INOVALIS

REAL ESTATE INVESTMENT TRUST

(Revised 22nd December 2017)

Notice to Reader

Management's Discussion and Analysis

In connection with an issue-oriented and ordinary course continuous disclosure review by the Ontario Securities Commission, management has determined to, commencing with the Q3 2017 MD&A, present the operating and financial results of the REIT using GAAP measures while providing the information required to adjust to proportionate consolidation in later sections of the MD&A. Management has also restated the Q4 2016, Q1 2017 and Q2 2017 MD&A documents to provide greater prominence to the GAAP measures relating to these periods. The REIT's restated the MD&A have been filed on SEDAR.

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Letter to Unitholders

With a successful equity offering in the second half of 2016, promising opportunities for growth in our target markets and a dedicated team with local roots, we are looking forward to materializing our future prospects

I am pleased to present our report for 2016, which was another exciting year. The $46.0 million equity offering closed in the second half of 2016 was a success, as evidenced by the exercise in full of the over-allotment option by the syndicate of underwriters.

We recently announced the forward purchase of the Ingolstadt property and the commitment to fund an acquisition and redevelopment loan for the Rueil property in a Metropolitan-like transaction. More recently, the REIT entered into exclusivity for the acquisition of two assets located in Pantin (Paris North-Eastern periphery) and in Stuttgart (Germany). Upon completion of these acquisitions, Inovalis REIT will have deployed the total amount raised during the recent equity offering.

As for a number of our recent acquisitions, we intend to do them on a partnership basis. The success of this strategy reflects the fact that Inovalis REIT is a now seen as strong investment partner while Inovalis SA remains a high quality full-fledged real estate fund management solution for investors willing to take benefit from European real estate opportunities.

Our results for 2016 shall be read through the existing portfolio. On that basis, FFO payout ratio of 95.7% is in line with previous year and AFFO payout ratio has remained below 90% at 88.8%. With an occupancy rate standing at 95.9% and a debt to book value ratio of 51.3% for the entire portfolio, including the REIT's proportionate interest in properties held in partnership, as at December 31, 2016, the REIT is well positioned for pursuing its growth. The recent carve-out and sale of the non-core studio in the Baldi property that generated $3.8 million of cash is further evidence of the REIT's ability to create value from its properties.

Our core European investment markets have been this year again very active and investment volumes largely exceed the last ten-year average, both in France and in Germany. Cap rate compression is a continuing trend and Inovalis REIT has been benefiting from this trend since its listing on the TSX in April 2013.

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

Stéphane Amine

Chairman of the Board

March 20, 2017

Management's discussion and analysis

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

OVERVIEW – GAAP and Non-GAAP

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

	December 31, 2016		December 31, 2015	
Operational information (1)	**GAAP measures**	**Non-GAAP measures**	**GAAP measures**	**Non-GAAP measures**
Number of properties	7	11	6	10
Gross leasable area (sq.ft)	772,403	1,050,336	725,576	1,004,448
Occupancy rate (end of period) (2)	92.5%	95.9%	85.7%	91.9%
Weighted average lease term	5.2 years	5.3 years	6.1 years	6.3 years
Average capitalization rate (3)	5.4%	5.9%	6.1%	6.6%
Financing information (1)				
Level of debt (debt-to-book value) (4)	46.47%	51.3%	41.6%	53.0%
Level of debt (debt-to-book value, net of cash) (4)	42.05%	47.5%	40.3%	51.9%
Weighted average term of principal repayments of debt	7.3 years	7.2 years	7.2 years	7.2 years
Weighted average interest rate (5)	2.11%	2.11%	1.95%	1.98%
Interest coverage ratio (6)	3.7 x	4.4 x	5.5 x	4.0 x

	Three months ended		Year ended	
(thousands of CAD$ except per Unit and other data)	**Dec 31, 2016**	**Dec 31, 2015**	**Dec 31, 2016**	**Dec 31, 2015**
Operating results				
Rental income	6,706	5,340	24,404	21,473
Adjusted rental income (1)	*8,188*	*6,854*	*31,036*	*25,656*
Net rental earnings	7,023	5,784	22,381	21,589
Adjusted net rental earnings (1)	*8,698*	*6,975*	*29,100*	*25,392*
Earnings for the period	2,984	6,641	23,284	30,800
Funds from Operations (FFO) (7) (8)	4,302	3,873	15,757	15,154
Adjusted Funds from Operations (AFFO) (7) (8)	4,640	4,535	16,973	17,190
Including Units part of the July 2016 equity offering				
FFO per Unit (diluted) (7) (8)	0.19	0.22	0.77	0.87
AFFO per Unit (diluted) (7) (8)	0.20	0.26	0.83	0.98
Excluding Units part of the July 2016 equity offering				
FFO per Unit (diluted) (7) (8)	0.23	0.22	0.87	0.87
AFFO per Unit (diluted) (7) (8)	0.25	0.26	0.94	0.98
Distributions				
Declared distributions on Units and Exchangeable sec.	4,732	3,613	17,078	14,420
Declared distribution per Unit (diluted) (8)	0.21	0.21	0.83	0.83
Including Units part of the July 2016 equity offering				
FFO payout ratio (7)	110.0%	93.3%	108.4%	95.6%
AFFO payout ratio (7)	102.0%	79.7%	100.6%	83.9%
Excluding Units part of the July 2016 equity offering				
FFO payout ratio (7)	86.8%	93.3%	95.7%	95.6%
AFFO payout ratio (7)	80.4%	79.7%	88.8%	83.9%

(1) Taking into account the interest the REIT has in the properties held in partnerships.
(2) Calculated on weighted areas (activity, storage and intercompany restaurant areas being accounted for only a third of their effective areas).
(3) Calculated on annualized net rental earnings (based on net rental earnings for the year-to-date period).
(4) The definition of *debt-to-book value* and of *debt-to-book value, net of cash* can be found under the section *Non-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.
(7) The reconciliation of FFO and AFFO to earnings can be found under the section *Non-IFRS Reconciliation (FFO and AFFO).*
(8) Based on the fully diluted weighted average number of Units during the period.

KEY FACTS

- Inovalis REIT ("**Inovalis REIT**", or the "**REIT**" or "**we**") is a Canadian REIT managed by Inovalis S.A. ("**Inovalis SA**"), a local cross-border French and German real estate asset manager managing $10 billion of real estate and financial assets. As of December 31, 2016, Inovalis SA and Inovalis SA's founding partners had a 13.6% interest in the REIT's equity (directly and indirectly).

- In November 2016, the REIT announced the sale to the user of the main non-office component of the Baldi property located in Saint-Ouen, in Paris Northern periphery. The Baldi property, dedicated mainly to office (68%) and partly to light industrial (18%) use, was acquired in November 2014 for a total purchase price of €22.0 million ($31.2 million). Upon acquisition, the vacant industrial space, totalling 31,591 sq.ft, had no value attributed to it. The REIT was able to successfully lease up the vacant industrial space in March 2016, carve out the industrial portion of the property and sell it to the tenant occupying the space for €2.7 million ($3.8 million).

- On November 10, 2016, the REIT entered into an agreement for the forward purchase of a Class-A office property to be developed in Ingolstadt, Germany. Upon completion of its development in the first quarter of 2018, the 103,000 sq.ft property will be fully let as headquarters to a leading German automotive supplier under a 10-year firm lease. The net purchase price of the property of approximately €23.9 million ($33.9 million) reflects a cap rate of 6.5%.

- On November 14, 2016, the REIT has committed to fund a €21.7 million ($30.7 million) acquisition and redevelopment loan to a company 80%-owned by Inovalis SA, related to a property located in Rueil, in Paris Western periphery. An office-building complex will be re-developed with a total lettable area of approximately 260,000 sq.ft. The facility amount will be drawn in several instalments by the time of completion of the project in 2019. The loan will generate interest income of 8.50%, paid monthly, in addition to 20% of the profit generated upon the sale of the property to a third party. As at December 31, 2016, the REIT had deployed €5.4 million ($7.7 million), amounting to the first portion of this loan. Subsequent to the quarter, the REIT has deployed another €7.3 million ($10.4 million), resulting in a total commitment of €12.7 million ($18.1 million) as at March 20, 2017. The final portion of the loan commitment of €9.0 million ($12.8 million) is expected to be deployed during the third quarter of 2017.

- FFO / AFFO

  Funds from operations (FFO) and Adjusted Funds from operations (AFFO) for the three-month and twelve-month periods ended December 31, 2016 shall be analyzed in the context of the recent $46.0 million equity offering, the proceeds of which having been partially invested in December 2016 and shall be put into prospective with the same periods in 2015. Excluding the Units from the July 2016 equity offering, for the quarter ended December 31, 2016, FFO and AFFO payout ratios of 86.8% and 80.4% respectively are in line with the same period in 2015 (93.3% and 79.7% respectively). Excluding the Units from the July 2016 equity offering, for the twelve-month period ended December 31, 2016, FFO payout ratio of 95.7% is in line with previous year (95.6%) and AFFO payout ratio has remained below 90% at 88.8%.

	Q4 2016	Q4 2015	FY 2016	FY 2015
Including Units part of the July 2016 equity offering				
FFO per unit	0.19	0.22	0.77	0.87
FFO payout ratio	110.0%	93.3%	108.4%	95.6%
AFFO per unit	0.20	0.26	0.83	0.98
AFFO payout ratio	102.0%	79.7%	100.6%	83.9%
Excluding Units part of the July 2016 equity offering				
FFO per unit	0.23	0.22	0.87	0.87
FFO payout ratio	86.8%	93.3%	95.7%	95.6%
AFFO per unit	0.25	0.26	0.94	0.98
AFFO payout ratio	80.4%	79.7%	88.8%	83.9%

The 1.3% decrease in AFFO in 2016 compared to the previous year ($16,973 vs. $17,190) translated into a 4.1% decrease on a per Unit basis ($0.94 vs. $0.98) due to the increase in the number of Units (Units or Exchangeable securities issued further to the additional investment from Inovalis SA as part of the Metropolitan transaction, to the payment of the asset management fee and to the DRIP program).

FFO and AFFO per Unit and FFO and AFFO payout ratios for the quarter ended December 31, 2016 have all improved compared to the previous quarter ended September 30, 2016 (including and excluding the Units part of the July 2016 equity offering).

	Q4 2016	Q3 2016
Including Units part of the July 2016 equity offering		
FFO per unit	0.19	0.18
FFO payout ratio	110.0%	121.4%
AFFO per unit	0.20	0.19
AFFO payout ratio	102.0%	109.7%
Excluding Units part of the July 2016 equity offering		
FFO per unit	0.23	0.22
FFO payout ratio	86.8%	92.8%
AFFO per unit	0.25	0.23
AFFO payout ratio	80.4%	89.7%

- Occupancy

Under GAAP, the 92.5% weighted average occupancy rate at December 31, 2016 across the 7 properties owned entirely by the REIT, excluding vendor leases, increased from 85.7% at December 31, 2015.

Occupancy rate on the REIT's portfolio, including the REIT's proportionate interest in properties held in partnership was 95.9% as at December 31, 2016 versus 91.4% one year before, as a result of new leases signed on approximately 66,000 sq.ft in five of our properties (Bad Homburg, Baldi, Courbevoie, Metropolitan and Sablière). This reflects the good positioning of our properties in an improving letting market. Weighted average lease term was 5.3 years as at December 31, 2016 compared to 6.3 years one year before.

- Debt to Book Value (GAAP)

Debt to book value for the properties owned entirely by the REIT, was 46.47% as at December 31, 2016, an increase compared to the level of 41.6% one year ago. Net of the cash available, debt to book value was 42.05% as at December 31, 2016 compared to 40.3% one year before.

- Debt to book value (Non-GAAP)

For the entire portfolio, including the REIT's interest in properties held through joint ventures, debt to book value was 51.3% as at December 31, 2016, i.e. significantly lower the level of 53.0% one year ago. Net of the cash available, debt to book value was 47.5% as at December 31, 2016 compared to 51.9% one year before.

- Subsequent to the quarter, in February 2017, The REIT has entered into exclusivity on the acquisition of two assets located in Pantin (Paris North-Eastern periphery) and Stuttgart (Germany). Both assets are office buildings, with an average occupancy rate in excess of 90%, a weighted average lease term of approximately 7 years and located either in improving areas or established office park with main transport access. Tenancy is a mix of government related tenants, high-grade automotive companies and other tenants with long standing relations to the zones. The properties will be bought at a competitive cap rate given the high prices witnessed over the past months in both markets, and both acquisitions will be accretive to AFFO. The REIT expects to close both acquisitions in the course of the second quarter of 2017. Acquisitions will be done under the form of a joint venture with investors from Inovalis S.A. relations. Once these acquisitions close, the REIT will have deployed the total amount raised during the bought deal of July 2016.

