



INNVEST REAL ESTATE INVESTMENT TRUST

RENEWAL ANNUAL INFORMATION FORM

April 30, 2004

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Capitalized terms that are not otherwise defined in this annual information form have the respective meanings set out in Appendix A – Glossary of Terms.

INVEST REAL ESTATE INVESTMENT TRUST

InnVest Real Estate Investment Trust (the "REIT" or "InnVest REIT") is an unincorporated open-ended real estate investment trust created by its amended and restated declaration of trust dated July 18, 2002 (the "Declaration of Trust") and governed by the laws of the Province of Ontario. The REIT is principally focused on the ownership and acquisition of limited service and mid-scale with food and beverage hotels, which generally do not have, or have only limited, food and beverage or other ancillary services and substantially all the revenues of which are generated from guest room rentals. However, the REIT's broader strategy also encompasses the acquisition and ownership of certain mid-scale with food and beverage hotels to complement its mid-scale limited service portfolio. The REIT also indirectly owns 50% of Choice Canada, the largest franchisor of hotels in Canada, as measured by hotels under franchise.

The head office of the REIT is located at 5090 Explorer Drive, 7th Floor, Mississauga, Ontario L4W 4T9.

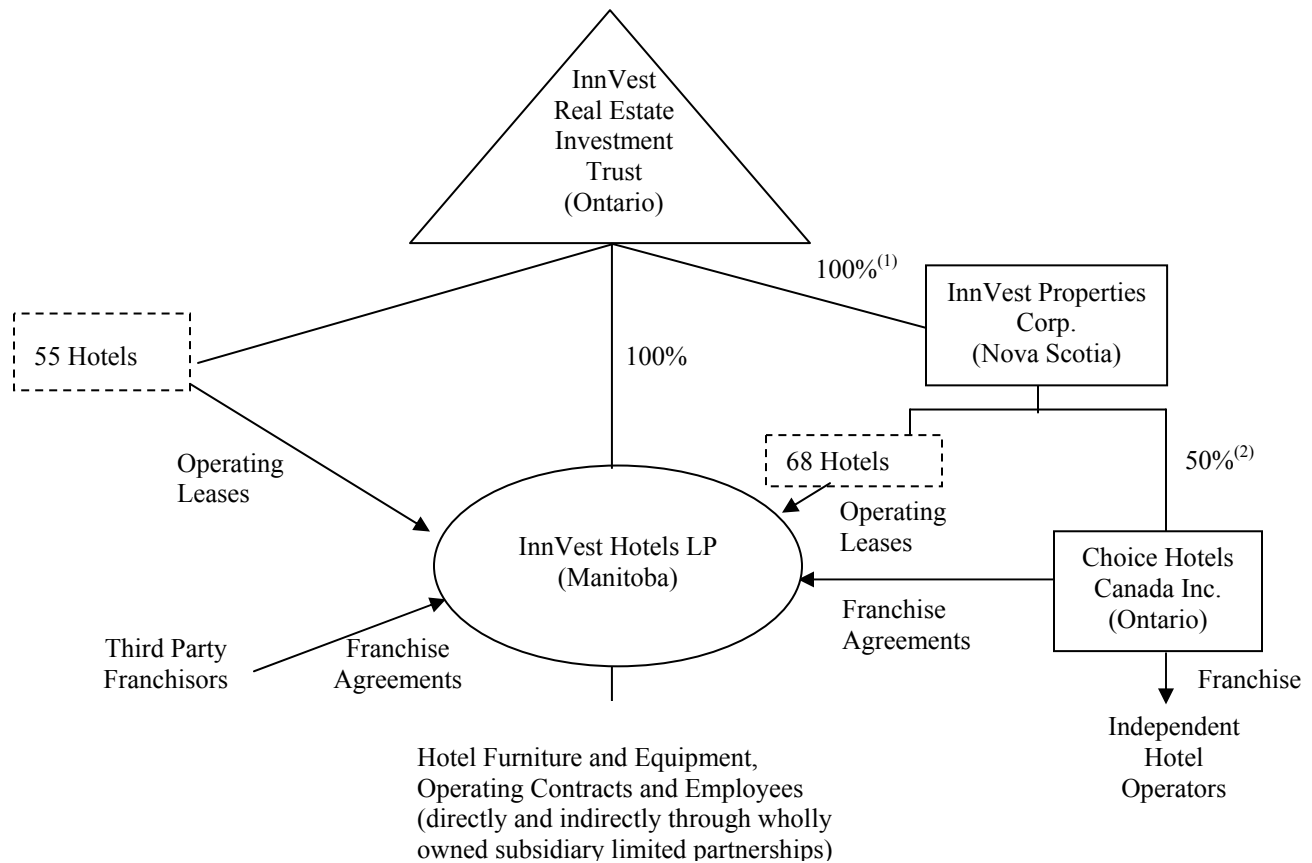
The REIT is a "mutual fund trust" as defined by the Tax Act, but it is not a "mutual fund" as defined by applicable securities legislation.

