

INOVALIS

REAL ESTATE INVESTMENT TRUST

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INOVALIS REAL ESTATE INVESTMENT TRUST ANNOUNCES FINANCIAL RESULTS FOR THE FOURTH QUARTER AND THE YEAR ENDED DECEMBER 31, 2020

Toronto, Ontario March 24, 2021 – Inovalis Real Estate Investment Trust (the “REIT”) (TSX: INO.UN) today reported strong financial results for the year ended December 31, 2020.

HIGHLIGHTS

Net Rental Income

For the portfolio that includes only buildings owned entirely by the REIT (“IP Portfolio”), net rental income for the three months ended December 31, 2020 (“Q4 2020”), adjusted for IFRIC 21 – Levies (“IFRIC 21”), was CAD\$7,110,000 (EUR4,580,000), compared to CAD\$5,517,000 (EUR3,780,000) adjusted net rental income for the three months ended December 31, 2019 (“Q4 2019”). The increase is mainly due to: the net impact of CAD\$600,000 related to the Arcueil acquisition and sale of the Vanves property; the 2-month Net Operating Income (“NOI”) contribution of CAD\$389,000 from the Bad Homburg asset following its acquisition at the end of October 2020, the indemnity of CAD\$275,000 obtained from Jeuneurs’ single tenant, as well as the positive foreign exchange impact of CAD\$302,000.

In Q4 2020, for the portfolio that includes the REIT’s proportionate share in joint ventures (“Total Portfolio”), net rental income adjusted for IFRIC 21 was CAD\$9,105,000 (EUR5,859,000), compared to CAD\$8,113,000 (EUR5,560,000) for Q4 2019, mainly attributable to the positive foreign exchange impact of CAD\$534,000, as well as the indemnity of CAD\$275,000 on the Jeuneurs property.

COVID-19 Related Business Update

The REIT did not experience a significant change in quarterly rent collection for Q4 2020 due to COVID-19. Management continuously monitors market conditions, adapting its operations to the measures taken by European governments and health officials to protect public health.

Management is confident in the strength of its portfolio, as indicated by the solid Q4 2020 results. However, management continues to monitor the potential impact of downward pressure on rental revenue which may transpire in the short-term in 2021 as subsequent waves of the COVID-19 pandemic occur, necessitating partial lockdown measures and consequent economic disruption.

Rent collection

Rent for the French assets is invoiced and collected on a quarterly basis and 94% of rent has been received for Q4 2020. This is generally in line with the timing and percentage of pre-COVID-19 rent collection levels with a few minor exceptions.

For the REIT’s German properties, rents are collected on a monthly basis and nearly 100% of rent was received in Q4 2020.

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

Leasing Operations

About 7,900 sq. ft. of incremental space was leased during Q4. Efforts continue to lease unoccupied space (127,024 sq. ft., 9.7% of total weighted areas) in the portfolio. Management will selectively complete capital expenditure improvements on vacant areas to attract tenants and maximize rent. Leasing negotiations for a

number of new tenants have been pushed back to Q2 2021 until there is greater clarity about normal business operations.

Funds from Operations (“FFO”), Adjusted Funds from Operations (“AFFO”)

The REIT follows the recommendations of the Real Property Association of Canada (“REALPAC”) (February 2019 white paper) with certain exceptions. Refer to the *Non-GAAP Financial Measures* section of the management’s discussion and analysis for the years ended December 31, 2020 and 2019 (the “2020 Annual MD&A”) for a more detailed discussion on FFO and AFFO.

In Q4 2020, the REIT reported Funds from Operations (“FFO”) and Adjusted Funds from Operations (“AFFO”) were CAD\$0.17 and CAD\$0.15 per unit respectively, versus CAD\$0.22 and CAD\$0.26 for the same period last year. Effective with the onset of the pandemic in March 2020, the REIT conserved cash and paused its investment plans until the economic impact of the COVID-19 pandemic on the REIT’s business became more apparent. This occurred because the REIT deferred investing \$55 million that had been earmarked for acquisitions of income-generating assets in the 2020 budget.

