

**INOVALIS REIT 2016 First Quarter Report**

**INOVALIS REIT  
CONDENSED INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS (unaudited)  
Three-month period ended March 31, 2016**

**The attached unaudited condensed interim consolidated financial statements have been prepared by management of Inovalis Real Estate Investment Trust and have not been reviewed by the auditors of the Trust.**

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

(in thousands of Canadian dollars)

<b>Assets</b>	<b>Note</b>	<b>As at March 31, 2016</b>	<b>As at December 31, 2015</b>
<b>Non-current assets</b>			
Investment properties	5	426,443	355,704
Investments accounted for using the equity method	6	37,320	40,337
Acquisition loan		-	18,786
Derivative financial instruments	8	333	92
Other long term assets		1,478	-
Restricted cash		698	1,375
<b>Total non-current assets</b>		<b>466,272</b>	<b>416,294</b>
<b>Current assets</b>			
Trade and other receivables		4,725	4,803
Derivative financial instruments	8	41	197
Other current assets		1,597	1,333
Restricted cash		305	305
Cash and cash equivalents		11,851	6,895
<b>Total current assets</b>		<b>18,519</b>	<b>13,533</b>
<b>Total assets</b>		<b>484,791</b>	<b>429,827</b>
<b>Liabilities and equity</b>	<b>Note</b>	<b>As at March 31, 2016</b>	<b>As at December 31, 2015</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Mortgage loans	7	87,731	70,779
Finance lease liabilities	7	152,745	120,285
Lease equalization loans		4,478	5,090
Tenant deposits		2,436	1,746
Exchangeable securities	9	21,879	18,034
Provision relating to an investment accounted for using the equity method	6	1,070	925
Derivative financial instruments	8	2,888	2,698
Deferred tax liabilities		1,231	1,651
<b>Total non-current liabilities</b>		<b>274,458</b>	<b>221,208</b>
<b>Current liabilities</b>			
Mortgage loans	7	462	415
Finance lease liabilities	7	6,167	6,217
Lease equalization loans		1,534	1,335
Tenant deposits		114	116
Exchangeable securities	9	1,798	1,366
Derivative financial instruments	8	837	878
Trade and other payables		10,577	6,174
Other current liabilities		1,077	469
<b>Total current liabilities</b>		<b>22,566</b>	<b>16,970</b>
<b>Total liabilities</b>		<b>297,024</b>	<b>238,178</b>
<b>Equity</b>			
Trust units		136,622	136,365
Retained earnings		34,790	35,359
Accumulated other comprehensive income	13	16,396	19,925
		187,808	191,649
Non-controlling interest		(41)	-
<b>Total equity</b>		<b>187,767</b>	<b>191,649</b>
<b>Total liabilities and equity</b>		<b>484,791</b>	<b>429,827</b>

See accompanying notes to condensed interim consolidated financial statements

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

**Stéphane Amine**  
Chairman and Trustee

**Daniel Argiros**  
Lead Trustee

## INOVALIS REIT

### Interim Consolidated Statements of Earnings

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

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

	<i>Note</i>	For the three months ended March 31, 2016	For the three months ended March 31, 2015
Rental income		5,673	5,283
Service charge income		1,590	1,729
Service charge expenses		(4,485)	(3,802)
Other property operating expenses		(41)	(21)
<b>Net rental earnings</b>		<u>2,737</u>	<u>3,189</u>
Administration expenses		(1,218)	(1,000)
Foreign exchange gain		94	9
Net change in fair value of investment properties	5	(2,907)	1,750
Gain on bargain purchase	4	9,877	-
Acquisition costs		(659)	-
Share of net earnings from investments accounted for using the equity method		(205)	170
<b>Operating earnings</b>		<u>7,720</u>	<u>4,118</u>
Gain (loss) on financial instruments at fair value through profit or loss		(144)	633
Loss recognized on exercise of early payment option on finance leases	4	(1,920)	-
Loss on refinancing of a debt	7	(605)	-
Finance income	10	1,166	560
Finance costs	10	(2,630)	(1,229)
Distributions on Exchangeable securities	9	(452)	(429)
Net change in fair value of Exchangeable securities	9	(616)	(552)
<b>Earnings before income taxes</b>		<u>2,519</u>	<u>3,101</u>
Current income tax expense		(85)	(36)
Deferred income tax recovery		153	-
<b>Earnings for the period</b>		<u><u>2,587</u></u>	<u><u>3,065</u></u>
<b>Earnings for the period attributable to :</b>			
Non-controlling interest		(41)	-
Unitholders' of the Trust		<u>2,628</u>	<u>3,065</u>
		<u><u>2,587</u></u>	<u><u>3,065</u></u>
<b>Earnings per unit attributable to unit holders:</b>	11		
Basic earnings per unit		0.17	0.20
Diluted earnings per unit		0.17	0.20

