INOVALIS

REAL ESTATE INVESTMENT TRUST

(Page 12 - Interim Consolidated Statements of Earnings – revised November 15, 2017)

Notice to Reader

This interim management's discussion and analysis of results of operations and financial condition ("MD&A") for the three months and nine months ended September 30, 2017 has been amended to correct a typographical error. The table for the Interim Consolidated Statements of Earnings on page 12 has been replaced. There has been no change in the reported results in any of the periods presented.

Contents

Letter to Unitholders

Four years after becoming a publicly traded REIT, Inovalis REIT has managed to demonstrate the breadth of its real estate knowledge in France and Germany, two major markets in continental Europe, and has built its credibility in the Canadian capital markets by delivering solid returns to unitholders, while simultaneously forging joint ventures to further enlarge its asset base and improve its risk diversification.

The third quarter saw the continued expansion of the REIT's asset base with the completion of the acquisition of the Pantin property through a 50% joint venture. Following the quarter end, the REIT has further increased its cash resources by completing the successful issuance of a €7.3 million ($10.8 million) second promissory note and the refinancing of the senior loans on the Jeuneurs and Baldi properties, resulting in a net cash proceeds of €4.8 million ($7.1 million).

In Q3, our results were in line with the REIT-issued guidance and I am pleased to report that the REIT's funds from operations ("FFO") per unit and adjusted fund from operations ("AFFO") per unit, were $0.21 and $0.22 respectively for the 3-month period ended September 30, 2017, compared to $0.18 and $0.19 one year ago.

The Q3 2017 debt to book value (net of cash), for the entire portfolio including joint ventures, was 47.6% - in line with the debt to book value of 51.3% for Q2. With a weighted average interest rate of approximately 2%, consistent with Q2, we are well positioned to take advantage of the favourable lending environment in our two main markets and move forward on our pipeline of potential acquisitions.

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, in order to provide users of the MD&A with a more complete overview of the REIT's performance.

In early September, we welcomed Jo-Ann Lempert to the Board of Trustees. Jo-Ann brings her expertise in complex financial reporting for real estate companies as well as experience in providing oversight of publicly listed companies. Jo-Ann is a fellow of the Order of Chartered Professional Accountants of Quebec and now sits on the Audit Committee.

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

November 14, 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 include our proportionate share of income from investments in joint ventures, please refer to "*Non GAAP Reconciliation*".

	September 30, 2017		December 31, 2016	
Operational information	GAAP Measures	NON-GAAP Measures [1]	GAAP Measures	NON-GAAP Measures [1]
Number of properties	7	13	7	11
Gross leasable area (sq.ft)	772,791	1,245,081	772,791	1,050,336
Occupancy rate (end of period) [2]	95.0%	95.2%	94.6%	95.9%
Occupancy rate (including Vendor Leases) [2]	95.0%	96.7%	94.6%	95.9%
Weighted average lease term	5.3 years	5.3 years	5.2 years	5.3 years
Average capitalization rate [3]	6.0%	5.8%	6.0%	5.9%
Financing information				
Level of debt (debt-to-book value) [4]	44.3%	51.4%	41.8%	51.3%
Level of debt (debt-to-book value, net of cash) [4]	40.6%	47.6%	37.5%	47.5%
Weighted average term of principal repayments of debt	6.7 years	6.6 years	7.4 years	7.2 years
Weighted average interest rate [5]	2.14%	2.07%	2.14%	2.11%
Interest coverage ratio [6]	4.6 x	4.0 x	4.4 x	4.4 x

	Three months ended		Nine months ended	
(thousands of CAD$ except per Unit and other data)	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Operating results				
Rental income	6,323	6,172	18,565	17,698
Adjusted Rental income [1]	***8,659***	***7,617***	***24,330***	***22,848***
Net rental earnings	6,729	6,556	16,720	15,358
Adjusted net rental earnings [1]	***9,012***	***7,902***	***21,906***	***20,403***
Earnings for the period	2,216	11,833	5,516	20,299
Funds from Operations (FFO) [7][8]	5,198	4,053	14,179	11,454
Adjusted Funds from Operations (AFFO) [7][8]	5,561	4,192	15,420	12,332
FFO per Unit (diluted) [7][8]	0.21	0.18	0.59	0.59
AFFO per Unit (diluted) [7][8]	0.22	0.19	0.64	0.64
Distributions				
Declared distributions on Units and Exchangeable sec.	4,872	4,919	14,548	12,346
Declared distribution per Unit (diluted) [9]	0.21	0.21	0.62	0.62
FFO payout ratio [7]	93.7%	121.4%	102.6%	104.8%
AFFO payout ratio [7]	87.6%	109.7%	94.3%	97.3%

(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-GAAP 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-GAAP Reconciliation (FFO and AFFO).*
(8) Based on the fully diluted weighted average number of Units during the period including conversion of Private placement promissory note
(9) Based on the fully diluted weighted average number of Units during the period excluding conversion of Private placement promissory note

KEY FACTS

- Inovalis REIT ("Inovalis REIT", or the "REIT" or "we") is a Canadian 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 September 30, 2017, Inovalis SA and Inovalis SA's founding partners had a 13.7% interest in the REIT's equity (directly and indirectly) taking into account a new promissory note from the recent private placement and 14,5% interest excluding the new promissory note.
- On August 28, 2017, the REIT completed the acquisition of Pantin, a property located on the Paris North-Eastern periphery, with highway and public transport connections. The property is a 143,235 sq.ft modern and sustainable office building with 230 parking units and great tenant diversification. The REIT plans to complete refurbishment works on this property. These works will be financed by a cash reserve of €5 million ($7.4 million). The REIT will also benefit from a two-year vendor lease which ensures an occupancy rate of 100%. This transaction is a 50-50 joint-venture with an affiliate of Inovalis SA.
- Subsequent to the quarter, on October 4, 2017, the REIT completed the issuance of a €7.3 million ($10.8 million) a second convertible promissory note on the same terms as the promissory note issued on June 26, 2017. The convertible promissory note has a fixed interest rate of 8.13%, which is equivalent to the distribution yield on REIT units on October 4, 2017, the date of issuance of the convertible promissory note.
- Subsequent to the quarter, on October 26, 2017, the REIT completed a mortgage refinancing of the Baldi and Jeuneurs properties, securing loans of €44.5 million ($65.6 million). After the reimbursement of the existing loans amounting to €39.0 million ($57.5 million), which includes a €6.9 million ($10.2 million) partial early repayment of the loan associated with the Courbevoie property, the outstanding loan balance related to Courbevoie amounted to €7,7 million ($11,3 million) – resulting in a LTV ratio for Courbevoie of 28%. The proceeds from refinancing were €4.8 million ($7.1 million) before a cash reserve of €0.9 million ($1.3 million) and associated refinancing costs.
- FFO / AFFO

	Q2 2017 (1)	Q3 2017 (2)	Q3 2016 (3)	REIT Guidance (4)
Including private placement in the form of a promissory note				
FFO per unit	0.20	0.21	0.18	0.21 - 0.23
FFO payout ratio	104.4%	93.7%	121.4%	90% - 96%
AFFO per unit	0.23	0.22	0.19	0.22 - 0.24
AFFO payout ratio	91.6%	87.6%	109.7%	88% - 94%

(1) $1.4455 C$/€ foreign exchange rate
(2) $1.4547 C$/€ foreign exchange rate
(3) $1.4758 C$/€ foreign exchange rate
(4) $1.4101 C$/€ foreign exchange rate

In the table above, funds from operations **("FFO")** and adjusted funds from operations (**"AFFO"**) for the three-month period ended September 30, 2017 are compared to the Q2 2017, Q3 2016 and the REIT's guidance.

The Q3 2017 FFO of $0.21 per unit is $0.03 higher than Q3 2016 FFO and in line with the REIT's guidance. AFFO for Q3 2017 of $0.22 per unit is $0.03 higher Q3 2016 AFFO and also in line with the run rate going forward estimated by the Management.

The Q3 2017 FFO payout ratio of 93.7% is back to the REIT's FFO guidance range. The Q3 2017 AFFO payout ratio of 87.6% improved by 4.0% compared to Q2 2017, ahead of the REIT's guidance.

- NOI (GAAP)

In the table below is the NOI presentation prepared under GAAP. The REIT guidance includes the application of 2017 forecast indexation for French assets. Indexation has not been applied to the German asset forecast as it is not applied until index increases exceed 5%. Between 2013 and 2016, on average, the German index increased 0.50% per year. Over the last 9 months the index has been increasing at a rate of 1.7% per year, indicating an accelerating trend. If this trend continues, the indexation threshold of 5% could be reached between 2018 and 2021 at which time it will be applied to the German assets. These calculations include consideration of the contractual specificities of each lease. See the section *Rental Indexation* for details on French and German indices.

	Q1 2017 (1)	Q2 2017 (2)	Q3 2017 (3)	REIT Guidance (4)
NOI (GAAP)	3,247	6,744	6,729	
IFRIC 21 impact	2,411	-763	-815	
NOI (excluding IFRIC 21 impact)	5,658	5,981	5,914	5,600 - 6,000
% Increase compared to the previous quarter		6%	-1%	

(1) $1.4101 C$/€ foreign exchange rate
(2) $1.4455 C$/€ foreign exchange rate
(3) $1.4547 C$/€ foreign exchange rate
(4) $1.4101 C$/€ foreign exchange rate

The Q3 2017 NOI of $6,729, the 1% decrease when compared to Q2 2017 was mainly due to non-recoverable service charges. (The reader is cautioned that REIT's guidance information is forward-looking and actual results may vary from those reported).

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

In the table below is NOI presentation for the whole portfolio including the REIT's proportionate interest in properties held in partnership. The REIT guidance includes the application of 2017 forecast indexation for French assets. Indexation has not been applied to the German asset forecast as it is not applied until index increases exceed 5%.

	Q1 2017 (1)	Q2 2017 (2)	Q3 2017 (3)	REIT Guidance (4)
NOI (excluding IFRIC 21 impact)	7,177	7,697	8,221	7,900 - 8,400
% Increase compared to the previous quarter		7%	7%	

(1) $1.4101 C$/€ foreign exchange rate
(2) $1.4455 C$/€ foreign exchange rate
(3) $1.4547 C$/€ foreign exchange rate
(4) $1.4101 C$/€ foreign exchange rate

The Q3 2017 NOI, in the amount of $8,221, increased by 7%, including a positive foreign exchange effect, compared to Q2 2017 NOI, and is in line with REIT's guidance. (The reader is cautioned that REIT's guidance information is forward-looking and actual results may vary from those reported).

