INOVALIS

REAL ESTATE INVESTMENT TRUST

Contents

Letter to Unitholders

I am pleased to present our third quarterly report for 2016. With a recent successful equity offering, promising opportunities for growth in our target markets and a dedicated team with local roots, we are looking forward to materializing our future prospects.

The $46.0 million equity offering closed in July 2016 was a success, as evidenced by the exercise in full of the over-allotment option by the syndicate of underwriters and the fact that our unit price rallied shortly after.

With the recent announcement of the forward purchase of the Ingolstadt property and the commitment to fund an acquisition and redevelopment loan for the Rueil property in a Metropolitan-like transaction, the REIT started to commit the proceeds of the equity offering bringing further demonstration to our investors of our ability to complete attractive transactions in increasingly competitive German and French investment markets. Also, our intention to have the Baldi property unencumbered as soon as possible in the first quarter of 2017 will give us the flexibility to obtain a revolving credit facility secured by this very property: this will help us underwrite and warehouse assets in the future.

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

Last but not least, further to the signature of two new leases, occupancy rate on the REIT’s portfolio weighted areas increased in the course of the third quarter from 94.8% as at June 30 up to 95.9% as at September 30, 2016. Since the beginning of the year, close to 40,000 sq.ft of new leases were signed on all of our multi-tenant properties.

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

On behalf of our management team and our Board of Trustees, I would like to thank you for your continued support.

Stéphane Amine

Chairman of the Board

November 14, 2016

Management's discussion and analysis

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

OVERVIEW

The presentation of our operational information, financing information and operating results takes into account our proportionate share of income from investments in joint ventures. Please refer to "*Non IFRS Reconciliation*" for a reconciliation to our condensed interim consolidated financial statements.

	September 30, 2016	December 31, 2015
Operational information (1)		
Number of properties	11	10
Gross leasable area (sq.ft)	1 082 031	1 004 448
Occupancy rate (end of period) (2)	95,9%	91,4%
Weighted average lease term	5,7 years	6,3 years
Average capitalization rate (3)	5,6%	6,6%
Financing information (1)		
Level of debt (debt-to-book value) (4)	51,7%	53,0%
Level of debt (debt-to-book value, net of cash) (4)	47,1%	51,9%
Weighted average term of principal repayments of debt	7,4 years	7,2 years
Weighted average interest rate (5)	2,07%	1,98%
Interest coverage ratio (6)	3,8 x	4,0 x

	Three months ending		Nine months ending	
(thousands of CAD$ except per Unit and other data)	Sept 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015
Operating results				
Rental income (1)	7 617	6 881	22 848	18 781
Net rental earnings	7 902	6 589	20 403	18 394
Earnings for the period	11 833	4 479	20 299	24 159
Funds from Operations (FFO) (7) (8)	4 053	3 868	11 454	11 283
Adjusted Funds from Operations (AFFO) (7) (8)	4 192	4 267	12 332	12 656
Including Units part of the July 2016 equity offering				
FFO per Unit (diluted) (7) (8)	0,18	0,22	0,59	0,65
AFFO per Unit (diluted) (7) (8)	0,19	0,24	0,64	0,73
Excluding Units part of the July 2016 equity offering				
FFO per Unit (diluted) (7) (8)	0,22	0,22	0,64	0,65
AFFO per Unit (diluted) (7) (8)	0,23	0,24	0,68	0,73
Distributions				
Declared distributions on Units and Exchangeable sec.	4 919	3 613	12 346	10 781
Declared distribution per Unit (diluted) (8)	0,21	0,21	0,62	0,62
Including Units part of the July 2016 equity offering				
FFO payout ratio (7)	121,4%	93,4%	104,8%	95,6%
AFFO payout ratio (7)	109,7%	84,7%	97,3%	85,2%
Excluding Units part of the July 2016 equity offering				
FFO payout ratio (7)	92,8%	93,4%	97,4%	95,6%
AFFO payout ratio (7)	89,7%	84,7%	90,5%	85,2%

(1) Taking into account the interest the REIT has in the properties held in partnerships.
(2) Calculated on weighted areas (activity, storage and intercompany restaurant areas being accounted for only a third of their effective areas).
(3) Calculated on annualized net rental earnings (based on net rental earnings for the year-to-date period).
(4) The definition of *debt-to-book value* and of *debt-to-book value, net of cash* can be found under the section *Non-IFRS Financial Measures.*
(5) Calculated as the weighted average interest rate paid on the finance leases and the mortgage loans.
(6) Calculated as net rental earnings plus interest income less general and administrative expenses, divided by interest expense (on the financial leases, mortgage financings and lease equalization loans).
(7) The reconciliation of FFO and AFFO to earnings can be found under the section *Non-IFRS Financial Measures.*
(8) Based on the fully diluted weighted average number of Units during the period.

KEY FACTS

- Inovalis 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, 2016, Inovalis SA and Inovalis SA's founding partners have a 13.3% interest in the REIT's equity (directly and indirectly).
- On July 25, 2016, the REIT closed a $46.0 million equity offering (including the over-allotment, which was fully exercised) aimed at being used as an available source of funding for potential future acquisitions of office properties located in France and Germany and for potential capital expenditures relating to the re-positioning and/or re-development of currently owned properties. To date, the REIT has allotted approximately $4.0 million as deposits for two transactions, Ingolstadt and Rueil properties as described below. The balance of the proceeds from the equity offering will be used for further acquisitions, working capital and general trust purposes, as well as for the repayment of the outstanding finance lease ($23.8 million) on the Baldi property in order to have an unencumbered asset. We will then use the Baldi property as security for a revolving line that will help underwrite and warehouse assets in the future. The repayment of the Baldi finance lease and the setting up of the revolving line are expected to take place in the course of the first quarter of 2017.
- During the quarter, the REIT entered into an agreement for the forward purchase of a class-A office property to be developed in Ingolstadt, Germany. Upon completion of its development in the first quarter of 2018, the 103,000 sq.ft office property will be fully let to a leading German automotive supplier and serve as a headquarters under a 10-year firm lease. The REIT through Inovalis S.A. relations intends to share up to 50% of the asset. One of Inovalis S.A. partners has showed great interest for the project. The net purchase price of the property of approximately €23.9 million ($35.2 million) reflects a cape rate of 6.5%.
- Subsequent to the quarter, the REIT has committed to fund a €21.7 million ($32.1 million) acquisition and redevelopment loan to a company 80%-owned by Inovalis SA, related to a property located in Rueil, in Paris Western periphery. An office building complex will be re-developed with a total lettable area of approximately 260,000 sq.ft. The facility amount will be drawn in several installments by the time of completion of the project in 2019. The loan will bear an annual interest rate of 8.50%, will give the REIT 16% of the profit generated by the transaction and will also give the REIT an option for the purchase of up to 50% of the property once it meets the REIT's investment criteria. To date, €1.0 million ($1.5 million) was funded by the REIT as deposit. This transaction will legally be structured in a similar way to the Metropolitan transaction.
- Funds from operations (FFO) and Adjusted Funds from operations (AFFO) for the three-month and nine-month periods ended September 30, 2016 shall be analyzed in the context of the recent $46.0 million equity offering, the proceeds of which being only in the process of being invested and shall also be put into prospective with the same periods in 2015 and also the quarter ended June 30, 2016:

	Q3 2016	Q2 2016	Q3 2015	9-month 2016	9-month 2015
Including Units part of the July 2016 equity offering					
FFO per unit	0,18	0,20	0,22	0,59	0,65
FFO payout ratio	121,4%	104,3%	93,4%	104,8%	95,6%
AFFO per unit	0,19	0,22	0,24	0,64	0,73
AFFO payout ratio	121,4%	93,2%	84,7%	97,3%	85,2%
Excluding Units part of the July 2016 equity offering					
FFO per unit	0,22	0,20	0,22	0,64	0,65
FFO payout ratio	92,8%	104,3%	93,4%	97,4%	95,6%
AFFO per unit	0,23	0,22	0,24	0,68	0,73
AFFO payout ratio	89,7%	93,2%	84,7%	90,5%	85,2%

- Occupancy rate on the REIT's portfolio weighted areas increased to 95.9% as at September 30, 2016 compared to 94.8% as at June 30, 2016 and 91.4% as at December 31, 2015 further to the signature of two new leases during the quarter ended September 30, 2016 on the Sablière and Metropolitan properties.
- Debt to book value of the REIT was 51.7% as at September 30, 2016. Net of the cash available, debt to book value was 47.1%.