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 audited consolidated financial statements for the year ended December 31, 2016, and the notes thereto.

The REIT has historically, within the MD&A, presented operating results based on financial information developed using proportionate consolidation for all of the REIT's joint ventures, which are accounted for using the equity method, as required by IFRS 11 "Joint Arrangements". This manner of presentation provided current and prospective investors with, in management's view, the most relevant information to assist them in understanding the REIT's financial performance, while providing for a reconciliation of such non-Generally Accepted Accounting Principles ("GAAP") information to the REIT's financial statements as reported under IFRS in the relevant sections of the MD&A. In connection with an issue-oriented and ordinary course continuous disclosure review by the Ontario Securities Commission, management has determined to, commencing with this MD&A, present the operating and financial results of the REIT using GAAP measures while providing the information required to adjust to proportionate consolidation in later sections of this MD&A. The MD&A will begin with an Overview, providing a summary of the REIT's performance and operations for the period, including both GAAP and non-GAAP metrics. Management is of the opinion that this presentation provides users of this MD&A additional information about the source of the revenue used by Inovalis to pay distributions on its units, as joint venture structures represent significant equity investments (joint ventures account for about 30% of the total value of all properties held by the REIT), are a significant part of the growth of the REIT and represent of an important part of the REIT's revenue and expenses. Management believes that this reformatting of the MD&A will provide greater prominence to the GAAP measures while still allowing for a reconciliation to the comparable non-GAAP measures.

This MD&A has been prepared taking into account material transactions and events up to and including March 20, 2017. Financial data provided in the audited 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. 1.4660 Canadian dollars per Euro for the three-month period ended December 31, 2016. For balance sheet items, projections or market data, the exchange rate used is 1.4169 (exchange rate as at December 31, 2016).

FORWARD-LOOKING INFORMATION

Although we believe that the expectations reflected in the forward-looking information are reasonable, we can give no assurance that these expectations will prove to have been correct, and since forward-looking information inherently involves risks and uncertainties, undue reliance should not be placed on such information. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such forward-looking statements. The estimates and assumptions, which may prove to be incorrect, include, but are not limited to, the various assumptions set forth in this document as well as the following: (i) we will continue to receive financing on acceptable terms; (ii) our future level of indebtedness and our future growth potential will remain consistent with our current expectations; (iii) there will be no changes to tax laws adversely affecting our financing capability, operations, activities, structure or distributions; (iv) we will retain and continue to attract qualified and knowledgeable personnel as we expand our portfolio and business; (v) the impact of the current economic climate and the current global financial conditions on our operations, including our financing capability and asset value, will remain consistent with our current expectations; (vi) there will be no material changes to government and environmental regulations adversely affecting our operations; (vii) conditions in the international and, in particular, the French and German real estate markets, including competition for acquisitions, will be consistent with the current climate; and (viii) capital markets will provide us with readily available access to equity and/or debt financing.
The forward-looking statements are subject to inherent uncertainties and risks, including, but not limited to, the factors listed under the *Risk and Uncertainties* section of this MD&A. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements.

MARKET AND INDUSTRY DATA

This MD&A includes market and industry data and forecasts that were obtained from third-party sources, industry publications and publicly available information as well as industry data prepared by Inovalis SA 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 20 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.

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 ($28 million) to €60 million ($85 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 €31.0 BN ($43.9 BN) in 2016, in line with 2015 figure, evidencing that, despite its slow economic growth, France is still much sought after. The Greater Paris region accounted for the largest share of acquisitions (75%). Offices are still investors' favorite, attracting 62% of investment or €19.1 BN ($27.1 BN).

According to BNP Paribas Real Estate, the prime yield in the Central Business District compressed down to 3.15% as at Q4 2016 (from 3.25% as at Q4 2015) and the prime yield in the Inner Rim further down to 4.35% (from 4.50% as at Q4 2015). 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 also declined in the majority of markets in the Greater Paris Region and are increasingly sought after.

As at December 31, 2016, the vacancy rate in the Greater Paris Region declined to 6.2% (compared to 6.9% as at December 31, 2015), a lowest since 2009 and inside Paris was below 4.0%. This figure is mainly comprised of lower quality properties as, according to CBRE, new and redeveloped properties only accounted for 15% of the immediate supply.

German commercial real estate investment market

Investment in commercial real estate in Germany reached €52.6 BN ($74.5 BN) in 2016, just 6% lower than 2015's exceptional figure. The slight decline is due entirely to an insufficient scale of supply. Offices are still investors' favorite, attracting 42% of investment or €23.0 BN ($32.6 BN) in 2016.
The strong scale of investor interest coupled with restricted asset availability has prompted a further fall in yields. In the past twelve months, prime yields in the major cities (Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, Munich) have eased by an average of nearly 55 basis points and prime office properties today trade at cap rates ranging between 3.30% and 3.85%.

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. BNP Paribas Real Estate expects another very strong investment year and in view of the considerable number of deals already close to conclusion, the first quarter is likely to be one of the best in the past ten years. The uncertainties in the global context actually tend to reinforce this tendency, because international players above all appreciate Germany as a safe haven.

REAL ESTATE MANAGEMENT AND ADVISORY SERVICES

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

Performance indicators incorporating both GAAP and Non-GAAP (1) Measures

As at	December 31, 2016		December 31, 2015	
	GAAP Measures	Non-GAAP Measures (1)	GAAP Measures	Non-GAAP Measures (1)
Gross leasable area (sq.ft)	772,403	1,050,336	725,576	1,004,448
Number of properties	7	11	6	10
Number of tenants	33	42	22	31
Occupancy rate (2)	92.5%	95.9%	85.7%	91.9%
Weighted average lease term (3)	5.2 years	5.3 years	6.1 years	6.3 years

(1) Taking into account the interest the REIT has in the properties held in partnerships.
(2) Calculated on weighted areas (activity, storage and intercompany restaurant areas being accounted only for a third of their effective areas) and excluding vendor leases.
(3) Excluding early termination rights. Taking into account early termination rights, the weighted average lease term is 2.9 years as at December 31, 2016 compared to 3.8 years as at December 31, 2015 under GAAP (3.5 years vs. 4.6 years under Non-GAAP respectively).

Portfolio

The REIT has an interest in 11 properties, of which 7 are entirely owned by the REIT (Baldi, Courbevoie, Jeuneurs, Metropolitan, Sablière and Vanves in France, Hanover in Germany) and 4 are held through partnerships with various global institutional funds (Arcueil in France, Bad Homburg, Cologne and Duisburg in Germany). 7 properties are in France and 4 properties are in Germany.

These metrics include neither the forward purchased property in Ingolstadt (expected to be delivered in the first quarter of 2018) nor the redevelopment loan granted to the property in Rueil (Paris Western periphery).

In November 2016, the REIT announced the sale to the user of the main non-office component of the Baldi property located in Saint-Ouen, in Paris Northern periphery. The Baldi property, dedicated mainly to office (68%) and partly to light industrial (18%) use, was acquired in November 2014 for a total purchase price of €22.0 million ($31.2 million).

Upon acquisition, the vacant industrial space, totaling 31,591 sq.ft, had no value attributed to it. The REIT was able to successfully lease the vacant industrial space in March 2016, carve out the industrial portion of the property and sell it to the tenant occupying the space for €2.7 million ($3.8 million).

Occupancy

Under GAAP, the 92.5% weighted average occupancy rate at December 31, 2016 across the 7 properties owned entirely by the REIT, excluding vendor leases, increased from 85.7% at December 31, 2015.

The overall weighted average occupancy rate across our entire portfolio, including joint ventures, was 95.9% as at December 31, 2016. New leases were signed on approximately 66,000 sq.ft in five of our properties (Bad Homburg, Baldi, Courbevoie, Metropolitan and Sablière) in 2016. This reflects the good positioning of our properties in an improving letting market and shows an outperformance of the market that has a vacancy rate of 6.2% in the Greater Paris Region and in the vicinity of 5% in the German markets in which the REIT is invested. Weighted average lease term was 5.2 years as at December 31, 2016.

Tenants

The tenant base in the portfolio is well diversified from an industry segment standpoint, with many tenants having large national or multinational footprints. As at December 31, 2016, the REIT had 33 tenants across 7 properties owned entirely by the REIT, in accordance with GAAP. (42 tenants across the whole portfolio, including joint ventures, as per Non-GAAP.)

Under GAAP, 60% of 2017 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. 72% across the entire portfolio (Non-GAAP).

The following table shows our five largest tenants, sorted out by contribution to gross leasable area (GLA). The GLA shown for these tenants reflects the percentage of ownership the REIT has in the underlying property.

Tenant	Tenant Sector	GLA (sq.ft.) (1)	Weighted Areas (sq.ft) (1) (2)	% of Weighted Areas
Orange (formerly France Telecom)	Telecommunications	268,740	181,096	24.9%
Facility Services Hannover GmbH	Banking / Real estate	124,076	124,076	17.1%
Rue du Commerce	E-commerce	51,926	51,926	7.1%
National Conservatory of Arts and Crafts	Education and training	50,407	49,543	6.8%
Ademe	Public agency	49,460	49,460	6.8%
Top 5 tenants		**544,609**	**456,101**	**62.7%**
Other tenants	Diversified	170,005	231,910	31.9%
Vacant		57,790	39,485	5.4%
Total		**772,403**	**727,496**	**100.0%**

(1) The information in the above table relates to the properties held 100% by the REIT and does not incorporate GLA/Weighted Areas attributable to properties held through joint-ventures.
(2) Weighted areas are calculated with activity, storage and intercompany restaurant areas being accounted only for a third of their effective areas.

The REIT's five largest tenants across the whole portfolio, including properties held in joint ventures (Non-GAAP), is presented in the table below. As at September 30, 2017, the REIT held a 50% interest in the Duisburg, Walpur, Pantin and Stuttgart properties, a 49% interest in the Colonge property and a 25% interest in the Arcueil property.

Tenant	Tenant Sector	GLA (sq.ft.) (1)	Weighted Areas (sq.ft) (1) (2)	% of Weighted Areas
Orange (formerly France Telecom)	Telecommunications	268,740	253,652	25.9%
Facility Services Hannover GmbH	Banking / Real estate	124,076	124,076	12.7%
Mitsubishi Hitachi Power Systems Europe GmbH	Manufacturer	108,959	104,046	10.6%
Rue du Commerce	E-commerce	51,926	51,926	5.3%
National Conservatory of Arts and Crafts	Education and training	50,407	49,543	5.1%
Top 5 tenants		**604,108**	**583,243**	**59.5%**
Other tenants	Diversified	386,146	356,909	36.4%
Vacant		60,082	40,249	4.1%
Total		**1,050,336**	**980,401**	**100.0%**

(3) Taking into account the interest the REIT has in the properties held in partnerships
(4) Weighted areas are calculated with activity, storage and intercompany restaurant areas being accounted only for a third of their effective areas.

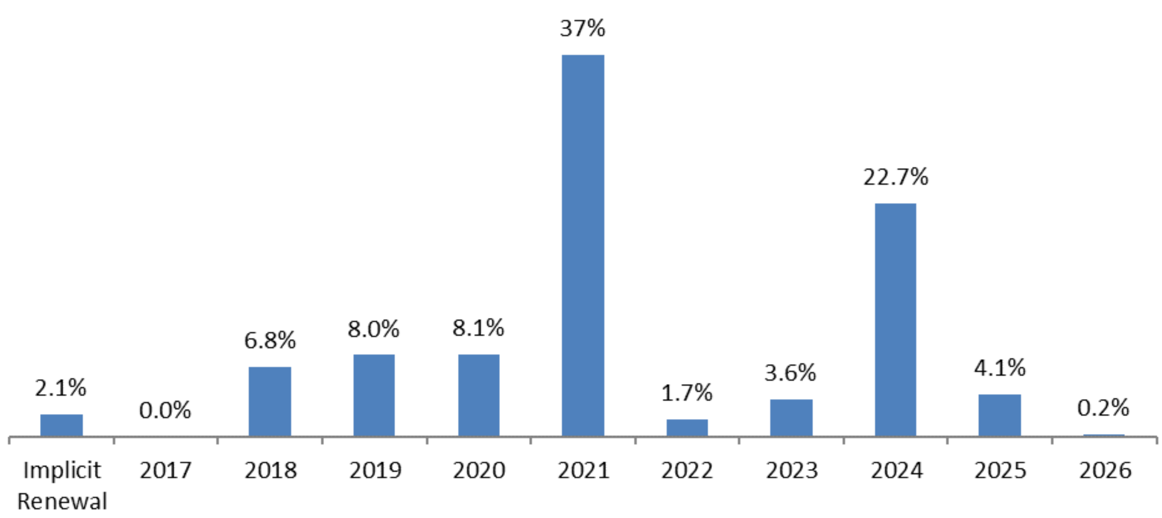
Our largest tenant Orange is rated BBB+/Baa1/BBB+ by S&P/Moody's/Fitch and has leases in two of our properties, the Vanves property and the Arcueil property (held in partnership).