Additional information relating to the REIT may be found in InnVest REIT's financial statements and Management Discussion and Analysis for the year ended December 31, 2003. These documents can be accessed at www.sedar.com.

STRUCTURE OF THE REIT

The REIT holds, directly and indirectly, the Portfolio, consisting of 123 Canadian hotel properties operated under international brands, and a 50% interest in Choice Canada. InnVest REIT owns 55 Hotel Properties, either directly or through a subsidiary limited partnership, and InnVest Properties Corp., an indirect subsidiary of InnVest REIT, owns 68 Hotel Properties. The Operator, a subsidiary limited partnership of InnVest REIT, together with subsidiaries, owns and operates the Hotel Businesses and leases the Hotel Properties (other than certain Hotel Businesses and Hotel Properties that are indirectly owned by InnVest Properties Corp.) from the REIT, InnVest Properties Corp. and their subsidiaries. One hundred of the 123 hotels in the Portfolio are operated under franchise agreements with Choice Canada, and the remaining 23 hotels are operated under franchise agreements with other franchisors.

The following chart illustrates the primary structural and contractual relationships between InnVest REIT and its principal subsidiary entities and certain third parties.



(1) Held through wholly-owned direct and indirect subsidiaries of the REIT.

(2) Held through a wholly-owned subsidiary of InnVest Properties Corp.

GENERAL DEVELOPMENT OF THE BUSINESS

Major events influencing the development of InnVest REIT's business since January 1, 2000 that are expected to have a significant influence on future operations include the following:

- Prior to July 26, 2002, the Portfolio was owned by a joint venture created by the Whitehall Funds and the Westmont Group, the sponsors of the REIT. The majority of the hotels in the Portfolio were indirectly acquired by the Whitehall Funds and Westmont Holdings through the acquisition of UniHost Corporation, a TSX-listed public company, completed in May 1999.
- InnVest REIT was formed on January 1, 2002. The declaration of trust governing the REIT was amended and restated on July 18, 2002 in connection with the filing of a (final) prospectus of InnVest REIT relating to its initial public offering. InnVest REIT did not carry on any activities between January 1, 2002 and July 26, 2002.

