

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

**For the six months ended June 30, 2019**

**(Unaudited)**

**Unaudited Interim Consolidated Balance Sheets**  
(All dollar amounts in thousands of Canadian dollars)

## INOVALIS REIT

Assets	Note	As at June 30, 2019	As at December 31, 2018
<b>Non-current assets</b>			
Investment properties	7	472 885	421 937
Investments in joint ventures	8	93 710	98 703
Acquisition loan	-	24 928	25 719
Derivative financial instruments	-	661	306
Restricted cash	5	5 485	1 644
<b>Total non-current assets</b>		<b>597 669</b>	<b>548 309</b>
<b>Current assets</b>			
Trade receivables and other financial assets	-	8 015	4 000
Derivative financial instruments	-	8 675	6 814
Other current assets	-	2 110	1 080
Cash	-	14 438	19 110
<b>Total current assets</b>		<b>33 238</b>	<b>31 004</b>
<b>Assets held for sale</b>	6	-	40 027
<b>Total assets</b>		<b>630 907</b>	<b>619 340</b>
Liabilities and equity	Note	As at June 30, 2019	As at December 31, 2018
<b>Non-current liabilities</b>			
Interest-bearing loan	14	484	-
Mortgage loans	9	135 773	83 391
Finance lease liabilities	9	122 166	120 547
Lease equalization loans	-	1 474	2 130
Tenant deposits	-	1 838	2 180
Derivative financial instruments	-	3 650	1 396
Deferred tax liabilities	-	8 400	8 428
Exchangeable securities	10	2 526	4 779
Deferred income	-	-	1 099
<b>Total non-current liabilities</b>		<b>276 311</b>	<b>223 950</b>
<b>Current liabilities</b>			
Promissory notes	-	44 898	42 471
Mortgage loans	9	4 356	14 588
Finance lease liabilities	9	8 546	6 637
Lease equalization loans	-	1 121	1 185
Tenant deposits	-	799	687
Derivative financial instruments	-	1 402	1 207
Exchangeable securities	10	5 727	3 203
Trade and other payables	-	12 627	7 145
Deferred income	-	3 134	4 394
<b>Total current liabilities</b>		<b>82 610</b>	<b>81 517</b>
<b>Liabilities directly associated with assets held for sale</b>	6	-	21 792
<b>Total liabilities</b>		<b>358 921</b>	<b>327 259</b>
<b>Equity</b>			
Trust units	-	209 599	207 442
Retained earnings	-	39 565	47 974
Accumulated other comprehensive income	13	21 670	36 146
<b>Total Unitholders' equity</b>		<b>270 834</b>	<b>291 562</b>
Non-controlling interest	-	1 152	519
<b>Total equity</b>		<b>271 986</b>	<b>292 081</b>
<b>Total liabilities and equity</b>		<b>630 907</b>	<b>619 340</b>

*See accompanying notes to the condensed interim consolidated financial statements*

