INOVALIS
REAL ESTATE INVESTMENT TRUST

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INOVALIS REAL ESTATE INVESTMENT TRUST REPORTS FINANCIAL RESULTS FOR THE THIRD QUARTER OF 2015.

Toronto, Ontario, November 12, 2015 – **Inovalis Real Estate Investment Trust (the "REIT") (TSX: INO.UN)** today reported its financial results for the third quarter of 2015. Inovalis REIT's management team will be holding a conference call on November 13, 2015 at 10:00 am EST to discuss the results. The dial-in numbers for the conference call are: in Toronto 1-416-764-8688; outside Toronto (toll free, within North America) 1-888-390-0546.

HIGHLIGHTS

- Funds from operations (FFO) for the quarter ended September 30, 2015 of $3,868 or $0.22 per unit (fully diluted), with a FFO payout ratio of 93.4%, compared to $0.20 per unit and payout ratio of 103.2% or the same period in 2014. FFO for the period from January 1, 2015 to September 30, 2015 of $11,283 or $0.65 per unit (fully diluted), with a FFO payout ratio of 95.6%, compared to $0.65 per unit and payout ratio of 95.1% or the same period in 2014.

- Adjusted funds from operations (AFFO) for the quarter ended September 30, 2015 of $4,267 or $0.24 per unit (fully diluted) with an AFFO payout ratio of 84.7%, compared to $0.22 per unit and payout ratio of 94.1% or the same period in 2014. AFFO for the period from January 1, 2015 to September 30, 2015 of $12,656 or $0.73 per unit (fully diluted), with an AFFO payout ratio of 85.2%, compared to $0.70 per unit and payout ratio of 88.3% or the same period in 2014.

- Occupancy rate on the REIT's portfolio was 90.9% and weighted average lease term was 6.0 years as at September 30, 2015. Taking into account a new lease signed subsequent to the quarter in the Bad Homburg property, overall occupancy reaches 91.5%.

- Debt to book value of the REIT was 52.6% as at September 30, 2015. Net of the cash available, debt to book value was 51.6%.

- On July 8, 2015, the REIT completed its 25% investment in the Arcueil property (Paris' first Southern periphery). The property is a 330,681 square feet office building fully let to Orange (investment grade tenant) under a lease expiring in 2023 and was bought at a going-in cap rate of 7.2% (before leverage). The transaction is in partnership with an IGIS' Fund, which is subscribed by Samsung Securities, a highly reputable international partner. The IGIS' Fund's investment is treated as preferred equity and receives a return of 7.6% on the equity it invested while the REIT receives a subordinated return expected to be higher than IGIS' Fund's return. Upon the disposal of the property, the REIT will receive 75% of the net profit generated by the joint venture since its creation. In addition, the REIT has the option to purchase the IGIS' Fund's interest in the joint venture starting July 2, 2018.

- On September 15, 2015, the REIT announced the acquisition, on a joint-venture basis, of a newly completed 65,530 square feet office property located in Cologne, Germany. The property is fully let to an investment grade tenant under a lease expiring in 2025. Total acquisition costs amount to $34.0 million and will be financed with a first mortgage granted by a German bank and equity from the REIT and its partner.

About Inovalis Real Estate Investment Trust

Inovalis Real Estate Investment Trust is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust under the laws of the Province of Ontario. The REIT has been created for the purpose of acquiring and owning office properties primarily located in France and Germany but also opportunistically in other European countries where assets meet the REIT's investment criteria. The REIT currently owns an interest in nine office properties in France and Germany, comprising approximately 971,000 square feet of gross leasable area (taking into account the interests in the properties owned in joint-ventures).

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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

	September 30, 2015	December 31, 2014
Operational information (1)		
Number of properties	9	7
Gross leasable area (sq.ft)	972,338	834,529
Occupancy rate (end of period) (2)	90.9%	88.4%
Weighted average lease term	6.0 years	6.6 years
Average capitalization rate (3)	6.8%	7.6%
Financing information (1)		
Level of debt (debt-to-book value) (4)	52.6%	52.7%
Level of debt (debt-to-book value, net of cash) (4)	51.6%	49.4%
Weighted average term of principal repayments of debt	6.8 years	7.2 years
Weighted average interest rate (5)	1.99%	1.98%
Interest coverage ratio (6)	4.4 x	4.7 x

	Three months ending		Nine months ending	
(thousands of CAD$ except per Unit and other data)	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Operating results				
Rental income(1)	5,543	4,291	16,133	13,836
Net rental earnings(1)	5,507	4,608	15,805	12,759
Earnings for the period	4,479	2,158	24,159	(4,829)
Funds from Operations (FFO) (7) (8)	3,868	2,554	11,283	8,284
Adjusted Funds from Operations (AFFO) (7) (8)	4,267	2,812	12,656	8,932
FFO per Unit (diluted) (7) (8)	0.22	0.20	0.65	0.65
AFFO per Unit (diluted) (7) (8)	0.24	0.22	0.73	0.70
Distributions				
Declared distributions on Units and Exchangeable sec.	3,613	2,635	10,781	7,874
Declared distribution per Unit (diluted) (8)	0.21	0.21	0.62	0.62
FFO payout ratio (7)	93.4%	103.2%	95.6%	95.1%
AFFO payout ratio (7)	84.7%	94.1%	85.2%	88.3%

(1) Taking into account the interest the REIT has in the properties held in partnerships
(2) Occupancy rate reaches 93.3% as of September 30, 2015 taking into account the Vendor Leases
(3) Calculated on annualized net rental earnings (based on net rental earnings for the quarter). Takes into account the REIT has in the properties held in partnerships
(4) The definition of *debt-to-book value* and of *debt-to-book value, net of cash* can be found under the section *Non-IFRS Financial Measures*
(5) Calculated as the weighted average interest rate paid on the finance leases and the mortgage loans
(6) Calculated as net rental earnings plus interest, less general and administrative expenses, divided by interest expense on the financial leases and mortgage financings. Taking into account the interest the REIT has in the properties held in partnerships
(7) The reconciliation of FFO and AFFO to earnings for the period can be found under the section *Non-IFRS Financial Measures*
(8) Based on the fully diluted weighted average number of Units during the period

KEY FACTS

- Inovalis Real Estate Investment Trust (“**Inovalis REIT**”, or the “**REIT**” or “**we**”) is a Canadian REIT listed on the Toronto Stock Exchange under the ticker **INO.UN** investing exclusively in Europe, with a portfolio of investment properties in France and in Germany.

