

INOVALIS

REAL ESTATE INVESTMENT TRUST

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INOVALIS REAL ESTATE INVESTMENT TRUST ANNOUNCES FINANCIAL RESULTS FOR THE SECOND QUARTER OF 2020

Toronto, Ontario, August 12, 2020 – Inovalis Real Estate Investment Trust (the “REIT”) (TSX: INO.UN) today reported financial results for the quarter ended June 30, 2020.

Inovalis REIT is in a stable and advantageous position following the COVID-19 crisis of Q2, 2020. Stéphane Amine, President of the REIT, commented “*Our strong operating platform together with a \$58 million cash position at quarter end leaves management well-placed to focus on opportunistic growth in the latter half of 2020. Tenants of the REIT in both France and Germany are paying their rent in a timely way despite the onset of disruptions to business caused by the pandemic crisis since the end of Q1.*”

HIGHLIGHTS

Net Rental Income

For the portfolio of properties wholly owned by the REIT (“IP Portfolio”), net rental income for Q2 2020, adjusted for IFRIC 21¹, was CAD\$6.68 million (EUR4.38 million), an increase over the CAD\$5.86 million (EUR3.90 million) adjusted net rental income for the same period in 2019. The gain of CAD\$0.82 million (EUR0.48 million) in adjusted net rental income is mainly due to the income contribution following the acquisition of the Trio property and acquisition of the Arcueil property, partially offset by the sale of Vanves and the departure of the main tenant in Courbevoie.

In Q2 2020, for the portfolio that includes the REIT’s proportionate share in joint ventures (“Total Portfolio”), net rental income of CAD\$8.96 million (EUR5.88 million) adjusted for IFRIC 21 remained stable compared to the same period in the previous year (+CAD\$0.06 million).

COVID-19 Related Business Update

Although the ongoing impact of the COVID-19 crisis is difficult to predict, the REIT remains in good financial standing and is currently well-positioned to withstand the economic impact of the pandemic. The REIT is thus reporting near-normal quarterly rent collection for Q2 2020 and will focus on providing support to tenants throughout the coming months as their employees re-enter the workplace. The REIT will continue to assess market conditions and adapt its strategy to address the economic, social and health care impact of the pandemic.

The REIT is confident in the strength of its portfolio, as indicated by its solid Q2 2020 results. However, the REIT’s second quarter results cannot be considered in isolation when formulating an outlook for the remainder of 2020. It is possible that downward pressure on rental revenue may occur in the short-term as a result of the COVID-19 pandemic and consequent economic disruption

Rent collection

Rent collection for the French assets is recorded on a quarterly basis and 92% of rent has been received for Q2 2020. This is generally in line with the speed and percentage of pre-COVID-19 rent collection levels with a few minor exceptions. As at July 31, 2020 the REIT has already received 77% of the Q3 rents on its French

¹ Net rental Income adjusted for IFRIC 21 is non-IFRS information. (Refer to the “Non-IFRS financial measures” section for further details.)

portfolio. Management expects to collect nearly 90% of the Q3 2020 rents in France by the end of September, the remaining 10% having been deferred after negotiation with tenants to Q4 2020. For the REIT's German properties, where rents are collected on a monthly basis, 99% of rent was received in Q2 2020. Following quarter-end, 97% of July rent and 98% of August rent has been collected for German assets to date.

Management is actively monitoring rent payment deferral requests to maintain consistent rent collection while supporting tenants' needs.

Leasing Operations

About 3,000 sq.ft of incremental space was leased during Q2. Efforts continue to lease unoccupied space (154,770 sq.ft) in the portfolio. Management will selectively complete capex improvements on vacant areas to attract tenants and maximize rent.

Funds from Operations ("FFO"), Adjusted Funds from Operations ("AFFO")

In Q2 2020, the REIT reported Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO") were \$0.16 and \$0.15 per unit respectively. Performance was affected by the decision to pause the 2020 investment strategy due to the economic impact of the COVID-19 pandemic. As of June 30th, the REIT has CAD\$58 million of cash on its balance sheet, of which CAD\$12.2 million is the excess profit accrued from the disposition of the Vanves asset in 2019 at a higher price than the fair market recorded until Q2 2019. Management estimates that the opportunity cost of reserving CAD\$55 million in cash, previously allocated for investment in 2020, has negative quarterly effect the FFO in the range of CAD\$0.03 to \$0.04 per unit. The CAD\$55 million has been held in Euros since December 2019 and has shown an unrealized foreign exchange gain of CAD\$1.8 million (which represents an equivalent of approximately \$2.6 per unit of FFO) over the six months of 2020, a gain that we have chosen to exclude from the FFO determination given the volatility of the Canadian dollar against the Euro, despite the REALPAC guidance on this particular matter.