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

“Daniel Argiros”  
Chairman and Trustee

“Jo-Ann Lempert”  
Audit Chair and Trustee

**Unaudited Interim Consolidated Statements of Income**

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

	<i>Note</i>	For the three months ended June 30, 2019	For the three months ended June 30, 2018 Restated (Note 2)	For the six months ended June 30, 2019	For the six months ended June 30, 2018 Restated (Note 2)
Rental revenue	-	6,593	6,539	12,636	13,253
Service charge revenue	-	2,162	1,957	4,595	4,103
Service charge expenses	-	(1,847)	(1,721)	(7,360)	(6,893)
Other revenues	-	-	180	-	424
Other property operating expenses	-	(184)	(73)	(242)	(163)
<b>Net rental income</b>		<b>6,724</b>	<b>6,882</b>	<b>9,629</b>	<b>10,724</b>
Administration expenses	-	(1,627)	(1,510)	(3,399)	(3,047)
Foreign exchange gain	-	(29)	29	-	84
Net change in fair value of investment properties	7	(1,577)	(587)	743	1,338
Loss on disposal of investment properties	6	42	-	(56)	-
Share of net income from joint ventures	8	(369)	3,597	544	1,574
<b>Operating earnings</b>		<b>3,164</b>	<b>8,411</b>	<b>7,461</b>	<b>10,673</b>
Net change in fair value of financial derivatives	-	(707)	45	(1,628)	1,821
Net change in fair value of Exchangeable securities	10	319	(48)	(330)	66
Net change in fair value of Promissory notes	-	1,183	(1,284)	(2,137)	(1,475)
Finance income	11	2,131	2,098	4,147	4,103
Finance costs	11	(2,652)	(2,830)	(5,314)	(5,222)
Distributions on Exchangeable securities	-	(178)	(286)	(355)	(554)
<b>Income before income taxes</b>		<b>3,260</b>	<b>6,106</b>	<b>1,844</b>	<b>9,412</b>
Current income tax expense	-	(78)	105	(127)	(14)
Deferred income tax expense	-	58	(242)	(379)	(5,320)
<b>Net income</b>		<b>3,240</b>	<b>5,969</b>	<b>1,338</b>	<b>4,078</b>
<b>Net income attributable to :</b>					
Non-controlling interest	-	39	(1)	7	1
Unitholders' of the Trust	-	3,201	5,970	1,331	4,077
		<b>3,240</b>	<b>5,969</b>	<b>1,338</b>	<b>4,078</b>

*See accompanying notes to the condensed interim consolidated financial statements*

## Unaudited Interim Consolidated Statements of Comprehensive (Loss) Income

(All dollar amounts in thousands of Canadian dollars)

	Note	For the three months ended June 30, 2019	For the three months ended June 30, 2018 Restated (Note 2)	For the six months ended June 30, 2019	For the six months ended June 30, 2018 Restated (Note 2)
Net income (loss)		3,240	5,969	1,338	4,078
<b>Other comprehensive income (loss)</b>		-			
Items that may be reclassified subsequently to income :					
Net losses on derivatives designated as a hedge of the net investment in a	-	269	1,000	1,406	42
Reclassification of net losses to income	-	143	171	295	348
Change in cumulative translation adjustment account	-	(1,575)	(11,593)	(15,834)	4,489
Share of other comprehensive income (loss) of joint ventures	-	(49)	(160)	(349)	(35)
Items that may not be reclassified subsequently to income :					
Disposal of a part of interest		-	-	(389)	-
Acquisition of investment properties		-	-	930	-
Capital increase from minority interest		-	-	91	-
<b>Other comprehensive income (loss) net of tax</b>		<b>(1,212)</b>	<b>(10,582)</b>	<b>(13,850)</b>	<b>4,844</b>
<b>Total comprehensive income (loss)</b>		<b>2,028</b>	<b>(4,613)</b>	<b>(12,512)</b>	<b>8,922</b>
<b>Total comprehensive income (loss) attributable to :</b>					
Non-controlling interest	-	104	(25)	633	13
Unitholders of the Trust	-	1,924	(4,588)	(13,145)	8,909
<b>Total comprehensive income (loss)</b>		<b>2,028</b>	<b>(4,613)</b>	<b>(12,512)</b>	<b>8,922</b>

## Unaudited Interim Consolidated Statements of Changes in Equity

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

	Note	Number of Units issued and outstanding	Trust Units	Retained earnings	Accumulated other comprehensive income	Total attributable to the Unitholders' of the Trust	Non-controlling interest	Total equity
As at December 31, 2018		23,513,652	207,442	47,974	36,146	291,562	519	292,081
Issuance of units	-	90,500	792	-	-	792	-	792
Distributions earned by Unitholders	12	-	-	(9,740)	-	(9,740)	-	(9,740)
Distributions reinvestment Plan	12	139,466	1,365	-	-	1,365	-	1,365
		<u>229,966</u>	<u>2,157</u>	<u>(9,740)</u>	<u>-</u>	<u>(7,583)</u>	<u>-</u>	<u>(7,583)</u>
Net income (loss)		-	-	1,331	-	1,331	7	1,338
Other comprehensive income (loss)		-	-	-	(14,476)	(14,476)	626	(13,850)
Comprehensive income (loss)		-	-	1,331	(14,476)	(13,145)	633	(12,512)
<b>As at June 30, 2019</b>		<b>23,743,618</b>	<b>209,599</b>	<b>39,565</b>	<b>21,670</b>	<b>270,834</b>	<b>1,152</b>	<b>271,986</b>
As at December 31, 2017		22,235,421	195,739	44,749	24,436	264,924	353	265,277
Issuance of units	-	419,059	3,939	-	-	3,939	-	3,939
Distributions earned by Unitholders	12	-	-	(9,378)	-	(9,378)	-	(9,378)
Distributions reinvestment Plan	12	120,405	1,163	-	-	1,163	-	1,163
		<u>539,464</u>	<u>5,102</u>	<u>(9,378)</u>	<u>-</u>	<u>(4,276)</u>	<u>-</u>	<u>(4,276)</u>
Net income (loss)		-	-	4,077	-	4,077	1	4,078
Other comprehensive income		-	-	-	4,832	4,832	12	4,844
Comprehensive income		-	-	4,077	4,832	8,909	13	8,922
<b>As at June 30, 2018</b>		<b>22,774,885</b>	<b>200,841</b>	<b>39,448</b>	<b>29,268</b>	<b>269,557</b>	<b>366</b>	<b>269,923</b>