- Debt to Book Value (GAAP)

The REIT's debt to book value, in accordance with GAAP, was 44.3% as at September 30, 2017, significantly lower than 46.8%, one year ago. Net of cash available, the debt to book value was 40.6% as at September 30, 2017, compared to 41.6% one year before.

- Debt to Book Value (Non-GAAP)

  The REIT's Non-GAAP debt to book value for the whole portfolio, including REIT's proportional share in joint-ventures was 51.4% as at September 30, 2017, slightly lower than 51.7%, one year ago. Net of cash available, the debt to book value was 47.6% as at September 30, 2017, compared to 47.1% one year before.

BASIS OF PRESENTATION

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of Inovalis REIT should be read in conjunction with the REIT's condensed interim consolidated financial statements for the period from January 1, 2017 to September 30, 2017, 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 November 14, 2017. Financial data provided in the condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. All amounts in this MD&A are in thousands of Canadian dollars, except per unit amounts and where otherwise stated. Historical results, including trends which might appear, should not be taken as indicative of future operations or results. Additional information about Inovalis REIT has been filed with applicable Canadian securities regulatory authorities and is available at www.sedar.com. The exchange rate used throughout this MD&A for statement of earnings items is the average rate during the said period, i.e. 1.4547 Canadian dollars per Euro for the three-month period ended September 30, 2017. For balance sheet items, projections or market data, the exchange rate used is 1.4732 (exchange rate as at September 30, 2017).

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; and
- increase the cash available for distribution to holders of Units ("Unitholders"), through an accretive acquisition program that successfully leverages Inovalis SA's extensive relationships and depth of commercial property and financing.

The REIT's Investment criteria encompasses office properties outside of Canada with an occupancy level above 80% (unless AFFO accretive), secured rental cash flows, a property value between €20 million ($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, the target investment size falls within a very liquid segment of the real estate market in Europe, and debt financing for such acquisitions is readily available from local lenders.

BUSINESS ENVIRONMENT

French commercial real estate investment market (1)

Overview

After a start of the year scarred by electoral uncertainties (presidential and then legislative), the 3rd quarter of 2017 heralds the first reforms (new labor laws, five-year budget plan) which have been so far broadly welcomed by business leaders. GDP growth now stands at +1.8% in 2017, a record since 2011 (+2.1%). The increase in new business creations

(+6.2% in France over Q1 2017) combined with the reduction in bankruptcies (-9.3% over Q1 2017) is creating a favorable employment climate and should support occupiers demand in the near term.

Occupier focus
After a disappointing Q2, Q3 take-up starts to reflect recent economic improvements; it stood at 580,000 sq. m against 502,100 sq. m last quarter. Thus, total take-up volume since January - at 1.8 million sq. m - is in line with last year's one (+2% year on year). This quarter, the market dynamic is due to a significant number of large transactions (ones above 5,000 sq. m): 20, up from 10 in Q2. Their volume represents 722,900 sq. m (41% of total volume), a 13% growth year on year. Main geographical beneficiaries are the Western Crescent (509,400 sq. m, up by 54% year on year) and the Inner Suburbs (262,900 sq. m, +57%). Considering the lack of space immediately available in Paris CBD, take-up activity is however quite impressive. In the meantime, La Defense didn't manage to repeat the exceptional performance seen in 2016 with only 98,000 sq. m of take-up for Q1-Q3 2017.

Investment focus
From 1st January until 1st October 2017, €9.5 billion was invested in the French office sector, down from the €11.9 billion recorded over the same period a year ago. Investment deals over €200 m have been less dynamic (-47% in volume year on year). As usual in the French market, the Greater Paris Region concentrates more than 84% of the total investment volume through more location-diversified deals in Q3. Core+ and Value-added asset acquisitions are becoming quite popular in Paris and suburbs markets, as core assets remain very expensive with prime cap rates now at 3.00% in the CBD. Some upcoming deals to be closed on iconic buildings located in Paris and La Defense and ongoing marketing processes suggest a strong Q4 volume with forecasted end year close to €17- 19 billion for 2017.
(1) Source Cushman

Greater Paris Region commercial real estate investment market (2)

Rental market
Since the beginning of the year, take-up in the Greater Paris Region stands at 1,765,500 sq m, representing a slight 2% increase compared with the same period in 2016. There were 50 transactions for spaces over 5,000 sq m; a level of performance that has not been seen since 2012. By the end of September, immediate supply remained at 3.5 million sq m with a stable vacancy rate of 6.7%. With an average vacancy rate of close to 3%, Paris is currently suffering from a lack of supply. There was no year-on-year change in prime asking rents which stood at €750 sq m in the Central Business District and €505 sq m in La Défense for Q3 2017.

Investment market
€4 billion was invested in the Greater Paris Region over Q3 2017, taking the overall year-to-date investment volume to €9.4 billion; this represents a 26% year-on-year decrease. This decrease was mainly due to a lack of mega-transactions as only one transaction for more than over €500 million was recorded. Foreign investors were very active over Q1, but have been more subdued over the last six months. Prime office cap rates remained stable in Paris over Q3 2017. However, the wave of cap rates compression continues to travel across the Western Crescent and the Inner Suburbs
(2) Source JLL

German commercial real estate investment market (3)

Overview
Experience has shown that political conflicts tend to have only a temporary downward effect on stock markets. That certainly proved to be the case after the recent German parliamentary election. After briefly posting negative figures, the German DAX index immediately returned to positive territory. Although the election result means that the formation of a new government is expected to be a tedious and protracted affair, at least the fact of Merkel's re-election had been generally anticipated. From a business and economic perspective, the message is loud and clear: it is now essential that progress is made. Urgent issues such as the future of Europe, structural reforms of the employment market, immigration, energy policy and digitalization must form part of the government agenda, and this requires a stable and effective government to be in place as quickly as possible.

Cap rates start moving in earnest again
Following a brief pause in the second quarter, the prime cap rates fell again in the three months to end-September. It is difficult to predict whether cap rates have now reached a plateau. However, we have noticed increasingly stronger expectations that rental prices will rise, particularly for office properties. Given the very robust economy and the expansion plans of many companies, the very positive overall outlook of the consumer markets is improving further,

with positive consequences for price development. The average prime cap rate for office properties in all seven strongholds stood at 3.39% at the end of the third quarter and was a further eight basis points below the value recorded for the second quarter. By the end of the year, we expect to see a further decline to 3.24%. In Berlin, it's possible that cap rates could fall below another key threshold: for the first time, a "2" could come before the decimal place in a German office property stronghold. Combined with the expected rental price growth, a double-digit percentage increase in the capital value could again be achieved in 2017 for the third year in succession.

Investment focus
The German commercial property investment market broadly maintained its strong momentum during the summer months. Although the investment volume in the July September quarter was somewhat lower on a quarterly basis at €12.8 billion, the number of transactions did not signal a slowdown in demand. The fact remains that suitable products are still in short supply. This is also reflected in the results of our September survey: almost half of all respondents intend to increase their property portfolios on balance in the next 12 months, while a further almost 40% want to keep their assets. For the overwhelming number of investors, we surveyed, the main stumbling block is still the shortage of available properties. In the first nine months of 2017, the total transaction volume in Germany amounted to €38.6 billion, which represents an increase of 19% compared to the previous year and is also the second-best result for a nine-month period since 2007. At present, there is no reason why this development should not continue into the fourth quarter. In view of this fact, we are forecasting a full-year transaction volume of €50 billion to €55 billion.
(3) Source JLL

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. In anticipation of the term end of the Management Agreement, the independent members of the Board of Trustees have formed a committee to review alternatives available to the REIT.

OUR OPERATIONS – GAAP and Non-GAAP

Performance indicators, incorporating both GAAP and Non-GAAP measures

As at	September 30, 2017		December 31, 2016	
	GAAP Measures	Non-GAAP Measures (1)	GAAP Measures	Non-GAAP Measures (1)
Gross leasable area (sq.ft)	772,791	1,245,081	772,791	1,050,336
Number of properties	7	13	7	11
Number of tenants	34	64	33	42
Occupancy rate (2)	95.0%	95.2%	94.6%	95.9%
Occupancy rate (including Vendor Leases) (2)	95.0%	96.7%	94.6%	95.9%
Weighted average lease term (3)	5.3 years	5.3 years	5.2 years	5.3 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).
(3) Excluding early termination rights. Considering early termination rights, the weighted average lease term is 3.1 years as at September 30, 2017 compared to 2.9 years as at December 31, 2016 (3.7 years vs 3.5 years for Non-GAAP respectively)

Portfolio

The REIT has an interest in 13 properties, of which 7 are entirely owned by the REIT (Baldi, Courbevoie, Jeuneurs, Metropolitain, Sablière and Vanves in France, Hanover in Germany) and 6 are held through partnerships with various global institutional funds (Arcueil and Pantin in France, Bad Homburg, Cologne, Duisburg and Stuttgart in Germany). Seven properties are in France and 6 properties are in Germany.

These performance indicators do not take the following underlying assets into account: (i) forward purchased property in Ingolstadt (expected to be delivered in the fourth quarter of 2017) (ii) redevelopment loan granted to the property in Rueil (Paris Western periphery).

Occupancy

Under GAAP, the 95.0% weighted average occupancy rate at September 30, 2017 across the 7 properties owned entirely by the REIT slightly increased from 94.6% at December 31, 2016 due to new lease contract on Vanves property signed during 2017.

The weighted average occupancy rate at September 30, 2017 for the whole portfolio (Non-GAAP), including vendor leases, is up from 95.9% as at December 31, 2016 to 96.7%. This increase can be attributed to the two-year vendor lease on Pantin property signed in August 2017.

With the acquisition of the 50% interest in Pantin and Stuttgart properties, the REIT's total gross leasable area including properties held through joint-ventures (Non-GAAP) increased since December 2016 from 1,050,000 square feet to approximately 1,285,081 square feet as at September 2017.