Leasing profile

Lease rollover profile

The REIT has an average remaining lease term of 5.3 years for properties held 100% by the REIT (not including tenant early termination rights). Assuming all tenants leave at the earliest possible early termination rights, which is a highly improbable scenario, the average remaining lease term in our portfolio is 3.5 years. The following graph sets out the amount of GLA and percentage of total GLA of the properties subject to leases expiring during the periods shown (excluding early lease terminations).

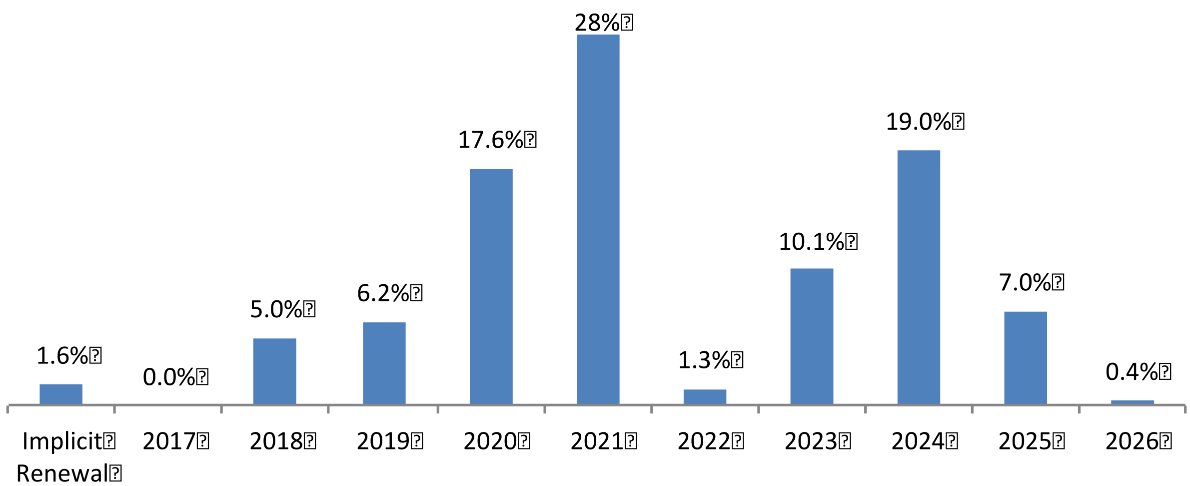
Lease Maturity Profile as at December 31, 2016
(% of total GLA)



Lease rollover profile (Non-GAAP)

The REIT has an average remaining lease term of 5.2 years (not including tenant early termination rights). Assuming all tenants leave at the earliest possible early termination rights, which is a highly improbable scenario, the average remaining lease term in our portfolio is 2.9 years. The following graph sets out the amount of GLA and percentage of total GLA of the properties subject to leases expiring during the periods shown (excluding early lease terminations).

Lease Maturity Profile as at December 31, 2016 (Non-GAAP)
(% of total GLA)



Rental indexation (Applicable to both GAAP and Non-GAAP)
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.

CONSOLIDATED FINANCIAL INFORMATION

Interim Consolidated Statement of Earnings – Prepared in accordance with GAAP
(Unaudited – All dollar amounts in thousands of Canadian dollars except per unit amounts)

	Three months ended		Twelve months ended	
(in thousands of CAD$)	**2016**	**2015**	**2016**	**2015**
Rental income	6,706	5,340	24,404	21,473
Service charge income	1,951	1,898	6,546	7,222
Service charge expenses	(1,545)	(1,427)	(8,525)	(8,040)
Other revenues	(1)	-	170	1,240
Other property operating expenses	(88)	(27)	(214)	(306)
Net rental earnings	**7,023**	**5,784**	**22,381**	**21,589**
Administration expenses	(1,199)	(1,207)	(5,152)	(4,266)
Foreign exchange (loss) gain	579	79	640	130
Net change in fair value of investment properties	(3,570)	8,800	3,632	21,523
Gain resulting from exercice of the purchase option	-	-	9,213	-
Acquisition costs	163	127	(575)	(329)
Share of profit of an investment (equity method)	1,247	(123)	1,107	517
Operating earnings	**4,244**	**13,460**	**31,246**	**39,164**
Gain (loss) on financial instruments at fair value through P&L	1,078	77	(1,269)	(951)
Loss on exercise of early payment option on finance leases	-	-	(1,242)	(1,077)
Loss on refinancing of a debt	-	(1,077)	(605)	-
Finance income	(710)	(2,309)	4,344	2,115
Finance costs	(1,680)	(1,253)	(6,488)	(4,919)
Distributions on Exchangeable securities	(363)	(423)	(1,890)	(1,688)
Net change in fair value of Exchangeable securities	1,427	(1,189)	589	(1,118)
Earnings before income taxes	**3,995**	**7,286**	**24,685**	**31,526**
Current income tax expense	(232)	(11)	(336)	(71)
Deferred income tax expense	(614)	(634)	(944)	(655)
Earnings for the period	**3,149**	**6,641**	**23,405**	**30,800**
Non-controlling interest	165	-	121	-
Earnings for the period (part attributable to the Trust)	**2,984**	**6,641**	**23,284**	**30,800**

Discussion of Interim Consolidated Statements of Earnings – in accordance with GAAP

As there has been no significant change in the exchange rate for the conversion of Euros into Canadian dollars for the three-month period ended December 31, 2016 compared to the same period in 2015 (1.4660 vs. 1.4609) and that these rates were also used for the twelve-month periods, no explicit foreign exchange impact will be discussed in the following comments for the statement of earnings items.

Net rental earnings

Net rental earnings for the three-month period ended December 31, 2016 reached $7,023 compared to $5,784 in 2015, amounting to an increase of 21.42% year on year. Of the $1,239 increase, $950 was attributable to the acquisition of the Metropolitain property, with the remaining $289 arising from the signing of new leases related to the Baldi, Courbevoie and Sablière properties.

For the year ended December 31, 2016, net rental earnings increased by $792 compared to the previous year, amounting to a 3.67% year on year increase. Excluding a one-off gain of $1,240 in 2015 on the recovery of an indemnity, the year-on-year increase is $2,032 or 9.41%. This increase is largely accounted for by the combination of an increase due to the Metropolitan acquisition for approximately $2,700, the net addition of new tenants despite some departures generating approximately $230 of new rental income, partially offset by an increase of non-recoverable charges on properties for approximately $1,000.

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 December 31, 2016 amounted to $1,199 vs. $1,207 for the quarter ended December 31, 2015. $683 is related to the asset management fees paid to Inovalis SA (vs. $552 for the quarter ended December 31, 2015) and $516 to other expenses (vs. $665 for the quarter ended December 31, 2015). The significant decrease in other expenses is the result of recent measures taken so as to reduce the REIT's expenses.

Administration expenses for the year ended December 31, 2016 amounted to $5,152 vs. $4,266 for the year ended December 31, 2015. $2,791 is related to the asset management fees paid to Inovalis SA (vs. $2,179 for the year ended December 31, 2015) and $2,361 to other general administrative expenses (vs. $2,087 for the year ended December 31, 2015). The increase asset management fees is driven by the acquisition of new property during the year while increases in other expenses are partly accounted for by the increased complexity associated with the higher number of buildings, and regulatory and corporate compliance.

Net change in fair value of investment properties

During the quarter ended December 31, 2016, the net change in fair value of investment properties recognized in earnings was a loss of $3,570 accounted for by an increase in the value of the properties for $256 and a $3,826 decrease due to the sale of the studio areas in the Baldi property. The REIT recognized a net increase in fair value of $8,800 during the corresponding quarter ended December 31, 2015.

For the year ended December 31, 2016, excluding the impact of the sale of the studio areas in the Baldi property, the value of the properties increased by $7,458 compared to a gain of $21,523 in 2015. This continued increase is accounted for by the cap rate compression witnessed in the European real estate office markets.

Gain on the option related to the acquisition of the Metropolitan property

For the year ended December 31, 2016, the total gain in fair value of the purchase option was $9,213. As per the Acquisition loan that the REIT granted to Inovalis SA in 2014, the REIT was entitled to receive a portion of the profit generated on the stabilization of the property that would translate into a discount to the purchase price in the event the

REIT elected to exercise its right of first offer for the purchase of the property once the latter met the investment criteria of the REIT.

Acquisition costs

The positive acquisition costs of $163 recorded in the three-month period ended December 31, 2016 were an adjustment to costs previously recorded by the REIT in the context of previous acquisitions.

For the year ended December 31, 2016, the acquisition costs stood at $575, mainly due to the Metropolitan acquisition (notary and transfer taxes).

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

The REIT recognized a gain on financial instruments at fair value through profit and loss for the quarter ended December 31, 2016 of $1,078. For the year ended December 31, 2016, the REIT recognized a loss of $1,269. These gains and losses are mostly the result of the variation in value realized on the foreign exchange (“FX”) contracts.

Loss on exercise of early payment option on finance leases

This element appears only in the year ended December 31, 2016 and has no impact on the three-month period ended December 31, 2016. A loss of $1,242 was recorded in the year ended December 31, 2016 further to the exercise by the REIT of its option to purchase the Metropolitan property that was financed under a finance lease. Concomitantly with the transaction, the REIT closed a new finance lease contract to replace the finance lease assumed as part of the transaction.

Loss on debt refinancing

This element appears only in the year ended December 31, 2016 and has no impact on the three-month period ended December 31, 2016. During the quarter ended March 31, 2016, the REIT refinanced its debt on the Hanover property. The finance lease in place was terminated and replaced with a mortgage financing. The impact of de-recognition of the finance lease amounted to $605.

Finance income

Until March 21, 2016, finance income was almost entirely comprised of the interest received by the REIT on the Acquisition loan (Metropolitan transaction). The REIT stopped receiving this interest on March 21, 2016 when it completed the acquisition of the Metropolitan property.

Finance costs

For the three-month period ended December 31, 2016, the finance costs amounted to $1,680 including $1,136 for interest costs related to finance leases, mortgage loans and the lease equalization loans, $544 of other finance costs (including amortization of fair value adjustment on finance leases assumed at a discount at the time of a business acquisition, amortization of transaction costs on mortgage loans and other miscellaneous costs).

For the year ended December 31, 2016, the finance costs amounted to $6,488 including $4,546 for interest costs related to finance leases, mortgage loans, the lease equalization loans and the loan granted by the partner on the Cologne transaction, $1,942 of other finance costs (including amortization of fair value adjustment on finance leases assumed at a discount at the time of a business acquisition, amortization of transaction costs on mortgage loans and other miscellaneous costs).

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. During the three-month period ended December 31, 2016 the distribution recognized on Exchangeable securities was $363 while it was $423 for the same period in 2015. The decrease is accounted for by the conversion by Inovalis of 920,000 Exchangeable securities into Units during the year. During the year ended December 31, 2016 the distribution recognized on exchangeable securities was $1,890 while it was $1,688 for the same period in 2015. The increase for the year is the result of the additional Exchangeable securities received by Inovalis SA in lieu of asset management fees partially offset by the conversion of 920,000 Exchangeable securities into Units.

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 December 31, 2016, the REIT reported a gain of $1,427 which is the result of the decrease in the amount of the debt following the conversion of 500,000 of Exchangeable securities into Units of the REIT in December 2016 combined with the change in the closing price of Units on the TSX which was $9.04 on December 31, 2016 compared to $9.84 as at September 30, 2016. During the year ended December 31, 2016, Inovalis SA converted 920,000 Exchangeable securities into Units. The net gain resulting from the change in fair value of the exchangeable securities was $589 for the year ended December 31, 2016. The closing price on the TSX was $9.04 on December 31, 2016 and $9.37 on December 31, 2015.

Current income tax expense

The current income tax expense incurred of $232 for the quarter ended December 31, 2016 and of $336 for the year ended December 31, 2016 amounts to a withholding tax paid by the REIT's Luxembourg holding company on the dividends it received from affiliates and a tax payable on foreign exchange gain on the funds coming from the recent equity offering.