See accompanying notes to the condensed interim consolidated financial statements

## Unaudited Interim Consolidated Statements of Cash Flows

(All dollar amounts in thousands of Canadian dollars)

	Note	For the three months ended June 30, 2019	For the three months ended June 30, 2018 Restated (Note 2)	For the six months ended June 30, 2019	For the six months ended June 30, 2018 Restated (Note 2)
<b>Operating activities</b>					
Income (loss) before income taxes	-	3 260	6 106	1 844	9 412
Interest received	-	2 097	4 383	4 109	5 640
Interest paid (on mortgage, lease liabilities and lease equalization loans)	-	(1 307)	(3 082)	(4 961)	(4 652)
Income tax paid	-	(78)	105	(127)	(14)
Distributions in respect of exchangeable securities paid in cash	-	(197)	(380)	(370)	(634)
Adjustments for non-cash items and other reconciling items	16	2 153	392	5 145	482
		<b>5 928</b>	<b>7 524</b>	<b>5 640</b>	<b>10 234</b>
Working capital adjustments	16	(3 828)	(10 142)	(1 767)	(948)
<b>Net cash flows related to operating activities</b>		<b>2 100</b>	<b>(2 618)</b>	<b>3 873</b>	<b>9 286</b>
<b>Investing activities</b>					
Investment properties (additions and capitalized letting fees)	7	(498)	(1 346)	(352)	(2 321)
Acquisitions of investment property	5	55	-	(26 928)	-
Proceeds from sale of investment property	6	44	-	15 960	-
Investments in joint ventures	8	-	(1 529)	-	(11 272)
Loan repayments received from joint ventures	8	466	413	816	875
Reimbursement of acquisition loans	-	-	1 159	-	1 159
Investment in other financial assets	-	4	-	(1 506)	-
Decrease in financial current assets	-	(222)	(6)	1 623	1 159
<b>Net cash flows related to investing activities</b>		<b>(151)</b>	<b>(1 309)</b>	<b>(10 387)</b>	<b>(10 400)</b>
<b>Financing activities</b>					
Distributions on Units paid in cash	12	(4 176)	(4 245)	(8 357)	(8 178)
Proceeds from promissory notes	-	-	20 106	-	20 106
Issuance (reimbursement) of mortgage loans and finance lease liabilities net of transaction costs	9	(277)	-	77 511	-
Repayment of mortgage loans and finance lease liabilities	-	(3 280)	(1 696)	(66 771)	(3 903)
Repayment of lease equalization loans	16	(283)	(299)	(568)	(597)
<b>Net cash flows related to financing activities</b>		<b>(8 016)</b>	<b>13 866</b>	<b>1 815</b>	<b>7 428</b>
<b>Net increase (decrease) in cash</b>		<b>(6 067)</b>	<b>9 939</b>	<b>(4 699)</b>	<b>6 314</b>
Effects of foreign exchange adjustments on cash	-	(88)	92	(857)	336
<b>Cash at the beginning of the period<sup>(1)</sup></b>		<b>20 593</b>	<b>16 964</b>	<b>19 994</b>	<b>20 345</b>
<b>Cash at the end of the period</b>		<b>14 438</b>	<b>26 995</b>	<b>14 438</b>	<b>26 995</b>