- Inovalis REIT is 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 September 30, 2015, Inovalis SA had a 13.8% interest in the REIT’s equity (directly and indirectly).

- Funds from operations (FFO) for the quarter ended September 30, 2015 of $3,868 or $0.22 per unit (fully diluted), with a FFO payout ratio of 93.4%, compared to $0.20 per unit and payout ratio of 103.2% or the same period in 2014. FFO for the period from January 1, 2015 to September 30, 2015 of $11,283 or $0.65 per unit (fully diluted), with a FFO payout ratio of 95.6%, compared to $0.65 per unit and payout ratio of 95.1% or the same period in 2014.

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- On July 8, 2015, the REIT completed its 25% investment in the Arcueil property (Paris’ first Southern periphery). The property is a 330,681 square feet office building fully let to Orange (investment grade tenant) under a lease expiring in 2023 and was bought at a going-in cap rate of 7.2% (before leverage). The transaction is in partnership with an IGIS’ Fund, which is subscribed by Samsung Securities, a highly reputable international partner. The IGIS’ Fund’s investment is treated as preferred equity and receives a return of 7.6% on the equity it invested while the REIT receives a subordinated return expected to be higher than IGIS’ Fund’s return. Upon the disposal of the property, the REIT will receive 75% of the net profit generated by the joint venture since its creation. In addition, the REIT has the option to purchase the IGIS’ Fund’s interest in the joint venture starting July 2, 2018.

- Occupancy rate on the REIT’s portfolio was 90.9% and weighted average lease term was 6.0 years as at September 30, 2015. Taking into account a new lease signed subsequent to the quarter in the Bad Homburg property, overall occupancy reaches 91.5%.

- Debt to book value of the REIT was 52.6% as at September 30, 2015. Net of the cash available, debt to book value was 51.6%.

- On September 15, 2015, the REIT announced it has enter into an exclusivity agreement to acquire, on a joint-venture basis, a newly completed 65,530 square feet office property located in Cologne, Germany. The property is fully let to an investment grade tenant under a lease expiring in 2025. Total acquisition costs amount to $34.0 million and will be financed with a first mortgage granted by a German bank and equity from the REIT and its partner. The latter will not be Injazzat Real Estate Development as initially announced but Eurovalys, a fund managed by Advenis Investment Managers, a subsidiary of Advenis (a company part of the Inovalis SA group).

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 three-month and nine-month periods ended September 30, 2015, and the notes thereto. This MD&A has been prepared taking into account material transactions and events up to and including November 12, 2015. Financial data provided in the condensed interim 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. 1.4665 Canadian dollars per Euro for the three-month period ended September 30, 2015 and 1.4043 Canadian dollars per Euro for the period from January 1, 2015 to September 30, 2015. For balance sheet items, projections or market data, the exchange rate used is 1.4951 (exchange rate as at September 30, 2015).

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, and are described in greater detail in our IPO prospectus dated March 28, 2013 and in our short-form equity offering prospectus dated October 30, 2014, which are available at www.sedar.com. 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 on the basis of 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 18 years of experience and participation in the industry. Inovalis SA 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 SA believes it to be reliable, Inovalis SA 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.

NON-IFRS FINANCIAL MEASURES

Funds from Operations and Adjusted Funds from Operations

Funds from operations ("**FFO**") and adjusted funds from operations ("**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, (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, (vi) adjustment for property taxes accounted for under IFRIC 21, (vii) loss on exercise of lease option, (viii) adjustment for foreign exchange gains or losses on monetary items not forming part of an investment in a foreign operation, (ix) gain on disposal of an interest in a subsidiary and the share of earnings from an investment accounted for using the equity method, (x) non-recurring finance costs and (xi) recovery of non-recurring items. It has also been adjusted to include the FFO from investment accounted for using the equity method and to exclude the distributions declared on Exchangeable securities. 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.

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, (vi) capital expenditures paid by the vendors of the leasehold interest in the properties and/or tenants and (vii) 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's apportioned amount of indebtedness at the partnerships' level. Indebtedness at the REIT's level, as well as at the different partnerships' levels is calculated as the sum of (i) finance lease liabilities, (ii) mortgage loans, (iii) lease equalization loans and (iv) deferred tax liabilities. Indebtedness does not take into account the contribution from shareholders that are recorded as a liability, as is the case at the REIT's level for the Exchangeable securities and at the partnerships' level for the contribution from the REIT and its partners.

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

- 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 ($29 million) to €60 million ($88 million) (unless AFFO accretive) and a potential future upside with respect to matters including rent and area development. According to management, this 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

Investment in commercial real estate in France reached €16.5 BN ($24.2 BN) in the first three quarters of 2015, 26.9% higher than the last ten year average of €13.0 BN ($19.1 BN). Despite its slow economic growth, France is still much sought after, enjoying its second best year ever for investment after 2007. The Greater Paris region accounted for the largest share of acquisitions (79%). Offices are still investors' favorite, attracting 63% of investment.

According to BNP Paribas Real Estate, the prime yield in the Central Business District compressed down to 3.5% and the prime yield in the Inner Rim further down to 5.0%. Investors have increasingly bought properties beyond Paris business districts, which are structurally incapable of supplying demand and which offer low yields. Non-prime office yields have slightly declined in the majority of markets in the Greater Paris Region, where the appetite for prime products is still high.

As at September 30, 2015, the vacancy rate in the Greater Paris Region was 7.4% and inside Paris was 4.6%. This figure is mainly comprised of lower quality properties as, according to CBRE, new and redeveloped properties only accounted for 20% of the immediate supply.

German commercial real estate investment market

Investment in commercial real estate in Germany reached €38.2 BN ($56.0 BN) in the first three quarters of 2015, 51.5% higher than the same period in 2014 and the second-beat year ever, exceeded only in 2007. Offices have become investors' favorite, attracting 41% of investment.

For investors, Germany continues to offer an extremely attractive and stable environment with interest rates still low, active consumers, upward-trending early indicators and a labour market that remains robust.

Office yields have declined throughout Germany over the last few years and, according to BNP Paribas Real Estate, prime office properties in the largest cities (Berlin, Dusseldorf, Frankfurt, Hamburg, Munich) trade at a cap rate ranging between 4.00% and 4.60%.

