,271	5,970	6,706	6,172	5,853
Adjusted rental income	9,718	8,977	8,659	8,100	7,571	8,188	7,617	7,797
Net rental earnings	3,842	7,410	6,729	6,610	3,247	7,023	6,556	6,065
Adjusted net rental earnings	5,915	9,891	9,012	8,292	4,601	8,698	7,902	8,349
Adjusted Earnings for the period	(3,604)	13,651	2,216	159	3,141	2,984	11,833	5,839
Adjusted Earnings per Unit (CAD\$)	(0.09)	0.63	0.10	0.01	0.15	0.14	0.60	0.37

NON-GAAP RECONCILIATION

Funds from Operations (“FFO”)

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

Investments in joint ventures

The REIT’s proportionate share of the financial position and results of operation of its investment in joint ventures, which are accounted for using the equity method under IFRS in the 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 period and year ended March 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.

FFO and AFFO

<i>(in thousands of CAD\$)</i>	3 month ended March 31	
	2018	2017
Earnings for the period	(3,606)	3,201
Add/(Deduct):		
Adjustment to related acquisition costs	1,199	37
Net change in fair value of investment properties	(2,869)	(2,480)
(Gain) loss on financial instruments at fair value through profit and loss	987	(606)
Adjustment for property taxes accounted for under IFRIC 21	3,157	2,606
Additional income (loss from Arcueil's JV)	2,005	517
Interest on promissory notes	578	-
Distributions on Exchangeable securities	268	379
Change in fair value of Exchangeable securities	(1,127)	664
Change in fair value of Promissory Notes	(114)	-
Foreign exchange (loss) gain	(55)	-
Other non-recurring finance costs	256	-
Deferred income tax expense	6,016	71
Minority interest	2	5
FFO	6,698	4,394
Add/(Deduct):		
Non-cash effect of straight line rents	329	79
Cash effect of the lease equalization loans	(298)	(236)
Amortization of fair value adjustment on assumed debt	-	22
Amortization of transaction costs on mortgage loans	75	41
Non-cash part of asset management fees paid in Exchangeable securities ⁽¹⁾	556	419
Capex net of cash subsidy	(975)	(100)
AFFO	6,385	4,619
FFO / Units (diluted) <i>(in CAD\$)</i> ⁽²⁾	0.25	0.19
AFFO / Units (diluted) <i>(in CAD\$)</i> ⁽²⁾	0.24	0.20

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

(2) Based on the weighted average number of Units (fully diluted, including promissory notes issued in June and October 2017), i.e. 26,329,203 and 23,354,015 for the 3-month periods ended March 31, 2018 and March 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. Our FFO and AFFO calculations are based on the average foreign exchange rate for the period (1.5542 Canadian dollars per Euro for the period ended March 31, 2018).