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

See accompanying notes to the condensed interim consolidated financial statements

## Note 1 – Organization

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

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

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

## Note 2 – Basis of preparation of consolidated financial statements

### Statement of compliance

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

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

### Basis of presentation

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

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

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

- Part of the change in fair value of Promissory notes is reclassified from “Change in cumulative translation adjustment account” to “Net change in fair value of Promissory notes” for an amount of \$(401) as at June 30, 2018;
- The adjustment of the acquisition loan interest at 14% due to the recognition of the call option derivative decrease “Finance income” for an amount of \$(1,565) and increase “Net change in fair value of financial derivatives” for an amount of \$2,983 as at June 30, 2018 ;

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

- The share profit of the Arcueil joint-venture is reclassified from “Finance costs” to “Share of net earnings from joint ventures” for an amount of \$2,858 for the three months ended June 30, 2018;
- Distributions in respect of exchangeable securities paid in cash are reclassified from “Financing activities” to “Operating activities” in the cash-flows statements.

### **Note 3 – Significant accounting policies**

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

#### **Amendment to IFRS 3 R Business combinations**

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

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

Other changes introduced by this amendment are:

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

#### **IFRIC 21 – Levies**

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

#### **IFRIC 23 – Uncertainty over Income Tax Treatments issued**

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

#### **IFRS 16 – Leases**

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

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

#### **Note 4 – Critical accounting judgments and estimates**

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

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

Regarding the deferred tax liabilities, since July 2, 2019, the revised Double Tax Treaty (DTT) has been ratified by both France and Luxembourg. Assuming that instruments of ratification are exchanged between France and Luxembourg in 2019, it will come into effect in 2020.

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

#### **Note 5 – Acquisition of investment properties**

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

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

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



# INOVALIS REIT

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

(1) Including cash for €72 (\$109).

## Note 6 – Assets held for sale

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

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

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

Assets	At the date of disposal	As at December 31, 2018
<b>Non-current assets</b>		
Investment property	37,378	39,030
<b>Total non-current asset</b>	<b>37,378</b>	<b>39,030</b>
<b>Current assets</b>		
Trade and financial assets	9	62
Other current assets	34	51
Cash	952	884
<b>Total current assets</b>	<b>995</b>	<b>997</b>
<b>Total assets</b>	<b>38,373</b>	<b>40,027</b>
Liabilities	At the date of disposal	As at December 31, 2018
<b>Non-current liabilities</b>		
Mortgage loans	18,730	19,523
Deferred tax liabilities	1,444	1,508
<b>Total non-current liabilities</b>	<b>20,174</b>	<b>21,031</b>
<b>Current liabilities</b>		
Trade and other payables	842	723
Other current liabilities	47	38
<b>Total current liabilities</b>	<b>889</b>	<b>761</b>
<b>Total liabilities</b>	<b>21,063</b>	<b>21,792</b>
<b>Net assets held for sale</b>	<b>17,310</b>	<b>18,235</b>

## INOVALIS REIT

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

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

## Note 7 – Investment properties

	For the six months ended June 30, 2019	For the year ended December 31, 2018
<b>Balance, beginning of period</b>	<b>421,937</b>	<b>440,813</b>
Acquisition of Trio Property	71,497	-
CAPEX	400	3,858
Capitalized letting fees	(48)	818
Rent free periods	(469)	(926)
Net change in fair value of investment properties	743	335
Foreign currency translation adjustment	(21,175)	16,069
Assets classified as held for sale	-	(39,030)
<b>Balance, end of period</b>	<b>472,885</b>	<b>421,937</b>