Banks are competing for the financing of first class office properties with long-term leases in good locations. As competition increases, banks are increasingly financing slightly risker properties.

REAL ESTATE MANAGEMENT AND ADVISORY SERVICES

Pursuant to the 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.

Upon the earlier of (i) the REIT achieving a market capitalization of $750 million (including any Exchangeable securities held by Inovalis SA) based on the volume weighted average price (VWAP) over a 20-day trading period and (ii) April 10, 2018, the Management Agreement will terminate and the management of the REIT will be internalized at no additional cost.

OUR OPERATIONS

Performance indicators[1]

As at	September 30, 2015	Dec 31, 2014
Gross leasable area (sq.ft)	972,338	834,529
Number of properties	9	7
Number of tenants	32	26
Occupancy rate (excluding Vendor Leases)	90.9%	88.4%
Occupancy rate (including Vendor Leases)	93.3%	92.3%
Weighted average lease term [2]	6.0 years	6.6 years

(1) Taking into account the interest the REIT has in the properties held in partnerships
(2) Excluding early termination rights. Taking into account early termination rights, the weighted average lease term is 4.1 years

Portfolio

The REIT has an interest in 9 properties, of which 6 are held by the REIT only (Baldi, Courbevoie, Jeuneurs, Sablière and Vanves in France, Hanover in Germany) and 3 are held in partnerships with various global institutional funds (Arcueil in France, Bad Homburg and Duisburg in Germany).

Occupancy

The overall weighted average occupancy rate across our portfolio was 90.9% at September 30, 2015. Taking into account the vendor leases on the Vanves, Baldi and Sablière properties (on 23,336 sq.ft in total, or 2.4% of our portfolio's total GLA), occupancy rate across the portfolio reaches 93.3%.

Subsequent to the quarter, the REIT relet 13,455 square feet of office space in the bad Homburg property to an investment grade tenant that is expanding its presence in the property bringing occupancy rate on this property from 76.6% to 88.8%. Taking this new lease into account, overall occupancy rate on the REIT's portfolio increases from 90.9% up to 91.6%.

Inovalis SA is consistently putting a strong effort in the reletting of the vacant premises as evidenced by the increase of the occupancy rate from 88.4% as at December 31, 2014 up to 90.9% as at September 30, 2015.

The Baldi property, which is an office mainly property, also comprises 31,603 square feet of mixed-used and storage areas, on which we did not put any value when the REIT bought the property in November 2014. Excluding these areas in our square footage calculation, occupancy rate throughout the portfolio would reach 93.9%. On that basis, the 6.1% vacancy rate on our portfolio is in line with vacancy rate in our market (7.4% in the Greater Paris Region and 4.6% inside Paris).

External brokers are working with the Inovalis SA team to lease remaining vacant premises on the REIT's portfolio.

Tenants

The tenant base in the portfolio is well diversified from an industry segment standpoint, with many tenants having large national or multinational footprints. 79% of 2015 estimated gross rental income come from French public agencies, are guaranteed by large German or international banks, or are signed with investment grade corporates or are affiliates of investment grade corporates.

The following table shows our five largest tenants, sorted out by contribution to gross leasable area (GLA). Tenant marked with (*) is a tenant from property owned on a partnership basis and is taken into account applying the percentage of ownership the REIT has in the underlying property.

Tenant	Tenant Sector	GLA (sq.ft.)	% of Total GLA
Orange (formerly France Telecom) (*)	Telecommunications	268,740	27.6%
Facility Services Hannover GmbH	Banking / Real estate	124,076	12.8%
Mitsubishi Hitachi Power Systems Europe GmbH (*)	Manufacturer	108,959	11.2%
Rue du Commerce	E-commerce	51,926	5.3%
National Conservatory of Arts and Crafts	Education and training	50,407	5.2%
Top 5 tenants		**604,108**	**62.1%**
Other tenants	Diversified	279,654	28.8%
Vendor Lease	-	23,336	2.4%
Vacant		65,240	6.7%
Total		**972,338**	**100.0%**

Our largest tenant Orange is investment grade and has leases in two of our properties, the Vanves property and the Arcueil property (held in partnership).

Leasing profile

Rental indexation

All leases have rental indexation based on either the French ICC (construction cost index) or ILAT (index averaging construction costs and CPI indexes) or the German Consumer Price Index, as applicable.

Lease rollover profile

The REIT has an average remaining lease term of 6.0 years (not including tenant early termination rights). Assuming all tenants leave at next possible early termination rights, which is a highly improbable scenario, average remaining lease term on our portfolio is 4.1 years. Only 7% of the leases (by GLA) expire before December 31, 2018.

CONSOLIDATED FINANCIAL INFORMATION

(in thousands of CAD$)	Three months ended September 30 2015	Three months ended September 30 2014	Nine months ended September 30 2015	Nine months ended September 30 2014
Rental income	5,543	4,291	16,133	13,836
Service charge income	1,665	1,044	5,324	3,266
Service charge expense	(1,469)	(685)	(6,613)	(4,330)
Other revenues	-	0.000	1,240	-
Other property operating (expense) revenues	(232)	(42)	(279)	(13)
Net rental earnings	**5,507**	**4,608**	**15,805**	**12,759**
Administration expenses	(941)	(829)	(3,059)	(2,695)
Foreign exchange (loss) gain	(23)	1	51	(34)
Net change in fair value of investment properties	(443)	(365)	12,723	(921)
Acquisition costs	(402)	(112)	(456)	(525)
Operating earnings	**3,698**	**3,303**	**25,064**	**8,584**
Loss on financial instruments at fair value through P&L	(1,407)	(96)	(1,028)	(806)
Share of the profit of an investment (equity method)	519	82	640	82
Loss on exercise of early payment option on finance leases	-	-	-	(7,972)
Finance income	2,860	375	4,424	387
Finance costs	(1,223)	(1,329)	(3,666)	(2,992)
Gain on disposal of a 50% interest in a subsidiary	-	250	-	250
Distributions on Exchangeable securities	(408)	(305)	(1,265)	(888)
Net change in fair value of Exchangeable securities	406	(124)	71	(1,449)
Earnings before income taxes	**4,445**	**2,156**	**24,240**	**(4,804)**
Current income tax expense	(52)	2	(60)	(5)
Deferred income tax expense	86	-	(21)	(20)
Earnings for the period	**4,479**	**2,158**	**24,159**	**(4,829)**

Net rental earnings

Net rental earnings for the three-month period ended September 30, 2015 reached $5,507 compared to $4,608 in 2014, an increase of 19.5%. The growth is principally due to the higher number of properties owned by the REIT with the addition of the Sablière and Baldi properties acquired in November 2014.