- On July 26, 2002, InnVest REIT completed an initial public offering of 30 million Units at an offering price of \$10 per Unit. The REIT issued an additional 11,068,910 Units to the Whitehall Funds, Maple Leaf and a Canadian chartered bank at an issue price of \$10 per Unit and issued \$75 million aggregate principal amount of Convertible Debentures to certain of the Whitehall Funds. The net proceeds to InnVest REIT from the sale of securities were principally used to acquire the Portfolio, consisting of 114 hotels operated under international brands, a 50% interest in Choice Canada and certain related assets. See "Business of the REIT – Assets of the REIT".
- On July 26, 2002, the Operator entered into the Master Hotel Management Agreement with the Manager under which the Manager manages the Hotel Businesses. See "Management of the REIT – Master Hotel Management Agreement".
- On July 26, 2002, InnVest REIT obtained a \$375 million Term Credit Facility with a Canadian financial institution. Initially, \$216.7 million of this amount was drawn down to refinance existing indebtedness. Subsequent advances are available: (i) to finance 50% of the cost of renovations and capital expenditures with respect to the Hotel Properties or 50% of the purchase price for the freehold interest under any ground lease or third party minority co-ownership interest relating to any of the Hotel Properties (up to approximately \$24 million); (ii) to refinance Existing Mortgages upon maturity (up to approximately \$94.3 million); and (iii) to finance the costs for acquisition of additional hotel properties approved by the lender (up to approximately \$40 million). The borrowers under the Term Credit Facility are the REIT, InnVest Properties Corp. and the Operator, and the facility was originally secured by first and second charges on 71 (currently 74) of the initial 114 Hotel Properties and the related Hotel Businesses together with a pledge of interests in entities holding title to 30 (currently 27) additional Hotel Properties and the related Hotel Businesses, including a pledge of shares of InnVest Properties Corp.
- On July 26, 2002, InnVest REIT obtained a \$25 million Operating Facility from a Canadian chartered bank under which InnVest REIT is the borrower and InnVest Properties Corp. and the Operator are the guarantors. The facility is secured by first charges on nine of the initial 114 Hotel Properties and the related Hotel Businesses and is used to finance the operations of the Operator.
- On October 8, 2003 InnVest REIT closed a secondary offering of InnVest's \$75 million 9.75% Convertible Debentures due June 30, 2007. The Convertible Debentures were sold by 3079928 Nova Scotia Company, an affiliate of the Whitehall Funds at a price of \$1,037.50 per \$1,000 principal amount, plus accrued and unpaid interest from June 30, 2003 to October 8, 2003 for aggregate proceeds of \$77,812,500. At the time of the offering, the effective yield-to-maturity of the Convertible Debentures was 8.55%, calculated on a semi-annual basis. The offering was underwritten by RBC Capital Markets. The convertible debentures have not and will not be registered under the United States Securities Act of 1933. InnVest did not receive any of the proceeds from the sale of the Debentures although the transaction has resulted in broader public ownership of InnVest's convertible debentures. The convertible debentures are listed on the Toronto Stock Exchange under the trading symbol "INN.DB".
- On March 10, 2004, the REIT announced a deal to purchase nine mid-scale hotel properties consisting of eight Holiday Inn hotels and one Quality Hotel (collectively the "New Hotel Properties") from partnerships affiliated with the Whitehall Funds and the Westmont Group

for \$111.5 million plus closing and transaction costs to be financed in part by an offering of additional Units and convertible unsecured subordinated debentures.

- On March 23, 2004 InnVest REIT filed a (final) short form prospectus qualifying the distribution of 4,055,000 trust Units at \$11.35 per Unit for gross proceeds of approximately \$46 million and \$57.5 million principal amount of Convertible Unsecured Subordinated Debentures with a coupon of 6.25%, that are convertible, at the option of the holder, into trust Units of the REIT at \$12.50 per trust Unit. These offerings were made to a syndicate of underwriters led by RBC Capital Markets on a bought deal basis. The prospectus also qualified the distribution, subject to certain conditions, of up to 355,000 additional Units at a price of \$11.35 per Unit to Maple Leaf Investment Holdings, L.P., an affiliate of the Manager of the REIT's portfolio. The net proceeds of the offerings, combined with a \$61.4 million credit facility, were earmarked to fund the acquisition of the New Hotel Properties. Any remainder was to be used for general trust purposes and to fund future acquisitions.
- On April 5, 2004 InnVest finalized the acquisition of the 196 room Holiday Inn Dartmouth, Nova Scotia for a purchase price of \$8.8 million plus closing and transaction costs. This acquisition expands the hotel portfolio further into the mid-scale with food and beverage sector of the industry, which will enable the REIT to further capitalize on the expected growth for the industry in 2004 and beyond, and to provide industry sector diversity to the hotel portfolio. Based upon 2003 results, this transaction will be immediately accretive to distributable income in 2004.
- On April 7, 2004, the REIT completed the acquisition of eight of nine New Hotel Properties it had previously announced it had intended to acquire. The acquisition of the remaining property is expected to close by July 31, 2004. Based upon 2003 results, this transaction will be immediately accretive to distributable income in 2004.
- On April 7, 2004, the Vendors of the acquired or to be acquired hotel properties are each considered a related party of the REIT as defined in the Declaration of Trust of the REIT. As a result, the Trustees of the REIT established an independent committee comprised of the REIT's Independent Trustees as defined in the Declaration of Trust to assess the transaction. The independent committee retained their own legal counsel for the purpose of this assessment. In compliance with their obligations under the Declaration of Trust, the Independent Trustees retained various independent third party professionals whom they relied upon in their assessment including an appraiser, financial advisor, structural engineer and environmental consultant. Upon completion of their assessment and review of the reports prepared by the independent third party professionals, the Independent Trustees recommended the approval of, and the trustees of the REIT unanimously approved, the acquisitions.