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 July 1, 2016 to September 30, 2016, and the notes thereto. This MD&A has been prepared taking into account material transactions and events up to and including November 14, 2016. 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. 1.4758 Canadian dollars per Euro for the three-month period ended September 30, 2016. For balance sheet items, projections or market data, the exchange rate used is 1.4741 (exchange rate as at September 30, 2016).

FORWARD-LOOKING INFORMATION

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

The forward-looking statements are subject to inherent uncertainties and risks, including, but not limited to, the factors listed under the *Risk and Uncertainties* section of this MD&A. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements.

MARKET AND INDUSTRY DATA

This MD&A includes market and industry data and forecasts that were obtained from third-party sources, industry publications and publicly available information as well as industry data prepared by Inovalis SA on the basis of its knowledge of the commercial real estate industry in which we operate (including Inovalis SA estimates and assumptions relating to the industry based on that knowledge). Inovalis SA’s knowledge of the real estate industry has been developed through its 18 years of experience and participation in the industry. Inovalis SA believes that its industry data is accurate and that its estimates and assumptions are reasonable, but there can be no assurance as to the accuracy or completeness of this data. Third-party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. Although Inovalis SA believes it to be reliable, Inovalis SA has not verified any of the data from third-party sources referred to in this MD&A, or analyzed or verified the underlying studies or surveys relied upon or referred to by such sources, or ascertained the underlying assumptions relied upon by such sources.

NON-IFRS FINANCIAL MEASURES

Funds from Operations and Adjusted Funds from Operations

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

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

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

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

Debt-to-book value

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

BUSINESS OVERVIEW AND STRATEGY

Inovalis REIT is an unincorporated open-ended real estate investment trust governed by the laws of the Province of Ontario. Inovalis REIT was founded and sponsored by Inovalis SA, our asset manager. Our Units have been listed on the Toronto Stock Exchange under the trading symbol INO.UN since April 10, 2013. Our head and registered office is located at 151 Yonge Street, 11th floor, Toronto, Ontario, M5C 2W7.

Our long-term objectives are to:

- generate predictable and growing cash distributions on a tax-efficient basis from investments in income-producing office properties
- maximize the long-term value of both our properties and Units through active and efficient management
- grow our asset base, primarily in France and Germany, but also opportunistically in other European countries where assets meet our investment criteria

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

The REIT’s Investment criteria encompasses office properties outside of Canada with an occupancy level above 80% (unless AFFO accretive), secured rental cash flows, a property value between €20 million ($29 million) to €60 million ($88 million) (unless AFFO accretive) and a potential future upside with respect to matters including rent and area development. According to management, this target investment size falls within a very liquid segment of the real estate market in Europe, and debt financing for such acquisitions is readily available from local lenders.

BUSINESS ENVIRONMENT

French commercial real estate investment market

Investment in commercial real estate in France reached €18.4 BN ($27.1 BN) in the first nine months of 2016, is in line with the same period in 2015. The third quarter of 2016 was particularly busy with €7.7 BN ($11.4 BN) invested, confirming an increase in amounts from quarter to quarter since the beginning of the year. Despite its slow economic growth, France is still much sought after, and enjoyed in 2015 its second best year ever for investment after 2007. The Greater Paris region accounted for the largest share of acquisitions (78%). Offices are still investors’ favorite, attracting 61% of investment.

According to BNP Paribas Real Estate, the prime yield in the Central Business District has remained as low as 3.15% as at Q3 2016 (from 3.50% as at Q3 2015) and the prime yield in the Inner Rim has remained at 4.50% (from 5.00% as at Q3 2015). Investors have increasingly bought properties beyond Paris business districts, which are structurally incapable of supplying demand and which offer low yields. Non-prime office yields have also declined in the majority of markets in the Greater Paris Region and are increasingly sought after.

As at September 30, 2016, the vacancy rate in the Greater Paris Region declined to 6.4%, a lowest since end 2009 (compared to 6.9% as at December 31, 2015) and inside Paris was below 4.0%. This figure is mainly comprised of lower quality properties as, according to CBRE, new and redeveloped properties only accounted for 16% of the immediate supply.

German commercial real estate investment market

In the first nine months of 2016, investment in office properties in Germany reached €33 BN ($48.6 BN) which, despite being 14% lower than for the same period in 2015.

Office yields have declined throughout Germany over the last few years and, according to BNP Paribas Real Estate this trend is still going on, with prime office properties in the largest cities (Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, Munich) trading at cap rates ranging between 3.30% and 3.95%.

For investors, Germany continues to offer an extremely attractive and stable environment with interest rates still low, active consumers, upward-trending early indicators and a labor market that remains robust. BNP Paribas Real Estate expects demand for office properties during the second half of the year to remain strong and even to increase in the case of foreign market players, and therefore expects an above average turnover for the year as a whole.

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

REAL ESTATE MANAGEMENT AND ADVISORY SERVICES

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

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

OUR OPERATIONS

Performance indicators[1]

As at	September 30, 2016	December 31, 2015
Gross leasable area (sq.ft)	1,082,031	1,004,448
Number of properties	11	10
Number of tenants	42	31
Occupancy rate [2]	95.9%	91.4%
Weighted average lease term [3]	5.7 years	6.3 years

(1) Taking into account the interest the REIT has in the properties held in partnerships.
(2) Calculated on weighted areas (activity, storage and intercompany restaurant areas being accounted for only for a third of their effective areas).
(3) Excluding early termination rights. Taking into account early termination rights, the weighted average lease term is 3.9 years.

Portfolio

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

Occupancy

From this quarterly report onwards, we have chosen to show the REIT portfolio's occupancy rate based on weighted areas, i.e. taking into account activity, storage and intercompany restaurant areas for only for a third of their effective areas. This is in line with market practice by local appraisers. The overall weighted average occupancy rate across our portfolio was 95.9% as at September 30, 2016, which is a 1.1% increase compared to 94.8% as at June 30, 2016 and a 4.5% increase compared to 91.4% as at December 31, 2015. Based on the methodology previously used (i.e. without weighting areas), the REIT's portfolio occupancy rate stands at 94.5%, which still evidences a strong improvement since June 30, 2016 and December 31, 2015 when occupancy rates were 93.1% and 89.0% respectively.

During the quarter ended September 30, 2016 two leases were signed on the Metropolitan (6,900 sq.ft) and Sablière (4,026 sq.ft) properties. The Metropolitan property is now fully occupied and the occupancy rate on the Sablière property now reaches 99.4%.

With an average occupancy rate of 95.9%, the REIT's portfolio outperforms the Greater Paris Region market that has a vacancy rate of 6.4%. External brokers are working with the Inovalis SA team to lease remaining vacant premises on the REIT's portfolio.