For the nine-month period ended September 30, 2015, net rental earnings increased by 23.9% over the same period in 2014 and reached $15,805. This amount includes a gain of $1,240 during the period on the recovery of an indemnity paid at the time of the purchase of the Vanves property for possible repairs that are no longer required. As was the case for the quarter, the REIT benefited from additional net rental earnings from the Sablière and Baldi properties.

During the third quarter of 2015, service charge income has been greater than service charge expenses as we recovered from tenants operating charges paid by the REIT in the first two quarters of the year. On a year-to-date basis, service charge expenses are greater than service charge income. This is also partially explained by the application of the IFRIC 21 rule.

As mentioned in prior reports, net rental earnings does not include the revenues generated from the properties held through joint-venture arrangements. The contribution of these properties stands in the Finance income and in the Share of the profit of an investment accounted for using the equity method sections as detailed below.

Administration expenses

Administration expenses are primarily comprised of asset management fees paid to Inovalis SA and of other general administrative expenses such as trustee fees, directors' and officers' liability insurance, professional fees (including accounting fees), legal fees, filing fees, shareholders related expenses and other expenses. Administration expenses for the quarter ended September 30, 2015 amounted to $941 vs. $829 for the quarter ended September 30, 2014.

$563 is related to the asset management fees paid to Inovalis SA (vs. $422 for the quarter ended September 30, 2014) and $378 to other expenses (vs. $407 for the quarter ended September 30, 2014).

Administration expenses for the nine-month period ended September 30, 2015 amounted to $3,059 vs. $2,695 for the nine-month period ended September 30, 2014. $1,601 is related to the asset management fees paid to Inovalis SA (vs. $1,314 for the nine month period ended September 30, 2014) and $1,458 to other general administrative expenses (vs. $1,381 for the nine month period ended September 30, 2014). These costs are partly accounted for by the increased complexity associated with the higher number of buildings, rapid growth and regulatory and corporate compliance.

Net change in fair value of investment properties

During the quarter ended September 30, 2015, the net change in fair value of investment properties recognized in earnings was loss of $443. The principal cause of this expense is to the accounting treatment used for property taxes which requires that the entire amount be recognized at the beginning of the year and be amortized over the year, with counterparty effect in service charge expense. The Company had recognized a net reduction in fair value of $365 during the quarter ended September 30, 2014. Conversely, for the nine month period ended September 30, 2015, the net change in fair value of investment properties recognized in earnings was $12,723 while the REIT had recorded a loss of $921 for the same period in 2014. The net change in fair value in 2015 was all related to the French properties.

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

The REIT recognized a loss on financial instruments at fair value through profit and loss for the quarter ended September 30, 2015 of $1,407. For the nine-month period ended September 30, 2015, the REIT recognized a loss of $1,028. These losses are mostly the result of the variation in value realized on the foreign exchange (“FX”) contracts purchased in 2015. These 2015 contracts have a strike price of 1.4956 Canadian dollar per Euro, but the recent increase in exchange rate has impacted the estimated realizable value of the future contract. As at September 30, 2015 the exchange rate for the Euro was 1.4951. During the third quarter ended September 30, 2015, the average FX rate was 1.4665 while it had closed at 1.3911 on June 30, 2015.

During the quarter ended September 30, 2014, the REIT recorded a loss of $96 as most of the FX contracts held at the time were accounted for using hedge accounting. For the nine-month period ended September 30, 2014, the Company had recorded a loss of $806 caused by the unfavorable contracts that were liquidated during the second quarter of 2014.

Share of earnings from investments accounted for using the equity method

As mentioned above, during the quarter ended September 30, 2015, the REIT completed its 25% interest in Arcueil SCS, a joint venture which purchased a company that owns an office property located in Greater Paris. The share of earnings from the joint venture investment in Duisburg, Walpur and Arcueil was $519 for the quarter ended September 30, 2015 and $640 for the nine-month period ended September 30, 2015. In 2014, the Company had only the Duisburg property which was acquired in July of 2014. The share of earnings from Duisburg for the three-month and nine-month periods ended September 30, 2014 was $82.

Finance income

During the quarter ended September 30, 2015, the REIT recorded total finance income of $2,860, which is composed of interest revenues of $2,457 generated from its loans to the joint-ventures and $402 from the Acquisition loan to Inovalis SA. During the nine-month period ended September 30, 2015, the REIT recorded total finance income of $4,424, which is composed of interest revenues of $3,270 generated from its loans from the joint-ventures and $1,149 from the Acquisition loan to Inovalis SA.

During the same quarter and nine month period ended September 30, 2014, the REIT recorded $375 and $387 respectively of interest revenues from its loan to its joint-venture investment in Duisburg and small amounts in interest revenues on its outstanding cash balance at the time.

Finance costs

For the three-month period ended September 30, 2015, finance costs amounted to $1,223 including notably $893 for interest costs related to finance leases, mortgage loans and lease equalization loans. For the same period in 2014, total finance costs amounted to $1,329, of which $866 related to finance leases, mortgage loans and lease equalization loans.

For the nine-month period ended September 30, 2015, finance costs amounted to $3,666 including $2,601 for interest costs related to finance leases, mortgage loans and lease equalization loans. For the same period in 2014, total finance costs amounted to $2,992, of which $1,928 related to finance leases, mortgage loans and lease equalization loans.

Please refer to note 8 of the condensed interim consolidated financial statements for the period ended September 30, 2015 for a more detailed description of the main components of finance costs for both the three-month and nine-month periods of 2015 and 2014. The variation between the periods is the result of the addition of two properties in the fall of 2014 and the impact of the renegotiation of the long-term debt that was done in the second quarter of 2014.