Under GAAP, the average term lease increased to 5.3 years as at September 30, 2017 from 5.2 years as at December 31, 2016, due a new 10-year lease in Hanover property with one of the largest banks in Germany that will take over the lease of the current tenant as from 1, effective January 1, 2019 signed in June 2017. The average term lease for the whole portfolio including properties held through joint-ventures (Non-GAAP), remained stable at 5.3 years compared to December 31,2016.

Tenants

The tenant base in the portfolio is well diversified from an industry segment standpoint, with many national and multinational tenants. As at September 30, 2017, the REIT had 34 tenants across the 7 properties owned entirely by the REIT, in accordance with GAAP. (64 tenants across the whole portfolio including joint-ventures, as per Non-GAAP.)

Under GAAP, sixty-six percent of 2017 estimated gross rental income is attributable to French public agency tenants, is guaranteed by large German or international banks, or from investment grade corporations or affiliates of investment grade corporations (seventy-one percent across the whole portfolio including joint-ventures (Non-GAAP)).

The following table, prepared in accordance with GAAP, shows our five largest tenants, sorted by contribution to gross leasable area (GLA).

Tenant	Tenant Sector	GLA (sq.ft.)	Weighted Areas (sq.ft) (1)	% of Weighted Areas
Orange (formerly France Telecom)	Telecommunications	186,070	181,096	24.8%
Facility Services Hannover GmbH	Banking / Real estate	124,076	124,076	17.0%
Rue du Commerce	E-commerce	51,926	51,926	7.1%
CNAM	Education and training	50,407	50,407	6.9%
Smart & Co	Internet and Direct Marketing Retail	43,481	43,481	5.9%
Top 5 tenants		**455,959**	**450,986**	**61.7%**
Other tenants	Diversified	216,668	243,383	33.3%
Vacant		55,163	36,859	5.0%
Total GAAP Measures		**772,791**	**731,227**	**100%**

(1) Activity, storage and intercompany restaurant areas are weighted by being accounted for a third of their effective areas.

The REIT's five largest tenants across the 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 Cologne 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	21.8%
Daimler AG	Manufacturer	218,272	100,486	8.6%
Facility Services Hannover GmbH	Banking / Real estate	124,076	124,076	10.7%
Mitsubishi Hitachi Power Systems Europe GmbH	Manufacturer	108,959	104,046	9.0%
Rue du Commerce	E-commerce	51,926	51,926	4.5%
Top 5 tenants		**771,973**	**634,185**	**54.6%**
Other tenants	Diversified	413,914	471,628	40.6%
Vacant		59,194	56,135	4.8%
Total Non-GAAP Measures		**1,245,081**	**1,161,948**	**100.0%**

(1) Taking into account the interest the REIT has in the properties held in partnerships
(2) Activity, storage and intercompany restaurant areas are weighted by being accounted for a third of their effective areas.

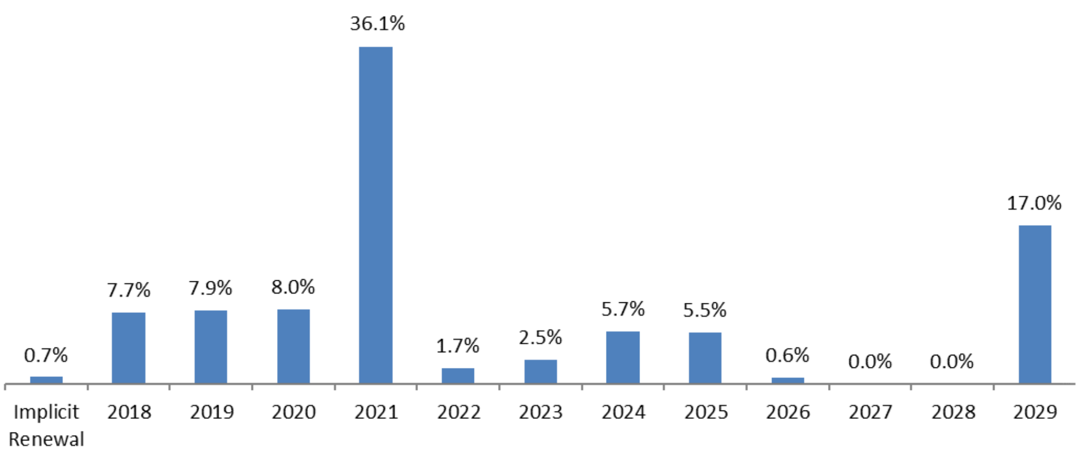
Our largest tenant Orange is rated BBB+/Baa1/BBB+ by S&P/Moody's/Fitch and has leases in two of our properties, the Vanves property and the Arcueil property (held in partnership).

Leasing profile

Lease rollover profile (GAAP)

The REIT has an average remaining lease term of 5.3 years in fully owned properties (not including tenant early termination rights). Assuming all tenants leave at the earliest possible early termination rights, which is not a likely scenario, the average remaining lease term in our portfolio is 3.1 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 March September 30, 2017 (In line with GAAP)
(% of total GLA)

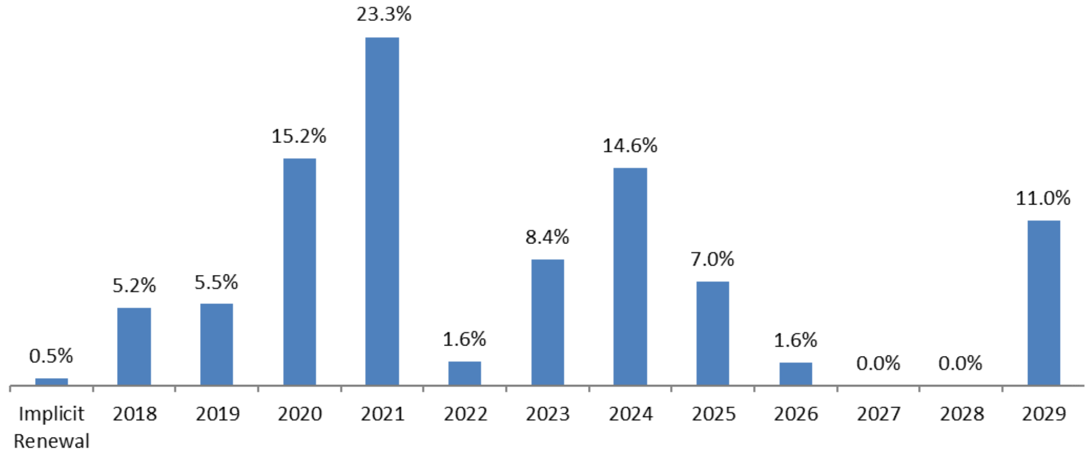


Lease rollover profile (Non-GAAP)

In the whole portfolio, including properties held in joint-ventures (Non-GAAP), the average remaining lease term is 5.3 years (not including tenant early termination rights) and 3.7 years including early termination rights.

The following graph presents the amount of GLA and percentage of total GLA of the properties subject to leases expiring during the periods shown (excluding early lease terminations) across the whole portfolio (Non-GAAP). The GLA shown for these tenants reflects the percentage of ownership that the REIT has in the underlying property.

Lease Maturity Profile as at March September 30, 2017 (Non-GAAP)
(% of total GLA)



Rental indexation (Applicable to both GAAP & Non-GAAP)
All leases contracts have rental indexation based on the French ICC (construction cost index), ILAT (index averaging construction costs and CPI indexes) or the German Consumer Price Index, as applicable.

CONSOLIDATED FINANCIAL INFORMATION

Interim Consolidated Statements of Earnings – Prepared in accordance with GAAP

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

	Three months ended September 30		Nine months ended September 30	
(in thousands of CAD$)	**2017**	**2016**	**2017**	**2016**
Rental income	6,323	6,172	18,565	17,698
Service charge income	2,067	1,819	5,275	4,594
Service charge expenses	(1,622)	(1,506)	(7,404)	(6,980)
Other revenues	(19)	130	419	172
Other property operating expenses	(20)	(59)	(135)	(126)
Net rental earnings	**6,729**	**6,556**	**16,720**	**15,358**
Administration expenses	(1,301)	(1,229)	(3,873)	(3,953)
Foreign exchange gain	(178)	(46)	(241)	61
Net change in fair value of investment properties	(1,120)	6,559	(1,011)	7,203
Option cost related to the acquisition of the Metropolitan property	-	-	-	9,213
Acquisition costs	(24)	(49)	(196)	(738)
Share of profit of an investment (equity method)	(1,328)	218	(937)	(140)
Operating earnings	**2,778**	**12,009**	**10,462**	**27,004**
Gain (loss) on financial instruments at fair value through P&L	178	(110)	(1,602)	(2,347)
Loss on exercise of early payment option on finance leases	-	-	-	(1,242)
Loss on refinancing of a debt	-	-	-	(605)
Finance income	1,737	2,217	5,044	5,053
Finance costs	(1,900)	(1,670)	(4,957)	(4,809)
Distributions on Exchangeable securities	(411)	(592)	(1,187)	(1,526)
Net change in fair value of Exchangeable securities	(144)	181	(1,843)	(838)
Earnings before income taxes	**2,238**	**12,035**	**5,917**	**20,690**
Current income tax expense	18	4	(79)	(104)
Deferred income tax expense	(36)	(207)	(259)	(330)
Earnings for the period	**2,220**	**11,832**	**5,579**	**20,256**
Earnings for the period attributable to:				
Non-controlling interest	4	(1)	63	(43)
Unitholders of the Trust	2,216	11,833	5,516	20,299
	2,220	**11,832**	**5,579**	**20,256**

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

Net rental earnings

Rental income for the three-month period ended September 30, 2017 was $6,323 compared to $6,172 in Q3 2016. The $151 increase year over year accounted for by a $90 negative foreign exchange impact and a $241 increase which derives mainly from new leases on Metropolitan and Sabliere properties.

Rental income for the nine-month period ended September 30, 2017 of $18,565 increased by $867 compared to $17,698 for the same period in 2016 of despite a negative foreign exchange impact of $265. The increase of $630 comes from new acquisitions (Metropolitain) and $237 corresponds to new leases on Courbevoie, Vanves, Baldi and Sablière properties.