The REIT’s Canadian funds held in Euros had an unrealized foreign exchange gain of CAD\$1.01 million (which represents an equivalent of approximately CAD\$0.03 per unit of FFO) over the twelve months of 2020. REALPAC guidance suggests that this gain be included in the FFO calculation, however, it has been excluded due to the volatility of the Canadian dollar against the Euro.

Financing Activity

As at December 31, 2020, the weighted average interest rate across the portfolio debt was 2.03% and the debt ratio was 42.3% (35% net of cash), comfortably within the REIT’s mandated threshold of 60%.

For the same period, the REIT had CAD\$80.4 million of cash on its consolidated balance sheet, including CAD\$26.3 million proceeds from the full repayment of the Rueil construction loan principal to the REIT and the CAD\$12.4 million interim cash distribution on Rueil profit resulting from the sale of the building. This interim cash distribution, corresponding to the distributed profit on the sale, is subject to income tax payable of CAD\$3.6 million (CAD\$4.1 million for the total profit).

Looking ahead, management is considering other refinancing opportunities to take advantage of historically low interest rates in Europe. The REIT should be able to finance assets on a less costly basis than that offered by traditional financing in Canada.

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. The REIT has benefited from penalty-free deferrals for principal and interest owing on Sablière, Courbevoie, Métropolitain, Baldi, and Delizy and Arcueil properties representing a CAD\$6.15 million positive impact on the REIT’s 2020 cash generation.

Rueil acquisition loan

On October 2nd, 2020, the REIT exercised its option and acquired a 20% stake in the company it financed to build the Rueil property. The building was delivered on October 19th, in line with budgetary assumptions related to the valuation of the REIT’s profit participation component in the development loan (call option). The initial CAD\$26.7 million (EUR17.2 million) loan was fully repaid to the REIT by the borrowing entity. Since inception in December 2016, a net gain of CAD\$10.4 million (EUR6.8 million) in fair value was recognized in relation to the profit participation component of the loan.

Bad Homburg

On July 27, 2020, the REIT entered into an agreement with its joint venture partner to buy-back the 50% interest held in Bad Homburg by its joint venture partner. The transaction which closed on October 27, 2020 was a component of the REIT’s strategy to buy-back joint ventures and simplify the ownership structure. The REIT bought back 50% of the shares of the company holding the Bad Homburg asset and an interest-bearing loan owned by the seller for total consideration of CAD\$10.8 million (EUR7.1 million), including transaction costs (for a total amount of CAD\$1.9 million (EUR1.2 million)) and it is now a wholly owned asset.

Stuttgart

The previously tentative sale of the Stuttgart property has been postponed to Q3 2021 from Q3 2020. Once completed, the disposition of this jointly-held asset will further simplify the REIT’s asset ownership structure.

Courbevoie (Veronese)

On December 22, 2020, the REIT entered into an unilateral promise to sell with a potential buyer for the Courbevoie property. The sale is expected to be completed in 2021 at a price of CAD\$42.3 million (EUR27.2 million), contingent on the buyer obtaining a building permit and the seller vacating the asset, each acting at their own expense. This disposition will contribute to the REIT's positioning for future opportunistic investments.

Special Committee Process and Management Agreement Extension

A special committee of independent trustees of the Board (the "**Special Committee**") was formed in late 2020 to review strategic alternatives available to the REIT. The Special Committee continues to review and evaluate a wide range of strategic alternatives to enhance unitholder value.

As part of this review and subsequent to year-end, the Board of Trustees approved a two-year extension of the Management Agreement with Inovalis S.A. by way of entry into an amended and restated Management Agreement to be effective April 1, 2021. The Board of Trustees and Inovalis SA also agreed that, given the REIT's relative size, it is in the REIT's best interest to target the internalization of the finance functions of the REIT on or before April 1, 2022.