Distributions on Exchangeable securities

Distributions to the holders of Exchangeable securities are calculated in a manner to provide a return that is economically equivalent to the distributions received by the Unitholders. They are, however, subordinated to the distributions to the other Unitholders until April 10, 2016. During the three-month period ended September 30, 2015 the distribution recognized on Exchangeable securities was $408 while it was $305 for the same period in 2014. During the nine-month period ended September 30, 2015 the distribution recognized on exchangeable securities was $1,265 while it was $888 for the same period in 2014. The increase for both the three-month and nine-month periods is the result of the additional Exchangeable securities purchased by Inovalis SA at the time of the Unit offering in November 2014 and from 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 September 30, 2015, the REIT reported a gain of $406 which is the result of the decrease in the amount of the debt following the conversion of $1,887 of Exchangeable securities into 200,000 units of the REIT in July of 2015 and the change in the closing price on the TSX which was $8.81 on September 30, 2015 compared to $9.05 as at June 30, 2015. For the same reasons described above, there was a gain of $71 recognized for the nine-month period ended September 30, 2015. The closing price on the TSX was $8.81 on September 30, 2015 and $8.88 on December 31, 2014.

For the three-month period ended September 30, 2014, the resulting loss was $124 while the net loss in fair value for the nine-month period ended September 30, 2014 was $1,325. The closing price on the TSX was $9.84 on September 30, 2014, $9.76 on June 30, 2014 and $8.88 on December 31, 2014.

Last 24 Months Key Financial Information

The information provided in this section shows the figures as per the consolidated financial statements.

	3-month period ended							
(in thousands of CAD$)	Sept. 30, 2015	June 30, 2015	March 31, 2015	Dec 31, 2014	Sept. 30, 2014	June 30, 2014	March 31, 2014	Dec 31, 2013
Rental income	5,543	5,306	5,283	4,846	4,291	4,658	4,887	4,630
Net rental earnings	5,507	7,116	3,189	5,167	4,608	5,039	3,112	4,394
Earnings for the period	4,479	16,615	3,065	21,374	2,158	(6,897)	(95)	3,955
Earnings per Unit (CAD$)	0.29	1.08	0.20	1.56	0.19	(0.61)	(0.01)	0.35

NON-IFRS RECONCILIATION

FFO and AFFO

(in thousands of CAD$)	Three months ended September 30		Nine months ended September 30	
	2015	**2014**	**2015**	**2014**
Earnings for the period	4,479	2,158	24,159	(4,829)
Add/(Deduct):				
Adjustment to related acquisition costs	402	112	456	525
Less other revenues (recovery of indemnity)	-	-	(1,240)	-
Less reversal of an overaccrual of acquistion costs in 2013		-	(216)	-
Loss on exercise of lease option	-	-	-	7,972
Net change in fair value of investment properties	443	365	(12,723)	921
(Gain) loss on financial instruments at fair value through profit and loss	1,407	96	1,028	806
Gain on disposal of a 50% interest in a subsidiary	-	(250)	-	(250)
Adjustment for property taxes accounted for under IFRIC 21	(713)	(568)	620	555
Share of the profit of an investment (equity method)	(519)	105	(640)	105
Finance income from joint venture investments	(2,457)	(187)	(3,270)	(187)
Distributions on Exchangeable securities	408	305	1,265	888
Change in fair value of Exchangeable securities	(406)	124	(71)	1,449
Foreign exchange (loss) gain	23	(1)	(51)	34
Non-recurring other finance costs	(27)	295	46	295
Deferred income tax expense	(86)	-	21	-
FFO from Joint Ventures	914	-	1,899	-
		-		-
FFO	**3,868**	**2,554**	**11,283**	**8,284**
Add/(Deduct):				
Non-cash effect of straight line rents	(771)	(476)	(2,184)	(1,430)
Cash effect of the lease equalization loans	756	476	2,357	1,430
Amortization of fair value adjustment on assumed debt	110	24	324	448
Amortization of transaction costs on mortgage loans	101	123	302	193
Non-cash part of asset management fees paid in Exchangeable securities (1)	281	211	801	657
Capex net of cash subsidy	(100)	(100)	(300)	(650)
Adjustement from investment	22	-	73	
AFFO	**4,267**	**2,812**	**12,656**	**8,932**
FFO / Units (diluted) *(in CAD$)*	**0.22**	**0.20**	**0.65**	**0.65**
AFFO / Units (diluted) *(in CAD$)*	**0.24**	**0.22**	**0.73**	**0.70**

(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, i.e. 17,513,310 and 12,775,265 for the 3-month periods ended September 30, 2015 and September 30, 2014 and 17,424,127 and 12,726,321 for the 9-month periods ended September 30, 2015 and September 30, 2014

Management believes FFO is an important measure of our operating performance. This non-IFRS measurement is a commonly used measure of performance of real estate operations. 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.

AFFO is an important measure of our economic performance and is indicative of our ability to pay distributions. This non-IFRS measurement is commonly used for assessing real estate performance. 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.

Our AFFO calculation is based on the average foreign exchange rate for the period (1.4043 Canadian dollars per Euro for the 9-month period ended September 30, 2015) and does not take into account our foreign currency hedging arrangements (100% of our monthly cash distributions are covered until August 2018 at an average rate of 1.5074).

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, 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. A reconciliation of the financial position and results of operations to the condensed consolidated balance sheets and condensed consolidated statements of earnings is included in the following tables.

Balance sheet reconciliation to condensed interim consolidated financial statements

	As at September 30, 2015			As at December 31, 2014		
Assets	**As per REIT's financial statements**	**Share from investments in joint-ventures**	**Proportionate Consolidation**	**As per REIT's financial statements**	**Share from investments in joint-ventures**	**Proportionate Consolidation**
Non-current assets						
Investment properties	344,734	88,401	433,135	308,596	35,446	344,042
Deferred income tax assets	-	170	170	-	82	82
Investment accounted for using the equity method	42,396	(42,396)	-	18,307	(18,307)	-
Acquisition loan	17,740	-	17,740	17,548	-	17,548
Derivative financial instruments	192	-	192	875	-	875
Restricted cash and other financial assets	1,148	-	1,148	309	-	309
Total non-current assets	406,210	46,175	452,385	345,635	17,221	362,856
Current assets						
Trade and other receivables	4,215	867	5,082	2,852	91	2,943
Derivative financial instruments	266	-	266	761	-	761
Other current assets	732	143	875	731	182	913
Restricted cash	300	-	300	291	-	291
Cash and cash equivalents	5,170	4,667	9,837	24,185	974	25,159
Total current assets	10,683	5,677	16,360	28,820	1,247	30,067
Total assets	**416,893**	**51,852**	**468,745**	**374,455**	**18,468**	**392,923**