See accompanying notes to condensed interim consolidated financial statements

## INOVALIS REIT

### Interim Consolidated Statements of Comprehensive Income (loss)

(Unaudited - All dollar amounts in thousands of Canadian dollars)

(in thousands of Canadian dollars)

	Note	For the three months ended March 31, 2016	For the three months ended March 31, 2015
<b>Earnings for the period</b>		<b>2,587</b>	<b>3,065</b>
<b>Other comprehensive income (loss)</b>			
Derivatives designated as a hedge of the net investment in a foreign entity			
Net losses		402	650
Derivatives designated as cash flow hedges			
Net losses		(422)	(128)
Reclassification of net losses to earnings		20	24
Change in cumulative translation adjustment account		(3,529)	(5,187)
Total other comprehensive income (loss)		(3,529)	(4,641)
<b>Total comprehensive income (loss) for the period</b>		<b>(942)</b>	<b>(1,576)</b>

See accompanying notes to condensed interim consolidated financial statements

### Interim Consolidated Statements of changes in Unitholders' Equity

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

(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
As at December 31, 2015		15,637,019	136,365	35,359	19,925	191,649
Distributions earned by Unitholders	12	-	-	(3,229)	-	(3,229)
Distributions payable				74		74
Distributions reinvestment Plan	12	28,468	257	-	-	257
Transactions with owners		28,468	257	(3,155)	-	(2,898)
Earnings for the period		-	-	2,587	-	2,587
Other comprehensive loss		-	-	-	(3,529)	(3,529)
Total comprehensive income (loss) for the period		-	-	2,587	(3,529)	(942)
<b>As at March 31, 2016</b>		<b>15,665,487</b>	<b>136,622</b>	<b>34,790</b>	<b>16,396</b>	<b>187,808</b>
As at December 31, 2014		15,278,536	133,010	17,291	7,316	157,617
Distributions earned by Unitholders	12	-	-	(3,154)	-	(3,154)
Distributions reinvestment Plan	12	20,343	178	-	-	178
Transactions with owners		20,343	178	(3,154)	-	(2,976)
Earnings for the period		-	-	3,065	-	3,065
Other comprehensive loss		-	-	-	(4,641)	(4,641)
Total comprehensive income (loss) for the period		-	-	3,065	(4,641)	(1,576)
As at March 31, 2015		15,298,879	133,188	17,202	2,675	153,065

See accompanying notes to condensed interim consolidated financial statements

**INOVALIS REIT**  
**Interim Consolidated Statements of Cash Flows**  
(Unaudited - All dollar amounts in thousands of Canadian dollars)  
*(in thousands of Canadian dollars)*

	<i>Note</i>	<b>Three months ended March 31, 2016</b>	<b>Three months ended March 31, 2015</b>
<b>Operating activities</b>			
Earnings before income taxes for the period		2,519	3,101
Adjustments for non-cash items and other reconciling items	17	(689)	(1,740)
		1,830	1,361
Working capital adjustments	17	3,469	559
<b>Net cash flows related to operating activities</b>		<b>5,299</b>	<b>1,920</b>
<b>Investing activities</b>			
Business acquisition	4	(20,778)	-
Acquisition costs		(659)	-
Deposit (participation in a joint venture)		-	(1,150)
Distribution from a joint-venture - Arcueil		525	-
Additions to investment properties	5	(865)	(123)
Other long term assets		(1,514)	-
Net changes in restricted cash		680	(100)
Settlement of derivative financial instruments		(25)	253
<b>Net cash flows related to investing activities</b>		<b>(22,636)</b>	<b>(1,120)</b>
<b>Financing activities</b>			
Distributions on Units paid in cash	12	(2,970)	(2,974)
Distributions on Exchangeable securities paid in the form of interest on notes issued by a subsidiary	9	(158)	(230)
Distributions on Exchangeable securities paid in the form of repayment of interest bearing notes issued by a subsidiary	9	(165)	(156)
Proceeds from new mortgage loans, net of transaction costs	7	18,795	-
Proceeds from new finance liabilities, net of transaction costs	7	52,654	-
Transaction fees related to the exercise of early payment option on finance leases	4	(1,920)	-
Repayment of mortgage loans and finance lease liabilities		(44,887)	(1,753)
Lease equalization loan		(315)	240
<b>Net cash flows related to financing activities</b>		<b>21,034</b>	<b>(4,873)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>3,697</b>	<b>(4,073)</b>
Effects of foreign exchange adjustments on cash and cash equivalent		1,259	(619)
<b>Cash and cash equivalents at the beginning of the period</b>		<b>6,895</b>	<b>24,185</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>11,851</b>	<b>19,493</b>
<b>Cash and cash equivalents at the end of the period</b>			
Cash		11,851	19,265
Cash equivalents		-	228
		<b>11,851</b>	<b>19,493</b>