Net rental earnings for the three-month period ended September 30, 2017 were $6,729 compared to $6,556 in Q3 2016. The $173 increase in net rental earnings, despite $96 negative foreign exchange impact, resulted from the new leases on Metropolitain and Sabliere properties.

Net rental earnings for the nine-month period ended September 30, 2017 was $16,720 compared to $15,358 in the same period in 2016. The $1,362 increase, net by a $239 negative foreign exchange impact, takes into account a $600 year-over-year increase coming from the acquisition of the Metropolitain property and $762 from new leases on Courbevoie, Vanves, Sablière and Metropolitain properties.

Administration expenses

Administration expenses are primarily comprised of asset management fees paid to Inovalis SA and other general administrative expenses such as trustee fees, directors' and officers' liability insurance, professional fees (including accounting fees), legal fees, filing fees, Unitholder related expenses and other expenses.

Administration expenses for the quarter ended September 30, 2017 amounted to $1,301 vs. $1,229 for the same quarter in 2016. $699 is related to the asset management fees paid to Inovalis SA vs. $701 for the quarter ended September 30, 2016 and $602 to other expenses vs. $528 for the quarter ended September 30, 2016. The slight increase in other expenses is due to new JV acquisitions made by the Luxembourg holding company.

Administration expenses for the nine-month period ended September 30, 2017 amounted to $3,873 vs. $3,953 for the same period in 2016. $2,068 is related to the asset management fees paid to Inovalis SA vs. $2,041 for the same period in 2016 and $1,805 to other expenses vs. $1,912 for the same period ended September 30, 2016, i.e. 5.5% year over year decrease with a minimal foreign exchange impact. Other administrative expenses decreased by $107 of which $26 is due to the impact of foreign exchange and $81 to operational efficiencies despite an increased portfolio size at the Luxembourg holding company level. The increase of $27 in asset management fees corresponds to a $30 decrease due to the impact of foreign exchange and a $57 increase corresponding to the Metropolitain acquisition.

Net change in fair value of investment properties

During the quarter ended September 30, 2017, the net change in fair value of investment properties recognized in earnings was a loss of $1,120, of which $762 corresponds to the letting of the Hanover property, (see section on Property Capital Investment – Fair Value) compared to the $6,559 gain in the quarter ended September 31, 2016 when most of the additional value of this very class of assets, based especially on the nature of building and WALT (weighted average lease term) was already appraised.

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

Please refer to Note 5 – Investments accounted for using the equity method in the interim consolidated financial statements.

Finance income

For the three-month period ended September 30, 2017, finance income of $1,737 consists of $550 in interest on the acquisition loans related to the Rueil and Pantin properties with the remainder of the balance arising from joint ventures $1,187.

For the nine-month period ended September 30, 2017, finance income of $5,044 consists of $1,434 in interest on the acquisition loan related to the Rueil and Pantin properties, finance income arising from joint ventures of $3,337 and other finance income, including gain from the foreign exchange hedging program of $273.

Finance income for the nine-month period ended September 30, 2016, of $5,053 was mostly comprised of the interest received from the acquisition loan related to the Metropolitain property (reimbursed in Q1 2016).

As at September 30, 2017, the REIT had deployed €12.7 million ($18.4 million) of the €21.7 million ($31.4 million) acquisition and redevelopment loan to a company 80%-owned by Inovalis SA, related to the Rueil property, in the Paris Western periphery. The loan bears an annual interest rate of 8.50% and, upon the eventual sale of the property to a third party, 20% of the profit will accrue the REIT. As at September 30, 2017, the REIT had deployed a total €12.7 million ($18.4 million). The final portion of the loan commitment of €9.0 million ($13.0 million) is expected to be deployed in Q4 2017 or early 2018.

The short-term acquisition loan to Aref Diamants Sarl (100%-owned by Inovalis SA) committed on April 13, 2017 of €5.3 million ($7.6 million) , was reimbursed in Q3 resulting from the acquisition of the Pantin property.

Finance costs

For the three-month period ended September 30, 2017, the finance costs amounted to $1,900 vs $1,670 for the same period in 2016 including $1,151 for interest costs related to finance leases, mortgage loans and the lease equalization loans, $290 of interest costs on the promissory note, $313 of interest related to SWAP contracts and $111 of other finance costs (including amortization of fair value adjustment on finance leases assumed at a discount at the time of a business acquisition, amortization of transaction costs on mortgage loans and other miscellaneous costs).The increase of $230 year to year includes a $27 foreign exchange positive impact and is largely attributable to the $290 interest costs related to the promissory note.

For the nine-month period ended September 30, 2017, the finance costs amounted to $4,957 vs $4,809 for the same period in the previous year including $3,377 of interest costs related to finance leases, mortgage loans and the lease equalization loans, $322 of interest costs on the promissory note, $919 of interest related to SWAP contracts and $189 of other finance costs (including amortization of fair value adjustment on finance leases assumed at a discount at the time of a business acquisition, amortization of transaction costs on mortgage loans and other miscellaneous costs). The increase of $148 was primarily due to $322 interest costs related to the promissory note, while amortization of fair value adjustment on finance leases decreased by $229 and there was a foreign exchange impact of $71.

Distributions on Exchangeable securities

Distributions to the holders of Exchangeable securities (see note 11 in Consolidated Interim Financial Statements as at September 30, 2017) are calculated in a manner to provide a return that is economically equivalent to the distributions received by the Unitholders. During the three-month period ended September 30, 2017 the distributions recognized on Exchangeable securities were $411 compared to $592 for the same period in 2016, for the nine-month period ended September 30, 2017 the distributions recognized on Exchangeable securities were $1,187 compared to $1,526 for the same period in 2016. The decrease is accounted for by the conversion by Inovalis S.A. of 920,000 Exchangeable securities into Units in 2016, partially offset by the increase due to the additional Exchangeable securities received by Inovalis SA in lieu of asset management fees.

Net change in fair value of Exchangeable securities

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

For the three-month period ended September 30, 2017, the REIT reported a loss of $144 which is the result of the increase in the amount of the debt of $1,063 resulting from the change of the closing price of the units which was $10.06 on September 30, 2017 compared to $10.10 on June 30, 2017 partially offset by the issuance of $934 of Exchangeable securities in payment of Asset Management fees.

For the nine-month period ended September 30, 2017 the REIT reported a loss of $1,843 change which is the result of the increase in the amount of the debt $4,576 resulting from the change of the closing price of the units which was

$10.06 on September 30, 2017 compared to $9.18 on December 31, 2016 partially offset by the issuance of $2,776 of Exchangeable securities in payment of Asset Management fees.

Current income tax expense

The current income tax expense of ($18) for the quarter ended September 30, 2017 and $79 for the nine-month period ended September 30, 2017 is mainly due tax paid by the REIT's Luxembourg entities.

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$)	September 30, 2017	June 30, 2017	March 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	March 31, 2016	Dec. 31, 2015
Rental income	6,323	6,271	5,970	6,706	6,172	5,853	5,673	5,340
Net rental earnings	6,729	6,610	3,247	7,023	6,556	6,065	2,737	5,784
Earnings for the period	2,216	159	3,141	2,984	11,833	5,839	2,628	6,641
Earnings per Unit (CAD$)	0.09	0.01	0.15	0.14	0.60	0.37	0.15	0.43

PROPERTY CAPITAL INVESTMENTS - In accordance with GAAP

Fair value

Under GAAP, the fair value of the REIT's investment property portfolio as at September 30, 2017 was $426.2 million (vs. $412.2 million as at December 31, 2016). The fair value of the French properties was $390 million (91.5% of investment properties value) and the fair value of the German properties was $36.2 million (8.5% of investment properties value).

The $16.9 million increase is accounted for by $1,4 million Capex, $16.3 million increase due to foreign exchange fluctuations and other charges of ($0.88). The other charges includes rent free periods, capitalized letting fees and IFRIC 21 impact.

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 4 of the interim 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. Additionally, improvement works of $2.2 million on Courbevoie property began in Q2 2017, of which $1 million worth of improvements have been carried out as at September 30, 2017. These works are expected to be completed by the end of 2017.

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 September 30, 2017, 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 $87.8 million.

OTHER SIGNIFICANT ASSETS - In accordance with GAAP

Investments accounted for using the equity method

Under GAAP, 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, 50% in the Pantin property, the 49% interest in the Cologne property and 50% in the Stuttgart property. Our share of fair value of the investment properties accounted for using the equity method was $66,437 as at September 30, 2017 compared to $43,887 as at December 31, 2016, the difference of $22,550 corresponds to the movement in exchange rates of $1,840, the acquisition of the Pantin and Stuttgart properties $21,647 and a share of net earnings of for the period of ($937).

Acquisition loans and deposit

As at September 30, 2017, Acquisition loans and deposit of $20.16 million consisted mainly of the $18.8 million loan commitment for the Rueil project and the $1.38 million deposit for the Ingolstadt forward purchase. The Diamant (Pantin property) acquisition loan of $7.9 million was reimbursed during the quarter.

Trade and other receivables

Trade and other receivables as at September 30, 2017 amounted to $4,922 excluding the REIT’s interests in the properties held in partnerships compared to $3,368 as at December 31, 2016. The increase of $1,544 corresponds to a $1,420 increase mainly due to a receivable related to the Courbevoie property received in early Q4 2017 and to the $134 foreign exchange impact.

Other current Assets

Other current assets as at September 30, 2017 amounted to $2,131 compared to $1,638 as at December 31, 2016. 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 difference between September 2017 and December 2016 of $428 consists mainly of tax receivable.

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 our ongoing obligations through current cash, cash flows from operations, debt refinancing and, as growth requires and when appropriate, new equity or debt issues. We can also sell some portion of assets owned to access capital but also in the perspective of diversification of our portfolio.

Under GAAP, the REIT’s cash available was $20 million as at September 30, 2017 compared to $11.1 million as at December 31, 2016. The increase in Cash and cash equivalents arises from the successful completion of the private placement in late June 2017.

Financing activities

Our debt strategy is to have secured mortgage financing with a term to maturity that is appropriate in relation to the lease maturity profile of our portfolio and then to put in place, when appropriate, interest-only financings. We intend to search for fixed rate financings or floating rate financings with a cap. As such, 91.4% of the REIT's senior debt benefits from an interest rate protection (68.1% in the form of a swap and 23.3% in the form a cap). Our preference is to have staggered debt maturities to mitigate interest rate risk and limit refinancing exposure in any particular period. With no financial institution representing more than 36% 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 44,3% and net of the $20 million of cash available (including financial current assets) as at September 30, 2017 (including the REIT's interest in the joint ventures), this debt to book value stands at 40,6%.