Liabilities and Unitholders' equity						
Liabilities						
Non-current liabilities						
Mortgage loans	50,536	26,297	76,833	47,150	17,017	64,167
Finance lease liabilities	134,116	19,935	154,051	130,680	-	130,680
Other long-term liabilities	-	1,254	1,254	-	-	-
Lease equalization loans	5,049	-	5,049	3,101	-	3,101
Tenant deposits	1,734	-	1,734	1,626	-	1,626
Exchangeable securities	15,689	-	15,689	16,663	-	16,663
Derivative financial instruments	3,041	155	3,196	1,077	-	1,077
Deferred tax liabilities	1,023	1,273	2,296	949	806	1,755
Total non-current liabilities	211,188	48,914	260,102	201,246	17,823	219,069
Current liabilities						
Finance lease liabilities	7,495	-	7,495	6,991	-	6,991
Lease equalization loans	1,029	-	1,029	248	-	248
Tenant deposits	115	-	115	380	-	380
Exchangeable securities	2,390	-	2,390	1,482	-	1,482
Derivative financial instruments	93	-	93	605	-	605
Trade and other payables	7,672	997	8,669	5,653	645	6,298
Other current liabilities	1,357	1,941	3,298	233	-	233
Total current liabilities	20,151	2,938	23,089	15,592	645	16,237
Total liabilities	231,339	51,852	283,191	216,838	18,468	235,306
Unitholders' equity						
Trust units	135,487	-	135,487	133,010	-	133,010
Retained earnings	31,934	-	31,934	17,291	-	17,291
Accumulated other comprehensive income	18,133	-	18,133	7,316	-	7,316
Total Unitholders' equity	185,554	-	185,554	157,617	-	157,617
Total liabilities and Unitholders' equity	**416,893**	**51,852**	**468,745**	**374,455**	**18,468**	**392,923**

Consolidated statement of earnings reconciliation to condensed interim consolidated financial statements

	Three months ended					
	September 30, 2015			September 30, 2014		
(in thousands of CAD$)	Amounts per condensed financial statements	Share of income from investments in joint ventures	Total	Amounts per condensed financial statements	Share of income from investments in joint ventures	Total
Rental income	5,543	2,167	**7,710**	4,291	511	**4,802**
Service charge income	1,665	422	**2,087**	1,044	112	**1,156**
Service charge expense	(1,469)	(403)	**(1,872)**	(685)	(135)	**(820)**
Other revenues	-	-	**-**	-	-	**-**
Other property operating (expense) revenues	(232)	(372)	**(604)**	(42)	-	**(42)**
Net rental earnings	**5,507**	**1,814**	**7,321**	**4,608**	**488**	**5,096**
Administration expenses	(941)	(314)	**(1,255)**	(829)	(67)	**(896)**
Foreign exchange (loss) gain	(23)	-	**(23)**	1	-	**1**
Net change in fair value of investment properties	(443)	1,117	**674**	(365)	115	**(250)**
Gain on bargain purchase	-	4,774	**4,774**	-	-	**-**
Business acquisition costs	(402)	(1,834)	**(2,236)**	(112)	-	**(112)**
Operating earnings	**3,698**	**5,557**	**9,255**	**3,303**	**536**	**3,839**
Loss on financial instruments at fair value through P&L	(1,407)	(347)	**(1,754)**	(96)	-	**(96)**
Share of the profit of an investment (equity method)	519	(519)	**-**	82	(82)	**-**
Loss on exercise of early payment option on finance leases	-	-	**-**	-	-	**-**
Finance income	2,860	(2,197)	**663**	375	(374)	**1**
Finance costs	(1,223)	(2,349)	**(3,572)**	(1,329)	(86)	**(1,415)**
Gain on disposal of a 50% interest in a subsidiary	-	-	**-**	250	-	**250**
Distributions on Exchangeable securities	(408)	-	**(408)**	(305)	-	**(305)**
Net change in fair value of Exchangeable securities	406	-	**406**	(124)	-	**(124)**
Earnings before income taxes	**4,445**	**145**	**4,590**	**2,156**	**(6)**	**2,150**
Current income tax expense	(52)	(3)	**(55)**	2	6	**8**
Deferred income tax expense	86	(142)	**(56)**	-	-	**-**
Earnings for the period	**4,479**	**-**	**4,479**	**2,158**	**-**	**2,158**

(in thousands of CAD$)	Nine-month period ended September 30, 2015 Amounts per condensed financial statements	Share of income from investments in joint ventures	Total	September 30, 2014 Amounts per condensed financial statements	Share of income from investments in joint ventures	Total
Rental income	16,133	3,475	**19,608**	13,836	511	**14,347**
Service charge income	5,324	717	**6,041**	3,266	112	**3,378**
Service charge expense	(6,613)	(891)	**(7,504)**	(4,330)	(135)	**(4,465)**
Other revenues	1,240	(6)	**1,234**	-	-	**0.000**
Other property operating (expense) revenues	(279)	24	**(255)**	(13)	-	**(13)**
Net rental earnings	**15,805**	**3,319**	**19,124**	**12,759**	**488**	**13,247**
Administration expenses	(3,059)	(562)	**(3,621)**	(2,695)	(67)	**(2,762)**
Foreign exchange (loss) gain	51	-	**51**	(34)	-	**(34)**
Net change in fair value of investment properties	12,723	1,047	**13,770**	(921)	115	**(806)**
Gain on bargain purchase	-	4,774	**4,774**	-	-	**-**
Business acquisition costs	(456)	(1,826)	**(2,282)**	(525)	-	**(525)**
Operating earnings	**25,064**	**6,752**	**31,816**	**8,584**	**536**	**9,120**
Loss on financial instruments at fair value through P&L	(1,028)	(347)	**(1,375)**	(806)	-	**(806)**
Share of the profit of an investment (equity method)	640	(640)	**-**	82	(82)	**-**
Loss on exercise of early payment option on finance leases	-	-	**-**	(7,972)	-	**(7,972)**
Finance income	4,424	(3,010)	**1,414**	387	(374)	**13**
Finance costs	(3,666)	(2,544)	**(6,210)**	(2,992)	(86)	**(3,078)**
Gain on disposal of a 50% interest in a subsidiary	-	-	**-**	250	-	**250**
Distributions on Exchangeable securities	(1,265)	-	**(1,265)**	(888)	-	**(888)**
Net change in fair value of Exchangeable securities	71	-	**71**	(1,449)	-	**(1,449)**
Earnings before income taxes	**24,240**	**211**	**24,451**	**(4,804)**	**(6)**	**(4,810)**
Current income tax expense	(60)	(3)	**(63)**	(5)	6	**1**
Deferred income tax expense	(21)	(208)	**(229)**	(20)	-	**(20)**
Earnings for the period	**24,159**	**-**	**24,159**	**(4,829)**	**-**	**(4,829)**