*See accompanying notes to condensed interim consolidated financial statements*

## **INOVALIS REIT**

### **Notes to the Condensed Interim Consolidated Financial Statements**

Three-month period ended March 31, 2016

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

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#### **Note 1 – Organization**

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

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

The REIT’s condensed interim consolidated financial statements for the three-month period ended March 31, 2016, were authorized for issuance by the Board of Trustees on May 12, 2016.

The REIT has hired Inovalis S.A. (“Inovalis”), a real estate asset manager having operations in France and Germany, to manage certain functions (see Note 13 – Transactions with related parties).

#### **Note 2 – Basis of preparation of condensed interim 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 2015 audited consolidated annual financial statements.

##### **Basis of presentation**

The unaudited condensed interim consolidated financial statements are prepared on a going concern basis. All financial information has been rounded to the nearest thousand (CAD\$ 000) except when otherwise indicated.

These unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for Investment properties, Exchangeable securities and Derivative financial instruments, which are measured at their fair values.

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

The condensed interim consolidated financial statements have been prepared in accordance with the accounting policies adopted in the REIT’s most recent annual financial statements for the year ended December 31, 2015.

##### **Estimates**

When preparing the condensed interim consolidated financial statements, management uses a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions used by management.

The judgements, estimates and assumptions used in the condensed interim consolidated financial statements including the key sources of estimation uncertainty are the same as those used in the preparation of the REIT’s last audited annual consolidated financial statements for the year ended December 31, 2015.

## INOVALIS REIT

### Notes to the Condensed Interim Consolidated Financial Statements

Three-month period ended March 31, 2016

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

#### Note 4 – Business combination

On March 21, 2016, the REIT completed the acquisition from Inovalis of a property located at 35 rue Greneta, 75002 Paris, France (the “Metropolitan property”), together with the related tenant portfolio and the management contract. The Acquisition loan made to Inovalis in 2014 was considered as part of the consideration paid for this acquisition.

This acquisition is accounted for as a business combination. The identifiable assets and liabilities of the acquired business were recognized based upon their respective fair values as of the transaction date. A summary is provided below:

	<b>As at March 21, 2016</b>
<b>Purchase price allocation</b>	
<b><i>Recognized amounts of identifiable assets acquired and liabilities assumed</i></b>	
Investment property	78,731
Finance lease liability	(24,027)
Other liabilities (tenant deposits)	(602)
<b>Total liabilities assumed</b>	<b>(24,629)</b>
<b>Fair value of net asset acquired</b>	<b>54,102</b>
Consideration transferred by the REIT for the acquisition consists of the following:	
Cash	20,778
Acquisition loan including related interest receivable and trade and other receivables	23,447
<b>Consideration transferred by the REIT</b>	<b>44,225</b>
<b>Negative goodwill - recognized as a gain on bargain purchase</b>	<b>9,877</b>

The excess of the fair value of the net assets acquired at the acquisition date over the consideration transferred by the REIT has been recognized in earnings as a Gain on bargain purchase. This gain is principally due to the fact that the REIT bought the properties at a discount to its market value as a consequence of a profit sharing mechanism featured in the Acquisition loan granted by Inovalis REIT to Inovalis SA when the latter bought the Metropolitan property in 2014.

Acquisition costs related to the acquisition amounting to \$440 (€290) have been recognized in earnings.

Immediately following the acquisition, the REIT exercised its option to purchase the investment property that was leased and concomitantly, closed a new finance lease contract to replace the finance lease assumed as part of the transaction. Therefore, finance lease liability amounting to \$24,027 (€16,327) was derecognized and a loss on the exercise of early payment option of finance lease of \$1,920 (€1,305) was recognized in the condensed interim consolidated statement of earnings. Costs related to setting up the new finance lease after the business combination transaction amounted to \$856 (€580) and were subsequently capitalized to the investment property.