Last 24 Months Key Financial Information

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

	3-month period ended							
(in thousands of CAD$)	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	March 31, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	March 31, 2015
Rental income	6,706	6,172	5,853	5,673	5,340	5,543	5,306	5,283
Net rental earnings	7,023	6,556	6,065	2,737	5,784	5,507	7,116	3,189
Earnings for the period	2,984	11,833	5,839	2,628	6,641	4,479	16,615	3,065
Earnings per Unit (CAD$)	0.14	0.60	0.37	0.15	0.43	0.29	1.09	0.20

Due to the specificity of the Arcueil joint venture, figures of the periods ended December 31, 2015, September 30, 2015, June 30, 2015 and March 31, 2015 have been reclassified in order to ensure comparability with the figures for the periods ended December 31, 2016.

PROPERTY CAPITAL INVESTMENTS – In accordance with GAAP

Fair value

Under GAAP, the fair value of the REIT's investment property portfolio as at December 31, 2016 was $412.23 million. The fair value of the French properties was $378.08 million (91.7% of total value) and the fair value of the German properties was $34.15 million (8.3% of total value).

The fair value of our investment property portfolio as at December 31, 2016, in accordance with GAAP, was $412 million vs. $355 million as at December 31, 2015. The $57 million increase is accounted for by a $78 million increase due to the acquisition of the Metropolitain property, a net change in fair value of $3.6 million, partial disposal of Baldi for $3.6 million, a $23 million decrease due to foreign exchange movements and other changes of $1 million.

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.
Please refer to note 7 of the audited consolidated financial statements for a more complete discussion on our investment properties and valuation rates used by the evaluators.

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.
Since the IPO in April 2013, a total of $1.7 million has been spent on the properties, funded by a reserve that was set aside by the vendors of the four initial properties.

Guarantees, commitments and contingencies

The REIT and its subsidiaries have provided guarantees in connection with the finance lease liabilities and the mortgage loans, including pledge of affiliates of the REIT, first mortgages and assignment of receivables and future receivables. As at December 31, 2016, guarantees provided by the REIT with respect to its long-term debts include a preferential claim held by mortgage lenders on the Jeuneurs, Veronese, Sablière and Hanover properties in the amount of $84.0 million. Including the REIT's interest in the properties held in partnerships, preferential claim held by mortgage lenders on the properties totals $118.5 million.

Further to the reimbursement by the REIT of the $6.4 million equity bridge granted by the partner on the Cologne transaction, the pledge granted by the REIT on its 49% equity commitment to the partner as guarantee was also released in the course of the second quarter of 2016.

OTHER SIGNIFICANT ASSETS – In accordance with GAAP

Investments accounted for using the equity method

This section encompasses the 50% interest the REIT (through its subsidiaries) has in the Duisburg property, the 50% interest in the Walpur property, the 25% interest in the Arcueil property and the 49% interest in the Cologne property. Our share of fair value of the investment properties accounted for using the equity method was $43,887 as at December 31, 2016 compared to $40,337 as at December 31, 2015.

Acquisition loans and deposit

As at December 31, 2016, acquisition loans and deposit of $8.9 million consisted of the $7.7 million loan commitment for the Rueil project and of the $1.2 million deposit for the Ingolstadt forward purchase.
The Acquisition loan on the Metropolitan property ($18,786 as at December 31, 2015) was repaid by Inovalis SA to Inovalis REIT when the latter purchased the property on March 21, 2016. There was no cash payment, as compensation was made with other amounts due by the REIT to Inovalis SA for the purchase of the Metropolitan property.

Trade and other receivables

Trade and other receivables as at December 31, 2016 amounted to $3,368 compared to $4,803 as at December 31, 2015.

Other current assets

Other current assets as at December 31, 2016 amounted to $2,726 compared to $1,333 as at December 31, 2015. This includes the 50% share of the deposit pertaining to the Ingolstadt forward purchase that will be borne by the yet-to-be chosen partner on this transaction. The balance of other current assets consists mainly of sales tax receivables.

PRESENTATION OF OUR CAPITAL – In accordance with GAAP

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

The REIT's cash available reached $11.1 million as at December 31, 2016 compared to $6.9 million as at December 31, 2015. This includes the proceeds of the equity offering closed on July 25, 2016, the proceeds of which having not been entirely invested yet. Gross proceeds of $46.0 million resulted into net proceeds of $43.1 million after deduction of $2.9 million of offering costs.

Financing activities

Our debt strategy is to have secured mortgage financing with a term to maturity that is appropriate in relation to the lease maturity profile of our portfolio and then to put in place, when appropriate, interest-only financings. We intend to search for fixed rate financings or floating rate financings with a cap. As such, 92.7% of the REIT's senior debt benefits from an interest rate protection (70.7% in the form of a swap and 21% in the form a cap). Our preference is to have staggered debt maturities to mitigate interest rate risk and limit refinancing exposure in any particular period. With no financial institution representing more than 33% of our senior debt commitment, we also make sure that the REIT has a diversified base of senior debt providers. Our debt to book value stands at 46.47% and net of the $11.1 million of cash available as at December 31, 2016, this debt to book value stands at 42.05%.

Debt-to-book value

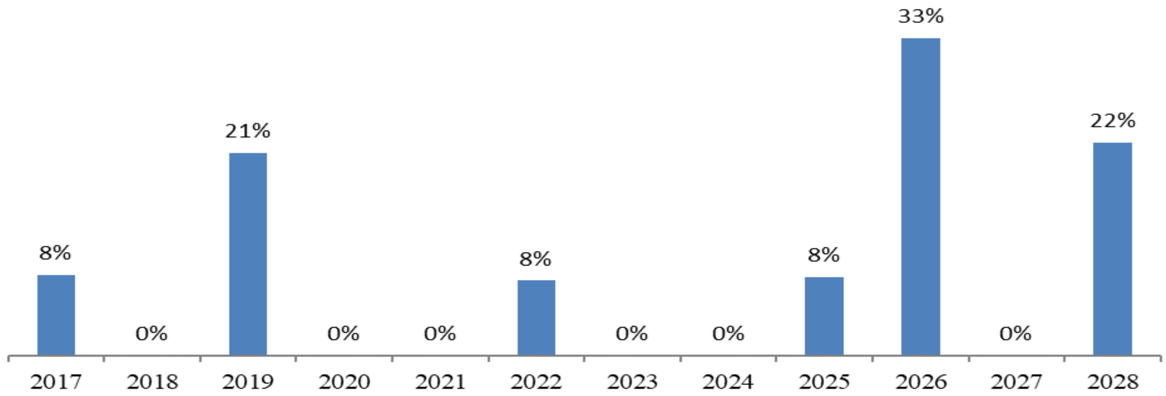
Our debt-to-book value ratio is calculated on a look-through basis and takes into account the REIT's apportioned amount of indebtedness at the partnerships' level. Indebtedness at the REIT's level, as well as at the different partnerships' levels is calculated as the sum of (i) finance lease liabilities, (ii) mortgage loans, (iii) lease equalization loans, (iv) other long-term liabilities and (v) 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.

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

	As at December 31, 2016	As at December 31, 2015
Weighted average interest rate (1)	2.11%	1.95%
Debt-to-book value (2)	46.5%	41.6%
Debt-to-book value, net of cash (2)	42.0%	40.3%
Interest coverage ratio (3)	3.7 x	5.5 x
Debt due in next 12 months in thousand of CAD$	24,720	10,516
Weighted average term to maturity of debt (4)	7.3 years	7.2 years
Weighted average term to maturity of principal repayments of debt (5)	5.3 years	5.4 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.
(4) Calculated as the weighted average term on all the financial leases and mortgage financings.

Leasehold and Mortgage Financing Maturity Profile
(% of amount outstanding as at December 31, 2016)



ANALYSIS OF DISTRIBUTED CASH – In accordance with GAAP

	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Cash flows from operating activities (A)	2,851	1,510	17,769	14,472
Earnings before income taxes (B)	3,995	7,286	24,685	31,526
Declared distribution on Units (C)	4,368	3,205	15,188	12,732
Excess (shortfall) of cash flows from operating activities over cash distributions paid (A - C)	(1,517)	(1,695)	2,581	1,740
Excess (shortfall) of profit or loss over cash distributions paid (B - C)	(373)	4,081	9,497	18,794

As shown in the table above, the cash flows related to operating activities as reported in the REIT's consolidated statement of cash flows exceeded the cash distributions declared for the year ended December 31, 2016. The shortfall of $1,517 for the quarter ended December 31, 2016 was compensated by the excess cash flows generated in the previous quarters.

Also, as shown in the table above, the earnings reported during the period were less than distributions declared for the year ended December 31, 2016. The shortfall of $373 for the quarter ended December 31, 2016 was compensated by the excess cash flow generated in the previous quarters.

Every quarter, the REIT ensures that sufficient funds are being generated from rental operations to continue making distributions at the planned rate. To perform this assessment, management uses the FFO and AFFO measures presented in the section entitled Non-GAAP reconciliation (FFO and AFFO). These measures are used to determine the amount of funds generated by ongoing rental operations that are available for distribution. These measures remove from consideration those gains and losses that are recognized for accounting purposes but that do not impact cash flow. They also remove from consideration various revenues and expenses that are recognized in profit or loss for accounting purposes but which do not arise from ongoing rental operations, for example because they were incurred to acquire revenue generating assets.

As quantified in the FFO and AFFO calculations, the funds used to make the distributions during the current quarter were generated through the REIT's ongoing rental operations for the year to date.
The REIT expects to continue paying distributions based on the current plan.

RISK AND UNCERTAINTIES

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

Risks relating to the REIT and its business

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

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

The properties generate income through rent payments made by our tenants. Upon the expiry of any lease, there can be no assurance that the lease will be renewed, or the tenant replaced for a number of reasons. Furthermore, the terms of any subsequent lease may be less favorable than the existing lease. Our cash flows and financial position would be adversely affected if our tenants were to become unable to meet their obligations under their leases or if a significant amount of available space in our properties could not be leased on economically favorable lease terms. In the event of default by a tenant, we may experience delays or limitations in enforcing our rights as sub-lessor and incur substantial costs in protecting our investment. Furthermore, at any time, a tenant may seek the protection of bankruptcy, insolvency or similar laws, which could result in the rejection and termination of the lease of the tenant and, thereby, cause a reduction in the cash flows available to us.

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

Concentration of tenants may result in significant vacancies on the properties

Our five largest tenants, by percentage of total GLA, occupy approximately 63% of the total weighted areas. Although all five tenants are committed to multi-year leases, which are set to expire gradually between 2020 and 2024, there is no assurance that such tenants will continue to occupy such premises for the remainder of their lease terms. Some of them have indeed break options before the end of their leases, and the soonest dates on which those five largest tenants may effectively move range between 2018 and 2021. In order to minimize this risk of vacancy, Inovalis REIT will continue to closely monitor all leases and ensure that they work with the current tenants to determine their future leasing plans, which would allow Inovalis REIT to source tenants in advance of the current tenants vacating the property.

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

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

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

Moreover, pursuant to the lease agreement with the National Conservatory of Arts and Crafts, none of the value-added taxes on expenses legally due by the REIT are recoverable. However, property taxes and office taxes are recoverable.

Similarly, pursuant to the Fresh & Co. and French Environment and Energy and Management Agency lease agreements, several forms of taxes, including but not limited to, property taxes, household refuse taxes and annual office taxes will be borne by the REIT. As a result, we will bear the economic cost of increases to these taxes.

Head lease for properties

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

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

The properties may contain ground contamination, hazardous substances, wartime relics (including potentially unexploded ordnance) and/or other residual pollution and environmental risks. Buildings and their fixtures might contain asbestos or other hazardous substances above the allowable or recommended thresholds, or the buildings could bear other environmental risks. Prior to acquiring the interests in the properties (including the leasehold interests), we undertook environmental studies on each property. No sign of pollution was evidenced on any of the properties.
We are subject to various federal, state and municipal laws relating to environmental matters. Such environmental laws impose actual and contingent liabilities on us to undertake remedial action on contaminated sites and in contaminated buildings. The costs of any removal, investigation or remediation of any residual pollution on such sites or in such buildings as well as costs related to legal proceedings, including potential damages, regarding such matters may be substantial.

We have insurance in place to protect against certain environmental liabilities in respect of certain of the properties, with limits, which are customary and available for portfolios similar to ours.
We make the necessary capital and operating expenditures to ensure compliance with environmental laws and regulations. Although there can be no assurance, we do not believe that costs relating to environmental matters will have a material adverse effect on our investments, financial condition, results of operations or distributions or cash interest payments.