Tenants

The tenant base in the portfolio is well diversified from an industry segment standpoint, with many tenants having large national or multinational footprints. 71% of 2016 estimated gross rental income come from French public agencies, are guaranteed by large German or international banks, or are signed with investment grade corporates or are affiliates of investment grade corporates. The following table shows our five largest tenants, sorted out by contribution to total weighted areas. The areas shown for these tenants reflects the percentage of ownership the REIT has in the underlying property.

Tenant	Tenant Sector	GLA (sq.ft.) [(1)]	Weighted Areas (sq.ft) [(1)]	% of Weighted Areas
Orange (formerly France Telecom)	Telecommunications	268,740	253,652	25.6%
Facility Services Hannover GmbH	Banking / Real estate	124,076	124,076	12.5%
Mitsubishi Hitachi Power Systems Europe GmbH	Manufacturer	108,959	104,046	10.5%
Rue du Commerce	E-commerce	51,926	51,926	5.2%
National Conservatory of Arts and Crafts	Education and training	50,407	49,543	5.0%
Top 5 tenants		**604,108**	**583,243**	**58.8%**
Other tenants	Diversified	418,139	367,835	37.1%
Vacant		59,784	40,150	4.1%
Total		**1,082,031**	**991,228**	**100.0%**

(1) Taking into account the interest the REIT has in the properties held in partnerships.

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

Rental indexation

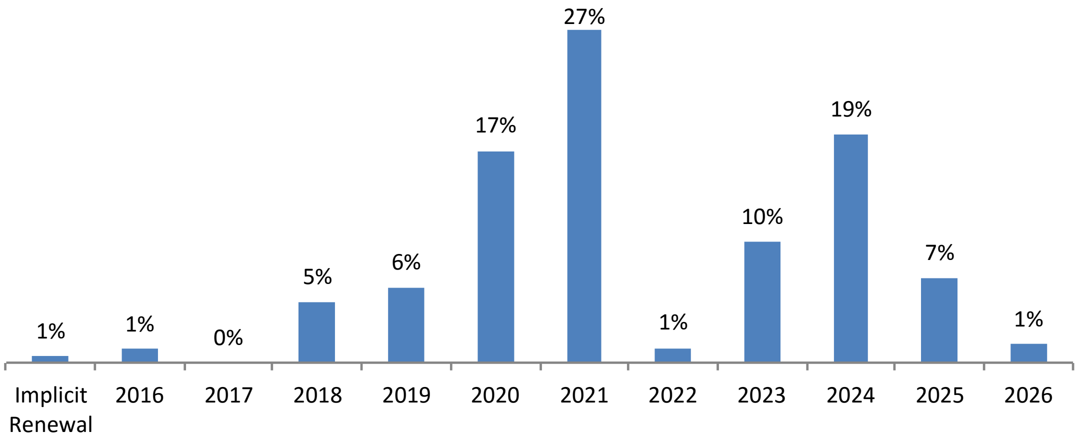
All leases have rental indexation based on either the French ICC (construction cost index) or ILAT (index averaging construction costs and CPI indexes) or the German Consumer Price Index, as applicable.

Lease rollover profile

The REIT has an average remaining lease term of 5.7 years (not including tenant early termination rights). Assuming all tenants leave at the earliest possible early termination rights, which is a highly improbable scenario, the average remaining lease term in our portfolio is 3.9 years. The following graph sets out the amount of GLA and percentage of total GLA of the properties subject to leases expiring during the periods shown (excluding early lease terminations).

Lease Maturity Profile as at September 30, 2016

(% of total GLA)



CONSOLIDATED FINANCIAL INFORMATION

Our discussion of results of operations includes our proportionate share of income from investments in joint ventures. Please refer to "*Non IFRS section*" for a reconciliation to our condensed interim consolidated financial statements.

	Three months ended September 30		Nine months ended September 30	
(in thousands of CAD$)	**2016**	**2015**	**2016**	**2015**
Rental income	7,617	6,881	22,848	18,781
Service charge income	2,010	1,970	5,396	5,924
Service charge expenses	(1,793)	(1,662)	(7,869)	(7,294)
Other revenues	112	-	154	1,238
Other property operating expenses	(44)	(600)	(126)	(255)
Net rental earnings	**7,902**	**6,589**	**20,403**	**18,394**
Administration expenses	(1,420)	(1,118)	(4,594)	(3,485)
Foreign exchange (loss) gain	(46)	(23)	61	51
Net change in fair value of investment properties	6,653	462	6,431	13,558
Gain on bargain purchase	-	1,380	-	1,380
option FV related to Metropolitan acquisition	-	-	9,213	-
Acquisition costs	(49)	(1,132)	(738)	(1,178)
Operating earnings	**13,040**	**6,158**	**30,776**	**28,720**
Loss on financial instruments at fair value through P&L	(100)	(1,545)	(2,469)	(1,166)
Loss on exercise of early payment option on finance leases	-	-	(1,242)	-
Loss on debt refinancing	-	-	(605)	-
Finance income	3	403	1,171	1,154
Finance costs	(1,540)	(1,923)	(5,787)	(4,562)
Additionnal income (loss) from Arcueil's JV	1,137	1,497	1,281	1,497
Distributions on Exchangeable securities	(592)	(408)	(1,526)	(1,265)
Net change in fair value of Exchangeable securities	181	406	(838)	71
Earnings before income taxes	**12,129**	**4,588**	**20,761**	**24,449**
Current income tax expense	5	(53)	(129)	(61)
Deferred income tax expense	(302)	(56)	(376)	(229)
Earnings for the period	**11,832**	**4,479**	**20,256**	**24,159**
Non-controlling interest	(1)	-	(43)	-
Earnings for the period (part attributable to the Trust)	**11,833**	**4,479**	**20,299**	**24,159**

As there has been no significant change in the exchange rate for the conversion of Euros into Canadian dollars for the three-month period ended September 30, 2016 compared to the same period in 2015 (1.4758 vs. 1.4665), no explicit foreign exchange impact will be discussed in the following comments for the statement of earnings items.

Net rental earnings

Rental income for the three-month period ended September 30, 2016 of $7,617 increased by $736 compared to the same period in 2015, of which $629 was coming from the properties wholly owned by the REIT (accounted for by the combination of an increase due to the Metropolitan acquisition, the signature of new leases and of a decrease due to the expiry of the Vendor leases) and $107 from the properties held in partnership (due to the addition of the Cologne property).

Rental income for the nine-month period ended September 30, 2016 of $22,848 increased by $4,067 compared to the same period in 2015, of which $1,565 was coming from the properties wholly owned by the REIT (accounted for by the combination of an increase due to the Metropolitan acquisition for approximately $1,700, the net addition of new tenants despite some departures generating approximately $100 and the expiry of the Vendor leases that accounted for approximately $300) and $2,502 from the properties held in partnership (increase of rental income due to the addition of the Arcueil property for approximately $1,250, the Bad Homburg property for approximately $550 and the Cologne property for approximately $600).

During the third quarter of 2016, service charge income has been greater than service charge expenses as a consequence of the application of the IFRIC 21 rule. On a year-to-date basis, service charge expenses are greater than service charge income, which is also mainly explained by the application of the IFRIC 21 rule.

The decrease in other revenues for the nine-month period ended September 30, 2016 is explained by the fact that the amount of $1,238 recorded in 2015 was a non-recurring item (gain on the recovery of an indemnity paid at the time of the purchase of the Vanves property for possible repairs that were no longer required).