## INOVALIS REIT

### Notes to the Condensed Interim Consolidated Financial Statements

Three-month period ended March 31, 2016

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

#### Note 5 – Investment properties

	For the three months ended March 31, 2016	For the year ended December 31, 2015
<b>Beginning of period</b>	<b>355,672</b>	<b>308,596</b>
Additions, capitalized letting fees and change in initial direct costs	865	98
Acquisition through business combination	78,731	-
Amount derecognized upon exercise of early purchase option on lease	-	(14,377)
Amount recognized upon acquisition of the property	-	14,377
Amount recognized upon entry into new sales-leaseback arrangement	-	-
Rent free periods	(323)	2,281
Property taxes adjustment		
Valuation gain (losses)		
Net change in fair value of investment properties <sup>(1)</sup>	(2,907)	21,523
Foreign currency translation adjustment	(5,595)	23,206
<b>End of period</b>	<b>426,443</b>	<b>355,704</b>

<sup>(1)</sup> : Including the increase of 2.5M\$ related to the impact of IFRIC 21 for recoverable French property taxes, which has a similar impact on service charge expenses.

#### Note 6 – Investments accounted for using the equity method

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

Carrying amount of investment in joint ventures	CCD	Walpur	Arcueil	Cologne	For the three months ended March 31, 2016	For the year ended December 31, 2015
Balance at the beginning of period	19,188	6,918	14,231	(926)	39,411	18,307
Net change in equity investment in joint ventures	(83)	(265)	(11)	(144)	(503)	2,244
Net change in loans to joint ventures	(252)	(83)	(2,323)	-	(2,658)	18,861
Reclassified to liabilities	-	-	-	1,070	1,070	925
<b>Balance at the end of period</b>	<b>18,853</b>	<b>6,570</b>	<b>11,897</b>	<b>-</b>	<b>37,320</b>	<b>40,337</b>
<b>Provision relating to an investment accounted for using the equity method</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,070)</b>	<b>(1,070)</b>	<b>(925)</b>



# INOVALIS REIT

## Notes to the Condensed Interim Consolidated Financial Statements

Three-month period ended March 31, 2016

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

### Note 7 – Mortgage loans and finance lease liabilities

					As at March 31, 2016		
Entity	Nominal value (in 000's of €)	Nominal value (in 000's of \$)	Interest rate	Maturity	Total	Non-current	Current
Mortgage loan - Jeûneurs SCI	19,500	28,811	Euribor 3M + 1.75% <sup>1</sup>	2019-05-05	28,730	28,730	-
Mortgage loan - Véronèse SCI	14,500	21,424	Euribor 3M + 1.75% <sup>1</sup>	2019-05-05	21,390	21,390	-
Mortgage loan - Sablière SCI	13,433	19,847	Euribor 3M + 1.59% <sup>2</sup>	2025-12-23	19,660	19,198	462
Mortgage loan - CanCorpHanover	<u>12,600</u>	<u>18,617</u>	Euribor 3M + 1.85%	2022-12-31	<u>18,413</u>	<u>18,413</u>	-
<b>Mortgage loans</b>	<b><u>60,033</u></b>	<b><u>88,699</u></b>			<b><u>88,193</u></b>	<b><u>87,731</u></b>	<b><u>462</u></b>
Finance lease liabilities - BBA SCI	54,865	81,063	Euribor 3M + 2.00% <sup>2</sup>	2026-06-20	81,059	77,775	3,284
Finance lease liabilities - Métropolitain	35,945	53,109	Euribor 3M + 1.85% and Euribor 3M + 1.6%	2028-03-20	53,109	52,468	641
Finance lease liabilities - Baldi SCI	<u>16,919</u>	<u>24,998</u>	Euribor 3M + 1.00%	2017-09-30	<u>24,744</u>	<u>22,502</u>	<u>2,242</u>
<b>Finance lease liabilities</b>	<b><u>107,729</u></b>	<b><u>159,170</u></b>			<b><u>158,912</u></b>	<b><u>152,745</u></b>	<b><u>6,167</u></b>
<b>Total mortgage loan and finance lease liabilities</b>	<b><u>167,762</u></b>	<b><u>247,869</u></b>			<b><u>247,105</u></b>	<b><u>240,476</u></b>	<b><u>6,629</u></b>

  