PROPERTY CAPITAL INVESTMENTS

Fair value

The fair value of our investment property portfolio as at September 30, 2015, including the REIT's interests in the properties held in partnerships, was $433.1 million (vs. $344.0 million as at December 31, 2014). The fair value of the French properties was $346.2 million (80.0% of total value) and the fair value of the German properties was $86.9 million (20.0% of total value).

On a same store basis (i.e. excluding the 2015 Bad Homburg and Arcueil acquisitions), the fair value of our investment property portfolio as at September 30, 2015, including the REIT's interests in the properties held in partnerships, was $382.5 million vs. $344.0 million as at December 31, 2014. The $38.5 million increase is accounted for by a $16.1 million increase in value of the properties and a $22.4 million increase due to foreign exchange movements.

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 in order to replace and maintain the productive capacity of its property portfolio so as to sustain its rental income generating potential over the portfolio's useful life. In accordance with IFRS, the REIT will capitalize all capital improvement expenditures on its properties that enhance the service potential of a property and extend the useful life of an asset with the term of the capital lease.

An escrow account totaling $4.2 million of cash was initially set aside by the vendors of the four initial properties for payment of capital expenditures to be invested before April 2016 in the event a need for capex arises. A total of $1.7 million has been spent. Considering that no further capex needs were identified, it was decided by both parties to share one year before April 2016 the remaining amount of $2.5 million. This escrow account has therefore been extinguished and the REIT received a cash amount of $1.24 million.

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.

OTHER SIGNIFICANT ASSETS

Restricted cash and other financial assets

Restricted cash and other financial assets amounted to $1,448 as at September 30, 2015. It is comprised of a collateral of $1,447 for the foreign exchange currency contracts.

Investment accounted for using the equity method

This section encompasses the 50% interest the REIT has in the Duisburg property, the 50% interest in the Walpur property and the 25% interest in the Arcueil property. Simplified balance sheet and statement of earnings of all three investments can be found in the note 5 of the condensed interim consolidated financial statements attached to this report. The fair value of the investment accounted for using the equity method was $42,396 as at September 30, 2015 compared to $18,307 on December 31, 2014.

The table below outlines the share of the REIT's FFO coming from these investments.

	3-month period ended September 30, 2015		9-month period ended September 30, 2015	
(in thousands of CAD$)	Total	Share of the REIT	Total	Share of the REIT
Profit (loss) for the period	1,036	518	1,280	640
Adjustment for				
Acquistion costs (reversal of accrual)	2,921	1,834	2,905	1,826
Non-recurrent sales tax item	420	210	420	210
Gain on bargain purchase	(7,602)	(4,774)	(7,602)	(4,774)
Net change in fair value of inv properties	(2,091)	(1,117)	(1,950)	(1,047)
Finance costs to Partners	3,901	2,605	5,489	3,399
Net change in FVTPL	553	347	553	347
Finance costs on derivative instrument, net	47	30	47	30
Other financial costs	-	-	(94)	(47)
Mortgage loans amortization of transaction costs	49	29	66	37
Other non-recuring financial costs (rev)	1,703	1,069	1,703	1,069
FX impact	42	21	-	-
Deferred income tax	285	143	416	208
FFO from investment	**1,264**	**914**	**3,233**	**1,899**

Acquisition loan

On November 6, 2014, Metropolitan LLC, a 100% subsidiary of the REIT, made a loan to Inovalis in the amount of 12,500 Euros so that Inovalis SA could acquire a property in the greater metropolitan area of Paris, France (the "**Acquisition loan**"). As of September 30, 2015, the book value of this loan was $17,740. The loan is secured by a share pledge from a holding company owned by Inovalis SA (which also owns another property in the Greater Paris Region), bears interest at a rate of 8.75% for three years (with an option to extend for one year) and includes a right of first opportunity in favor of the REIT to purchase the property at a discount to the then market price. Whether the REIT exercises its option to buy the property or the property is sold to a third party, the REIT will receive 50% of the profit generated by the sale of the property less all interests already received on the Acquisition loan, in the first case in the form of a discount to the price and in the second case in the form of a cash gain. The minimum income for the REIT on this transaction is 8.75% per annum. Since November 2014, the letting situation on the property has significantly improved and occupancy rate is now greater than 90%.

Trade and other receivables

Trade and other receivables as at September 30, 2015 amounted to $4,215 compared to $2,852 as at December 31, 2014. The increase is principally the result of an increase in rent and service charges receivable from tenants.

Other current Assets

Other current assets as at September 30, 2015 amounted to $732 compared to $731 as at December 31, 2014. This amount is composed of sales tax receivable of $640 and prepaid expenses of $92.

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 of 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 in order to get access to capital but also in the perspective of diversification of our portfolio.

The REIT's cash available decreased from $24.2 million as at December 31, 2014 to $5.2 million as at September 30, 2015 because of the investments in the Bad Homburg and Arcueil properties completed respectively on April 8, 2015 and on July 7, 2015.

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. Our preference is to have staggered debt maturities to mitigate interest rate risk and limit refinancing exposure in any particular period. Our debt to book value stands at 52.9%, in line with our long-term targeted range of 50 to 55% and net of the $5.2 million of cash available as at September 30, 2015, this debt to book value stands at 51.8%.

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

	As at September 30, 2015	As at December 31, 2014
Weighted average interest rate (1)	1.99%	1.98%
Debt-to-book value (2)	52.6%	52.7%
Debt-to-book value, net of cash (2)	51.6%	49.4%
Interest coverage ratio (3)	4.4 x	4.7 x
Debt due in next 12 months in thousand of CAD$ (including interests)	8,150	6,991
Weighted average term to maturity of debt (4)	6.8 years	7.2 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-IFRS 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. Taking into account the interest the REIT has in the properties held in partnerships
(4) Calculated as the weighted average term on all the financial leases and mortgage financings

17% of our leasehold and mortgage financing expire in 2017, 32% in 2019, 8% in 2023, 35% in 2026 and 8% in 2027.