Balance sheet reconciliation to consolidated financial statements

	As at March 31, 2018			As at December 31, 2017		
	As per REIT's financial statements ⁽¹⁾	Share from investments in joint-ventures	Proportionate Consolidation	As per REIT's financial statements ⁽¹⁾	Share from investments in joint-ventures	Proportionate Consolidation
Assets						
Non-current assets						
Investment properties	466,901	202,398	669,299	440,813	173,256	614,069
Investments accounted for using the equity method	91,916	(91,916)	-	79,094	(79,094)	-
Acquisition loans and deposit	27,282	359	27,641	27,035	334	27,369
Derivative financial instruments	104	-	104	59	90	149
Restricted cash	1,589	-	1,589	1,509	-	1,509
Total non-current assets	587,792	110,841	698,633	548,510	94,586	643,096
Current assets						
Trade and other receivables	5,771	2,225	7,996	5,192	1,783	6,975
Derivative financial instruments	-	109	109	-	20	20
Other current assets	1,804	1,327	3,131	1,395	635	2,030
Financial current assets	-	-	-	1,267	-	1,267
Restricted cash	-	636	636	-	797	797
Cash and cash equivalents	16,964	5,993	22,957	20,345	5,305	25,650
Total current assets	24,539	10,289	34,828	28,199	8,540	36,739
Total assets	612,331	121,130	733,461	576,709	103,126	679,835
Liabilities and Unitholders' equity						
Liabilities						
Non-current liabilities						
Promissory Notes	-	-	-	-	-	-
Mortgage loans	118,644	78,152	196,796	113,342	62,113	175,455
Finance lease liabilities	127,631	29,917	157,548	122,735	28,714	151,449
Other long-term liabilities	-	1,056	1,056	-	754	754
Lease equalization loans	3,070	-	3,070	3,196	-	3,196
Tenant deposits	2,450	107	2,557	2,292	105	2,397
Exchangeable securities	7,577	-	7,577	6,907	-	6,907
Derivative financial instruments	1,206	147	1,352	650	148	798
Deferred tax liabilities	8,415	3,250	11,665	3,059	2,175	5,234
Deferred income	-	-	-	3,260	-	3,260
Total non-current liabilities	268,993	112,629	381,622	255,441	94,008	349,450
Current liabilities						
Promissory Notes	23,980	-	23,980	23,789	-	23,789
Mortgage loans	3,521	145	3,665	2,660	590	3,249
Finance lease liabilities	6,435	1,265	7,700	6,014	1,180	7,193
Lease equalization loans	1,305	-	1,305	1,247	-	1,247
Tenant deposits	104	70	174	162	67	229
Exchangeable securities	6,242	-	6,242	9,836	-	9,836
Derivative financial instruments	2,616	1	2,616	1,316	1	1,317
Trade and other payables	11,469	7,459	18,928	6,341	6,308	12,649
Other current liabilities	901	781	1,682	431	683	1,114
Deferred income	9,381	450	9,832	4,195	290	4,485
Total current liabilities	65,954	10,170	76,124	55,991	9,118	65,108
Total liabilities	334,947	122,799	457,746	311,432	103,126	414,557
Equity						
Trust units	200,395	-	200,395	195,739	-	195,739
Retained earnings	38,091	(1,632)	36,460	44,749	-	44,749
Accumulated other comprehensive income	38,507	(37)	38,470	24,436	-	24,436
	276,993	-	275,325	264,924	-	264,924
Non-controlling interest	391	-	391	353	-	353
Total liabilities and equity	612,332	121,130	733,462	576,709	103,126	679,834

(1) Balance sheet amounts presented for the REIT were taken from the condensed interim consolidated financial statements as at March 31, 2018 and audited financial statements as at December 31, 2017.

Consolidated statement of earnings reconciliation to consolidated financial statements

<i>(in thousands of CAD\$)</i>	Three months ended					
	March 31, 2018			March 31, 2017		
	Amounts per REIT's financial statements ⁽¹⁾	Share of net earnings from investments in joint ventures	Total	Amounts per REIT's financial statements ⁽¹⁾	Share of net earnings from investments in joint ventures	Total
Rental income	6,714	3,004	9,718	5,970	1,601	7,571
Service charge income	2,146	813	2,959	1,850	329	2,180
Service charge expenses	(5,172)	(1,506)	(6,678)	(4,617)	(576)	(5,193)
Other revenues	244	(238)	6	85	1	86
Other property operating expenses	(90)	-	(90)	(41)	(2)	(43)
Net rental earnings	3,842	2,074	5,916	3,247	1,354	4,601
Administration expenses	(1,517)	(439)	(1,956)	(1,245)	(195)	(1,440)
Foreign exchange gain	55	-	55	-	-	-
Net change in fair value of investment properties	1,925	944	2,869	2,290	190	2,480
Acquisition costs	(20)	(1,179)	(1,199)	(37)	-	(37)
Share of profit of an investment (equity method)	835	(835)	-	(724)	724	-
Operating earnings	5,120	564	5,684	3,532	2,073	5,604
Gain (loss) on financial instruments at fair value through P&L	(983)	(5)	(988)	571	34	605
Finance income	3,363	(1,295)	2,068	1,783	(1,226)	557
Finance costs	(5,249)	2,078	(3,172)	(1,653)	(302) ⁽²⁾	(1,955)
Additional income (loss) from Arcueil's JV	-	(2,005)	(2,005)	-	(517)	(517)
Distributions on Exchangeable securities	(268)	-	(268)	(379)	-	(379)
Net change in fair value of Exchangeable securities	114	-	114	(664)	-	(664)
Net change in fair value of Promissory notes	1,128	-	1,128	-	-	-
Earnings before income taxes	3,225	(664)	2,561	3,189	61	3,251
Current income tax expense	(119)	(30)	(148)	(10)	(24)	(34)
Deferred income tax expense	(5,078)	(938)	(6,016)	(33)	(37)	(71)
Earnings for the period	(1,972)	(1,632)	(3,604)	3,146	-	3,146
Non-controlling interest	2	-	2	5	-	5
Earnings for the period (part attributable to the Trust)	(1,974)	(1,632)	(3,606)	3,141	-	3,141

(1) Income statement amounts presented for the REIT were taken from the condensed interim consolidated financial statements as at March 31, 2018 and March 31, 2017.