					As at December 31, 2015		
Entity	Nominal value (in 000's of €)	Nominal value (in 000's of \$)	Interest rate	Maturity	Total	Non-current	Current
Mortgage loan - Jeûneurs SCI	19,500	29,307	Euribor 3M + 1.75% <sup>1</sup>	2019-05-05	29,175	29,175	-
Mortgage loan - Véronèse SCI	14,500	21,792	Euribor 3M + 1.75% <sup>1</sup>	2019-05-05	21,721	21,721	-
Mortgage loan - Sablière SCI	<u>13,500</u>	<u>20,289</u>	Euribor 3M + 1.72% <sup>2</sup>	2025-12-23	<u>20,298</u>	<u>19,883</u>	<u>415</u>
<b>Mortgage loans</b>	<b><u>47,500</u></b>	<b><u>71,388</u></b>			<b><u>71,194</u></b>	<b><u>70,779</u></b>	<b><u>415</u></b>
Finance lease liabilities - BBA SCI	55,406	83,270	Euribor 3M + 2.00% <sup>2</sup>	2026-06-20	83,270	79,965	3,305
Finance lease liabilities - CanCorpHanover	12,337	18,541	Euribor 3M + 0.82%	2023-06-30	17,635	16,965	670
Finance lease liabilities - Baldi SCI	<u>17,235</u>	<u>25,902</u>	Euribor 3M + 1.00%	2017-09-30	<u>25,597</u>	<u>23,355</u>	<u>2,242</u>
<b>Finance lease liabilities</b>	<b><u>84,978</u></b>	<b><u>127,713</u></b>			<b><u>126,502</u></b>	<b><u>120,285</u></b>	<b><u>6,217</u></b>
<b>Total mortgage loan and finance lease liabilities</b>	<b><u>132,478</u></b>	<b><u>199,101</u></b>			<b><u>197,696</u></b>	<b><u>191,064</u></b>	<b><u>6,632</u></b>

Note 1 : Interest rate is subject to a CAP - see note 8 *Financial derivatives and hedging activities*

Note 2 : Interest rate is subject to SWAP - see note 8 *Financial derivatives and hedging activities*

During the quarter, the REIT refinanced its debt on the Hanover investment property through a series of transactions, including the acquisition of a 94% interest in the entity holding the Hanover property. The new mortgage loan contracted during the three-month period ended March 31, 2016 as the replacement of a finance lease that was terminated has a principal amount of 12,600 Euros, a term of seven years maturing on December 31, 2022 and bears interest at variable rate, based on the 3 month EURIBOR rate plus a spread of 1.45%. Interest will be due and payable quarterly on March 31, June 30, September 31, and December 31. Principal is payable on maturity.

The impact of the derecognition of the finance lease amounting to 400€ (\$605) was recognized in the condensed interim consolidated statement of earnings.

# INOVALIS REIT

## Notes to the Condensed Interim Consolidated Financial Statements

Three-month period ended March 31, 2016

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

### Note 8 – Financial derivatives and hedging activities

#### 2016

During the three-month period ended March 31, 2016, the REIT entered into 2 new monthly foreign currency hedge contracts whereby the REIT will purchase \$1,000 each month at a weighted average exchange rate of 1.5996 Canadian dollars per euro. The new contracts cover 2 monthly periods from December 14, 2018 to February 14, 2019. These contracts have been designated as hedges of the REIT's net investment in a foreign operation and changes in fair value are recognized in other comprehensive income (loss).

A summary of the derivative financial instruments held by the REIT is outlined below:

Classification and type	Number of contracts	Period covered		Conversion from/to			As at March 31, 2016		As at December 31, 2015	
		From	To	Euros or rate	\$ or rate	Rate	Total notional amount	Fair value	Total notional amount	Fair value
<b>Derivatives classified for hedge accounting</b>										
Foreign exchange	13	14-Feb-18	14-Feb-19	669	1,000	1.4939	13,000	(277)	11,000	(525)
Foreign exchange	13	1-Apr-16	13-Apr-17	486	750	1.5437	9,750	356	12,000	241
Interest rate SWAP	1	1-Apr-16	1-Jul-19	Variable	Fixed	0.685%	81,063	(2,274)	83,270	(1,924)
Interest rate CAP	2	31-Mar-16	5-May-19	Variable	Capped	2.000%	50,235	18	51,099	48
<b>Other derivatives</b>										
Option contracts on foreign exchange										
Put options purchased	13	12-Apr-16	11-Apr-17	167	250	1.4956	3,250		4,000	
Call options sold	13	12-Apr-16	11-Apr-17	334	500	1.4956	6,500		8,000	
Put options purchased	9	10-May-17	10-Jan-18	669	1,000	1.4956	9,000		9,000	
Call options sold	9	10-May-17	10-Jan-18	1,337	2,000	1.4956	18,000		18,000	
Option contracts on foreign exchange - fair value								(682)		(1,042)
Interest rate SWAP	1	23-Mar-16	23-Dec-21	Variable	Fixed	0.394%	19,847	(492)	20,289	(85)
								<b>(3,351)</b>		<b>(3,287)</b>