BUSINESS OF THE REIT

Canadian Hotel Market Overview

Canada has more than 3,200 hotel properties (with 30 guest rooms or more), representing more than 300,000 guest rooms, ranging from small, independently owned and operated hotels and motels to large, full service branded hotels. Of these hotels, approximately 50% of hotels in Canada are branded, and 40% are considered limited service hotel properties which are properties that generally provide only limited food and beverage or other ancillary services, generate substantially all revenues from guest room rentals and tend to target more price-sensitive segments of the market. A typical limited service property

features a low-rise building that does not offer recreation facilities, large meeting spaces or extensive food and beverage facilities. These hotels are typically located in close proximity to major thoroughfares and to restaurants or other service providers. Other market sectors include various types of full-service hotels which can be categorized as mid-scale hotels, which generally target the traveller seeking some ancillary services such as a restaurant, recreation facilities or meeting space; first-class hotels, which target the traveller seeking a higher-end hotel with a full range of services available; and luxury hotels, which target the traveller demanding an upscale hotel or resort. Within these varied levels of service, hotel ownership is significantly fragmented, with the majority of Canadian hotels, resorts and motels being family-owned and operated.

Assets of the REIT

Portfolio Overview

InnVest REIT owns Canada's largest hotel portfolio, as measured both by number of hotels and by number of guest rooms. Geographically, its principal guest room concentrations are in Ontario and Quebec (together representing 72.3% of guest rooms), where the majority of Canada's population and business activity is located, with additional properties in population centres in the Atlantic and Western provinces. Many of the hotel properties in the Portfolio are clustered in urban areas thereby providing economies of scale as well as providing the REIT with market intelligence not otherwise available to single asset owners in a specific urban area. The hotels are strategically located near major thoroughfares in urban and suburban areas, typically near demand generators such as office centres, government and manufacturing facilities, universities, airports and tourist attractions. The hotels have a diverse customer base, including business and leisure travellers, groups, organizations and corporate clients.

Hotel Asset Description

Choice Canada brands, including Comfort Inn[®], Quality Hotel[®], Quality Suites[®], and Quality Inn[®] make up 70.9% of the Portfolio's guest rooms. Travelodge[®] and Holiday Inn are the other significant brands, representing 16.2% and 10.7% of the Portfolio's guest rooms respectively. Holiday Inn Express[®] and Best Western[®] are also represented, with one location each. Set out below is a summary description of the assets under each brand.

<u>Brand</u>	<u>No. of Hotels</u>	<u>No. of Guest Rooms</u>	<u>% of Total Guest Rooms</u>
Comfort Inn	84	6,747	51.6%
Travelodge	13	2,118	16.2%
Quality Hotel	8	1,423	10.9%
Holiday Inn	8	1,402	10.7%
Quality Suites/Quality Inn	8	1,096	8.4%
Holiday Inn Express	1	163	1.2%
Best Western	<u>1</u>	<u>130</u>	<u>1.0%</u>
Total	<u>123</u>	<u>13,079</u>	<u>100%</u>

- **Comfort Inn** is Canada's leading mid-scale limited service hotel brand as measured by number of locations, with 139 locations in Canada (including the Comfort Inns in the Portfolio) and more than 1,900 locations worldwide. InnVest REIT is the largest owner of Comfort Inns in Canada, with approximately 60% of locations, providing substantial economies of scale.