	As at June 30, 2019			As at December 31, 2018		
	France	Germany	Total	France	Germany	Total
Fair value of investment properties for financial reporting purposes						
Market value (in Euros) as estimated by external appraisers	271,180	46,900	318,080	271,570	24,960	296,530
IFRIC 21 adjustment	1,156	-	1,156			
Option costs	(1,650)	-	(1,650)	(1,737)	-	(1,737)
<b>Adjusted market value in Euros</b>	<b>270,686</b>	<b>46,900</b>	<b>317,586</b>	<b>269,833</b>	<b>24,960</b>	<b>294,793</b>
Exchange adjustment	132,365	22,934	155,299	135,665	13,025	148,690
<b>Adjusted market value in CAD\$</b>	<b>403,051</b>	<b>69,834</b>	<b>472,885</b>	<b>421,937</b>	<b>39,030</b>	<b>460,967</b>
Principal method used to value property	Direct Capitalization Method	Discounted cash flow		Discounted cash flow & Direct Capitalization Method	Discounted cash flow	
Number of years used in cash flow projection	10	10		10	10	
Discount rate	4,20% to 6,75%	5,50%		4,20% to 6,75%	5,20%	
Weighted average discount rate	5,59%	5,50%		5,63%	5,20%	
Weighted average ending capitalization rate	5,59%	5,50%		5,63%	5,20%	
Impact on the fair value of investment properties of :						
an increase of 25 bps in discount rates	(17,977)	(3,036)	(21,013)	(18,792)	(1,790)	(20,582)
a decrease of 25 bps in discount rates	19,826	3,325	23,151	20,722	1,971	22,693

## Finance leases

The REIT leases various investment properties with a carrying amount of \$219,427 (2018 – \$229,336) under finance leases expiring within eight to ten years.

## Note 8 – Investments in joint ventures

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

	CCD	Walpur	Arcueil <sup>2</sup>	Cologne	Stuttgart	Delizy	Neu Isenburg	Kösching	Total
<b>Balance -December 31, 2017</b>	<b>20,298</b>	<b>8,786</b>	<b>13,780</b>	<b>698</b>	<b>15,635</b>	<b>8,375</b>	<b>11,522</b>	<b>-</b>	<b>79,094</b>
Additional investment of the year	-	-	-	-	-	-	2,334	9,086	11,420
Share of net income (loss) from investments <sup>1</sup>	(450)	266	2,340	253	1,135	73	1,739	1,570	6,926
Loan to joint ventures repayments	-	-	-	-	(887)	-	(625)	(338)	(1,850)
Exchange differences	726	324	552	31	572	305	494	109	3,113
<b>Balance -December 31, 2018</b>	<b>20,574</b>	<b>9,376</b>	<b>16,672</b>	<b>982</b>	<b>16,455</b>	<b>8,753</b>	<b>15,464</b>	<b>10,427</b>	<b>98,703</b>
Share of net income (loss) from investments <sup>1</sup>	70	171	(448)	3	281	57	117	293	544
Loan to joint ventures repayments	-	-	-	-	(188)	-	(566)	(62)	(816)
Exchange differences	(984)	(450)	(791)	(47)	(787)	(419)	(734)	(509)	(4,721)
<b>Balance - June 30, 2019</b>	<b>19,660</b>	<b>9,097</b>	<b>15,433</b>	<b>938</b>	<b>15,761</b>	<b>8,391</b>	<b>14,281</b>	<b>10,149</b>	<b>93,710</b>

- (1) The share of net income (loss) from investments includes the interest expense in relation to the loans granted to the joint ventures. The interest earned by the REIT in relation to these loans amounts to \$ 2,598 (2018 – \$ 2,687) and are included in “Finance income” (see note 11).
- (2) The share of net income (loss) from investments regarding Arcueil property includes the variance of the foreign exchange derivative (conversion from € to KRW). The REIT is entitled to receive a 25% share of the net earnings and, upon asset disposal, 75% of the variance of fair value of investment properties, reduced by 100% of foreign exchange derivative costs. As at June 30, 2019 the forward contract had an unrealized loss of \$ (3,697) (2018 - \$ (2,551) as at December 31, 2018).