We may incur significant capital expenditures and other fixed costs

Certain significant expenditures must be made throughout the period of ownership of real property, regardless of whether the property is producing sufficient income to pay such expenses. In order to retain desirable rentable space and to generate adequate revenue over the long term, we must maintain or, in some cases, improve each property's condition to meet market demand, which can entail significant costs we may not be able to pass on to our tenants.
Any failure by us to undertake appropriate maintenance and refurbishment work in response to the factors described above could entitle tenants to withhold or reduce rental payments or even to terminate existing letting contracts. Any such event could have a material adverse effect on our cash flows, financial condition and results of operations and our ability to make distributions on the Units.

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

The real estate industry is capital intensive. We will require access to capital to maintain our properties, as well as to fund our growth strategy and significant capital expenditures from time to time. There is no assurance that capital will be available when needed or on favorable terms. Our failure to access required capital could adversely impact our investments, cash flows, operating results or financial condition, our ability to make distributions on the Units and our ability to implement our growth strategy.
A high level of indebtedness increases the risk that we may default on our debt obligations. Our ability to make scheduled payments of the principal of, or interest on, and to otherwise satisfy our debt obligations depends on future performance, which is subject to the financial performance of our properties, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond our control.

Changes in government regulations may affect our investment in our properties

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

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

In the course of the acquisition of the properties, we entered into financing transactions with third parties and affiliates. These financing agreements will require us to pay principal and interest. There are several rules in German tax laws restricting the tax deductibility of interest expenses for corporate income and municipal trade tax purposes. Such rules have been changed considerably on several occasions in recent past. As a result, major uncertainties exist as to the interpretation and application of such rules, which are not yet clarified by the tax authorities and the tax courts. The tax deductibility of interest expenses depends on, among other things, the details of the security structure for debt financings, the annual amount of tax net-debt interest, the amounts and terms of shareholder or affiliate financings and our general tax structure. There is a risk of additional taxes being triggered on the rental income and capital gains in case the tax authorities or the tax courts adopt deviating views on the above. If this were the case, this would result in a higher tax burden and, consequently, could have a material adverse effect on our cash flows, financial condition and results of operations and ability to pay distributions on the Units.

Changes in currency exchange rates could adversely affect our business

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

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

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

We rely on Inovalis SA for management services

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

While the Trustees have similar oversight responsibility with respect to the services provided by Inovalis SA pursuant to the management agreement, the services provided by Inovalis SA are not performed by employees of the REIT, but by Inovalis SA directly and through entities to which it may subcontract. In addition to its right to internalize management at any time, Inovalis SA has the right to terminate the management agreement upon 180 days' prior written notice to the REIT.

Investments in, and profits and cash flows from, properties may be lost in the event of uninsured or underinsured losses to properties or losses from title defects

We carry general liability, umbrella liability and excess liability insurance with limits that are typically obtained for similar real estate portfolios in France and Germany and otherwise acceptable to the Trustees. For the property risks we intend to carry "Multi-Risk" property insurance including but not limited to, natural catastrophic events and loss of rental income insurance (with at least a 12 to 18-month indemnity period). We also carry boiler and machinery insurance covering all boilers, pressure vessels, HVAC systems and equipment breakdown. There are, however, certain types of risks (generally of a catastrophic nature such as from war or nuclear accident) that are uninsurable under any insurance policy. Furthermore, there are other risks that are not economically viable to insure at this time. We partially self-insure against terrorism risk for our entire portfolio. We have insurance for earthquake risks, subject to certain policy limits, deductibles and self-insurance arrangements. Should an uninsured or underinsured loss occur, we could lose our investment in, and anticipated profits and cash flows from, one or more of our properties, but we would continue to be obligated to repay any recourse mortgage indebtedness on such properties. We do not carry title insurance on the properties. If a loss occurs resulting from a title defect with respect to a property where there is no title insurance or the loss is in excess of insured limits, we could lose all or part of our investment in, and anticipated profits and cash flows from, such property.

IFRS reporting may result in our consolidated statement of financial position and consolidated statement of earnings being subject to volatility as the fair value of our portfolio changes

The fair value of our properties is dependent upon, among other things, rental income from current leases, assumptions about rental income from future leases reflecting market conditions, expected future cash outflow in respect of such leases, the demand for properties such as the properties, the availability and cost of financing and general economic conditions. A change in one or a combination of these factors, many of which are not controlled by us, may have a material impact to the fair value of our properties. Our chosen accounting policy under IFRS requires that real estate assets be recorded at "fair value" with changes in fair value being recorded in earnings in the period of change. Accordingly, our statement of financial position and our statement of earnings are subject to volatility as the fair value of its real estate portfolio changes and these changes may be material.

Reliance on partnerships

The REIT has a material non-controlling interest in partnerships with several institutional investors. These arrangements create a risk as the business objectives or economic interests of the partner, as in any joint business arrangement, may not be aligned with those of the REIT. The partner may want to make decisions that negatively affect the value of its real estate assets or income of the REIT. Such investments may involve risks not present in investments where a third party is not involved, including the possibility that a partner may have financial difficulties resulting in a negative impact on the investment or be liable for the actions of its third party partner. Although the REIT may not have control over these investments and therefore, may have a limited ability to protect its position, such partnership arrangements contain terms and conditions which, in the opinion of the independent trustees, are commercially reasonable, including without limitation such terms and conditions relating to restrictions on the transfer, acquisition and sale of the REIT's and any joint venturer's interest in the joint venture arrangement, provisions to provide liquidity to the REIT, provisions to limit the liability of the REIT and its Unitholders to third parties and provisions to provide for the participation of the REIT in the management of the joint venture arrangements. The REIT's investment in properties through joint arrangements is subject to the investment guidelines set out in the Declaration of Trust.

Risks Relating to Tax Matters

Taxation of Trusts

The REIT qualifies as a "unit trust" and a "mutual fund trust" for purposes of the Tax Act. There can be no assurance that Canadian federal income tax laws and the administrative policies and assessing practices of the Canadian Revenue Agency ("**CRA**") respecting mutual fund trusts will not be changed in a manner that adversely affects Unitholders. Should the REIT cease to qualify as a mutual fund trust under the Tax Act, the income tax considerations could be material and adverse for the REIT and Unitholders.

Application of the SIFT Rules

The SIFT Rules apply to a trust that is a "SIFT trust" as defined in the Tax Act. Provided that a trust does not own "non-portfolio property" (as defined in the Tax Act), it will not be subject to the SIFT Rules. Based on the investment restrictions of the REIT, the REIT may not acquire any non-portfolio property and, therefore, is not subject to the SIFT Rules. However, there can be no assurance that the SIFT Rules or the administrative policies or assessing practices of the CRA will not be changed in a manner that adversely affects the REIT and Unitholders.

FAPI

The REIT's "participating percentage" (as defined in the Tax Act) of FAPI earned by CFAs of the REIT must be included in computing the income of the REIT for the fiscal year of the REIT in which the taxation year of such CFA ends, subject to a deduction for grossed-up "foreign accrual tax" as computed in accordance with the Tax Act. The deduction for grossed-up "foreign accrual tax" may not fully offset the FAPI realized by the REIT, thereby increasing the allocation of income to the REIT and, therefore, the allocation of income by the REIT to Unitholders. In addition, as FAPI generally must be computed in accordance with Part I of the Tax Act as though the CFA were a resident of Canada and in Canadian currency (subject to the detailed rules contained in the Tax Act), income or transactions may be taxed differently under foreign tax rules as compared to the FAPI rules and, accordingly, may result in additional income being allocated to Unitholders.

Foreign Currency

For purposes of the Tax Act, the REIT generally is required to compute its Canadian tax results using Canadian currency, including for purposes of computing FAPI earned by CFAs of the REIT. Where an amount that is relevant in computing a taxpayer's Canadian tax results is expressed in a currency other than Canadian currency, such amount must be converted to Canadian currency in accordance with the rules in the Tax Act. As a result, the REIT may realize gains and losses for tax purposes by virtue of the fluctuation of the value of foreign currencies relative to Canadian dollars.

Change of Tax Law

There can be no assurance that Canadian or foreign income tax laws, the judicial interpretation thereof, the terms of any income tax treaty applicable to the REIT or its affiliates or the administrative policies and assessing practices and policies of the CRA, Finance and any foreign tax authority or tax policy agency will not be changed in a manner that adversely affects the REIT, its affiliates or Unitholders.

Non-Residents of Canada

The Tax Act may impose additional withholding or other taxes on distributions made by the REIT to Unitholders who are Non-Residents. These taxes and any reduction thereof under a tax treaty between Canada and another country may change from time to time. In addition, the tax consequences under the Tax Act to Non-Resident may be more adverse than the consequences to other Unitholders.

Taxation of the REIT and the REIT Subsidiaries

Although the REIT and the REIT Subsidiaries have been structured with the objective of maximizing after-tax distributions, taxes (including corporate, withholding, land transfer, and other taxes) in the various jurisdictions in which the REIT invests will reduce the amount of cash available for distribution to the REIT by the REIT Subsidiaries and, therefore, reduce the amount of cash available for distribution by the REIT to Unitholders. No assurance can be given as to the future level of taxation suffered by the REIT or the REIT Subsidiaries. In addition, certain tax positions adopted by the REIT and the REIT Subsidiaries may be challenged by the CRA or a foreign taxing authority. This could materially increase the taxable income of, and taxes payable by, the REIT and the REIT Subsidiaries, and thereby increase taxable income of Unitholders and/or adversely affect the REIT's financial position and cash available for distribution to Unitholders.

The extent to which distributions will be non-taxable in the future will depend in part on the extent to which the REIT Subsidiaries are able to deduct depreciation, interest and other expenses relating to our properties for purposes of the Tax Act. No assurances can be given that the CRA will agree with capital cost allowance claims by the REIT Subsidiaries and that expenses claimed by the REIT and the REIT Subsidiaries are reasonable and deductible.

Qualified Investors

We will endeavor to ensure that the Units continue to be qualified investments for Plans. However, there can be no assurance in this regard. In addition, Redemption Notes or other property received on an *in specie* redemption of Units may not be qualified investments for Plans. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments.

German Taxes

As described under the heading Certain Non-Canadian Income Tax Considerations – Certain Material German Income, Withholding and Real Estate Transfer Tax Considerations in the IPO final prospectus dated March 28, 2013, the German SPV would be subject to municipal trade tax ("**TT**") if it acts through a German permanent establishment. We have assumed that the German SPV will not be subject to TT based on our current understanding of the structure. However, no assurances can be given that the German SPV will not be subject to TT.

The German real estate transfer tax (the "**RETT**") generally applies where there is a transfer of legal title of properties from one legal person to another. If the German SPV exercises the purchase option in respect of the Hanover Property (see *Certain Non-Canadian Income Tax Considerations – Certain Material German Income, Withholding and Real Estate Transfer Tax Considerations* in the IPO final prospectus dated March 28, 2013), legal title to German real estate would be transferred and, consequently, RETT would be payable in connection therewith.

OUTLOOK

We believe that the current market environment is a favorable one for the REIT to prosper. In addition to actively managing our properties, we are continuously assessing potential acquisitions in our target markets and will focus on the ones offering value and stability. Our long-term credit worthy tenants, low cost of debt with proper maturity and the foreign exchange rate contracts for our distributions until the end of April 2019, not only provide investors with steady cash flows, but also serve as a basis for future growth. In addition of the cash available, we can also sell some portion of assets that we own to get access to additional cash and at the same time diversify our portfolio risk.

CRITICAL ACCOUNTING POLICIES

The preparation of the REIT's audited consolidated financial statements in conformity with IFRS requires management to make judgments and estimates affecting the reported amounts of revenues and investment properties owned directly and indirectly at the reporting date. However, uncertainty about these estimates could result in outcomes requiring a material adjustment to the carrying amount of the asset or liability affected in future periods.
We consider the following policies and estimates to be the most critical in understanding the assumptions and judgments that are involved in preparing our financial statements and the uncertainties that could affect our financial results, financial condition and cash flows: (i) recognition and valuation of investment properties; (ii) distinction between business combinations or asset acquisitions and (iii) classification of and accounting for joint arrangements.
A more detailed description of significant accounting policies and critical accounting judgment and estimates that we apply under IFRS is provided in notes 3 and 4 of the consolidated financial statements for the year ended December 31, 2016.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

The CEO and CFO have evaluated the effectiveness of the Company's DCP and ICFR as required by National Instrument 52-109 issued by the Canadian Securities Administrators. They have concluded that as of December 31, 2016, the REIT's design and operation of its DCP and ICFR were effective in providing reasonable assurance that material information regarding this report, and the annual consolidated financial statements and other disclosures was made known to them on a timely basis and reported as required and that the financial statements present fairly, in all material aspects, the financial condition, results of operations and cash flows of the REIT as of December 31, 2016.