Administration expenses

Administration expenses are primarily comprised of asset management fees paid to Inovalis SA and of other general administrative expenses such as trustee fees, directors' and officers' liability insurance, professional fees (including accounting fees), legal fees, filing fees, shareholders related expenses and other expenses. Administration expenses for the quarter ended September 30, 2016 amounted to $1,420 vs. $1,118 for the quarter ended September 30, 2015. $1,001 is related to the asset management fees paid to Inovalis SA, of which $921 as payment for the third quarter of the year (vs. $649 for the same period in 2015) and $80 as adjustment for the first two quarters of 2016. $419 is related to other expenses (vs. $469 for the same period in 2015).

Administration expenses for the nine-month period ended September 30, 2016 amounted to $4,594 vs. $3,485 for the same period in 2015. $2,609 is related to the asset management fees paid to Inovalis SA (vs. $1,892 for the same period in 2015) and $1,985 to other expenses (vs. $1,593 for the same period in 2015). The $392 year-on-year increase in other general administrative expenses amounts to a 24.6% increase, in line with the increase of the assets under management at the same time.

Net change in fair value of investment properties

During the three-month period ended September 30, 2016, the net change in fair value of investment properties recognized in profit or loss was a $6,653 increase, further to an appreciation of the French properties due to a further compression of the cap rates in the Greater Paris office market. This is also in line with the increase in value recorded since the beginning of the year of $6,431.

Option fair value related to the acquisition of the Metropolitan property

For the nine-month period ended September 30, 2016, the total gain in fair value of the purchase option was $9,213. As per the Acquisition loan that the REIT granted to Inovalis SA in 2014, the REIT was entitled to receive a portion of the profit generated on the stabilization of the property that would translate into a discount to the purchase price in the event the REIT elected to exercise its right of first offer for the purchase of the property once the latter met the investment criteria of the REIT.

Acquisition costs

The acquisition costs of $49 in the three-month period ended September 30, 2016 were preliminary costs borne by the REIT in the context of the Ingolstadt forward purchase.

For the nine-month period ended September 30, 2016, the acquisition costs stood at $738, of which $463 is accounted for by the Metropolitan acquisition (notary and transfer taxes), $141 by the Hanover refinancing, $49 by the Ingolstadt forward purchase and $85 by other costs.

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

The REIT recognized a loss on financial instruments at fair value through profit and loss for the three-month period ended September 30, 2016 of $100. For the same period in 2015, the REIT recognized a loss of $1,545. These gains and losses are mostly the result of the variation in value realized on the foreign exchange ("FX") contracts.

For the nine-month period ended September 30, 2016, the loss on financial instruments at fair value through profit and loss amounted to $2,469 compared to a loss of $1,166 for the same period in 2015.

Loss on exercise of early payment option on finance leases

This element appears only in the nine-month period ended September 30, 2016 and has no impact on the three-month period ended September 30, 2016. A loss of $1,242 was recorded in the nine-month period ended September 30, 2016 further to the exercise by the REIT of its option to purchase the Metropolitan property that was financed under a finance lease. Concomitantly with the transaction, the REIT closed a new finance lease contract to replace the finance lease assumed as part of the transaction.

Loss on refinancing of a debt

This element appears only in the nine-month period ended September 30, 2016 and has no impact on the three-month period ended September 30, 2016. During the quarter ended March 31, 2016, the REIT refinanced its debt on the Hanover property. The finance lease in place was terminated and replaced with a mortgage financing. The impact of de-recognition of the finance lease amounted to $605.

Finance income

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

Finance costs

For the three-month period ended September 30, 2016, the finance costs amounted to $1,540 including $1,842 for interests costs related to finance leases, mortgage loans and the lease equalization loans, $(302) of other finance costs (including amortization of fair value adjustment on finance leases assumed at a discount at the time of a business acquisition, amortization of transaction costs on mortgage loans and other miscellaneous costs).

For the nine-month period ended September 30, 2016, the finance costs amounted to $5,787 including $5,098 for interests costs related to finance leases, mortgage loans, the lease equalization loans and the loan granted by the partner on the Cologne transaction, $689 of other finance costs (including amortization of fair value adjustment on finance leases assumed at a discount at the time of a business acquisition, amortization of transaction costs on mortgage loans and other miscellaneous costs).

Additional income (loss) from Arcueil's JV

For the Arcueil joint venture, an interest of 25% in the partnership was taken into account in the proportionate consolidation presentation, in line with the apportioned investment in the transaction by the REIT of 25% while, as per the joint venture agreement and as reflected in the condensed interim consolidated financial statements, is entitled to receive a 25% share of the net earnings and, upon asset disposal, 75% of the variance of fair value of investment properties, netted from FX derivative costs. This additional income from Arcueil's joint venture of $1,137 for the three-month and $1,281 for the nine-month periods ended September 30, 2016 is the bridge between both presentations.

Distributions on Exchangeable securities

Distributions to the holders of Exchangeable securities are calculated in a manner to provide a return that is economically equivalent to the distributions received by the Unitholders. During the three-month period ended September 30, 2016 the distribution recognized on Exchangeable securities was $592 while it was $1,526 for the same period in 2015. The increase is the result of 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, 2016, the REIT reported a gain of $181 which is the result of the change in the closing price of Units on the TSX which was $9.84 on September 30, 2016 compared to $9.94 as at June 30, 2016. For the nine-month period ended September 30, 2016, the REIT reported a loss of $838 which is the result of the change in the closing price of Units on the TSX which was $9.84 on September 30, 2016 compared to $9.37 as at December 31, 2015.

Current income tax expense

The current income tax expense incurred of $129 for the nine-month period ended September 30, 2016 amounts to a withholding tax paid by the REIT's Luxemburg holding company on the dividends it received from affiliates.

Last 24 Months Key Financial Information

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

	3-month period ended							
(in thousands of CAD$)	Sept. 30, 2016	June 30, 2016	March 31, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	March 31, 2015	Dec 31, 2014
Rental income	7,617	7,797	7,431	8,423	7,710	6,006	5,866	5,459
Net rental earnings	7,902	8,349	4,135	8,690	7,321	8,047	3,731	5,742
Earnings for the period	11,833	5,839	2,628	6,641	4,479	16,615	3,065	21,374
Earnings per Unit (CAD$)	0.60	0.29	0.15	0.43	0.29	1.08	0.20	1.56

NON-IFRS RECONCILIATION

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, an interest of 25% in the partnership was taken into account in the proportionate consolidation presentation, in line with the apportioned investment in the transaction by the REIT of 25% while, as per the joint venture agreement and as reflected in the condensed interim consolidated financial statements, the REIT is entitled to receive a 75% share of the net profit. A line entitled "additional gain or loss from Arcueil's joint venture" in the Consolidated statement of earnings reconciliation to consolidated financial statements bridges both presentations. A reconciliation of the financial position and results of operations to the condensed interim balance sheets and consolidated statements of earnings is included in the tables showed in the *Non-IFRS Reconciliation* section.