### Note 9 – Exchangeable securities

Exchangeable securities issued and outstanding	Exchangeable securities	
	Number of Exchangeable securities	Carrying amount of Exchangeable securities
Balance - December 31, 2014	2,043,347	18,145
Transactions in 2015		
Asset management fees paid in Exchangeable securities	291,551	2,666
Conversion of Exchangeable securities into units of the REIT	(264,500)	(2,529)
Net change in fair value of Exchangeable securities	-	1,118
<b>Balance - December 31, 2015</b>	<b>2,070,398</b>	<b>19,400</b>
Transactions in 2016		
Asset management fees paid in Exchangeable securities	74,507	718
Distribution of Exchangeable securities paid in the form of reimbursement of notes	296,086	2,943
Net change in fair value of Exchangeable securities	-	616
<b>Balance - March 31, 2016</b>	<b>2,440,991</b>	<b>23,677</b>

## INOVALIS REIT

### Notes to the Condensed Interim Consolidated Financial Statements

Three-month period ended March 31, 2016

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

#### Note 9 – Exchangeable securities (Cont'd)

<b>Exchangeable securities</b>	<b>As at March 31, 2016</b>	<b>As at December 31, 2015</b>
Exchangeable securities	23,677	19,400
Less current portion	<u>(1,798)</u>	<u>(1,366)</u>
Non-current portion of Exchangeable securities	<b><u>21,879</u></b>	<b><u>18,034</u></b>

The Exchangeable securities represent a financial liability and were designated at fair value through profit or loss.

#### Distributions in respect of Exchangeable securities:

The Exchangeable securities entitle the holders to cash distributions from CanCorpEurope S.A., a subsidiary of the Trust, equal, on a per unit basis, to the distributions paid to holders of units by the REIT.

The following table breaks down distribution payments:

	<b>For the three months ended March 31, 2016</b>	<b>For the three months ended March 31, 2015</b>
Amount payable at the beginning of the period	366	35
Declared and recognized in earnings during the period	452	429
Accrued or paid in cash in the form of interest on interest bearing notes issued by CanCorpEurope S.A.	(158)	(230)
Paid in cash in the form of repayment of interest bearing notes issued by CanCorpEurope S.A.	<u>(165)</u>	<u>(156)</u>
<b>Amount payable at the end of the period</b>	<b><u>495</u></b>	<b><u>78</u></b>
Weighted average number of Exchangeable securities outstanding	2,103,276	2,044,126
Distributions paid per unit (based on weighted average Exchangeable securities outstanding)	0.1536	0.1888
Distributions paid per unit (on an quarterly basis)	0.2063	0.2063

## INOVALIS REIT

### Notes to the Condensed Interim Consolidated Financial Statements

Three-month period ended March 31, 2016

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

#### Note 10 – Finance costs and finance income

	For the three months ended March 31, 2016	For the three months ended March 31, 2015
Interest costs related to mortgage loans	(462)	(216)
Interest costs related to finance leases	(551)	(615)
Interest costs related to lease equalization loans	(73)	(42)
	(1,086)	(873)
Interest SWAP	(198)	(120)
Net finance costs from joint ventures	(1,114)	-
Other finance costs	(87)	(22)
	(2,485)	(1,015)
Amortization of fair value adjustment on finance leases assumed at a discount at the time of a business acquisition	(51)	(109)
Amortization of transaction costs on mortgage loans	(94)	(105)
<b>Finance costs</b>	<b>(2,630)</b>	<b>(1,229)</b>
Finance income	3	3
Finance income from Inovalis relating to the acquisition loan	1,163	377
Finance income from joint ventures	-	180
<b>Finance income</b>	<b>1,166</b>	<b>560</b>

#### Note 11 – Earnings per Unit

The REIT has classified the Units that it issued as equity pursuant to the provisions of IAS 32, Financial Instruments: Presentation, on the basis that the Units meet all of the criteria in IAS 32 for such classification, also referred to as the “puttable exemption”.

##### (a) Basic earnings per Unit

Basic earnings per unit is calculated by dividing the profit attributable to the Unitholders of the REIT by the weighted average number of Units outstanding during the period.

	For the three months ended March 31, 2016	For the three months ended March 31, 2015
<b>Basic earnings per unit</b>		
Earnings attributable to unitholders	2,628	3,065
Weighted average number of units outstanding	15,650,522	15,288,573
<b>Basic earnings per unit</b>	<b>0.17</b>	<b>0.20</b>

##### (b) Diluted earnings per Unit

Diluted earnings per unit is calculated by adjusting the weighted average number of Units outstanding to assume conversion of all dilutive potential Units. The REIT has one category of dilutive potential Units: the Exchangeable securities. Refer to Note 8 - Exchangeable securities for the number of Exchangeable securities outstanding.

When dilution does not result in a reduction in earnings per unit or an increase in loss per share unit, as is the case for the current and comparative periods, the diluted earnings per share is identical to basic earnings per unit.