Financing Activity

The weighted average interest rate across the portfolio is 2.06% and the debt ratio is 40.3% (34.9% net of cash), comfortably within the REITs mandated threshold of 60%. The interest-only bullet loan against the Duisburg property, held in joint venture, has been successfully extended for another 3 years at an interest rate of 1.44%, and we are now working on an additional capex line for this asset with the same lender.

This refinancing proves the REIT's ability to fund operations and acquisitions on a less costly basis than traditional financing in Canada, taking advantage of historically low interest rates in Europe.

In France, banks and financial lessors have been encouraged by the French Government's measures to ease the debt service conditions of their clients from the start of the pandemic and this has positively benefited the REIT, which has obtained deferrals on Sabliere, Courbevoie, Metropolitan and Delizy properties representing a CAD\$1.6 million (EUR1.05 million) positive impact on the Q2 available cash. Deferral on the Arcueil lease liability is still under discussion while the quarterly payment of CAD\$1.3 million (EUR0.86 million) due on April 1, 2020 has been suspended.

For the total year 2020, the positive impact on cash of senior debt deferrals represents CAD\$4.3 million, including Arcueil pending agreement.

Rueil acquisition loan

The delivery of the Rueil property development project is well under way and our budgetary assumptions related to the valuation of the REIT's profit participation component in the Rueil development loan have been confirmed. The property development is now in its final three months of completion and, subsequent to the quarter, on July 30, 2020, EUR12.4 million out of the initial EUR17.2 million loan has been returned to the REIT by the borrowing entity. Management forecasts that the 2020 fund inflows should be in line as per the initial loan plan. An additional gain of CAD\$0.15 million in fair value was recognized in relation to the profit participation component of the loan for Q2 2020 in addition to the CAD\$9.6 million accrued since the inception of the loan in December 2016.

Bad Homburg

Subsequent to the quarter, an agreement has been reached between management of the REIT and its JV co-owner of the Bad Homburg asset for the REIT to acquire full ownership of the asset by end of Q3 2020, for a total purchase price of EUR5,873 (CAD\$8,957). The asset has been jointly held since 2015.

Stuttgart

Subsequent to the quarter, the REIT and its JV partner have taken steps to sell the Stuttgart asset which has been jointly held by the parties since 2017. A top-tier international broker has been engaged for the sale and a marketing plan is underway. The disposition of this asset will contribute to the REIT's positioning for future opportunistic investments and further simplify its asset ownership structure.

Normal Course Issuer Bid

On April 20, 2020, the TSX approved the REIT's Normal Course Issuer Bid (NCIB) which was undertaken in response to the extreme volatility that affected the trading price of the REIT in Q2. Management believes that the purchase by the REIT of a portion of its outstanding Units may be an appropriate use of available resources and in the best interests of the REIT and its unitholders. Between April 22 and June 30, 2020, the REIT bought back 510,500 Units at Unit prices ranging between \$6.41 and \$8.00 for a total \$3.9 million buyback of Units. On June 29, 2020, the REIT entered into an automatic purchase plan with a broker to repurchase a daily limit of 20,890 units at a maximum price of \$8.00 per unit, for the period of June 30 to August 14, 2020.

Dividend Reinvestment Plan Suspension

Until further notice, in response to the market disruption caused by the COVID-19 pandemic, the REIT has suspended its DRIP effective May 15, 2020 to unitholders of record as at April 30, 2020.

ABOUT INOVALIS REAL ESTATE INVESTMENT TRUST

Inovalis Real Estate Investment Trust is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust under the laws of the Province of Ontario. The REIT has been created for the purpose of acquiring and owning office properties primarily located in France and Germany but also opportunistically in other European countries where assets meet the REIT's investment criteria.

SOURCE Inovalis Real Estate Investment Trust

For further information, please contact:

David Giraud, Chief Executive Officer
Inovalis Real Estate Investment Trust
Tel: +33 1 5643 3323
david.giraud@inovalis.com

Khalil Hankach, Chief Financial Officer
Inovalis Real Estate Investment Trust
Tel:+33 1 5643 3313
khalil.hankach@inovalis.com