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

SUBSEQUENT EVENTS

New acquisitions

In February 2017, The REIT has entered into exclusivity on the acquisition of two assets located in Pantin (Paris North-Eastern periphery) and Stuttgart (Germany). Both assets are office buildings, with an average occupancy rate in excess of 90%, a circa 7-year weighted average lease term and located either in improving areas or established office park with main transport access. Tenancy is a mix of government related tenants, high-grade automotive companies and other tenants with long standing relations to the zones. The properties will be bought at a competitive cap rate given the high prices witnessed over the past months in both markets, and both acquisitions will be accretive to AFFO. Once these acquisitions close, the REIT will have deployed the total amount raised during the bought deal of July 2016.

Discussion of Non-GAAP metrics

NON-GAAP 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 (if any), (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 non-cash portion of earnings from investments accounted for using the equity method, (x) finance income earned from loans to joint-ventures, (xi) non-recurring finance costs, (xii) deferred taxes and (xiii) gains or losses from non-recurring items. It has also been adjusted 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, including those paid by the vendors of the leasehold interest in the properties and/or tenants and (vi) amortization of transaction costs on mortgage loans.

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

Debt-to-book value

Our debt-to-book value ratio is calculated on a look-through basis and takes into account the REIT'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, (iv) other long-term liabilities and (v) 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.

CONSOLIDATED FINANCIAL INFORMATION (Non-GAAP)

This presentation takes into account REIT's proportionate share of income and expenses from investments in joint venture. Please refer to "Non-GAAP reconciliation".

(in thousands of CAD$)	Three months ended December 2016	Three months ended December 2015	Twelve months ended 2016	Twelve months ended 2015
Rental income	8,188	8,423	31,036	28,048
Service charge income	2,427	2,414	7,823	8,460
Service charge expense	(1,884)	(1,918)	(9,753)	(9,567)
Other revenues	54	-	208	1,240
Other property operating expenses	(88)	(229)	(214)	(367)
Net rental earnings	**8,698**	**8,690**	**29,100**	**27,814**
Administration expenses	(1,407)	(1,773)	(6,001)	(5,396)
Foreign exchange (loss) gain	579	79	640	130
Net change in fair value of investment properties	(2,417)	8,961	4,013	22,737
Gain on bargain purchase	-	(2,070)	9,213	2,170
Acquisition costs	185	264	(553)	(2,018)
Operating earnings	**5,638**	**14,151**	**36,414**	**45,437**
Loss on financial instruments at fair value through profit or loss	1,149	(10)	(1,320)	(1,384)
Loss on exercise of early payment option on finance leases	-	(1,077)	(1,242)	(1,077)
Loss on refinancing of a debt	-	402	(605)	-
Finance income	82	(4,358)	1,254	1,557
Finance costs	(2,197)	-	(7,984)	(9,778)
Additionnal income (loss) from Arcueil's JV (1)	(1,762)	-	(481)	-
Distributions on Exchangeable securities	(363)	(423)	(1,890)	(1,688)
Net change in fair value of Exchangeable securities	1,427	(1,189)	589	(1,118)
Earnings before income taxes	**3,974**	**7,496**	**24,735**	**31,949**
Current income tax expense	(237)	(11)	(367)	(76)
Deferred income tax expense	(587)	(844)	(963)	(1,073)
Earnings for the period	**3,150**	**6,641**	**23,406**	**30,800**
Non-controlling interest	165	-	122	-
Earnings for the period (part attributable to the Trust)	**2,985**	**6,641**	**23,284**	**30,800**

Net rental earnings

Net rental earnings for the three-month period ended December 31, 2016 reached $8,698 compared to $6,975 in 2015, amounting to an increase of 24.3% year on year. Out of the $1,723 increase, $1,239 was coming from the properties wholly owned by the REIT (accounted for by the Metropolitan acquisition for approximately $950 and the signature of new leases in the Baldi, Courbevoie and Sablière properties) and $484 from the properties held in partnership (due to the addition of the Cologne property and to a higher recovery rate of operating expenses).

For the year ended December 31, 2016, net rental earnings increased by $3,708 compared to the previous year, amounting to a 14.2% year on year increase. Excluding a one-off gain of $1,240 in 2015 on the recovery of an indemnity, the year-on-year increase is $4,948 or 23.0%. $2,032 was coming from the properties wholly owned by the REIT (accounted for by the combination of an increase due to the Metropolitan acquisition for approximately $2,700, the net addition of new tenants despite some departures generating approximately $280 of new rental income, partially offset by an increase of non-recoverable charges on properties for approximately $950). $2,916 was coming from the properties held in partnership, mainly due to an increase of rental income of approximately $2,500 coming from the addition to the portfolio of the Arcueil, Bad Homburg and Cologne properties in 2015.

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 December 31, 2016 amounted to $1,407 vs. $1,525 for the quarter ended December 31, 2015. $837 is related to the asset management fees paid to Inovalis SA (vs. $774 for the quarter ended December 31, 2015) and $570 to other expenses (vs. $751 for the quarter ended December 31, 2015). The significant decrease in other expenses is the result of recent measures taken so as to reduce the REIT's expenses.

Administration expenses for the year ended December 31, 2016 amounted to $6,001 vs. $5,013 for the year ended December 31, 2015. $3,380 is related to the asset management fees paid to Inovalis SA (vs. $2,666 for the year ended December 31, 2015) and $2,621 to other general administrative expenses (vs. $2,347 for the year ended December 31, 2015). The year-on-year increase of 19.3% is in line with the increase of net rental earnings for the same period (23.0% excluding 2015 non-recurring income). The increases in these expenses 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 December 31, 2016, the net change in fair value of investment properties recognized in earnings was a loss of $2,417 accounted for by an increase in the value of the properties for $1,409 and a $3,826 decrease due to the sale of the studio areas in the Baldi property. The Company had recognized a net increase in fair value of $9,154 during the corresponding quarter ended December 31, 2015.

For the year ended December 31, 2016, excluding the impact of the sale of the studio areas in the Baldi property, the value of the properties increased by $7,839 compared to a gain of $22,719 in 2015. This continued increase is accounted for by the cap rate compression witnessed in the European real estate office markets.

Gain on the option related to the acquisition of the Metropolitan property

For the year ended December 31, 2016, the total gain in fair value of the purchase option was $9,213. As per the Acquisition loan that the REIT granted to Inovalis SA in 2014, the REIT was entitled to receive a portion of the profit generated on the stabilization of the property that would translate into a discount to the purchase price in the event the REIT elected to exercise its right of first offer for the purchase of the property once the latter met the investment criteria of the REIT.

Acquisition costs

The positive acquisition costs of $185 recorded in the three-month period ended December 31, 2016 were an adjustment to costs previously recorded by the REIT in the context of previous acquisitions. For the year ended December 31, 2016, the acquisition costs stood at $553, mainly due to the Metropolitan acquisition (notary and transfer taxes).

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

The REIT recognized a gain on financial instruments at fair value through profit and loss for the quarter ended December 31, 2016 of $1,149. For the year ended December 31, 2016, the REIT recognized a loss of $1,320. These gains and losses are mostly the result of the variation in value realized on the foreign exchange ("FX") contracts.

Loss on exercise of early payment option on finance leases

This element appears only in the year ended December 31, 2016 and has no impact on the three-month period ended December 31, 2016. A loss of $1,242 was recorded in the year ended December 31, 2016 further to the exercise by the REIT of its option to purchase the Metropolitan property that was financed under a finance lease. Concomitantly with the transaction, the REIT closed a new finance lease contract to replace the finance lease assumed as part of the transaction.

Loss on debt refinancing

This element appears only in the year ended December 31, 2016 and has no impact on the three-month period ended December 31, 2016. During the quarter ended March 31, 2016, the REIT refinanced its debt on the Hanover property. The finance lease in place was terminated and replaced with a mortgage financing. The impact of de-recognition of the finance lease amounted to $605.

Finance income

Until March 21, 2016, finance income was almost entirely comprised of the interests perceived by the REIT on the Acquisition loan (Metropolitan transaction). The REIT stopped receiving such interests on March 21, 2016 when it completed the acquisition of the Metropolitan property.

Finance costs

For the three-month period ended December 31, 2016, the finance costs amounted to $2,197 including $1,692 for interest costs related to finance leases, mortgage loans and the lease equalization loans, $505 of other finance costs (including amortization of fair value adjustment on finance leases assumed at a discount at the time of a business acquisition, amortization of transaction costs on mortgage loans and other miscellaneous costs).

For the year ended December 31, 2016, the finance costs amounted to $7,984 including $6,659 for interest costs related to finance leases, mortgage loans, the lease equalization loans and the loan granted by the partner on the Cologne transaction, $1,325 of other finance costs (including amortization of fair value adjustment on finance leases assumed at a discount at the time of a business acquisition, amortization of transaction costs on mortgage loans and other miscellaneous costs).

Additional income (loss) from Arcueil's JV

For the Arcueil joint venture, an interest of 25% in the partnership was taken into account in the proportionate consolidation presentation, in line with the apportioned investment in the transaction by the REIT of 25% while, as per the joint venture agreement and as reflected in the condensed interim consolidated financial statements, is entitled to receive a 25% share of the net earnings and, upon asset disposal, 75% of the variance of fair value of investment properties, reduced by 100% of FX derivative costs. This additional loss from Arcueil's joint venture is $1,762 for the three-month and $481 for the twelve-month periods ended December 31, 2016.

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. During the three-month period ended December 31, 2016 the distribution recognized on Exchangeable securities was $363 while it was $423 for the same period in 2015. The decrease is accounted for by the conversion by Inovalis of 920,000 Exchangeable securities into Units during the year. During the year ended December 31, 2016 the distribution recognized on exchangeable securities was $1,890 while it was $1,688 for the same period in 2015. The increase for the year is the result of the additional Exchangeable securities received by Inovalis SA in lieu of asset management fees partially offset by the conversion of 920,000 Exchangeable securities into Units.

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 December 31, 2016, the REIT reported a gain of $1,427 which is the result of the decrease in the amount of the debt following the conversion of 500,000 of Exchangeable securities into Units of the REIT in December 2016 combined with the change in the closing price of Units on the TSX which was $9.04 on December 31, 2016 compared to $9.84 as at September 30, 2016. During the year ended December 31, 2016, Inovalis

SA converted 920,000 Exchangeable securities into Units. The net gain resulting from the change in fair value of the exchangeable securities was $589 for the year ended December 31, 2016. The closing price on the TSX was $9.04 on December 31, 2016 and $9.37 on December 31, 2015.

Current income tax expense

The current income tax expense incurred of $237 for the quarter ended December 31, 2016 and of $367 for the year ended December 31, 2016 amounts to a withholding tax paid by the REIT's Luxemburg holding company on the dividends it received from affiliates and a tax payable on foreign exchange gain on the funds coming from the recent equity offering.

Last 24 Months Key Financial Information

The information provided in this section includes our proportionate share of income from investments in joint ventures. Please refer to "Non IFRS section" for reconciliation to our condensed interim consolidated financial statements.

	3-month period ended							
(in thousands of CAD$)	**Dec. 31, 2016**	**Sept. 30, 2016**	**June 30, 2016**	**March 31, 2016**	**Dec. 31, 2015**	**Sept. 30, 2015**	**June 30, 2015**	**March 31, 2015**
Rental income	6,706	6,172	5,853	5,673	5,340	5,543	5,306	5,283
Adjusted rental income	***8,188***	***7,617***	***7,797***	***7,431***	***6,854***	***6,881***	***6,006***	***5,866***
Net rental earnings	7,023	6,556	6,065	2,737	5,784	5,507	7,116	3,189
Adjusted net rental earnings	***8,698***	***7,902***	***8,349***	***4,135***	***6,975***	***6,589***	***8,046***	***3,731***
Earnings for the period	2,984	11,833	5,839	2,628	6,641	4,479	16,615	3,065
Earnings per Unit (CAD$)	0.14	0.60	0.37	0.15	0.43	0.29	1.09	0.20

NON-GAAP RECONCILIATION

Funds from Operations ("FFO")

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

Investments in joint ventures

The REIT's proportionate share of the financial position and results of operation of its investment in joint ventures, which are accounted for using the equity method under IFRS in the condensed interim consolidated financial statements, are presented below using the proportionate consolidation method (with the exception of Arcueil), which is a non-GAAP measure. For the purpose of the proportionate consolidation, the initial investment of both partners in the joint ventures were considered as being equity investments as opposed to a combination of equity and loans and accordingly, the related proportionate consolidation balance sheet items were eliminated as well as the associated finance income and finance costs. Due to the specificity of the Arcueil joint venture, some figures of the periods ended December 31, 2015 have been reclassified in order to ensure comparability with the figures for the periods ended December 31, 2016.