# INOVALIS REIT

## Notes to the Condensed Interim Consolidated Financial Statements

Three-month period ended March 31, 2016

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

### Note 12 – Distributions

	For the three months ended March 31, 2016	For the three months ended March 31, 2015
Amount payable at the beginning of the period	1,075	1,050
Declared and recognised during the period	3,229	3,154
Distributions paid in units (Distribution Reinvestment Plan)	(257)	(178)
Distributions paid in cash	<u>(2,970)</u>	<u>(2,974)</u>
<b>Amount payable at the end of the period</b>	<b><u>1,077</u></b>	<b><u>1,052</u></b>
<b>Total distributions</b>	<b><u>3,229</u></b>	<b><u>3,154</u></b>
Distributions paid per unit (based on weighted average number of units outstanding)	0.2060	0.2060

Distributions in respect of Exchangeable securities are detailed in Note 8 – Exchangeable securities.

### Note 13 – Accumulated other comprehensive income

	As at March 31, 2016	As at December 31, 2015
Net unrealized gains on derivatives designated as a hedge of the net investment in a foreign entity	1,084	682
Net unrealized losses on interest rate derivatives designated as a cash flow hedge	(2,560)	(2,158)
Cumulative translation adjustment account	<u>17,872</u>	<u>21,401</u>
<b>Accumulated other comprehensive income</b>	<b><u>16,396</u></b>	<b><u>19,925</u></b>

## INOVALIS REIT

### Notes to the Condensed Interim Consolidated Financial Statements

Three-month period ended March 31, 2016

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

#### Note 14 – Transactions with related parties

##### Inovalis Asset manager

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

Unless otherwise stated, none of these transactions incorporated special terms and conditions. Outstanding balances are usually settled in cash, with the exception of management fees to Inovalis that are settled quarterly through the issuance of Exchangeable securities. No guarantees were given.

Inovalis and its subsidiaries	Financial statement line item	For the three months ended March 31, 2016	For the three months ended March 31, 2015
<b>Revenues</b>			
Rental income	Rental income	65	282
Service charge income	Service charge income	(18)	219
Interest income from acquisition loan	Finance income	1,163	377
		<u>1,210</u>	<u>878</u>
<b>Expenses</b>			
Asset management fees	Administration expenses	(718)	(513)
less portion re invoiced to joint-ventures	Administration expenses	143	-
Facilities management fees	Service charge expenses	(905)	(833)
Property management fees	Service charge expenses	(248)	(142)
Reimbursement of travel expenses	Acquisition costs	(3)	-
Interest expense on lease equalisation loans	Finance costs	(73)	(42)
Reimbursement of travel expenses	Administration expenses	(21)	(70)
		<u>(1,825)</u>	<u>(1,600)</u>
<b>Exchangeable securities</b>			
Interest on notes	Distributions in respect of Exchangeable securities	(158)	(230)
Reimbursement of debt		(165)	(156)
Total distributions paid on Exchangeable securities		<u>(323)</u>	<u>(386)</u>

# INOVALIS REIT

## Notes to the Condensed Interim Consolidated Financial Statements

Three-month period ended March 31, 2016

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

### Note 14 – Transactions with related parties (Cont'd)

	Due to (from) Inovalis	
	As at March 31, 2016	As at December 31, 2015
Trade and other receivables	(161)	(1,200)
Trade and other payables	2,422	2,732
Acquisition loan	-	(18,786)
Distributions payable	495	366
Lease equalization loans	6,012	6,425
	<u>8,768</u>	<u>(10,463)</u>

### Joint ventures

The transactions and balances with entities accounted for using the equity method are summarized below:

Joint ventures	Financial statement line item	For the three months ended March 31, 2016	For the three months ended March 31, 2015
Management fees re invoiced to joint ventures	Administration expenses	143	128
Earnings from joint ventures	Share of net earnings from investments accounted for using the equity method	(205)	170
Finance income (costs)	Finance income (costs)	<u>(1,114)</u>	<u>180</u>
		<u>(1,175)</u>	<u>478</u>

  

		Due from joint ventures	
		As at March 31, 2016	As at December 31, 2015
Loan receivable	Investments accounted for using the equity method	30,842	33,500
Accounts receivable	Trade and other receivables	<u>598</u>	<u>428</u>
		<u>31,440</u>	<u>33,928</u>

# INOVALIS REIT

## Notes to the Condensed Interim Consolidated Financial Statements

Three-month period ended March 31, 2016

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

### Note 15 – Geographical information

Total revenue by geographic region	Rental Income	Service Charge Income	For the three months ended March 31, 2016	For the three months ended March 31, 2015
France	5,134	1,575	6,709	6,494
Germany	539	15	554	518
	<b>5,673</b>	<b>1,590</b>	<b>7,263</b>	<b>7,012</b>