Debt-to-book value

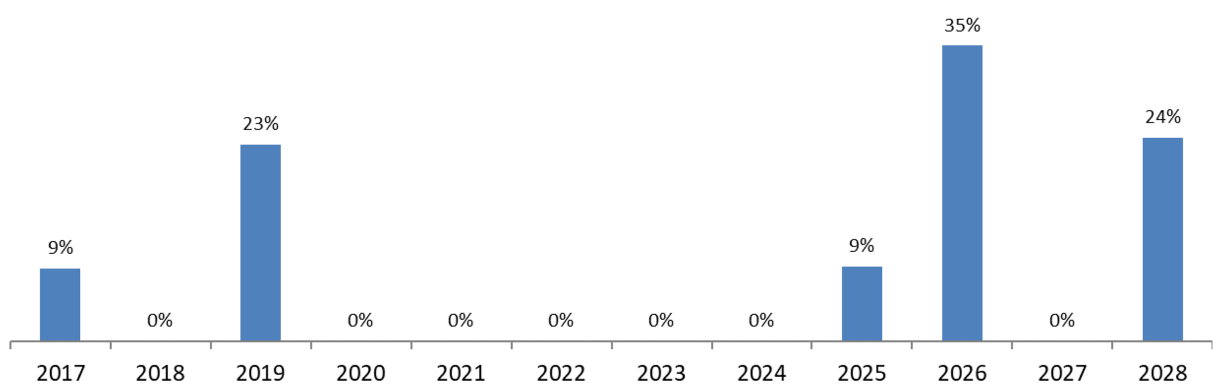
Our debt-to-book value ratio is calculated in accordance with GAAP. Indebtedness is calculated as the sum of (i) finance lease liabilities, (ii) mortgage loans, (iii) lease equalization loans, (iv) other long-term liabilities and (v) deferred tax liabilities. Indebtedness does not include the contribution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

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

	As at September 30, 2017	**As at December 31, 2016**
Weighted average interest rate (1)	2.14%	2.14%
Debt-to-book value (2)	44.3%	41.8%
Debt-to-book value, net of cash (2)	40.6%	37.5%
Interest coverage ratio (3)	4.6 x	4.4 x
Debt due in next 12 months in thousand of CAD$	26,550	24,720
Weighted average term to maturity of debt (4)	6.7 years	7.4 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 in the *Debt-to-book value* note above.
(3) Calculated as net rental earnings plus interest, less general and administrative expenses, divided by interest expense on the financial leases and mortgage financings.
(4) Calculated as the weighted average term on all the financial leases and mortgage financings.

Leasehold and Mortgage Financing Maturity Profile – In accordance with GAAP
(% of amount outstanding as at September 30, 2017)



ANALYSIS OF DISTRIBUTED CASH – In accordance with GAAP

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Cash flows from operating activities (A)	5,902	3,761	21,989	14,918
Earnings before income taxes (B)	2,238	12,035	5,917	20,690
Declared distribution on Units (C)	4,461	4,327	13,361	10,820
Excess (shortfall) of cash flows from operating activities over cash	1,441	(566)	8,628	4,098
Excess (shortfall) of profit or loss over cash distributions paid (B - C)	(2,223)	7,708	(7,444)	9,870

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 period ended September 30, 2017.

The earnings reported during the period are lower than the amount of distributions declared for the period ended September 30, 2017. The shortfall of $2,223 was compensated by the excess cash flow generated in the previous quarters.

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

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

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

RISK AND UNCERTAINTIES

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

Risks relating to the REIT and its business

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

The properties generate income through rent payments made by our tenants. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced 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

Five of our largest tenants, by percentage of total GLA, occupy approximately 62% of the total weighted areas. Although all five tenants are committed to multi-year leases, which are set to expire gradually between 2020 and 2029, there is no assurance that such tenants will continue to occupy such premises for the remainder of their lease terms. Some of them have 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. To minimize this risk of vacancy, Inovalis REIT will continue to closely monitor all leases and ensure that they work with the current tenants to determine their future leasing plans, which would allow Inovalis REIT to source tenants in advance of the current tenants vacating the property.

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

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

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

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

Head Lease for properties

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

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

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

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

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

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

We may incur significant capital expenditures and other fixed costs

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

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

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

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

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

Changes in government regulations may affect our investment in our properties

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

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

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

Changes in currency exchange rates could adversely affect our business

Substantially all 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' business contacts, its ability to successfully hire, train, supervise and manage its personnel and its ability to maintain its operating systems. If we were to lose the services provided by Inovalis SA or its key personnel, our investments and growth prospects may decline.

While the Trustees have similar oversight responsibility with respect to the services provided by Inovalis SA pursuant to the management agreement, the services provided by Inovalis SA are not performed by employees of the REIT, but by Inovalis SA directly and through entities to which it may subcontract. On April 10, 2018, the Management Agreement will terminate. In anticipation of the term end of the Management Agreement, the independent members of the Board of Trustees have formed a committee to review alternatives available 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.

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

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

Reliance on partnerships

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

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

We consider the following policies and estimates to be the most critical in understanding the assumptions and judgments that are involved in preparing our financial statements and the uncertainties that could affect our financial results, financial condition and cash flows: (i) recognition and valuation of investment properties; (ii) distinction between business combinations or asset acquisitions and (iii) classification of and accounting for joint arrangements.

A more detailed description of significant accounting policies and critical accounting judgment and estimates that we apply under GAAP is provided in notes 3 and 4 of the consolidated financial statements as at December 31, 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 52-109F2 issued by the Canadian Securities Administrators. They have concluded that as of September 30, 2017, 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 interim 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 September 30, 2017.

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

Issuance of a promissory note

On October 4, 2017, the REIT completed the issuance of a €7.3 million ($10.8 million) a second convertible promissory note on the same terms as the promissory note issued on June 26, 2017. The convertible promissory note has a fixed interest rate of 8.13%, which is equivalent to the distribution yield on REIT units on October 4, 2017, the date of issuance of the convertible promissory note.

Debt refinancing

On October 26, 2017; the REIT completed the refinancing of the Baldi and Jeuneurs properties, securing loans of €44.5 million ($65.6 million). After the reimbursement of the existing loans amounting to €39.0 million ($57.5 million), which includes a €6.9million ($10.2 million) partial early repayment of the loan associated with the Courbevoie property, the proceeds from refinancing were €4.8 million ($7.1 million) before a cash reserve of €0.9 million ($1.3 million) and associated refinancing costs. Under the terms of the refinancing, the Baldi property is now financed with a mortgage loan.

Discussion of Non-GAAP metrics

NON-GAAP FINANCIAL MEASURES

Funds from Operations and Adjusted Funds from Operations

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

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

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

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

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

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

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

Debt-to-book value

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

CONSOLIDATED FINANCIAL INFORMATION (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".

	Three months ended September 30		Nine months ended September 30	
(in thousands of CAD$)	**2017**	**2016**	**2017**	**2016**
Rental income	8,659	7,617	24,330	22,848
Service charge income	2,848	2,010	6,775	5,396
Service charge expenses	(2,454)	(1,793)	(9,123)	(7,869)
Other revenues	(20)	112	60	154
Other property operating expenses	(20)	(44)	(136)	(126)
Net rental earnings	**9,012**	**7,902**	**21,906**	**20,403**
Administration expenses	(1,613)	(1,420)	(4,609)	(4,594)
Foreign exchange gain (loss)	(178)	(46)	(241)	61
Net change in fair value of investment properties	(2,171)	6,653	855	6,431
Option cost related to the acquisition of teh Metropolitan property	1,445	-	1,445	9,213
Acquisition costs	(93)	(49)	(1,208)	(738)
Operating earnings	**6,402**	**13,040**	**18,148**	**30,776**
Gain (loss) on financial instruments at fair value through P&L	259	(100)	(1,478)	(2,469)
Loss on exercise of early payment option on finance leases	(443)	-	(443)	(1,242)
Loss on refinancing of a debt	-	-	-	(605)
Finance income	554	3	1,711	1,171
Finance costs	(2,759)	(1,540)	(6,703)	(5,787)
Additionnal income (loss) from Arcueil's JV	(1,179)	1,137	(1,920)	1,281
Distributions on Exchangeable securities	(411)	(592)	(1,187)	(1,526)
Net change in fair value of Exchangeable securities	(144)	181	(1,843)	(838)
Earnings before income taxes	**2,280**	**12,129**	**6,285**	**20,761**
Current income tax expense	18	5	(108)	(129)
Deferred income tax expense	(79)	(302)	(598)	(376)
Earnings for the period	**2,219**	**11,832**	**5,579**	**20,256**
Non-controlling interest	4	(1)	63	(43)
Earnings for the period (part attributable to the Trust)	**2,216**	**11,833**	**5,516**	**20,299**

Net rental earnings

Rental income for the three-month period ended September 30, 2017 was $8,659 compared to $7,617 in Q3 2016. The $1,042 increase year over year is accounted for by a $124 negative foreign exchange impact and a $1,166 increase of which $506 comes from new acquisitions Stuttgart property, $145 comes from the Pantin property with the remaining balance deriving mainly from new leases on Metropolitan, and Sablière properties.

Rental income for the nine-month period ended September 30, 2017 of $22,330 vs. 22,848 for the same period in 2016. Of the $1,482 increase, $1,396 comes from new acquisitions - the Metropolitain, Pantin and Stuttgart properties - and $434 corresponds mainly to new leases. This increase was partially offset by $348 negative FX impact.

Net rental earnings for the three-month period ended September 30, 2017 was $9,012 compared to $7,902 in Q3 2016. The $1,239 increase in net rental earnings was offset by $129 negative foreign exchange impact which results in $1,110 increase year over year, $588 of which is attributable to the Pantin and Stuttgart properties with the balance mainly resulting from new leases.

Net rental earnings for the nine-month period ended September 30, 2017 was $21,906 compared to $20,403 in the same period in 2016. The $1,503 increase includes $1,816 year-over-year increase with $1,300 coming from the acquisition of new properties Metropolitain, Pantin and Stuttgart and the remaining $516 corresponding mainly to new leases, offset by a $313 negative foreign exchange impact.