(2) Includes the REIT's share of the hedging cost of associated with the Arcueil joint-venture partnership.

(3) Reflects the additional loss assumed by the REIT in reference to its 75% right to the net profit/loss of the Arcueil joint venture.

PROPERTY CAPITAL INVESTMENTS

Fair value

The fair value of the REIT's investment property portfolio as at March 31, 2017 was \$669.3 million including the REIT's interests in the properties held in partnerships (vs. \$614.1 million as at December 31, 2017). The fair value of the French properties was \$483.1 million (72% of total asset value) and the fair value of the German properties was \$186.2 million (28% of total asset value).

The \$55.2 million increase is principally due to a \$19.3 million increase due to the Kösching asset acquisition, a \$32.6 million increase attributable to foreign exchange and a \$3.2 million increase due to IFRIC 21.

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

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.

Since the IPO in April 2013, a total of \$1.7 million has been spent on the three initial French properties (Jeuneurs, Courbevoie, Vanves), funded by a reserve that was set aside by the vendors of the four initial properties. In 2017, \$1,616 was spent on additional building improvements, principally for the Courbevoie and Metropolitan properties. In Q1 2018, \$975 was spent on improvement works chiefly for the Courbevoie, Metropolitan and Sablière properties.

Guarantees, commitments and contingencies

The REIT and its subsidiaries have provided guarantees in connection with the finance lease liabilities and the mortgage loans, including pledge of affiliates of the REIT, first mortgages and assignment of receivables and future receivables. As at March 31, 2018, guarantees provided by the REIT with respect to its long-term debts include a preferential claim held by mortgage lenders on the Jeuneurs, Baldi Veronese, Sablière and Hanover properties in the amount of \$99.7 million. Including the REIT's interest in the properties held in partnerships, preferential claim held by mortgage lenders on the properties totals \$157.2 million.

OTHER SIGNIFICANT ASSETS

Investments accounted for using the equity method

This section encompasses the 50% interest the REIT (through its subsidiaries) has in the Duisburg property, the 50% interest in the Walpur (Bad Homberg) 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. Our share of fair value of the investment properties accounted for using the equity method was \$91,916 as at March 31, 2018 compared to \$79,094 as at December 31, 2017. This increase is due to the acquisitions of Kösching and refinancing of Neu-Isenburg, \$10,908, loan repayments on the Stuttgart property of (\$462), the REIT's share of net losses from investments accounted for using the equity method of (\$2,023) and foreign exchange differences of \$4,399.

Acquisition loans and deposit

As at March 31, 2018, Acquisition loans and deposit of \$27.28 million consisted of the loan commitment for the Rueil project.

Trade and other receivables

Trade and other receivables as at March 31, 2018 amounted to \$7,996 including the REIT's interests in the properties held in partnerships compared to \$6,349 as at December 31, 2017. The difference of \$1,647, of which \$338 is due to foreign exchange movements, includes balances to be recharged related to the acquisitions of Neu-Isenburg and Ingolstadt (Kösching) and has increased in size in accordance with the growth of the joint venture portfolio.

Other current Assets

Other current assets as at March 31, 2018 amounted to \$3,131 compared to \$2,656 as at December 31, 2017. The increase of \$475, which includes a positive exchange impact of \$141, is principally linked to VAT receivable.

PRESENTATION OF OUR CAPITAL

Liquidity and capital resources

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

Including the REIT's interest in the joint ventures, cash available totals \$22.96 million as at March 31, 2018, compared to \$25.65 million as at December 31, 2017.

Financing activities

Our debt strategy is to have secured mortgage financing with a term to maturity that is appropriate in relation to the lease maturity profile of our portfolio and then to put in place, when appropriate, interest-only financings. We intend to search for fixed rate financings or floating rate financings with a cap. As such, 93.8% of the REIT's senior debt benefits from an interest rate protection (77.5% in the form of a swap and 16.3% in the form a cap). Our preference is to have staggered debt maturities to mitigate interest rate risk and limit refinancing exposure in any particular period. With no financial institution representing more than 20% of our senior debt commitment, we also make sure that the REIT has a diversified base of senior debt providers. Our debt to book value stands at 52.2% and net of the \$25.7 million of cash available (including financial current assets) as at March 31, 2018 (including the REIT's interest in the joint ventures), this debt to book value stands at 49.1%.