  

Investment properties, investments in joint ventures and provision relating to investments in joint ventures by geographic region	As at March 31, 2016	As at December 31, 2015
France	403,028	334,385
Germany	59,665	60,731
	<b>462,693</b>	<b>395,116</b>

### Note 16 – Fair value measurements

#### Fair value hierarchy

The following table shows an analysis of the fair values of financial instruments (including Exchangeable securities) 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 March 31, 2016			
	Level 1	Level 2	Level 3	Total
Investment properties	-	-	426,443	426,443
Derivative financial instruments - assets	-	374	-	374
Derivative financial instruments - liabilities	-	(3,725)	-	(3,725)
Exchangeable securities	-	(23,677)	-	(23,677)

  

	As at December 31, 2015			
	Level 1	Level 2	Level 3	Total
Investment properties	-	-	355,704	355,704
Derivative financial instruments - assets	-	289	-	289
Derivative financial instruments - liabilities	-	(3,576)	-	(3,576)
Exchangeable securities	-	(19,400)	-	(19,400)

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 - use of a model with inputs (other than quoted prices included in level 1) that are directly or indirectly observable market data.
- Level 3 - use of a model with inputs that are not based on observable market data.

There were no transfers between Level 1 and Level 2 during the period ended March 31, 2016 (none in 2015).



## **INOVALIS REIT**

### **Notes to the Condensed Interim Consolidated Financial Statements**

Three-month period ended March 31, 2016

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

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#### Note 16 – Fair value measurements (Cont'd)

The REIT's management is responsible for determining fair value measurements included in the financial statements, including Level 3 fair values. The inputs, processes and results for recurring measurements, including those valuations calculated by an independent appraiser every semester, are reviewed each quarter by senior management to ensure conformity with IFRS.

The reconciliation of the carrying amounts of non-financial assets classified within Level 3 is in Note 4 – Investment properties. The gains or losses relating to the investment properties are recognized in profit or loss on the income statement 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 Exchangeable securities is based on the quoted price of the REIT's own units, on the basis that they are exchangeable on a one for one basis throughout their life at the request of the unit holders, and upon maturity of the underlying notes, at the request of the REIT. Other features of the Exchangeable securities have no significant impact on their fair value.

#### Note 17 – Cash flow information

# INOVALIS REIT

## Notes to the Condensed Interim Consolidated Financial Statements

Three-month period ended March 31, 2016

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

	Three months ended March 31, 2016	Three months ended March 31, 2015
<b>Adjustments for non-cash items and other reconciling items:</b>		
Rent free period	323	(663)
Management fees paid in Exchangeable securities	718	513
less portion reinvoiced to joint-ventures	(143)	-
Net change in fair value of investment properties	2,907	(1,750)
Loss (gain) on financial instruments at fair value through profit or loss	144	(633)
Distributions on Exchangeable securities	452	429
Net change in fair value of Exchangeable securities	616	552
Loss on refinancing of a debt	605	
Finance income	(1,166)	(560)
Finance costs	2,630	1,229
Income taxes paid	(85)	(8)
Loss recognized on exercise of early payment option on finance leases	1,920	-
Gain on bargain purchase	(9,877)	-
Other items	15	-
Share of net earnings from investments accounted for using the equity method	205	(170)
Net impact of disposal of an interest in a subsidiary	-	-
Unrealized exchange (gains) losses	(39)	(27)
Cash items classified as operating activities		
Interest received	486	363
Interest paid	(1,058)	(1,015)
Acquisition costs classified in investing activities	659	-
	<b>(689)</b>	<b>(1,740)</b>
<b>Working capital adjustments</b>		
Increase in trade and other receivables	(1,216)	(2,670)
Increase in tenant deposits	117	(3)
Increase in trade and other payables	4,550	3,232
Other	18	-
	<b>3,469</b>	<b>559</b>

## **INOVALIS REIT**

### **Notes to the Condensed Interim Consolidated Financial Statements**

Three-month period ended March 31, 2016

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

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#### Note 18 – Subsequent events

On May 4, 2016, the REIT repurchased its 49% share of the loans, for an amount of 4,312 Euros (\$6,381), provided by the other partner to the the joint venture in November 2015 for the purpose of the acquisition of the Cologne investment property.

## **Corporate information**

### **Head office**

Inovalis REIT  
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Toronto, Ontario, M5C 2W7  
Phone: (647) 775-8431  
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### **Investor relations**

Phone: (647) 775-8432  
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

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