Administration expenses

Administration expenses are primarily comprised of asset management fees paid to Inovalis SA and other general administrative expenses such as trustee fees, directors' and officers' liability insurance, professional fees (including accounting fees), legal fees, filing fees, Unitholder related expenses and other expenses.

Administration expenses for the quarter ended September 30, 2017 amounted to $1,613 vs. $1,420 for the same quarter in 2016. $967 is related to the asset management fees paid to Inovalis SA vs. $921 for the quarter ended September 30, 2016 and $645 to other expenses vs. $499 for the quarter ended September 30, 2016, with the increase of $146 stemming largely from the creation of new joint ventures and increased activity at the Luxembourg holding company level. The increase of $46 in asset management fees corresponds to a $14 decrease due to the impact of foreign exchange and a $60 increase corresponding to increase in the portfolio size, notably the Stuttgart property.

Administration expenses for the nine-month period ended September 30, 2017 amounted to $4,609 vs. $4,594 for the same period in 2016. $2,695 is related to the asset management fees paid to Inovalis SA vs. $2,609 for the same period in 2016 and $1,915 to other expenses vs. $1,985 for the same period ended September 30, 2016, i.e. 4 % year over year decrease (2.1% excluding the foreign exchange impact). Other administrative expenses decreased by $70 of which $27 is due to the impact of foreign exchange and $43 to operational efficiencies notwithstanding that the portfolio increased with the Metropolitain and Stuttgart acquisitions. The increase of $86 in asset management fees corresponds to a $39 decrease due to the impact of foreign exchange and a $124 increase corresponding to the Metropolitain and Stuttgart asset acquisitions.

Net change in fair value of investment properties

During the quarter ended September 30, 2017, the net change in fair value of investment properties recognized in earnings was a loss of $2,171 (see section on Property Capital Investment – Fair Value) of which $762 corresponds to the letting of the Hanover property and $993 relates to acquisition costs on the Pantin property. The acquisition costs should be considered in conjunction with the gain on bargain purchase of $1,445 on the Pantin property. The remaining amount of $416 relates to other factors, including IFRIC 21, rent free periods and capex. The loss compares to the $6,653 gain in the quarter ended September 30, 2016 when most of the additional value of this very class of assets, based especially on the nature of building and WALT (weighted average lease term) was already appraised.

Acquisition costs

Acquisition costs of $93 for the quarter ended September 30, 2017 and $1,208 for the nine-month period ended September 30, 2017 are related to the Stuttgart asset acquisition.

For the three-month and the nine-month periods ended September 30, 2016, the acquisition costs were respectively $49 and $738 mainly attached to the Metropolitain acquisition and the exercise of the acquisition option on the Hanover property.

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 September 30, 2017 of $259 vs a loss of ($100) for the same period in 2016. For the nine-month period ended

September 30, 2017, the REIT recognized a loss of $1,478 vs $2,469 for the period ended September 30, 2017. These losses are mostly the result of the variation in value realized on the foreign exchange contracts.

Finance income

For the three-month period ended September 30, 2017, finance income of $554 consists of $554 in interest on the acquisition loans chiefly related to the Rueil and Pantin properties.

For the nine-month period ended September 30, 2017, finance income of $1,711 consists of $1,434 in interest on the acquisition loan related to the Rueil and Pantin properties and $277 in other finance income corresponding mainly to the foreign exchange hedging program.

Finance income for the nine-month period ended September 30, 2016, of $1,171 was mostly comprised of the interest received from the acquisition loan related to the Metropolitain property (reimbursed in Q1 2016).

As at September 30, 2017, the REIT had deployed €12.7 million ($18.4 million) of the €21.7 million ($31.4 million) acquisition and redevelopment loan to a company 80%-owned by Inovalis SA, related to the Rueil property, in the Paris Western periphery. The loan bears an annual interest rate of 8.50% and, upon the eventual sale of the property to a third party, 20% of the profit will accrue the REIT. As at September 30, 2017, the REIT had deployed a total €12.7 million ($18.4 million). The final portion of the loan commitment of €9.0 million ($13.0 million) is expected to be deployed in Q4 2017 or early 2018.

The short-term acquisition loan to Aref Diamants Sarl (100%-owned by Inovalis SA) committed on April 13, 2017 of €5.3 million ($7.6 million) , was reimbursed in Q3 resulting from the acquisition of the Pantin property.

Finance costs

For the three-month period ended September 30, 2017, the finance costs amounted to $2,758 vs $1,540 for the same period in 2016 including $1,502 for interest costs related to finance leases, mortgage loans and the lease equalization loans, $332 of interests related to SWAP contracts, $290 relating to promissory note interest and $589 of other finance costs corresponding mainly to the foreign exchange hedge maintained on the Arcueil property in line with the Arcueil JV agreement. The increase of $1,218 year to year includes a $39 foreign exchange positive impact.

For the nine-month period ended September 30, 2017, the finance costs amounted to $6,703 vs $5,787 for the same period in the previous year including $4,268 of interest costs related to finance leases, mortgage loans, the lease equalization loans, $975 of interests related to SWAP contracts, $322 relating to the promissory note and $1,137 of other finance costs corresponding mainly to the foreign exchange hedge maintained on the Arcueil property in line with the Arcueil JV agreement. The increase of $916 was primarily due to the issuance of the promissory note, increased borrowings to fund new acquisitions (Metropolitain, Stuttgart and Pantin) and the positive foreign exchange impact of $96.

Additional income (loss) from Arcueil's JV

For the Arcueil joint venture, the consolidation presentation reflects a 25% proportionate share of results which aligns with the REIT 25% ownership interest. Per the joint venture agreement, and as reflected in the condensed interim consolidated financial statements, the REIT is entitled to receive a 25% share of the net earnings and, upon asset disposal, 75% of the variance of fair value of investment properties, reduced by 100% of foreign exchange derivative costs. This additional loss from Arcueil's joint venture is $ (1,179) for the three-month period ended September 30, 2017 vs $1,137 in Q3 2016 and $(1,920) for the nine-month period ended September 30, 2017 vs $1,281 in the same period in 2016. The year on year variance is mainly due to the foreign exchange derivative valuation.

Distributions on Exchangeable securities

Distributions to the holders of Exchangeable securities (see note 11 in Consolidated Interim Financial Statements as at September 30, 2017) are calculated in a manner to provide a return that is economically equivalent to the distributions received by the Unitholders. During the three-month period ended September 30, 2017 the distributions recognized on Exchangeable securities were $411 compared to $592 for the same period in 2016, for the nine-month period ended September 30, 2017 the distributions recognized on Exchangeable securities were $1,187 compared to $1,526 for the same period in 2016. The decrease is accounted for by the conversion by Inovalis S.A. of 920,000 Exchangeable securities into Units in 2016, partially offset by the increase due to the additional Exchangeable securities received by Inovalis SA in lieu of asset management fees.

Net change in fair value of Exchangeable securities

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

For the three-month period ended September 30, 2017, the REIT reported a loss of $144 which is the result of the increase in the amount of the debt of $1,063 resulting from the change of the closing price of the units which was $10.06 on September 30, 2017 compared to $10.10 on June 30, 2017 partially offset by the issuance of $934 of Exchangeable securities in payment of Asset Management fees.

For the nine-month period ended September 30, 2017 the REIT reported a loss of $1,843 change which is the result of the increase in the amount of the debt $4,576 resulting from the change of the closing price of the units which was $10.06 on September 30, 2017 compared to $9.18 on December 31, 2016 partially offset by the issuance of $2,776 of Exchangeable securities in payment of Asset Management fees.

Current income tax expense

The current income tax expense of $18 for the quarter ended September 30, 2017 and $108 for the nine-month period ended September 30, 2017 is mainly due to a withholding tax paid by the REIT's Luxembourg holding company on the dividends it received from affiliates and tax paid by the REIT's Luxembourg entities.

Last 24 Months – Key Financial Information

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

	3-month period ended							
(in thousands of CAD$)	**Sept. 30, 2017**	**June 30, 2017**	**March 31, 2017**	**Dec. 31, 2016**	**Sept. 30, 2016**	**June 30, 2016**	**March 31, 2016**	**Dec. 31, 2015**
Rental income	6,323	6,271	5,970	6,706	6,172	5,853	5,673	5,340
Adjusted rental income	***8,659***	***8,100***	***7,571***	***8,188***	***7,617***	***7,797***	***7,431***	***6,854***
Net rental earnings	6,729	6,610	3,247	7,023	6,556	6,065	2,737	5,784
Adjusted net rental earnings	***9,012***	***8,292***	***4,601***	***8,698***	***7,902***	***8,349***	***4,135***	***6,975***
Earnings for the period	3,828	159	3,141	2,984	11,833	5,839	2,628	6,641
Earnings per Unit (CAD$)	0.15	0.01	0.15	0.14	0.6	0.37	0.15	0.43

NON-GAAP RECONCILIATION

Funds from Operations ("FFO")

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

Investments in joint ventures

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

For the Arcueil joint venture, the consolidation presentation reflects a 25% proportionate share of results which aligns with the REIT 25% ownership interest. Per the joint venture agreement, and as reflected in the condensed interim consolidated financial statements, the REIT is entitled to receive a 75% share of the net profit. A line entitled "additional gain or loss from Arcueil'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 shown in the Non-GAAP Reconciliation section.

For the three-month period and year ended September 30, 2017, the proportional financial results include the following proportion of the revenues and expenses of each one of the joint ventures: 50% respectively for Duisburg, Walpur (Bad Homburg), Stuttgart and Pantin, 49% for Cologne and 25% for Arcueil.