Comfort Inns are typically two-storey, interior corridor buildings located in suburban areas with easy access to primary highways. The Comfort Inns in the Portfolio range in size from 59 to 147 guest rooms. Guest room amenities generally include cable/satellite television, in-room movies, work desks and data ports. Hotel amenities typically include a breakfast room and meeting space.

- The **Travelodges** in the Portfolio are located across Canada, principally in population centres in Ontario, Alberta and Saskatchewan.

The Travelodges range in size from 98 to 254 guest rooms. Eight of the Travelodges are multi-storey, mid-scale hotels located in urban areas. The remainder are two-storey, interior corridor buildings located in suburban areas with access to major highways. Guest room amenities typically include cable/satellite television, in-room movies, work desks, data ports, in-room coffee makers and hair dryers. Hotel amenities typically include an indoor pool, whirlpool, fitness room, limited meeting space and, in the case of most hotels, a restaurant and/or lounge which are typically leased to a third party operator.

- The **Quality Suites/Quality Inns and Quality Hotels** in the Portfolio are typically located in urban downtown locations, airport locations or in suburban areas with easy access to primary highways.

The Quality Suites/Quality Inns in the Portfolio range in size from 96 to 254 suites or guest rooms. Suites generally consist of two rooms of approximately 460 square feet in total area. Bedroom amenities typically include king-size beds, cable/satellite television, in-room movies, hair dryers, data ports and separate dressing areas with a mirrored vanity and closet. Living room amenities typically include a pull-out sofa bed, a large work table, in-room coffee makers and a second telephone and television. Hotel amenities generally include limited meeting space, a breakfast room and guest laundry services.

The Quality Hotels in the Portfolio range in size from 140 to 222 guest rooms. One hotel that was previously branded as a Ramada Inn was re-branded to a Quality Hotel in the quarter ended March 31, 2003. Room amenities at the Quality Hotels typically include cable/satellite television, in-room movies, hair dryers, data ports and in-room coffee makers. Hotel amenities typically include meeting space, a breakfast room and guest laundry services.

- The **Holiday Inns** in the Portfolio are located principally in population centres in Ontario.

The Holiday Inns range in size from 136 to 240 guest rooms. There are more than 1,500 Holiday Inn full-service hotels around the world, and the brand offers guests many features to make their stay more enjoyable, including comfortable guest rooms equipped with coffeemakers, hair dryers and irons. Other full-service amenities typically offered are restaurants and room service, a relaxing lounge, swimming pool, fitness center and, for the business traveler, today's Holiday Inn hotel offers 24-hour business services, and meeting facilities.

- The Portfolio also includes one hotel operated under each of the **Best Western** and **Holiday Inn Express** flags.

Choice Canada Franchising Business

Upon completion of the REIT's initial public offering on July 26, 2002, in addition to the Portfolio, InnVest REIT acquired a 50% indirect interest in Choice Canada. The remaining 50% of Choice Canada is owned by Choice International, one of the largest hotel franchise companies in the

world with more than 5,000 hotels and resorts (open or under development) in 46 countries under the Comfort Inn, Comfort Suites, Quality Inn, Quality Hotel, Quality Suites, Clarion[®], Sleep Inn[®], Rodeway[®] Inn, Econo Lodge[®] and MainStay[®] Suites brand names. In addition to strong international brand recognition, Choice International has a centralized reservation system, sales and marketing programs and proprietary property management systems. Choice-branded hotels are, as a general rule, inspected regularly to ensure quality and consistency of service.

Choice Canada, the Canadian master franchisor of the Choice brands, enjoys a prominent position in the Canadian hospitality market. With approximately 270 locations open or under development and more than 23,000 guest rooms, Choice Canada is the largest franchisor of hotels in Canada as measured by hotels under franchise. The Comfort and Quality brands are well known in the mid-scale sector.