For the Arcueil joint venture, an interest of 25% in the partnership was taken into account in the proportionate consolidation presentation, in line with the apportioned investment in the transaction by the REIT of 25% while, as per the joint venture agreement and as reflected in the condensed interim consolidated financial statements, the REIT is entitled to receive a 75% share of the net profit. A line entitled "additional gain or loss from Arcueil's joint venture" in the Consolidated statement of earnings reconciliation to consolidated financial statements bridges both presentations. A reconciliation of the financial position and results of operations to the condensed interim balance sheets and consolidated statements of earnings is included in the tables showed in the Non-IFRS Reconciliation section. For the three-month period and year ended December 31, 2016, the proportional financial results include the following proportion of the revenues and expenses of each one of the joint ventures: 50% for Duisburg and Walpur (Bad Homburg), 49% for Cologne and 25% for Arcueil. The figures of the period ended December 31, 2015 have been reclassified in order to ensure comparability with the figures for the period ended December 31, 2016.

FFO and AFFO

(in thousands of CAD$)	Three months ended December 31 2016	Three months ended December 31 2015	Year ended December 31 2016	Year ended December 31 2015
Earnings for the period	2,985	6,641	23,284	30,800
Add/(Deduct):				
Adjustment to related acquisition costs	(185)	(127)	553	113
Less other revenues (recovery indemnity)	-	-	-	(1,240)
Gain resulting from exercice of the purchase option	-	-	(9,213)	-
Loss recognized on exercise of early payment option on finance leases	(0)	1,077	1,242	1,077
Loss on refinancing of a debt	-	-	605	-
Net change in fair value of investment properties	2,417	(8,800)	(4,013)	(21,523)
(Gain) loss on financial instruments at fair value through profit and loss	(1,149)	(77)	1,320	951
Adjustment for property taxes accounted for under IFRIC 21	(872)	(620)	-	-
Share of net earnings of investments (equity method)	-	123	-	(517)
Additional income (loss from Arcueil's JV)	1,762	-	481	-
Net finance costs (income) from joint venture investments	-	2,712	-	(558)
Distributions on Exchangeable securities	363	423	1,890	1,688
Change in fair value of Exchangeable securities	(1,427)	1,189	(589)	1,118
Foreign exchange (loss) gain	(579)	(79)	(640)	(130)
Non-recurring finance income from Inovalis relating to Metropolitan	-	5	(797)	51
Other non-recurring finance costs	235	-	551	-
Deferred income tax expense	587	634	963	655
FFO from Joint Ventures	-	772	-	2,669
Minority interest	165	-	122	-
FFO	**4,302**	**3,873**	**15,757**	**15,154**
	-	**-**	**-**	**-**
Add/(Deduct):				
Non-cash effect of straight line rents	57	(97)	182	(2,281)
Cash effect of the lease equalization loans	(166)	321	(851)	2,678
Amortization of fair value adjustment on assumed debt	94	109	239	433
Amortization of transaction costs on mortgage loans	68	92	302	394
Non-cash part of asset management fees paid in Exchangeable securities (1)	385	288	1,690	1,090
Capex net of cash subsidy	(100)	(100)	(400)	(400)
Adjustement from investment	-	49	54	122
AFFO	**4,640**	**4,535**	**16,973**	**17,190**
FFO / Units (diluted) (in CAD$) (2)	**0.19**	**0.22**	**0.77**	**0.87**
AFFO / Units (diluted) (in CAD$) (2)	**0.20**	**0.26**	**0.83**	**0.98**
Excluding Units part of the July 2016 equity offering				
FFO / Units (diluted) (in CAD$) (3)	**0.23**	**0.22**	**0.87**	**0.87**
AFFO / Units (diluted) (in CAD$) (3)	**0.25**	**0.26**	**0.94**	**0.98**

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

(2) Based on the weighted average number of Units (fully diluted), i.e. 23,221,198 and 17,612,256 for the 3-month periods ended December 31, 2016 and December 31, 2015 and 20,361,577 and 17,471,542 for the years ended December 31, 2016 and December 31, 2015.

(3) Based on the weighted average number of Units (fully diluted), i.e. 18,379,008 and 17,612,256 for the 3-month periods ended December 31, 2016 and December 31, 2015 and 18,125,703 and 17,471,542 for the years ended December 31, 2016 and December 31, 2015.

Management believes FFO is an important measure of our operating performance and is indicative of our ability to pay distributions. However, it does not represent cash flow from operating activities as defined by IFRS and is not necessarily indicative of cash available to fund Inovalis REIT's needs. This non-IFRS measurement is commonly used for assessing real estate performance. Our FFO and AFFO calculations are based on the average foreign exchange rate for the period (1.4660 Canadian dollars per Euro for the year ended December 31, 2016) and does not take into account our foreign currency hedging arrangements (more than 95% of our monthly cash distributions are covered until April 2019 at an average rate of 1.4776).

Balance sheet reconciliation to consolidated financial statements (Non-GAAP)

	As at December 31, 2016			As at December 31, 2015		
Assets	**As per REIT's financial statements (1)**	**Share from investments in joint-ventures**	**Proportionate Consolidation**	**As per REIT's financial statements (1)**	**Share from investments in joint-ventures**	**Proportionate Consolidation**
Non-current assets						
Investment properties	412,231	97,401	**509,633**	355,704	100,359	**456,063**
Investments accounted for using the equity method	43,887	(43,887)	-	40,337	(40,337)	**-**
Acquisition loans and deposit	8,906	-	**8,906**	18,786	-	**18,786**
Derivative financial instruments	590	-	**590**	92	-	**92**
Restricted cash and other financial assets	-	-	**-**	1,375	-	**1,375**
Total non-current assets	465,615	53,515	**519,129**	416,294	60,022	**476,316**
Current assets						
Trade and other receivables	3,368	(35)	**3,333**	4,803	816	**5,619**
Derivative financial instruments	520	152	**672**	197	159	**356**
Other current assets	1,638	375	**2,013**	1,333	39	**1,372**
Financial current assets	27,910	-	**27,910**	-	-	**-**
Restricted cash	-	-	**-**	305	-	**305**
Cash and cash equivalents	11,074	2,446	**13,520**	6,895	3,958	**10,853**
Total current assets	44,510	2,938	**47,448**	13,533	4,972	**18,505**
Total assets	510,125	56,452	**566,577**	**429,827**	**64,994**	**494,821**
Liabilities and Unitholders' equity						
Liabilities						
Non-current liabilities						
Long-term Loans from joint-venture partners	-	-	**-**	-	6,480	**6,480**
Mortgage loans	83,998	34,547	**118,545**	70,779	36,133	**106,912**
Finance lease liabilities	120,891	16,389	**137,279**	120,285	17,192	**137,477**
Other long-term liabilities	-	947	**947**	-	1,171	**1,171**
Lease equalization loans	4,051	-	**4,051**	5,090	-	**5,090**
Tenant deposits	2,178	-	**2,178**	1,746	-	**1,746**
Exchangeable securities	4,603	-	**4,603**	18,034	-	**18,034**
Provision on investment (equity method)	-	-	-	925	(925)	**-**
Derivative financial instruments	1,616	206	**1,822**	2,698	158	**2,856**
Deferred tax liabilities	2,236	1,273	**3,509**	1,651	1,332	**2,983**
Total non-current liabilities	219,573	53,361	**272,934**	221,208	61,541	**282,749**
Current liabilities						
Mortgage loans	541	-	**541**	415	-	**415**
Finance lease liabilities	24,179	637	**24,816**	6,217	582	**6,799**
Lease equalization loans	1,184	-	**1,184**	1,335	-	**1,335**
Tenant deposits	198	-	**198**	116	-	**116**
Exchangeable securities	11,995	-	**11,995**	1,366	-	**1,366**
Derivative financial instruments	1,225	6	**1,231**	878	-	**878**
Trade and other payables	7,392	2,142	**9,534**	6,174	2,129	**8,303**
Other current liabilities	734	277	**1,011**	469	742	**1,211**
Deferred income	1,975	29	**2,004**	-	-	**-**
Total current liabilities	49,423	3,091	**52,514**	16,970	3,453	**20,423**
Total liabilities	268,996	56,452	**325,448**	238,178	64,994	**303,172**
Equity						
Trust units	189,158	-	**189,158**	136,365	-	**136,365**
Retained earnings	43,455	-	**43,455**	35,359	-	**35,359**
Accumulated other comprehensive income	8,395	-	**8,395**	19,925	-	**19,925**
	241,008	-	**241,008**	191,649	-	**191,649**
Non-controlling interest	121	-	**121**			
Total liabilities and equity	510,125	56,452	**566,577**	**429,827**	**64,994**	**494,821**

(1) Balance sheet amounts presented for the REIT were taken from the interim consolidated financial statements as at December 31, 2016 and December 31, 2015.

Consolidated statement of earnings reconciliation to consolidated financial statements (Non-GAAP)

	Three months ended					
	December 31, 2016			December 31, 2015		
(in thousands of CAD$)	Amounts per REIT's financial statements (1)	Share of net earnings from investments in joint ventures	Total	Amounts per REIT's financial statements (1)	Share of earnings from investments in joint ventures	Total
Rental income	6,706	1,482	**8,188**	5,340	1,514	**6,854**
Service charge income	1,951	476	**2,427**	1,898	270	**2,168**
Service charge expenses	(1,545)	(339)	**(1,884)**	(1,427)	(414)	**(1,841)**
Other revenues	(1)	55	**54**	-	-	**-**
Other property operating expenses	(88)	-	**(88)**	(27)	(179)	**(206)**
Net rental earnings	**7,023**	**1,674**	**8,698**	**5,784**	**1,191**	**6,975**
Administration expenses	(1,199)	(208)	**(1,407)**	(1,207)	(318)	**(1,525)**
Foreign exchange gain	579	-	**579**	79	-	**79**
Net change in fair value of investment properties	(3,570)	1,153	**(2,417)**	8,800	354	**9,154**
Gain on bargain purchase	-	-	**-**	-	(621)	**(621)**
Acquisition costs	163	22	**185**	127	36	**163**
Share of profit of an investment (equity method)	1,247	(1,247)	**-**	(123)	123	**-**
Operating earnings	**4,244**	**1,394**	**5,638**	**13,460**	**765**	**14,225**
Gain (loss) on financial instruments at fair value through P&L	1,078	72	**1,149**	77	(24)	**53**
Loss on exercise of early payment option on finance leases	-	-	**-**	-	-	**-**
Loss on refinancing of a debt	-	-	**-**	(1,077)	-	**(1,077)**
Finance income	(710)	792	**82**	(2,309)	2,711	**402**
Finance costs	(1,680)	(517) (2)	**(2,197)**	(1,253)	(3,242) (2)	**(4,495)**
Additionnal income (loss) from Arcueil's JV (3)	-	(1,762)	**(1,762)**			**-**
Distributions on Exchangeable securities	(363)	-	**(363)**	(423)	-	**(423)**
Net change in fair value of Exchangeable securities	1,427	-	**1,427**	(1,189)	-	**(1,189)**
						-
Earnings before income taxes	**3,995**	**(21)**	**3,974**	**7,286**	**210**	**7,496**
Current income tax expense	(232)	(6)	**(237)**	(11)	-	**(11)**
Deferred income tax expense	(614)	27	**(587)**	(634)	(210)	**(844)**
Earnings for the period	**3,150**	**-**	**3,149**	**6,641**	**-**	**6,641**
Non-controlling interest	**165**		**165**	**-**		**-**
Earnings for the period (part attributable to the Trust)	**2,984**	**-**	**2,984**	**6,641**	**-**	**6,641**

(1) Income statement amounts presented for the REIT were taken from the internal consolidated financial statements as at December 31, 2016
(2) Includes the REIT's share of the hedging cost of Arcueil's partner
(3) Reflects the additional loss assumed by the REIT's in reference with its actual 75% rights to the net profit of the Arcueil joint venture.