FFO and AFFO

	Three months ended September 30		Nine months ended September 30	
(in thousands of CAD$)	**2017**	**2016**	**2017**	**2016**
Earnings for the period	2,216	11,833	5,516	20,299
Add/(Deduct):				
Adjustment to related acquisition costs	93	49	1,208	738
Gain on bargain purchase and option costs	(1,445)	-	(1,445)	(9,213)
Loss recognized on exercise of early payment option on finance leases	443	-	443	1,242
Loss on refinancing of a debt	-	-	-	605
Net change in fair value of investment properties	2,171	(6,609)	(855)	(6,431)
(Gain) loss on financial instruments at fair value through profit and loss	(259)	100	1,478	2,469
Adjustment for property taxes accounted for under IFRIC 21	(791)	(880)	990	872
Additional income (loss from Arcueil's JV)	1,179	(1,198)	1920	(1,281)
Interest on promissory notes	322	-	322	-
Non-cash part of asset management fees paid in Exchangeable securities	411	592	1,187	1,526
Change in fair value of Exchangeable securities	144	(181)	1843	838
Foreign exchange (loss) gain	178	46	241	(61)
Non-recurring finance income from Inovalis relating to the acquisition loan	-	-	-	(798)
Other non-recurring finance costs	455	-	671	316
Deferred income tax expense	79	301	598	376
Minority interest	4	-	63	(43)
FFO	**5,198**	**4,053**	**14,179**	**11,454**
Add/(Deduct):				
Non-cash effect of straight line rents	323	(98)	628	125
Cash effect of the lease equalization loans	(389)	(375)	(814)	(685)
Amortization of fair value adjustment on assumed debt	19	46	63	145
Amortization of transaction costs on mortgage loans	26	59	116	234
Non-cash part of asset management fees paid in Exchangeable securities (1)	484	608	1,347	1305
Capex net of cash subsidy	(100)	(100)	(100)	(300)
Adjustement from investment	-	-	-	54
AFFO	**5,561**	**4,192**	**15,420**	**12,332**
FFO / Units (diluted) (in CAD$) (2)	**0.21**	**0.18**	**0.59**	**0.59**
AFFO / Units (diluted) (in CAD$) (2)	**0.22**	**0.19**	**0.64**	**0.64**

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

(2) Based on the weighted average number of Units (fully diluted, including promissory note issued in June 2017), i.e. 24,944,609 and 22,296,266 for the 3-month periods ended September 30, 2017 and September 30, 2016 and 23,952,546 and 19,401,416 for the 9-month periods ended September 30, 2017 and September 30, 2016.

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 (1.4547 Canadian dollars per Euro for the period ended September 30, 2017).

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

	As at September 30, 2017			As at December 31, 2016		
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	429,160	151,828	**580,988**	412,231	97,401	**509,633**
Investments accounted for using the equity method	66,437	(66,437)	**-**	43,887	(43,887)	**-**
Acquisition loans and deposit	20,160	460	**20,621**	8,906	-	**8,906**
Derivative financial instruments	20	94	**114**	590	-	**590**
Total non-current assets	515,778	85,945	**601,723**	465,615	53,515	**519,129**
Current assets						
Trade and other receivables	4,922	1,311	**6,233**	3,368	(35)	**3,333**
Derivative financial instruments	129	252	**381**	520	152	**672**
Other current assets	2,131	405	**2,536**	1638	375	**2013**
Financial current assets	1,210	1,077	**2,288**	27,910	-	**27,910**
Cash and cash equivalents	19,957	4,376	**24,333**	11,074	2,446	**13,520**
Total current assets	28,348	7,422	**35,770**	44,510	2,938	**47,448**
Total assets	544,126	93,367	**637,493**	510,125	56,542	**566,577**
Liabilities and Unitholders' equity						
Liabilities						
Non-current liabilities						
Promissory Notes	12,338	-	**12,338**	-	-	-
Mortgage loans	86,962	53,979	**140,941**	83,998	34,547	**118,545**
Finance lease liabilities	121,322	28,328	**149,651**	120,891	16,389	**137,279**
Other long-term liabilities	-	1,671	**1,671**	-	947	**947**
Lease equalization loans	3,394	-	**3,394**	4,051	-	**4,051**
Tenant deposits	2,248	101	**2,349**	2,178	-	**2,178**
Exchangeable securities	6,532	-	**6,532**	4,603	-	**4,603**
Derivative financial instruments	847	161	**1,008**	1,616	206	**1,822**
Deferred tax liabilities	2,587	1,666	**4,253**	2,236	1,273	**3,509**
Deferred income	3,144	(3,144)	**-**	-	-	**-**
Total non-current liabilities	239,375	85,906	**322,138**	219,573	53,361	**272,934**
Current liabilities						
Mortgage loans	900	134	**1,035**	541	-	**541**
Finance lease liabilities	24,425	1,171	**25,596**	24,180	637	**24,816**
Lease equalization loans	1,224	-	**1,224**	1,184	-	**1,184**
Tenant deposits	292	53	**346**	198	-	**198**
Exchangeable securities	14,642	-	**14,642**	11,995	-	**11,995**
Derivative financial instruments	1,113	7	**1,119**	1,225	6	**1,231**
Trade and other payables	9,260	5,316	**14,576**	7,392	2,142	**9,534**
Other current liabilities	753	725	**1,479**	1,975	29	**2,004**
Deferred income	5,485	3,198	**8,683**	734	277	**1,011**
Total current liabilities	58,095	10,605	**68,700**	49,423	3,091	**52,514**
Total liabilities	297,471	96,511	**390,837**	268,996	56,452	**325,488**
Equity						
Trust units	190,407	-	**190,407**	189,158	-	**189,158**
Retained earnings	35,610	-	**35,610**	43,455	-	**43,455**
Accumulated other comprehensive income	20,436	-	**20,436**	8,395	-	**8,395**
	246,453	-	**246,453**	241,008	-	**241,008**
Non-controlling interest	203	-	**203**	121	-	**121**
Total liabilities and equity	544,126	**96,511**	637,493	510,125	**56,452**	566,577

(1) Balance sheet amounts presented for the REIT were taken from the interim consolidated financial statements as at September 30, 2017 and audited as at December 31, 2016.

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

	Three months ended					
	September 30, 2017			September 30, 2016		
(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	6,323	2,336	**8,659**	6,172	1,445	**7,617**
Service charge income	2,067	782	**2,848**	1,189	191	**2,010**
Service charge expenses	(1,622)	(832)	**(2,454)**	(1,506)	(287)	**(1,793)**
Other revenues	(19)	(2)	**(20)**	130	(18)	**112**
Other property operating expenses	(20)	-	**(20)**	(59)	15	**(44)**
Net rental earnings	**6,729**	**2,284**	**9,012**	**6,556**	**1,346**	**7,902**
Administration expenses	(1,301)	(312)	**(1,613)**	(1,229)	(191)	**(1,420)**
Foreign exchange gain	(178)	-	**(178)**	(46)	-	**(46)**
Net change in fair value of investment properties	(1,120)	(1,052)	**(2,171)**	6,559	94	**6,653**
Option cost related to the acquisition of the Metropolitan property	-	-	-	-	-	-
Gain on bargain purchase	-	1,445	**1,445**	-	-	-
Acquisition costs	(24)	(69)	**(93)**	(49)	-	**(49)**
Share of profit of an investment (equity method)	(1,328)	1,328	-	218	(218)	-
Operating earnings	**2,777**	**3,625**	**6,402**	**12,009**	**1,031**	**13,040**
Gain (loss) on financial instruments at fair value through P&L	178	81	**259**	(110)	10	**(100)**
Loss on exercise of early payment option on finance leases	-	(443)	**(443)**	-	-	-
Finance income	1,737	(1,182)	**554**	2,217	(2,214)	**3**
Finance costs	(1,901)	(858)	**(2,759)**	(1,670)	130 (2)	**(1,540)**
Additionnal income (loss) from Arcueil's JV [3]	-	(1,179)	**(1,179)**	-	1,137	**1,137**
Distributions on Exchangeable securities	(411)	-	**(411)**	(592)	-	**(592)**
Net change in fair value of Exchangeable securities	(144)	-	**(144)**	181	-	**181**
Earnings before income taxes	**2,237**	**44**	**2,280**	**12,035**	**94**	**12,129**
Current income tax expense	18	-	**(18)**	4	1	**5**
Deferred income tax expense	(36)	(43)	**(79)**	(207)	(95)	**(302)**
Earnings for the period	**2,219**	**-**	**2,219**	**11,832**	**-**	**11,832**
Non-controlling interest	4	-	4	**(1)**	**-**	**(1)**
Earnings for the period (part attributable to the Trust)	**2,216**	**-**	**2,216**	**11,833**	**-**	**11,833**

(1) Income statement amounts presented for the REIT were taken from the interim consolidated financial statements as at September 30, 2017 and September 30, 2016.
(2) Includes the REIT's share of the hedging cost of Arcueil's partner
(3) Reflects the additional loss assumed by the REIT in reference to its 75% right to the net profit/loss of the Arcueil joint venture.

(in thousands of CAD$)	Nine months ended September 30, 2017 Amounts per REIT's financial statements (1)	Share of net earnings from investments in joint ventures	Total	September 30, 2016 Amounts per REIT's financial statements (1)	Share of earnings from investments in joint ventures	Total
Rental income	18,565	5,766	**24,330**	17,698	5,150	**22,848**
Service charge income	5,275	1,501	**6,775**	4,594	802	**5,396**
Service charge expenses	(7,404)	(1,720)	**(9,123)**	(6,980)	(889)	**(7,869)**
Other revenues	419	(359)	**60**	172	(18)	**154**
Other property operating expenses	(135)	(2)	**(136)**	(126)	-	**(126)**
Net rental earnings	**16,720**	**5,186**	**21,906**	**15,358**	**5,045**	**20,403**
Administration expenses	(3,873)	(736)	**(4,609)**	(3,953)	(641)	**(4,594)**
Foreign exchange gain	(241)	-	**(241)**	61	-	**61**
Net change in fair value of investment properties	(1,011)	1,867	**855**	7,203	(772)	**6,431**
Option cost related to the acquisition of the Metropolitan property	-	-	-	9,213	-	**9,213**
Gain on bargain purchase	-	1,445	**1,445**	-	-	-
Acquisition costs	(196)	(1,013)	**(1,208)**	(738)	-	**(738)**
Share of profit of an investment (equity method)	(937)	(937)	-	(140)	140	-
Operating earnings	**10,462**	**7,685**	**18,148**	**27,004**	**3,772**	**30,776**
Gain (loss) on financial instruments at fair value through P&L	(1,602)	124	**(1,478)**	(2,347)	(122)	**(2,469)**
Loss on exercise of early payment option on finance leases	-	(443)	**(443)**	(1,242)	-	**(1,242)**
Finance income	5,044	(3,333)	**1,711**	5,053	(3,882)	**1,171**
Finance costs	(4,957)	(1,745) (2)	**(6,703)**	(4,809)	(978) (2)	**(5,787)**
Additionnal income (loss) from Arcueil's JV (3)	-	(1,920)	**(1,920)**	-	1,281	**1,281**
Distributions on Exchangeable securities	(1,187)	-	**(1,187)**	(1,526)	-	**(1,526)**
Net change in fair value of Exchangeable securities	(1,843)	-	**(1,843)**	(838)	-	**(838)**
Earnings before income taxes	**5,917**	**368**	**6,285**	**20,690**	**71**	**20,761**
Current income tax expense	(79)	(29)	**(108)**	(104)	(25)	**(129)**
Deferred income tax expense	(259)	(339)	**(598)**	(330)	(46)	**(376)**
Earnings for the period	**5,579**	**-**	**5,579**	**20,256**	**-**	**20,256**
Non-controlling interest	63		63	**(43)**		**(43)**
Earnings for the period (part attributable to the Trust)	**5,516**	**-**	**5,516**	**20,299**	**-**	**20,299**

(1) Income statement amounts presented for the REIT were taken from the interim consolidated financial statements as at September 30, 2017 and September 30, 2016
(2) Includes the REIT's share of the hedging cost of Arcueil's partner
(3) Reflects the additional loss assumed by the REIT in reference to its 75% right to the net profit/loss of the Arcueil joint venture.