For the quarter ended September 30, 2016, the proportional financial results include the following proportion of the revenues and expenses of each one of the joint ventures: 50% for Duisburg and Walpur, 49% for Cologne and 25% for Arcueil. The figures of the period ended September 30, 2015 have been reclassified in order to ensure comparability with the figures for the period ended September 30, 2016

FFO and AFFO

(in thousands of CAD$)	Three months ended September 30 2016	Three months ended September 30 2015	Nine months ended September 30 2016	Nine months ended September 30 2015
Earnings for the period	11,833	4,479	20,299	24,159
Add/(Deduct):				
Adjustment to related acquisition costs	49	402	738	456
Less other revenues (recovery indemnity)	-	-	-	(1,240)
Option cost related to the acquisition of the Metropolitan property	-	-	(9,213)	-
Gain on bargain purchase	-	-	-	-
Other revenues	-	-	-	-
Less reversal of an overaccrual of acquistion costs in 2013	-	-	-	(216)
Loss recognized on exercise of early payment option on finance leases	-	-	1,242	-
Loss on refinancing of a debt	-	-	605	-
Net change in fair value of investment properties	(6,609)	443	(6,431)	(12,723)
(Gain) loss on financial instruments at fair value through profit and loss	100	1,407	2,469	1,028
Gain on disposal of a 50% interest in a subsidiary	-	-	-	-
Adjustment for property taxes accounted for under IFRIC 21	(880)	(713)	872	620
Share of net earnings of investments (equity method)	-	(519)	-	(640)
Additional income (loss from Arcueil's JV)	(1,198)	-	(1,281)	-
Net finance costs (income) from joint venture investments	-	(2,457)	-	(3,270)
Distributions on Exchangeable securities	592	408	1,526	1,265
Change in fair value of Exchangeable securities	(181)	(406)	838	(71)
Foreign exchange (loss) gain	46	23	(61)	(51)
Non-recurring finance income from Inovalis relating to Metropolitan	-	-	(798)	-
Other non-recurring finance costs	-	(27)	316	46
Deferred income tax expense	301	(86)	376	21
FFO from Joint Ventures	-	914	-	1,899
Minority interest	-	-	(43)	-
FFO	**4,053**	**3,868**	**11,454**	**11,283**
Add/(Deduct):				
Non-cash effect of straight line rents	(98)	(771)	125	(2,184)
Cash effect of the lease equalization loans	(375)	756	(685)	2,357
Amortization of fair value adjustment on assumed debt	46	110	145	324
Amortization of transaction costs on mortgage loans	59	101	234	302
Non-cash part of asset management fees paid in Exchangeable securities (1)	608	281	1,305	801
Capex net of cash subsidy	(100)	(100)	(300)	(300)
Adjustement from investment	-	22	54	73
AFFO	**4,192**	**4,267**	**12,332**	**12,656**
FFO / Units (diluted) *(in CAD$)*	**0.18**	**0.22**	**0.59**	**0.65**
AFFO / Units (diluted) *(in CAD$)*	**0.19**	**0.24**	**0.64**	**0.73**

(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 weighted average number of fully diluted Units, i.e. 22,296,266 and 17,513,310 for 3-month periods ended September 30, 2016 and 2015, and 19,401,416 and 17,424,127 for 9-month periods ended September 30, 2016 and 2015.

Management believes FFO is an important measure of our operating performance and is indicative of our ability to pay distributions. However, it does not represent cash flow from operating activities as defined by IFRS and is not necessarily indicative of cash available to fund Inovalis REIT’s needs. This non-IFRS measurement is commonly used for assessing real estate performance. Our FFO and AFFO calculations are based on the average foreign exchange rate for the period (1.4758 Canadian dollars per Euro for the quarter ended September 30, 2016) and does not take into account our foreign currency hedging arrangements (as at September 30, 2016 100% of our monthly cash distributions are covered until April 2019 at an average rate of 1.4962).

Funds from operations (FFO) and Adjusted Funds from operations (AFFO) for the three-month and nine-month periods ended September 30, 2016 shall be analyzed in the context of the recent $46.0 million equity offering, the proceeds of which being only in the process of being invested and shall also be put into prospective with the same periods in 2015 and also the quarter ended June 30, 2016.

	Q3 2016	Q2 2016	Q3 2015	9-month 2016	9-month 2015
Including Units part of the July 2016 equity offering					
FFO per unit	0,18	0,20	0,22	0,59	0,65
FFO payout ratio	121,4%	104,3%	93,4%	104,8%	95,6%
AFFO per unit	0,19	0,22	0,24	0,64	0,73
AFFO payout ratio	121,4%	93,2%	84,7%	97,3%	85,2%
Excluding Units part of the July 2016 equity offering					
FFO per unit	0,22	0,20	0,22	0,64	0,65
FFO payout ratio	92,8%	104,3%	93,4%	97,4%	95,6%
AFFO per unit	0,23	0,22	0,24	0,68	0,73
AFFO payout ratio	89,7%	93,2%	84,7%	90,5%	85,2%

Consolidated balance sheets reconciliation to consolidated financial statements

	As at September 30, 2016			As at December 31, 2015		
Assets	**As per REIT's financial statements (1)**	**Share from investments in joint-ventures**	**Proportionate Consolidation**	**As per REIT's financial statements (1)**	**Share from investments in joint-ventures**	**Proportionate Consolidation**
Non-current assets						
Investment properties	435,865	100,178	536,043	355,704	100,359	456,063
Investments accounted for using the equity method	45,918	(45,918)	-	40,337	(40,337)	-
Acquisition loan	-	-	-	18,786	-	18,786
Derivative financial instruments	7	-	7	92	-	92
Restricted cash and other financial assets	1,105	-	1,105	-	-	-
Deferred income tax assets	-	-	-	1,375	-	1,375
Long-term Loans from joint-venture partners	-	165	165	-	-	-
Total non-current assets	482,895	54,425	537,320	416,294	60,022	476,316
Current assets						
Trade and other receivables	3,930	36	3,966	4,803	816	5,619
Derivative financial instruments	24	158	182	197	159	356
Other current assets	2,149	516	2,665	1,333	39	1,372
Restricted cash	-	-	-	305	-	305
Cash and cash equivalents	47,923	2,916	50,839	6,895	3,958	10,853
Total current assets	54,026	3,626	57,652	13,533	4,972	18,505
Total assets	**536,921**	**58,051**	**594,972**	**429,827**	**64,994**	**494,821**
Liabilities and Unitholders' equity						
Liabilities						
Non-current liabilities						
Long term loans from joint venture partners	-	-	-	-	6,480	6,480
Mortgage loans	87,439	36,024	123,463	70,779	36,133	106,912
Finance lease liabilities	148,695	17,222	165,917	120,285	17,192	137,477
Other long-term liabilities	-	827	827	-	1,171	1,171
Lease equalization loans	4,663	-	4,663	5,090	-	5,090
Tenant deposits	2,518	-	2,518	1,746	-	1,746
Exchangeable securities	19,024	-	19,024	18,034	-	18,034
Provision relating to an investment accounted for using the equity method	-	-	-	925	(925)	-
Derivative financial instruments	3,096	284	3,380	2,698	158	2,856
Deferred tax liabilities	1,828	1,317	3,145	1,651	1,332	2,983
Total non-current liabilities	267,263	55,674	322,937	221,208	61,541	282,749
Current liabilities						
Mortgage loans	562	20	582	415	-	415
Finance lease liabilities	7,112	646	7,758	6,217	582	6,799
Lease equalization loans	956	-	956	1,335	-	1,335
Tenant deposits	206	-	206	116	-	116
Exchangeable securities	2,785	-	2,785	1,366	-	1,366
Derivative financial instruments	1,355	-	1,355	878	-	878
Trade and other payables	9,650	1,236	10,886	6,174	2,129	8,303
Other current liabilities	939	475	1,414	469	742	1,211
Total current liabilities	23,565	2,377	25,942	16,970	3,453	20,423
Total liabilities	290,828	58,051	348,879	238,178	64,994	303,172
Equity						
Trust units	184,285	22	184,307	136,365	-	136,365
Retained earnings	44,838	(22)	44,816	35,359	-	35,359
Accumulated other comprehensive income	17,013	-	17,013	19,925	-	19,925
	246,136	-	246,136	191,649	-	191,649
Non-controlling interest	(43)		(43)			
Total liabilities and equity	**536,921**	**58,051**	**594,972**	**429,827**	**64,994**	**494,821**

(1) Balance sheet amounts presented for the REIT were taken from the interim consolidated financial statements as at September 30, 2016 and December 31, 2015.