	Twelve months ended					
	December 31, 2016			December 31, 2015		
(in thousands of CAD$)	**Amounts per REIT's financial statements [1]**	**Share of net earnings from investments in joint ventures**	**Total**	**Amounts per REIT's financial statements [1]**	**Share of net earnings from investments in joint ventures**	**Total**
Rental income	24,404	6,633	**31,036**	21,473	4,183	**25,656**
Service charge income	6,546	1,278	**7,823**	7,222	875	**8,097**
Service charge expenses	(8,525)	(1,228)	**(9,753)**	(8,040)	(1,295)	**(9,335)**
Other revenues	171	38	**208**	1,240	-	**1,240**
Other property operating expenses	(214)	-	**(214)**	(306)	40	**(266)**
Net rental earnings	**22,381**	**6,720**	**29,100**	**21,589**	**3,803**	**25,392**
Administration expenses	(5,152)	(848)	**(6,001)**	(4,266)	(747)	**(5,013)**
Foreign exchange gain	640	-	**640**	130	-	**130**
Net change in fair value of investment properties	3,632	381	**4,013**	21,523	1,196	**22,719**
Gain on bargain purchase	-	-	**-**	-	750	**750**
Gain resulting from exercice of the purchase option	9,213	-	**9,213**	-	-	**-**
Acquisition costs	(575)	22	**(553)**	(329)	(686)	**(1,015)**
Share of profit of an investment (equity method)	1,107	(1,106)	**1**	517	(517)	**-**
Operating earnings	**31,246**	**5,168**	**36,414**	**39,164**	**3,799**	**42,963**
Loss on financial instruments at fair value through P&L	(1,269)	(51)	**(1,320)**	(951)	(162)	**(1,113)**
Loss on exercise of early payment option on finance leases	(1,242)	-	**(1,242)**			
Loss on refinancing of a debt	(605)	-	**(605)**	(1,077)	-	**(1,077)**
Finance income	4,344	(3,090)	**1,253**	2,115	(558)	**1,557**
Finance costs	(6,488)	(1,495) [2]	**(7,984)**	(4,919)	(2,658) [2]	**(7,577)**
Additionnal income (loss) from Arcueil's JV [3]		(481)	**(481)**	-	-	**-**
Distributions on Exchangeable securities	(1,890)	-	**(1,890)**	(1,688)	-	**(1,688)**
Net change in fair value of Exchangeable securities	589	-	**589**	(1,118)	-	**(1,118)**
						-
Earnings before income taxes	**24,685**	**50**	**24,735**	**31,526**	**421**	**31,947**
Current income tax expense	(336)	(31)	**(367)**	(71)	(3)	**(74)**
Deferred income tax expense	(944)	(18)	**(963)**	(655)	(418)	**(1,073)**
Earnings for the period	**23,405**	**-**	**23,405**	**30,800**	**-**	**30,800**
Non-controlling interest	121		**121**	**-**	**-**	**-**
Earnings for the period (part attributable to the Trust)	**23,284**	**-**	**23,284**	**30,800**	**-**	**30,800**

(1) Income statement amounts presented for the REIT were taken from the internal consolidated financial statements as at December 31, 2016
(2) Includes the REIT's share of the hedging cost of Arcueil's partner
(3) Reflects the additional loss assumed by the REIT's in reference with its actual 75% rights to the net profit of the Arcueil joint venture.

PROPERTY CAPITAL INVESTMENTS – Non-GAAP

Fair value

The fair value of our investment property portfolio as at December 31, 2016 was $509.6 million including the REIT's interests in the properties held in partnerships (vs. $456.1 million as at December 31, 2015). The fair value of the French properties was $409.7 million (80.4% of total value) and the fair value of the German properties was $99.9 million (19.6% of total value).

On a same store basis (i.e. excluding the 2016 Metropolitan acquisition), the fair value of our investment property portfolio as at December 31, 2016, including the REIT's interests in the properties held in partnerships, was $434.4 million vs. $456.1 million as at December 31, 2015. The $21.7 million decrease is accounted for by a $4.4 million increase in value of the properties (including the impact on Baldi further to the partial sale of the property) and a $26.1 million decrease 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.
Please refer to note 7 of the audited consolidated financial statements for a more complete discussion on our investment properties and valuation rates used by the evaluators.

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.
Since the IPO in April 2013, a total of $1.7 million has been spent on the properties, funded by a reserve that was set aside by the vendors of the four initial properties.

Guarantees, commitments and contingencies

The REIT and its subsidiaries have provided guarantees in connection with the finance lease liabilities and the mortgage loans, including pledge of affiliates of the REIT, first mortgages and assignment of receivables and future receivables. As at December 31, 2016, guarantees provided by the REIT with respect to its long-term debts include a preferential claim held by mortgage lenders on the Jeuneurs, Veronese, Sablière and Hanover properties in the amount of $84.0 million. Including the REIT's interest in the properties held in partnerships, preferential claim held by mortgage lenders on the properties totals $118.5 million.

Further to the reimbursement by the REIT of the $6.4 million equity bridge granted by the partner on the Cologne transaction, the pledge granted by the REIT on its 49% equity commitment to the partner as guarantee was also released in the course of the second quarter of 2016.

OTHER SIGNIFICANT ASSETS – Non-GAAP

Investments accounted for using the equity method

This section encompasses the 50% interest the REIT (through its subsidiaries) has in the Duisburg property, the 50% interest in the Walpur property, the 25% interest in the Arcueil property and the 49% interest in the Cologne property. Our share of fair value of the investment properties accounted for using the equity method was $44,703 as at December 31, 2016 compared to $40,337 as at December 31, 2015.

Acquisition loans and deposit

As at December 31, 2016, Acquisition loans and deposit of $8.9 million consisted of the $7.7 million loan commitment for the Rueil project and of the $1.2 million deposit for the Ingolstadt forward purchase.

The Acquisition loan on the Metropolitan property ($18,786 as at December 31, 2015) was repaid by Inovalis SA to Inovalis REIT when the latter purchased the property on March 21, 2016. There was no cash payment, as compensation was made with other amounts due by the REIT to Inovalis SA for the purchase of the Metropolitan property.

Trade and other receivables

Trade and other receivables as at December 31, 2016 amounted to $4,032 taking into account the REIT's interests in the properties held in partnerships compared to $5,619 as at December 31, 2015.

Other current assets

Other current assets as at December 31, 2016 amounted to $2,402 compared to $1,372 as at December 31, 2015. This includes the 50% share of the deposit pertaining to the Ingolstadt forward purchase that will be borne by the yet-to-be chosen partner on this transaction. The balance of other current assets consists mainly of sales tax receivables.

PRESENTATION OF OUR CAPITAL – Non-GAAP

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 reached $11.1 million as at December 31, 2016 compared to $6.9 million as at December 31, 2015. Including the REIT's interest in the joint ventures, cash available totals $13.5 million as at December 31, 2016, compared to $10.9 million as at December 31, 2015. This includes the proceeds of the equity offering closed on July 25, 2016, the proceeds of which having not been entirely invested yet. Gross proceeds of $46.0 million resulted into net proceeds of $43.1 million after deduction of $2.9 million of offering costs.

Financing activities

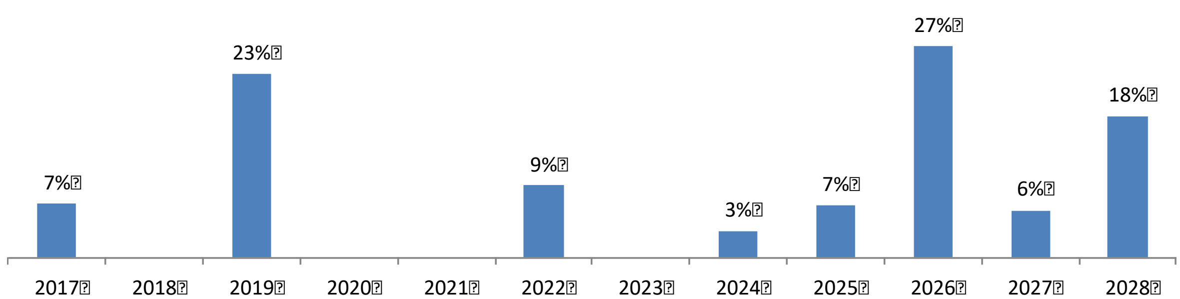
Our debt strategy is to have secured mortgage financing with a term to maturity that is appropriate in relation to the lease maturity profile of our portfolio and then to put in place, when appropriate, interest-only financings. We intend to search for fixed rate financings or floating rate financings with a cap. As such, 93.2% of the REIT's senior debt benefits from an interest rate protection (76.1% in the form of a swap and 17.1% in the form a cap). Our preference is to have staggered debt maturities to mitigate interest rate risk and limit refinancing exposure in any particular period. With no financial institution representing more than 30% of our senior debt commitment, we also make sure that the REIT has a diversified base of senior debt providers. Our debt to book value stands at 51.3% and net of the $13.5 million of cash available as at December 31, 2016 (including the REIT's interest in the joint ventures), this debt to book value stands at 47.5%.

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 December 31, 2016	As at December 31, 2015
Weighted average interest rate [(1)]	2.11%	1.98%
Debt-to-book value [(2)]	51.3%	52.8%
Debt-to-book value, net of cash [(2)]	47.5%	51.8%
Interest coverage ratio [(3)]	4.4 x	4.0 x
Debt due in next 12 months in thousand of CAD$	25,357	12,232
Weighted average term to maturity of debt [(4)]	7.2 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.
(4) Calculated as the weighted average term on all the financial leases and mortgage financings.

Leasehold and Mortgage Financing Maturity Profile (Non-GAAP)
(% of amount outstanding as at December 31, 2016)



Equity

Our discussion about equity is inclusive of Exchangeable securities, which are economically equivalent to the REIT's Units. In our 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 December 31, 2016	Year ended December 31, 2016
Units		
Number at beginning of period	20,989,816	15,637,019
Increase/(Decrease) in number during the period	500,000	5,762,190
Units issued pursuant to the DRIP	35,959	126,566
Number at end of period	21,525,775	21,525,775
Weighted average number during the period	21,172,261	18,194,558
Exchangeable securities		
Number at beginning of period	2,216,419	2,070,398
Increase/(Decrease) in number during the period	(408,368)	(262,347)
Number at end of period	1,808,051	1,808,051
Weighted average number during the period	2,048,937	2,167,019
Units and Exchangeable securities		
Number at beginning of period	23,206,235	17,707,417
Increase/(Decrease) in number during the period	127,591	5,626,409
Number at end of period	23,333,826	23,333,826
Weighted average number during the period	23,221,198	20,361,577

On July 25, 2016, the REIT closed a $46.0 million equity offering (including the over-allotment, which was fully exercised) aimed at being used as an available source of funding for potential future acquisitions of office properties located in France and Germany and for potential capital expenditures relating to the re-positioning and/or re-development of currently owned properties. With this equity offering 4,842,190 Units were issued, including 631,590 Units issued pursuant to the exercise in full of the over-allotment option.

Inovalis SA converted 500,000 Exchangeable securities into Units during the three-month period ended December 31, 2016 and a total of 920,000 in the year ended December 31, 2016.

Further to the Distribution Reinvestment Plan ("DRIP") in place, a total of 35,959 Units were issued to Unitholders during the quarter ended December 31, 2016 and 126,566 were issued during the year ended December 31, 2016. As at December 31, 2016, 7.9% of the Units were enrolled in the DRIP.

A total of 91,632 Exchangeable securities were issued during the three-month period ended December 31, 2016 in favour of Inovalis SA as payment of the asset management fees for the fourth quarter of 2016.

For the year ended December 31, 2016, a total of 361,617 Exchangeable securities were issued in favour of Inovalis SA as payment of the asset management fees. 296,036 Exchangeable securities were also issued in favour of Inovalis SA as a further investment into the REIT by Inovalis SA. Both elements combined with a conversion of 920,000 Exchangeable securities into Units on June 22, 2016 resulted in a 262,347 decrease in the number of Exchangeable securities in the year ended December 31, 2016.

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. As at December 31, 2016, the REIT was committed to sell €880 (on the average) at an average rate of 1.4776 and to receive $1,300 on a monthly basis until April 2019 (included).

	Three months ended December 31, 2016		Year ended December 31	
(in thousands of CAD$ except for per Unit amounts)	**2016**	**2015**	**2016**	**2015**
Declared distributions on Units	4,368	3,205	15,188	12,732
Declared distributions on Exchangeable securities	364	408	1,890	1,688
Total declared distributions	**4,732**	**3,613**	**17,078**	**14,420**
Distribution per Unit (diluted)	$ 0.20625	$ 0.20625	$ 0.82500	$ 0.82500

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

SUBSEQUENT EVENTS

New acquisitions

In February 2017, The REIT has entered into exclusivity on the acquisition of two assets located in Pantin (Paris North-Eastern periphery) and Stuttgart (Germany). Both assets are office buildings, with an average occupancy rate in excess of 90%, a circa 7-year weighted average lease term and located either in improving areas or established office park with main transport access. Tenancy is a mix of government related tenants, high-grade automotive companies and other tenants with long standing relations to the zones. The properties will be bought at a competitive cap rate given the high prices witnessed over the past months in both markets, and both acquisitions will be accretive to AFFO. Once these acquisitions close, the REIT will have deployed the total amount raised during the bought deal of July 2016.

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