PROPERTY CAPITAL INVESTMENTS - Non-GAAP

Fair value

The fair value of the REIT’s investment property portfolio as at September 30, 2017 was $580.9 million including the REIT’s interests in the properties held in partnerships (vs. $509.6 million as at December 31, 2016). The fair value of the French properties was $429.4 million (76.7% of total asset value) and the fair value of the German properties was $135.4 million (23.3% of total asset value).

The $71.4 million increase is accounted for by a $50.4 million increase due to the Pantain and Stuttgart asset acquisitions, $20.3 million increase due to foreign exchange fluctuations and $0.7 million in other charges. The other charges includes rent free periods, capitalized letting fees and IFRIC 21 impact.

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 4 of the interim 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. Improvement works of $2.2 million on Courbevoie property began in Q2 2017 and will be completed in 2017.

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 September 30, 2017, 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 $87.8 million. Including the REIT's interest in the properties held in partnerships, preferential claim held by mortgage lenders on the properties totals $142.0 million.

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, the 49% interest in the Cologne property and 50% in the Stuttgart property. Our share of fair value of the investment properties accounted for using the equity method was $66,437 as at September 30, 2017 compared to $43,887 as at December 31, 2016.

Acquisition loans and deposit

As at September 30, 2017, Acquisition loans and deposit of $20.16 million consisted mainly of the $18.8 million loan commitment for the Rueil project and the $1.38 million deposit for the Ingolstadt forward purchase. The Diamant (Pantin property) acquisition loan of $7.9 million was reimbursed during the quarter.

Trade and other receivables

Trade and other receivables as at September 30, 2017 amounted to $6,233 excluding the REIT's interests in the properties held in partnerships compared to $3,333 as at December 31, 2016. The difference of $2,900 includes a $1,420 receivable related to the Courbevoie property received in early Q4 2017, a VAT Escrow amount for Baldi of $727, other deposits mainly on the Pantin property of $621 and to the $132 foreign exchange impact.

Other current Assets

Other current assets as at September 30, 2017 amounted to $2,536 compared to $2,013 as at December 31, 2016. The increase of $523, with a negative exchange impact of $80, is principally linked to sales tax receivable.

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

Including the REIT's interest in the joint ventures, cash available totals $24.3 million as at September 30, 2017, compared to $13.5 million as at December 31, 2016. This includes the net proceeds of the $13.1 million ($13.6 million gross proceeds) private placement which closed on June 26, 2017, which explains the increase in cash held as at September 30, 2017.

Financing activities

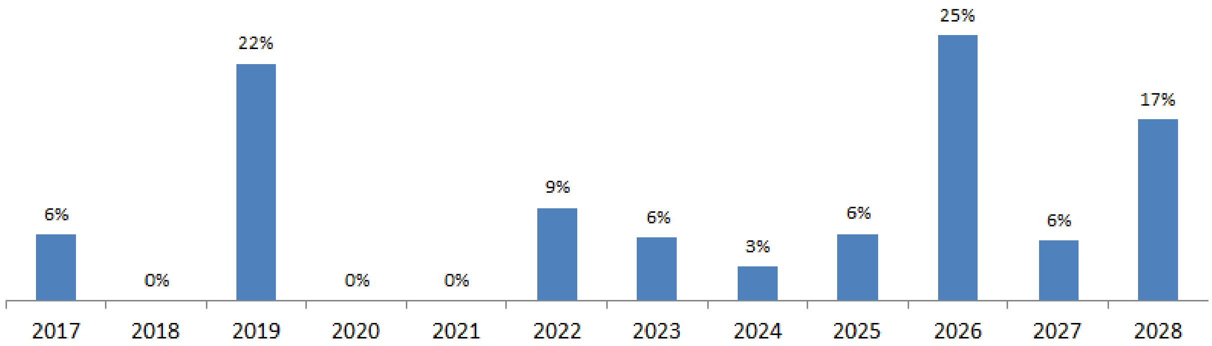
Our debt strategy is to have secured mortgage financing with a term to maturity that is appropriate in relation to the lease maturity profile of our portfolio and then to put in place, when appropriate, interest-only financings. We intend to search for fixed rate financings or floating rate financings with a cap. As such, 94.4% of the REIT's senior debt benefits from an interest rate protection (79.2% in the form of a swap and 15.2% 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 51.4% and net of the $26.6 million of cash available (including financial current assets) as at September 30, 2017 (including the REIT's interest in the joint ventures), this debt to book value stands at 47.6%.

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

	As at September 30, 2017	**As at December 31, 2016**
Weighted average interest rate (1)	2.07%	2.11%
Debt-to-book value (2)	51.4%	51.3%
Debt-to-book value, net of cash (2)	47.6%	47.5%
Interest coverage ratio (3)	4.0 x	4.4 x
Debt due in next 12 months in thousand of CAD$	27,855	25,357
Weighted average term to maturity of debt (4)	6.6 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-GAAP Financial Measures*
(3) Calculated as net rental earnings plus interest, less general and administrative expenses, divided by interest expense on the financial leases and mortgage financings.
(4) Calculated as the weighted average term on all the financial leases and mortgage financings.

Leasehold and Mortgage Financing Maturity Profile (Non-GAAP)
(% of amount outstanding as at June 30, 2017)



Equity

Our discussion about equity is inclusive of Exchangeable securities and Private placement promissory note which are economically equivalent to the REIT's Units. In our consolidated financial statements, the Exchangeable securities are classified as a combination of current and non-current liabilities under GAAP because of the conversion feature that can be exercised by the holder of those securities.

	3-month period ended September 30, 2017	9-month period ended September 30, 2017
Units		
Number at beginning of period	21,604,714	21,525,775
Increase/(Decrease) in number during the period	-	-
Units issued pursuant to the DRIP	53,005	131,944
Number at end of period	21,657,719	21,657,719
Weighted average number during the period	21,627,530	21,585,811
Exchangeable securities		
Number at beginning of period	1,991,190	1,808,051
Increase/(Decrease) in number during the period	92,857	275,996
Number at end of period	2,084,047	2,084,047
Weighted average number during the period	1,992,199	1,900,322
Promissory notes		
Number at beginning of period	1,360,449	-
Increase/(Decrease) in number during the period	(65,448)	1,295,001
Number at end of period	1,295,001	1,295,001
Weighted average number during the period	1,324,880	466,413
Units, Exchangeable securities and Promissory notes		
Number at beginning of period	24,956,353	23,333,826
Increase/(Decrease) in number during the period	80,414	1,702,941
Number at end of period	25,036,767	25,036,767
Weighted average number during the period	24,944,609	23,952,546

Further to the Distribution Reinvestment Plan ("DRIP"), 53 005 Units were issued to Unitholders during Q3 2017 and a total of 131 944 for the period ended September 30, 2017. As at September 30, 2017, 16.8% of the Units were enrolled in the DRIP.

Distribution and management of foreign exchange risk

Our Declaration of Trust provides our trustees with the discretion to determine the percentage payout of income that would be in the best interests of the REIT. Given that the level of working capital tends to fluctuate over time and should not affect our distribution policy, we do not consider it when determining our distributions.

In order to ensure the predictability of distributions to our Unitholders, we have established an active foreign exchange hedging program. As at September 30, 2017, the REIT was committed to sell €880 (on average) at an average rate of 1.4832 and to receive $1,300 on a monthly basis until April 2019 (included).

	Three months ended September 30		Nine months ended September 30	
(in thousands of CAD$ except for per Unit amounts)	**2017**	**2016**	**2017**	**2016**
Declared distributions on Units	4,461	4,327	13,361	10,820
Declared distributions on Exchangeable securities	411	592	1,187	1,526
Total declared distributions	**4,872**	**4,919**	**14,548**	**12,346**
Distribution per Unit (diluted)	$ 0.20625	$ 0.20625	$0.61875	$0.61875

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

SUBSEQUENT EVENTS

Issuance of a promissory note

On October 4, 2017, the REIT completed the issuance of a €7.3 million ($10.8 million) a second convertible promissory note on the same terms as the promissory note issued on June 26, 2017. The convertible promissory note has a fixed interest rate of 8.13%, which is equivalent to the distribution yield on REIT units on October 4, 2017, the date of issuance of the convertible promissory note.

Debt refinancing

On October 26, 2017; the REIT completed the refinancing of the Baldi and Jeuneurs properties, securing loans of €44.5 million ($65.6 million). After the reimbursement of the existing loans amounting to €39.0 million ($57.5 million), which includes a €6.9million ($10.2 million) partial early repayment of the loan associated with the Courbevoie property, the proceeds from refinancing were €4.8 million ($7.1 million) before a cash reserve of €0.9 million ($1.3 million) and associated refinancing costs. Under the terms of the refinancing, the Baldi property is now financed with a mortgage loan.