Consolidated statement of earnings reconciliation to consolidated financial statements

	Three months ended					
	September 30, 2016			September 30, 2015		
(in thousands of CAD$)	Amounts per REIT's financial statements (1)	Share of net earnings from investments in joint ventures	Total	Amounts per REIT's financial statements (1)	Share of earnings from investments in joint ventures	Total
Rental income	6,172	1,445	**7,617**	5,543	1,338	**6,881**
Service charge income	1,819	191	**2,010**	1,665	305	**1,970**
Service charge expenses	(1,506)	(287)	**(1,793)**	(1,469)	(193)	**(1,662)**
Other revenues	130	(18)	**112**	-	-	**-**
Other property operating expenses	(59)	15	**(44)**	(232)	(368)	**(600)**
Net rental earnings	**6,556**	**1,346**	**7,902**	**5,507**	**1,082**	**6,589**
Administration expenses	(1,229)	(191)	**(1,420)**	(941)	(177)	**(1,118)**
Foreign exchange (loss) gain	(46)	-	**(46)**	(23)	-	**(23)**
Net change in fair value of investment properties	6,559	94	**6,653**	(443)	905	**462**
Gain on bargain purchase	-	-	**-**	-	1,380	**1,380**
Acquisition costs	(49)	-	**(49)**	(402)	(730)	**(1,132)**
Share of profit of an investment (equity method)	218	(218)	**-**	519	(519)	**-**
Operating earnings	**12,009**	**1,031**	**13,040**	**4,217**	**1,941**	**6,158**
Gain (loss) on financial instruments at fair value through P&L	(110)	10	**(100)**	(1,407)	(138)	**(1,545)**
Loss on exercise of early payment option on finance leases	-	-	**-**	-	-	-
Loss on debt refinancing	-	-	**-**	-	-	-
Finance income	3	-	**3**	2,860	(2,457)	**403**
Finance income from Joint-ventures	2,214	(2,214)	**-**		-	**-**
Finance costs	(1,670)	130 (2)	**(1,540)**	(1,223)	(700)	**(1,923)**
Additionnal income (loss) from Arcueil's JV (1)	-	1,137	**1,137**	-	1,497	**1,497**
Distributions on Exchangeable securities	(592)	-	**(592)**	(408)	-	**(408)**
Net change in fair value of Exchangeable securities	181	-	**181**	406	-	**406**
Earnings before income taxes	**12,035**	**94**	**12,129**	**4,445**	**143**	**4,588**
Current income tax expense	4	1	**5**	(52)	(1)	**(53)**
Deferred income tax expense	(207)	(95)	**(302)**	86	(142)	**(56)**
Earnings for the period	**11,832**	**-**	**11,832**	**4,479**	**-**	**4,479**
Non-controlling interest	**(1)**	-	**(1)**	**-**	-	**-**
Earnings for the period (part attributable to the Trust)	**11,833**	**-**	**11,833**	**4,479**	**-**	**4,479**

(1) Income statement amounts presented for the REIT were taken from the internal condensed interim consolidated financial statements as at September 30, 2016 and 2015.
(2) Includes the REIT's share of the hedging cost of Arcueil's partner.
(3) Reflects the additional loss assumed by the REIT's in reference with its actual 75% rights to the net profit of the Arcueil joint venture.

	Nine months ended					
	September 30, 2016			September 30, 2015		
(in thousands of CAD$)	Amounts per REIT's financial statements (1)	Share of net earnings from investments in joint ventures	Total	Amounts per REIT's financial statements (1)	Share of net earnings from investments in joint ventures	Total
Rental income	17,698	5,150	**22,848**	16,133	2,648	**18,781**
Service charge income	4,594	802	**5,396**	5,324	600	**5,924**
Service charge expenses	(6,980)	(889)	**(7,869)**	(6,613)	(681)	**(7,294)**
Other revenues	172	(18)	**154**	1,240	(2)	**1,238**
Other property operating expenses	(126)	-	**(126)**	(279)	24	**(255)**
Net rental earnings	**15,358**	**5,045**	**20,403**	**15,805**	**2,589**	**18,394**
Administration expenses	(3,953)	(641)	**(4,594)**	(3,059)	(426)	**(3,485)**
Foreign exchange (loss) gain	61	-	**61**	51	-	**51**
Net change in fair value of investment properties	7,203	(772)	**6,431**	12,723	835	**13,558**
Gain on bargain purchase	-	-	**-**	-	1,380	**1,380**
Option cost related to the acquisition of the Metropolitain property	9,213	-	**9,213**	-	-	**-**
Acquisition costs	(738)	-	**(738)**	(456)	(722)	**(1,178)**
Operating earnings	**27,144**	**3,632**	**30,776**	**25,064**	**3,656**	**28,720**
Gain (loss) on financial instruments at fair value through P&L	(2,347)	(122)	**(2,469)**	(1,028)	(138)	**(1,166)**
Share of profit of an investment (equity method)	(140)	140	**-**	640	(640)	**-**
Loss on exercise of early payment option on finance leases	(1,242)	-	**(1,242)**	-	-	**-**
Loss on debt refinancing	(605)	-	**(605)**	-	-	**-**
Finance income	1,171	-	**1,171**	4,424	(3,270)	**1,154**
Finance income from Joint-ventures	3,882	(3,882)	**-**	-	-	**-**
Finance costs	(4,809)	(978) (2)	**(5,787)**	(3,666)	(896)	**(4,562)**
Additionnal income (loss) from Arcueil's JV (1)	-	1,281	**1,281**	-	1,497	**1,497**
Distributions on Exchangeable securities	(1,526)	-	**(1,526)**	(1,265)	-	**(1,265)**
Net change in fair value of Exchangeable securities	(838)	-	**(838)**	71	-	**71**
Earnings before income taxes	**20,690**	**71**	**20,761**	**24,240**	**209**	**24,449**
Current income tax expense	(104)	(25)	**(129)**	(60)	(1)	**(61)**
Deferred income tax expense	(330)	(46)	**(376)**	(21)	(208)	**(229)**
Earnings for the period	**20,256**	**-**	**20,256**	**24,159**	**-**	**24,159**
Non-controlling interest	(43)	-	(43)	-	-	-
Earnings for the period (part attributable to the Trust)	**20,299**	**-**	**20,299**	**24,159**	**-**	**24,159**

(1) Income statement amounts presented for the REIT were taken from the internal consolidated financial statements as at Septembre 30, 2016 and 2015.
(2) Includes the REIT's share of the hedging cost of Arcueil's partner.
(3) Reflects the additional loss assumed by the REIT's in reference with its actual 75% rights to the net profit of the Arcueil joint venture.

PROPERTY CAPITAL INVESTMENTS

Fair value

The fair value of our investment property portfolio as at September 30, 2016 was $536.0 million including the REIT's interests in the properties held in partnerships (vs. $456.1 million as at December 31, 2015). The fair value of the French properties was $433.6 million (80.9% of total value) and the fair value of the German properties was $102.4 million (19.1% of total value).

Management principally uses discounted cash flows to determine the fair value of the investment properties. These values are supported by third party appraisals in conformity with the requirements of the *Royal Institution of Chartered Surveyors Standards*, and for the French properties also in conformity with the *Charte de l'expertise immobilière, European Valuation Standards of TEGoVA* (the European Group of Valuers' Association) and IFRS 13.

Building improvements

The REIT is committed to improving its operating performance by incurring appropriate capital expenditures in order to replace and maintain the productive capacity of its property portfolio so as to sustain its rental income generating potential over the portfolio's useful life.