The balance of the investments in joint ventures as at June 30, 2019 includes loans to Joint Ventures for a recoverable amount of \$ 46,945 which is detailed as follows:

Loans to joint ventures	CCD	Walpur	Arcueil	Cologne	Stuttgart	Delizy	Neu Isenburg	Kösching	Total
Balance - June 30, 2019	14,821	4,710	-	786	12,074	8,391	3,790	2,373	<b>46,945</b>
Balance -December 31, 2018	15,564	4,946	-	825	12,876	8,753	4,568	2,557	<b>50,089</b>

## Note 9 – Mortgage loans and finance lease liabilities

On March 18, 2019 the REIT entered into a new finance lease for the Metropolitan property in the amount of €43,000 (\$ 64,775), with a twelve-year term and a fixed rate of interest of 2.07% for five years, after which the interest rate is variable based on 1.84% + Euribor 3M (All-in-rate as at June 30, 2019 of 1.84%). Expenditures associated with obtaining the new financing of €901 (\$1,357) will be amortized over the twelve-year term. The loan is secured by the Metropolitan investment property. On closing, the REIT repaid an outstanding balance of €34,020 (\$ 51,248) under the old finance lease.

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

**Note 10 – Exchangeable securities**

Exchangeable securities issued and outstanding	Exchangeable securities	
	Number of Exchangeable securities	Carrying amount of Exchangeable securities
<b>Balance -December 31, 2017</b>	<b>1,679,370</b>	<b>16,743</b>
Asset management fees paid in exchangeable securities	229,740	2,280
Conversion of exchangeable securities into units of the REIT	(1,064,437)	(9,559)
Net change in fair value of exchangeable securities	-	(1,482)
<b>Balance -December 31, 2018</b>	<b>844,673</b>	<b>7,982</b>
Asset management fees paid in exchangeable securities	71,962	733
Conversion of exchangeable securities into units of the REIT	(90,500)	(792)
Net change in fair value of exchangeable securities	-	330
<b>Balance - June 30, 2019</b>	<b>826,135</b>	<b>8,253</b>

**Note 11 – Finance costs and finance income**

	For the three months ended June 30, 2019	For the three months ended June 30, 2018	For the six months ended June 30, 2019	For the six months ended June 30, 2018
Interest costs related to mortgage loans	(625)	(537)	(1,089)	(1,077)
Interest costs related to finance leases	(677)	(623)	(1,300)	(1,253)
Interest costs related to lease equalization loans	(51)	(48)	(87)	(100)
Interest costs related to promissory notes	(1,047)	(958)	(2,084)	(1,536)
	<b>(2,400)</b>	<b>(2,166)</b>	<b>(4,560)</b>	<b>(3,966)</b>
Interest SWAP & CAP	(402)	(342)	(747)	(662)
Other finance costs	231	(248)	141	(445)
	<b>(2,571)</b>	<b>(2,756)</b>	<b>(5,166)</b>	<b>(5,073)</b>
Amortization of transaction costs on mortgage loans	(81)	(74)	(148)	(149)
<b>Finance costs</b>	<b>(2,652)</b>	<b>(2,830)</b>	<b>(5,314)</b>	<b>(5,222)</b>
Finance income from a company controlled by Inovalis SA relating to the acquisition loan	834	719	1,533	1,386
Financial income from joint ventures loans	1,287	1,371	2,598	2,687
Other finance income	10	8	16	30
<b>Finance income</b>	<b>2,131</b>	<b>2,098</b>	<b>4,147</b>	<b>4,103</b>

**Note 12 – Distributions**

	For the three months ended June 30, 2019	For the three months ended June 30, 2018	For the six months ended June 30, 2019	For the six months ended June 30, 2018
Amount payable at the beginning of the period	1,622	1,563	1,618	1,529
Declared and recognised during the period	4,880	4,694	9,740	9,378
Distributions paid in units (Distribution Reinvestment Plan)	(690)	(446)	(1,365)	(1,163)
Paid in cash	(4,176)	(4,245)	(8,357)	(8,178)
<b>Amount payable at the end of the period</b>	<b>1,636</b>	<b>1,566</b>	<b>1,636</b>	<b>1,566</b>

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

**Note 13 – Accumulated other comprehensive income**

	As at June 30, 2019	As at December 31, 2018
Net unrealized gains on derivatives designated as a hedge of the net investment in foreign entities	2,269	863
Net unrealized losses on interest rate derivatives formerly designated as a cash flow hedge	(109)	(404)
Cumulative translation adjustment account	19,510	35,687
<b>Accumulated other comprehensive income</b>	<b>21,670</b>	<b>36,146</b>