Upon formation of the joint venture between a predecessor of InnVest Properties Corp. and Choice International in June 1993, InnVest Properties Corp. retained all rights to the royalty fees collected from its then existing managed portfolio of Choice-branded properties, subject only to InnVest Properties Corp. contributing a preferred annual royalty amount to Choice Canada. The royalty arrangement continues until June 21, 2092, provided that the affiliation arrangement between Choice International, Choice Canada and InnVest Properties Corp. remains in place. Any new properties owned or managed by InnVest Properties Corp. or InnVest REIT which are added or re-branded under the Choice franchise system will be subject to the then current Choice Canada franchise fees.

With an increasing number of hotels being franchised under Choice flags, management of InnVest REIT believes that, as the Choice franchise system expands, its 50% ownership interest in Choice Canada will provide continuing growth opportunities for this income stream. During 2002 and 2003, approximately 25 and 10 additional hotels respectively, were branded under the Choice flags in Canada. Additionally, through its ownership interest in Choice Canada, InnVest Properties Corp. has the right to participate in the maintenance and enforcement of operating standards across the entire Choice portfolio of hotels in Canada, in the approval of any new Choice-branded hotels in Canada and in the removal of any defaulting franchisees.

Strategy of the REIT

The primary objectives of InnVest REIT are: (i) to provide Unitholders with stable and growing cash distributions, payable monthly, principally from the ownership of limited service and mid-scale with food and beverage hotels; and (ii) to maximize long-term Unit value by implementing the REIT's operating and acquisition strategies. InnVest REIT's management will use the following operating and acquisition strategies to pursue the REIT's business objectives.

Operating Strategy

InnVest REIT's operating strategy is to continue to enhance the performance of the Portfolio. The Manager, part of the Westmont Group, is responsible for the management of each of the Hotel Businesses. The hotels have been under the management of the Westmont Group from 1999 through to the present. Over that period, a number of strategic initiatives aimed at increasing the operating efficiency of the existing portfolio were implemented. The initiatives were focused on the following areas: developing yield management and marketing strategies to maximize RevPAR, improving operating efficiencies and economies of scale, maintaining the quality and consistency of the product, creation of "best practices" in marketing and sales, and ongoing training at every job level at each hotel.

The Manager applies the following key operating and strategic principles in order to continue to operate the hotels in the Portfolio efficiently and to maximize internal growth:

- **Maximizing the performance of each individual hotel:** The Manager seeks to maximize the overall financial performance of the Portfolio by focusing on each individual hotel, utilizing management systems to provide timely information to the hotel general managers to support effective pricing decisions, reduce and control operating costs, and ensure consistency and quality of service. The Manager will measure actual results from operations against prior years' results and planned budgets in an effort to create a focused, profit-oriented approach to the operation of each hotel. The Manager continues to conduct detailed diagnostic reviews of hotels that are not achieving their targets, and develop detailed action plans designed to improve the operating performance of each of these hotels.
- **Developing yield management and marketing strategies to maximize RevPAR:** The Manager employs a combination of sophisticated yield management and marketing strategies, assisted by software of the Manager and the franchisors, in order to maximize RevPAR. Yield management strategies involve adjusting room rates based on occupancy levels and demand. Marketing strategies are designed for each specific hotel property, consisting of direct sales efforts, innovative measures based on market opportunities and participation in regional and national franchise advertising programs, with the goal of maximizing RevPAR.
- **Improving operating efficiencies and economies of scale:** The Manager seeks to maintain and pursue further operating efficiencies through strict cost controls to achieve internal cost savings. The Manager takes advantage of centralized purchasing, construction and renovation management, information technology and accounting functions.
- **Continually maintaining the quality of the Portfolio:** The Manager seeks to achieve a high level of guest satisfaction by maintaining the physical condition of its properties and service levels. InnVest REIT retains a reserve for replacement of furniture, fixtures and equipment, and capital improvements, which is currently set at 4% of gross revenues.