Equity

Our discussion about equity is inclusive of Exchangeable securities, 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 IFRS because of the conversion feature that can be exercised by the holder of those securities.

	3-month period ended September 30, 2015	9-month period ended September 30, 2015
Units		
Number at beginning of period	15,321,444	15,278,536
Increase/(Decrease) in number during the period	200,000	200,000
Units issued pursuant to the DRIP	24,462	67,370
Number at end of period	15,545,906	15,545,906
Weighted average number during the period	15,485,358	15,362,088
Exchangeable securities		
Number at beginning of period	2,179,335	2,043,347
Increase/(Decrease) in number during the period	(127,239)	8,749
Number at end of period	2,052,096	2,052,096
Weighted average number during the period	2,027,952	2,062,039
Units and Exchangeable securities		
Number at beginning of period	17,500,779	17,321,883
Increase/(Decrease) in number during the period	97,223	276,119
Number at end of period	17,598,002	17,598,002
Weighted average number during the period	17,513,310	17,424,127

Our Declaration of Trust authorizes the issuance of an unlimited number of Units and an unlimited number of Special Voting Units. Issued and outstanding Units and Special Voting Units may be subdivided or consolidated from time to time by the Trustees without notice to or approval of the Unitholders of the REIT.

A total of 72,761 Exchangeable securities were issued during the period from July 1, 2015 to September 30, 2015 in favor of Inovalis SA as payment of the asset management fee for the second quarter of 2015. 50% of these Exchangeable securities (or 36,380 Exchangeable securities) are subject to an escrow agreement pursuant to which such Exchangeable securities will be released from escrow upon termination of the Management Agreement, except in the case of internalization of the management of the REIT, in which case (i) one third of the Exchangeable securities will be automatically released upon internalization of the management of the REIT, and (ii) one third of the Exchangeable securities will be released on the first and second anniversaries of the internalization of the REIT.

Further to the Distribution Reinvestment Plan ("**DRIP**") in place, a total of 24,462 Units were issued to Unitholders during the quarter ended September 30, 2015 and 67,370 Units were issued during the period from January 1, 2015 to September 30, 2015. As of September 30, 2015, 7.3% of the Units were enrolled in the DRIP.

On July 22, 2015, Inovalis SA converted 200,000 Exchangeable securities into the same amount of Units, increasing the total number of Units by 200,000 and decreasing the total number of Exchangeable securities by 200,000. This had no impact on the fully diluted number of Units (including Exchangeable securities).

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.

In order to ensure the predictability of distributions to our Unitholders, we have established an active foreign exchange hedging program. Until August 2018 (included), the REIT is committed to sell €664 (on the average) at an average rate of 1.5074 and to receive $1,000 on a monthly basis. Approximately 60% of the contracts are forward contracts and 40% of the contracts are a combination of puts and calls. The puts and calls contracts were taken at the beginning of 2015 when the market conditions were such that this strategy enabled us to lock in a better rate than the one what we would have had with forward contracts.

	Three months ended September 30		Three months ended September 30	
(in thousands of CAD$ except for per Unit amounts)	2015	2014	2015	2014
Declared distributions on Units	3,205	2,330	9,516	6,986
Declared distributions on Exchangeable securities	408	305	1,265	888
Total declared distributions	**3,613**	**2,635**	**10,781**	**7,874**
Distribution per Unit (diluted)	$0.21	$0.21	$0.62	$0.62

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

Trade and other payables

Trade and other payables as at September 30, 2015 amounted to $7,672 compared to $5,653 as at December 31, 2014. The increase is principally due to the accrual of all property taxes and levies ($1,950), which will resorb itself in large part before the end of the year. Also, the conversion rate at the end of September 2015 was 1.4951 while it was 1.4038 as at December 31, 2014.

ANALYSIS OF DISTRIBUTED CASH

	3 months ended September 30, 2015	3 months ended September 30, 2014	9 months ended September 30, 2015	9 months ended September 30, 2014
Cash flows from operating activities (A)	5,976	(8,790)	12,962	8,067
Earnings before income taxes (B)	4,445	2,156	24,240	(4,804)
Declared distribution on Units (C)	3,205	2,330	9,516	6,986
Excess (shortfall) of cash flows from operating activities over cash distributions paid (A - C)	2,369	(11,120)	2,990	1,081
Excess (shortfall) of profit or loss over cash distributions paid (B - C)	1,240	(174)	14,724	(11,790)

As shown in the table above, the cash flows related to operating activities as reported in the REIT's condensed interim consolidated statement of cash flows exceeded the cash distributions declared for the three-month and the nine-month periods ended September 30, 2015.

Also, as shown in the table above, the earnings reported during the period exceeded the amount of distributions declared for the three-month and the nine-month periods ended September 30, 2015.

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-IFRS 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. Material risks and uncertainties that could materially affect our operations and future performance are described in our prospectus dated March 28, 2013, in our short-form equity offering prospectus dated October 30, 2014, and in our 2014 annual report which are available at www.sedar.com.

OUTLOOK

We believe that the current market environment is a favourable 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 August 2018, 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 condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments and estimates that affect 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 that require 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; and (ii) distinction between business combinations or asset acquisitions.

A more detailed description of significant accounting policies and critical accounting judgment and estimates that we apply under IFRS is provided in notes 3 and 4 of the audited annual consolidated financial statements for the year ended December 31, 2014.

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.

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.

Over the last months, given the continued growth and diversification of the REIT's investments, methods of financing and hedging activities, several new financial statement lines were added to the financial statements. Consequently, several new internal controls were implemented to mitigate the related risk of misstatement, notably with respect to the Investment accounted for using the equity method, the Acquisition loan, the deferred income taxes and the financial disclosure associated with hedge accounting.

SUBSEQUENT EVENTS

New acquisition

Subsequent to the end of the period, the REIT entered into an agreement wth a new partner and purchased, on a 49-51 basis (49% interest for the REIT), an office property located in Cologne, Germany, for an all-in cost of approximately 22.7 million euros ($34.0 million). The REIT is currently analyzing the accounting impact of this transaction on its consolidated financial statements.