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

Entire portfolio incorporating interest in joint-ventures	As at March 31, 2018	As at December 31, 2017
Weighted average interest rate ⁽¹⁾	2.10%	2.10%
Debt-to-book value ⁽²⁾	52.2%	50.0%
Debt-to-book value, net of cash ⁽²⁾	49.1%	46.2%
Interest coverage ratio ⁽³⁾	4.6 x	3.9 x
Debt due in next 12 months in thousand of CAD\$	12,670	11,690
Weighted average term to maturity of debt ⁽⁴⁾	5.9 years	5.9 years

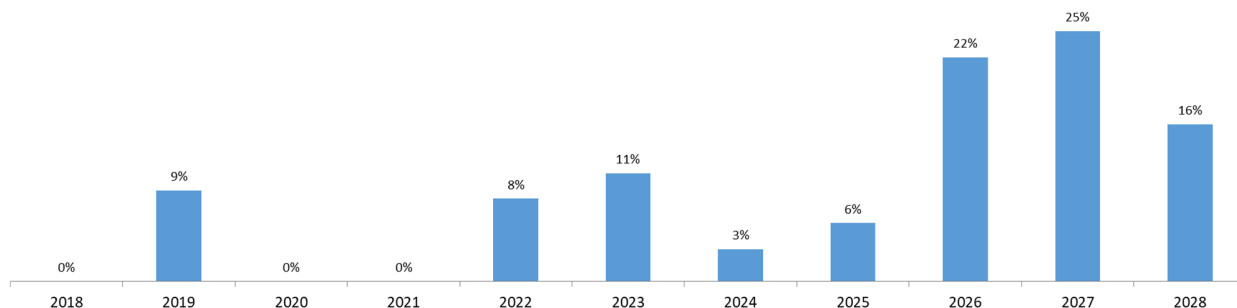
(1) Calculated as the weighted average interest rate paid on the finance leases and the mortgage financing.

(2) The definition of *debt-to-book value* and of *debt-to-book value, net of cash* can be found under the section *Non-GAAP Financial Measures*

(3) Calculated as net rental earnings plus interest, less general and administrative expenses, divided by interest expense on the financial leases and mortgage financings.

(4) Calculated as the weighted average term on all the financial leases and mortgage financings.

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



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.

	3-month period ended March 31, 2018
<u>Units</u>	
Number at beginning of period	22,235,421
Increase/(Decrease) in number during the period	419,059
Units issued pursuant to the DRIP	75,606
Number at end of period	22,730,086
Weighted average number during the period	22,579,076
<u>Exchangeable securities</u>	
Number at beginning of period	1,679,370
Increase/(Decrease) in number during the period	(304,261)
Number at end of period	1,375,109
Weighted average number during the period	1,364,023
<u>Promissory notes</u>	
Number at beginning of period	2,386,104
Increase/(Decrease) in number during the period	-
Number at end of period	2,386,104
Weighted average number during the period	2,386,104
<u>Units, Exchangeable securities and Promissory notes</u>	
Number at beginning of period	26,300,895
Increase/(Decrease) in number during the period	190,404
Number at end of period	26,491,299
Weighted average number during the period	26,329,203

Further to the Distribution Reinvestment Plan ("DRIP"), 75,606 Units were issued to Unitholders during Q1 2018. As at March 31, 2018, 8.79% 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.

To ensure the predictability of distributions to our Unitholders, we have established an active foreign exchange hedging program. As at March 31, 2018, the REIT was committed to sell €867 (on average) at an average rate of 1.5001 and to receive \$1,300 on a monthly basis until April 2019 (included).

<i>(in thousands of CAD\$ except for per Unit amounts)</i>	Three months ended March 31	
	2018	2017
Declared distributions on Units	4,684	4,444
Declared distributions on Exchangeable securities	268	379
Total declared distributions	4,952	4,823
Distribution per Unit (diluted)	\$ 0.20625	\$ 0.20625

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

SUBSEQUENT EVENTS

In April 2018, after quarter end, management announced the completion of a \$22 million private placement with an institutional investor. This private placement is structured as a convertible note and paying interest at 7.95%. The proceeds of this placement; which has allowed the REIT to avoid the dilutive impact of brokerage fees and issuing equity at a discount to the market price, will be used to fund imminent acquisitions.

We also announced the extension of our foreign exchange hedging program on April 25, 2018. The Euro has continued to significantly outperform relative to the Canadian dollar and the REIT has capitalized on this foreign exchange movement by extending its hedging program up to and including October 2020 at an average rate of \$1.6414/€. This hedging program is a safeguard for the consistent monthly distributions from the REIT.