**Note 14 – Transactions with related parties****Inovalis SA – Asset manager**

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

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

Inovalis and its subsidiaries	Financial statement line item	Note	For the six months ended June 30, 2019	For the six months ended June 30, 2018
<b>Revenues</b>				
Acquisition fees reimbursed	Other revenues	D	-	410
Interest income from acquisition loan	Finance income	11	1,533	1,386
			<u>1,533</u>	<u>1,796</u>
<b>Expenses</b>				
Asset management fees	Administration expenses	A	(815)	(1,325)
Facilities management fees	Service charge expenses	B	(347)	(307)
Property management Fees	Service charge expenses	C	(676)	(978)
Expenses related to the distribution for exchangeable securities	Distributions on Exchangeable securities		(355)	(554)
Interest expense on lease equalization loans	Finance costs	11	(87)	(100)
Reimbursement of travel expenses	Administration expenses		(168)	(116)
Trustee fees	Administration expenses		(225)	(158)
			<u>(2,673)</u>	<u>(3,538)</u>
<b>Unitholders' Equity</b>				
Conversion of Exchangeable securities into units of the REIT	Issuance of Units	10	(792)	(3,939)
			<u>(792)</u>	<u>(3,939)</u>
<b>Assets</b>				
Acquisition fees capitalized for the period	Investments in joint ventures or in subsidiaries	D	-	421
Acquisition fees capitalized for the period	Investment properties	E	1,439	-
			<u>1,439</u>	<u>421</u>
<b>Liabilities</b>				
Exchangeable securities issued for the period	Exchangeable securities	10	733	1,566
			<u>733</u>	<u>1,566</u>

(A) Asset management fees of \$815 and \$1,325 for the six months ended June 30, 2019 and June 30, 2018 respectively, correspond to the asset management fees earned for the entire portfolio, including \$771 and \$761 attributable to assets held through joint-ventures. Since April 1, 2018 asset management fees have been reduced from 0.75% to 0.50% and calculated based on the book value of assets. Fees are payable in cash and/or exchangeable securities, the exact composition of which is determined by the Board annually.

(B) Following a tender process, the REIT engaged to continue with the existing terms in place for facility management fees. Under the terms of this contract, the REIT will be subject to fees of 10% of the operating budget of buildings (K\$ 173) and a variable project management charge based on works completed (K\$ 174). These facility management fees are fully rechargeable to tenants.

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

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

(E) Includes fees to Inovalis SA of \$764 and to an entity related to Inovalis SA of \$675.

# INOVALIS REIT

Inovalis and its subsidiaries	Due from (to) Inovalis SA	
	As at June 30, 2019	As at December 31, 2018
<b>Assets</b>		
Acquisition loan	24,928	25,719
Call option related to the acquisition loan	7,084	6,750
Trade and other receivables	89	848
	<b>32,101</b>	<b>33,317</b>
<b>Liabilities</b>		
Interest-bearing loan	484	-
Lease equalization loans	2,595	3,315
Distributions payable	234	249
Exchangeable securities	8,253	7,982
Trade and other payables	1,964	2,327
	<b>13,530</b>	<b>13,873</b>

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

## Joint ventures

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

Joint ventures	Financial statement line item	For the six months ended June 30, 2019	For the six months ended June 30, 2018
Management fees invoiced to joint ventures	Administration expenses	771	761
Acquisition fees <sup>1</sup>	Acquisition costs	-	101
Finance income	Finance income	2,598	2,687
		<b>3,369</b>	<b>3,549</b>

(1) An acquisition fee ("Acquisition Fee") in the amount of 1% of the purchase price of any property acquired by the REIT, payable in cash, on completion of each acquisition, provided that no such Acquisition Fee will be payable in respect of the acquisition of properties owned or managed by the Manager. Acquisition fees of 183 € (\$ 281) at June 30, 2019 correspond to the acquisition fees earned for the entire portfolio, including 274 € (\$421) of acquisition fees capitalized in the investments in joint ventures and 157 € (\$ 241) of reimbursement to CCE.