The extension provides the Special Committee, Board and Manager with flexibility to continue to assess strategic options for the REIT while ensuring continuity of a professional and aligned manager. The Special Committee also believes that the revisions to the Management Agreement will better align the Manager with the best interests of the REIT and its unitholders and will facilitate the cooperation of the Manager in the strategic review process.

The following modifications have been adopted in the amended and restated Management Agreement:

- **Term:** The extension is for two (2) years ending on March 31, 2023. The agreement may be renewed upon mutual agreement of the parties for an additional term of one (1) year.
- **Asset Management Fees:** Will be calculated as a percentage of assets under management in accordance with a scale of 0.5 % on the first CAD\$1.0 billion of assets under management, 0.4 % on assets under management from CAD\$1 billion to CAD\$2.0 billion, and 0.3 % on assets under management of CAD\$2.0 billion and over. The asset management fee will be reduced by CAD\$500,000 once the internalization of the REIT finance function is completed.
- **Disposition Fees:** A disposition fee will be paid to Inovalis SA as follows:

(i) an amount equal to 1.0% of the gross proceeds of any disposition completed by the Manager during the fiscal year, but only to the extent that the net proceeds of any such sale or disposition are distributed as a special distribution to unitholders; or

(ii) an amount equal to 0.5% of assets under management in the event that there is (i) a change of control of the REIT which results in a termination of the management agreement, (ii) a sale of all or substantially all of the assets of the REIT, or (iii) a sale of CanCorpEurope S.A. (referred to as Luxco) but in any case, only where the net proceeds of any such sale or disposition are paid to or distributed as a special distribution to unitholders.

To the extent that the disposition fee is payable, such disposition fee shall be the only fee payable to the Manager (or related parties, including affiliates of the Manager) in connection with the transactions set out in (i) or (ii) above. Furthermore, only one disposition fee shall be payable for each individual asset that is disposed of and under no circumstances shall more than a single disposition fee be paid. The Manager agrees to use all commercially reasonable efforts to facilitate and cooperate with any such transactions contemplated above. No disposition fee shall be payable in the event that the Manager takes any action to oppose a change of control of the REIT.

- **G&A Budget:** Measures have been established that require Inovalis SA to reimburse the REIT for amounts in excess of the G&A budgeted amounts based on a scale. In the event that the actual annual G&A expenses of the REIT are significantly less than the G&A budgeted amount for such year, the REIT shall pay to Inovalis SA an additional fee based on the percentage of the savings in accordance with a scale. Also, from January 1, 2021 until the completion of the internalization of the REIT finance

function, the Manager will reimburse the REIT for 50% of all costs related to the finance functions of the REIT.

- **Change of Control:** Upon the occurrence of a change of control of the REIT, the Board of Trustees has the option to terminate the Management Agreement, exercisable within 90 days.

See “*Related Party Transactions - Extension of Management Agreement effective April 1, 2021*” in the 2020 Annual MD&A. A full copy of the Fourth Amended and Restated Management Agreement is available on SEDAR.com.

Normal Course Issuer Bid

As reported in Q2 2020, the TSX approved the REIT’s Normal Course Issuer Bid (NCIB) which was undertaken in response to the extreme volatility that negatively affected the trading price of the REIT. Management believes that the purchase by the REIT of a portion of its outstanding Units has been an appropriate use of available resources and has been in the best interests of the REIT and its unitholders. Between April 22 and December 31, 2020, the REIT bought back 989,275 Units at prices ranging between \$6.41 and \$8.50 per unit for a total of CAD\$7.5 million (average Unit price of CAD\$7.58). The Units repurchased during the year ended December 31, 2020 resulted in a reduction of Trust Units representing the average book value of CAD\$8.9 million representing a discount of CAD\$1.4 million over the average issue price.

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

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