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

Guarantees, commitments and contingencies

The REIT and its subsidiaries have provided guarantees in connection with the finance lease liabilities and the mortgage loans, including pledge of affiliates of the REIT, first mortgages and assignment of receivables and future receivables. As at September 30, 2016, guarantees provided by the REIT with respect to its long-term debts include a preferential claim held by mortgage lenders on the Jeuneurs, Véronèse, Sablière and Hanover properties in the amount of $88,002.

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

New acquisition

During the quarter ended September 30, 2016, the REIT entered into an agreement for the forward purchase of a class-A office property to be developed in Ingolstadt, Germany. Upon completion of its development in the first quarter of 2018, the property will be fully let to a leading German automotive supplier and serve as a headquarters under a 10-year firm lease. Building permit for the Property was obtained in September 2016. The property will be a 103,000 sq.ft office mainly property consisting of three buildings (two to four storeys each) together with 309 parking units. The REIT through Inovalis S.A. relations is looking to share up to 50% of the asset. One of Inovalis S.A. partners has showed great interest for the project. The net purchase price of the property of approximately €23.9 million ($35.2 million) reflects an acquisition yield of 6.5%. A deposit of €1.5 million ($ 2.2 million) has already been paid upon signature of the forward purchase agreement. The balance of the purchase price will be paid upon completion of the property with a combination of senior mortgage debt for €14.0 million ($ 20.6 million) and an additional equity commitment of approximately €8.4 million ($ 12.4 million).

OTHER SIGNIFICANT ASSETS

Restricted cash

As at September 30, 2016, the REIT had $1,105 of restricted cash which amounts to the share of the REIT's deposit in the Ingolstadt forward purchase transaction as described above. Restricted cash of $1,680 as at December 31, 2015 was comprised of a collateral for the foreign exchange currency contracts entered into with a Canadian bank. In the course of the quarter ended June 30, 2016, the REIT terminated all these contracts and replaced them with a new series of 36 monthly forward contracts provided by a French bank that has no cash collateral requirements.

Investments accounted for using the equity method

This section encompasses the 50% interest the REIT (through its subsidiaries) has in the Duisburg property, the 50% interest in the Walpur property, the 25% interest in the Arcueil property and the 49% interest in the Cologne property. Our share of fair value of the investment properties accounted for using the equity method was $45,918 as at September 30, 2016 compared to $40,337 as at December 31, 2015.

Acquisition loan

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

Trade and other receivables

Trade and other receivables as at September 30, 2016 amounted to $3,966 taking into account the REIT's interests in the properties held in partnerships compared to $5,619 as at December 31, 2015.

Other current Assets

Other current assets as at September 30, 2016 amounted to $2,665 compared to $1,372 as at December 31, 2015. This includes the 50% share of the deposit pertaining to the Ingolstadt forward purchase that will be borne by the yet-to-be chosen partner on this transaction. The balance of other current assets consists mainly of sales tax receivables.

PRESENTATION OF OUR CAPITAL

Liquidity and capital resources

Inovalis REIT's primary sources of capital are cash generated from operating activities, credit facilities, sharing the ownership of actual assets owned entirely and equity issues. Our primary uses of capital include property acquisitions, payment of distributions, costs of attracting and retaining tenants, recurring property maintenance, major property improvements and debt interest payments. We expect to meet all of our ongoing obligations through current cash, cash flows from operations, debt refinancing and, as growth requires and when appropriate, new equity or debt issues. We can also sell some portion of assets owned in order to get access to capital but also in the perspective of diversification of our portfolio.

The REIT's cash available reached $47.9 million as at September 30, 2016 compared to $6.9 million as at December 31, 2015. Including the REIT's interest in the joint ventures, cash available totals $50.8 million as at September 30, 2016, compared to $10.9 million as at December 31, 2015. This includes the proceeds of the equity offering closed on July 25, 2016, the proceeds of which having not been invested yet. Gross proceeds of $46.0 million resulted into net proceeds of $43.1 million after deduction of $2.9 million of offering costs.

Financing activities

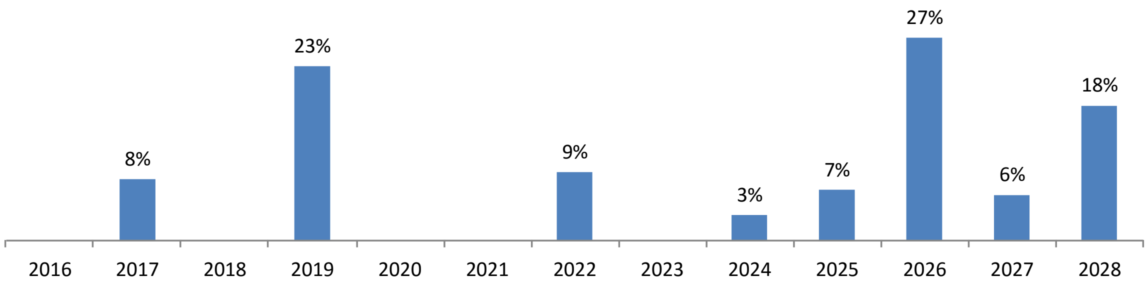
Our debt strategy is to have secured mortgage financing with a term to maturity that is appropriate in relation to the lease maturity profile of our portfolio and then to put in place, when appropriate, interest-only financings. We intend to search for fixed rate financings or floating rate financings with a cap. As such, 92.0% of the REIT's senior debt benefits from an interest rate protection (75.2% in the form of a swap and 16.8% 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 20% 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 51.7% and net of the $50.8 million of cash available as at September 30, 2016 (including the REIT's interest in the joint ventures), this debt to book value stands at 47.1%.

Key performance indicators in the management of our debt are summarized in the following table (taking into account the interest the REIT has in the properties held in partnerships).

	As at September 30, 2016	As at December 31, 2015
Weighted average interest rate (1)	2,07%	1,98%
Debt-to-book value (2)	51,7%	52,8%
Debt-to-book value, net of cash (2)	47,1%	51,8%
Interest coverage ratio (3)	3,8 x	4,0 x
Debt due in next 12 months in thousand of CAD$	8 320	12 232
Weighted average term to maturity of debt (4)	7,4 years	7,2 years

(1) Calculated as the weighted average interest rate paid on the finance leases and the mortgage financing.
(2) The definition of *debt-to-book value* and of *debt-to-book value, net of cash* can be found under the section *Non-IFRS Financial Measures.*
(3) Calculated as net rental earnings plus interest, less general and administrative expenses, divided by interest expense on the financial leases and mortgage financings.
(4) Calculated as the weighted average term on all the financial leases and mortgage financings.

Leasehold and Mortgage Financing Maturity Profile
(% of amount outstanding as at September 30, 2016)



Trade and other payables

Trade and other payables as at September 30, 2016 amounted to $10,886 taking into account the REIT's interests in the properties held in partnerships compared to $8,303 as at December 31, 2015. The increase is principally due to the accrual of all property taxes and levies, which will resorb itself in the fourth quarter of the year. Also, the addition of the Metropolitan property in the course of the first quarter of 2016 has increased the level of operating expenses and also resulted in higher payables.