		Due from joint ventures	
		As at June 30, 2019	As at December 31, 2018
Loan receivable	Investments accounted for using the equity method	46,945	50,089
Interest receivables	Other current assets	331	-
Accounts receivable	Trade and other receivables	321	243
		<b>47,597</b>	<b>50,332</b>

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

## Remuneration of key management personnel

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

	For the six months ended June 30, 2019	For the six months ended June 30, 2018
Wages, fees and other benefits	(626)	(158)
	<b>(626)</b>	<b>(158)</b>

**Note 15 – Fair value measurements**

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

	As at June 30, 2019			
	Level 1	Level 2	Level 3	Total
Investment properties	-	-	472,885	472,885
Derivative financial instruments - assets	-	2,255	-	2,255
Call option related to the acquisition loan	-	-	7,084	7,084
Derivative financial instruments - liabilities	-	(5,052)	-	(5,052)
Exchangeable securities	-	(8,253)	-	(8,253)
Promissory notes	-	(44,898)	-	(44,898)

  

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

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

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

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

## Note 16 – Cash flow information

	Note	For the three months ended June 30, 2019	For the three months ended June 30, 2018 Restated (Note 2)	For the six months ended June 30, 2019	For the six months ended June 30, 2018 Restated (Note 2)
<b>Adjustments for non-cash items and other reconciling items:</b>					
Elimination of gains or losses on disposal	6	(44)	-	56	-
Rent free period	7	266	320	469	649
Management fees paid in Exchangeable securities	10	349	804	733	1,566
Net change in fair value of investment properties	7	1,576	587	(743)	(1,338)
Net change in fair value of financial derivatives	-	707	(45)	1,628	(1,821)
Distributions recognized on Exchangeable securities	-	178	286	355	554
Net change in fair value of Exchangeable securities	10	(319)	48	330	(66)
Net change in fair value of Promissory notes	-	(1,183)	1,284	2,137	1,475
Finance income	11	(2,131)	(2,098)	(4,147)	(4,103)
Finance costs	11	2,652	2,830	5,314	5,222
Share of net earnings from investments in joint venture	8	370	(3,597)	(544)	(1,574)
Net unrealized exchange loss (gain)	-	29	(27)	-	(82)
Acquisition loan	-	(297)	-	(443)	-
		<u>2,153</u>	<u>392</u>	<u>5,145</u>	<u>482</u>
<b>Working capital adjustments</b>					
Increase in trade and other receivables	-	(1,100)	(1,953)	(4,894)	(1,188)
Increase in tenant deposits	-	10	147	(3)	25
(Decrease) Increase in trade and other payables	-	(2,738)	(8,336)	3,130	215
		<u>(3,828)</u>	<u>(10,142)</u>	<u>(1,767)</u>	<u>(948)</u>

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

Liabilities	As at December 31, 2018	Cash flows								As at June 30, 2019
			Amortization of issuance costs on promissory notes	Acquisition of investment properties	Disposal of a part of interest	Issuance of exchangeable securities	Conversion into units	Foreign exchange movement	Fair value changes	
Promissory notes	42,471	-	290	-	-	-	-	-	2,137	44,898
Exchangeable securities	7,982	-	-	-	-	733	(792)	-	330	8,253
Mortgage loans <sup>1</sup>	117,502	1,024	-	46,517	(18,730)	-	-	(6,184)	-	140,129
Finance lease liabilities	127,184	9,716	-	-	-	-	-	(6,188)	-	130,712
Lease equalization loans	3,315	(568)	-	-	-	-	-	(152)	-	2,595

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

## Note 17 – Subsequent Events

Subsequent to quarter end, at Jeuneurs property, an agreement was signed with the current single tenant to extend the in-place lease by 2 years and 8 months until August 31, 2023.

On July 25, 2019, the forward sale agreement for the underlying asset relating to the “Rueil development loan” was signed. The economics of this exchange agreement confirm the budgetary assumptions applied by Management in valuing the profit participation component of the loan since 2018 and allow Management to anticipate future (2020) fund inflows following the reimbursement of the loan, as per the initial loan plan.



## Corporate information

### Head office

Inovalis REIT  
151 Yonge Street, 11<sup>th</sup> floor  
Toronto, Ontario, M5C 2W7

### Investor relations

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

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

### Stock exchange listing

The Toronto Stock Exchange  
Listing symbol: INO.UN

### Distribution Reinvestment Plan

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

# INOVALIS

REAL ESTATE INVESTMENT TRUST

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## **INOVALIS REIT**

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