Equity

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

	3-month period ended September 30, 2016	9-month period ended September 30, 2016
Units		
Number at beginning of period	16,114,376	15,637,019
Increase/(Decrease) in number during the period	4,842,190	5,262,190
Units issued pursuant to the DRIP	33,250	90,607
Number at end of period	20,989,816	20,989,816
Weighted average number during the period	20,183,520	17,194,747
Exchangeable securities		
Number at beginning of period	2,111,607	2,070,398
Increase/(Decrease) in number during the period	104,812	146,021
Number at end of period	2,216,419	2,216,419
Weighted average number during the period	2,112,746	2,206,669
Units and Exchangeable securities		
Number at beginning of period	18,225,983	17,707,417
Increase/(Decrease) in number during the period	4,980,252	5,498,818
Number at end of period	23,206,235	23,206,235
Weighted average number during the period	22,296,266	19,401,416

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

On July 25, 2016, the REIT closed a $46.0 million equity offering (including the over-allotment, which was fully exercised) aimed at being used as an available source of funding for potential future acquisitions of office properties located in France and Germany and for potential capital expenditures relating to the re-positioning and/or re-development of currently owned properties. Until utilized for these purposes, the REIT intends to reimburse the finance lease on the Baldi property for $23.8 million in order to have an unencumbered asset. We will use this property as a security in order to secure a revolving line that will help underwrite and warehouse assets in the future. The repayment of the debt and the setting up of the revolving line are expected to take place in the course of the first quarter of 2017.

In this equity offering 4,842,190 Units were issued, including 631,590 Units issued pursuant to the exercise in full of the over-allotment option.

Further to the Distribution Reinvestment Plan ("DRIP") in place, a total of 33,250 Units were issued to Unitholders during the quarter ended September 30, 2016 and 90,607 were issued during the nine-month period ended September 30, 2016. As at September 30, 2016, 7.6% of the Units were enrolled in the DRIP.

A total of 104,812 Exchangeable securities were issued during the period from July 1, 2016 to September 30, 2016 in favor of Inovalis SA as payment of the asset management fees for the third quarter of 2016.

For the period from January 1, 2016 to September 30, 2016, a total of 269,985 Exchangeable securities were issued in favor of Inovalis SA as payment of the asset management fees for the nine-month period ended September 30, 2016. 296,036 Exchangeable securities were also issued in favor of Inovalis SA as a further investment into the REIT by Inovalis SA. Both elements combined with a conversion of 420,000 Exchangeable securities into Units on June 22, 2016 resulted in a 146,021 increase in the number of Exchangeable securities in the nine-month period ended September 30, 2016.

Distribution and management of foreign exchange risk

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

In order to ensure the predictability of distributions to our Unitholders, we have established an active foreign exchange hedging program. As at March 31, 2016, the REIT was committed to sell €663 (on the average) at an average rate of 1.5085 and to receive $1,000 on a monthly basis until February 2019 (included). Approximately 60% of the contracts were forward contracts and 40% of the contracts were a combination of puts and calls. The puts and calls contracts were taken at the beginning of 2015 when the market conditions were such that this strategy enabled us to lock in a better rate than the one what we would have had with forward contracts. During the quarter ended June 30, 2016, all of the above mentioned foreign exchange contracts, which were provided by a Canadian bank, were terminated and replaced with a new series of 36 monthly forward contracts provided by a French bank. Under those contracts, the REIT is committed to sell €670 (on the average) at an average rate of 1.4962 and to receive $1,000 on a monthly basis from October 2016 until April 2019 (included). Under these new contracts there is no cash collateral requirement from the bank as was the case with the previous contracts. Besides, the average rate is slightly lower because we chose not to take put and calls any longer as this previous strategy proved to be more volatile in terms of mark to market of our position and prevented us, for such contracts, to apply hedge accounting. The unwinding of existing foreign exchange contracts and their replacement with the new contracts resulted in a $467 loss recorded in the REIT's results for the quarter ended June 30, 2016.

Subsequent to the quarter, on October 18, 2016, the REIT entered into 30 new monthly foreign currency hedge contracts whereby the REIT is entitled to purchase $300 each month at an average exchange rate of 1.4554 Canadian dollars per euro. The new contracts cover 30 monthly periods from November 10, 2016 to April 10, 2019. The addition of these new contracts to the already existing ones ensure the foreign exchange protection for the distribution on the entirety of the REIT's units (including the Units raised in the $46.0 million equity offering in July 2016).

	Three months ended September 30, 2016		**Nine months ended September 30**	
(in thousands of CAD$ except for per Unit amounts)	**2016**	**2015**	**2016**	**2015**
Declared distributions on Units	4,327	3,205	10,820	9,516
Declared distributions on Exchangeable securities	592	408	1,526	1,265
Total declared distributions	**4,919**	**3,613**	**12,346**	**10,781**
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.

ANALYSIS OF DISTRIBUTED CASH

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Cash flows from operating activities (A)	3,761	5,976	14,918	12,962
Earnings before income taxes (B)	12,035	4,445	20,690	24,240
Declared distribution on Units (C)	4,327	3,205	10,820	9,516
Excess (shortfall) of cash flows from operating activities over cash distributions paid (A - C)	(566)	2,771	4,098	3,446
Excess (shortfall) of profit or loss over cash distributions paid (B - C)	7,708	1,240	9,870	14,724

With cash flows from operating activities (A) for the three-month period ended September 30, 2016 of $3,761, there is a $566 shortfall over cash distributions paid during the same period. Excluding working capital adjustments of $2,387, cash flows from operating activities reached $6,148 and exceeds the amount of cash distributions paid. The $2,387 working capital adjustment includes an increase in receivables by $622, an increase in tenants' deposits by $35 and a decrease in payables by $1,800 during the three-month period ended September 30, 2016. For the nine-month period ended September 30, 2016, cash flows from operating activities as reported in the REIT's consolidated statement of cash flows exceeded the cash distribution declared for the same period.

Also, as shown in the table above, the earnings reported during the three-month and nine-month periods ended September 30, 2016 exceeded the amount of distributions declared for the same periods.

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

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

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

RISK AND UNCERTAINTIES

We are exposed to various risks and uncertainties, many of which are beyond our control. Material risks and uncertainties that could materially affect our operations and future performance are described in our prospectus dated March 28, 2013, in our short-form equity offering prospectus dated October 30, 2014 and July 18, 2016 and in our 2015 annual report which are available at www.sedar.com.

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

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

A more detailed description of significant accounting policies and critical accounting judgment and estimates that we apply under IFRS is provided in notes 3 and 4 of the consolidated financial statements for the year ended December 31, 2015.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

Given the continued growth and diversification of the REIT’s investments portfolio, principally through the acquisition of interests in properties that are accounted for using the equity method, and given the addition or growth of several financial statement lines, several internal controls were newly implemented or modified. These changes were aimed principally at mitigating the risk of misstatement with respect to new investments accounted for using the equity method. In preparation for anticipated additional acquisitions, some additional changes and improvements are being planned in the coming months.

SUBSEQUENT EVENTS

Rueil

Subsequent to the quarter, the REIT has committed to fund a €21.7 million ($32.1 million) acquisition and redevelopment loan to a company 80% owned by Inovalis SA related to a property located in Rueil, in Paris Western periphery. An office building complex will be re-developed with a total lettable area of approximately 260,000 sq.ft. The facility amount will be drawn in several installments by completion of the project in 2019. The loan will bear an annual interest rate of 8.50%, will give the REIT 16% of the profit generated by the transaction and will also give the REIT an option for the purchase of up to 50% of the property once it meets the REIT's investment criteria. To date, €1.0 million ($1.5 million) was funded by the REIT as deposit. This transaction will legally be structured in a similar way to the Metropolitan transaction.

New foreign exchange contracts

Subsequent to the quarter, on October 18, 2016, the REIT entered into 30 new monthly foreign currency hedge contracts whereby the REIT is entitled to purchase $300 each month at an average exchange rate of 1.4554 Canadian dollars per euro. The new contracts cover 30 monthly periods from November 10, 2016 to April 10, 2019. The addition of these new contracts to the already existing ones ensure the foreign exchange protection for the distribution on the entirety of the REIT's units (including the Units raised in the $46.0 million equity offering in July 2016).