Acquisition Strategy

The REIT continues to seek to increase earnings and cash flow and enhance Unit value through selective acquisitions. The REIT intends to continue to pursue the acquisition of hotels that compete in the limited service and mid-scale with food and beverage sectors of the Canadian hotel industry. Specifically, InnVest REIT will consider investments in hotel properties that are expected to be accretive to its income.

The Manager, as part of the Westmont Group, together with the Whitehall Funds, has access to an international network and relationships with leading participants in the hospitality industry which may assist InnVest REIT in identifying acquisition opportunities. Management of InnVest REIT believes that these deal-sourcing capabilities, combined with the deal-making capacities of the Senior Executives and the Manager, are an important competitive advantage of InnVest REIT.

Employees

Approximately 2,700 full-time and part-time employees were employed by the Operator or subsidiaries of the Operator at December 31, 2003.

Approximately 880 employees at 36 of the hotels in the Portfolio are unionized, comprising approximately 30% of the total workforce. Of this group, approximately 62% are full-time employees and 38% are part-time employees. The collective agreements expire and are, therefore, open for renegotiation,

at various times between 2004 and 2007. The bargaining rights of the unions at these hotels are site-specific to the employees at each particular hotel.

Environmental Compliance

An independent environmental consulting firm conducted Phase I and, where appropriate, Phase II environmental site assessments on each of the hotels in the Portfolio prior to their acquisition by the REIT. The Phase I environmental site assessments were conducted to identify actual or potential site contamination and non-compliance with environmental laws and regulations based on a review of available historical and current records, interviews with available site personnel and a visual inspection of each property. The completed Phase II environmental site assessments involved intrusive investigations, such as soil or water sampling and analyses. These assessments included, in some instances, asbestos sampling and preliminary site-specific risk assessments. These assessments did not identify any substantial non-compliance with material environmental laws or regulations, and management of the REIT believes that the current estimated cost of remediation or capital expenditures with respect to actual or potential environmental conditions would not have a material adverse effect on the REIT's results of operations, business prospects and financial condition.

Non-Competition Arrangements

The Whitehall Restricted Parties and the Westmont Restricted Parties have entered into non-competition agreements with the REIT to restrict certain of their acquisition activities in the Canadian limited service sector of the Canadian hotel market. These agreements prohibit the direct or indirect acquisition by the Whitehall Restricted Parties and the Westmont Restricted Parties of certain Canadian limited service hotel assets unless the opportunity to acquire such assets has first been offered to the REIT in accordance with the agreements.

Seasonality

The Canadian hotel industry is seasonal in nature. Generally, hotel revenues are greater in the second and third quarters than in the first and fourth quarters. This seasonality can be expected to cause quarterly fluctuations in the revenues of InnVest REIT.

INFORMATION ABOUT THE REIT

Declaration of Trust and Description of Units

General

The REIT is an unincorporated open-ended real estate investment trust created by the Declaration of Trust and governed by the laws of the Province of Ontario.

Units

An unlimited number of Units may be issued pursuant to the Declaration of Trust. Each Unit represents an equal undivided beneficial interest in any distributions from InnVest REIT, whether of net income, net realized capital gains or other amounts, and in the net assets of the REIT in the event of the termination or winding-up of InnVest REIT. All Units are of the same class with equal rights and privileges. Each Unit entitles the holder thereof to one vote for each whole Unit held at all meetings of Unitholders. The Whitehall Funds are currently entitled to appoint two of the seven Trustees, and the

Westmont Group are currently entitled to appoint one Trustee. See "Management of the REIT – Trustees and Officers".

Book-Based System

The Units are represented in the form of fully registered global Unit certificates held by, or on behalf of, The Canadian Depository for Securities Limited ("CDS") as custodian of the global certificates (for its participants) and registered in the name of CDS or its nominee. Except as described below, no purchaser of a Unit is entitled to a certificate or other instrument from InnVest REIT or CDS evidencing the purchaser's ownership of the Unit. Instead, Units are represented only in book-entry form. Beneficial interests in Units represented by the global certificates, constituting ownership of the Units, are represented through book-entry accounts of institutions acting on behalf of beneficial owners, as direct and indirect participants of CDS. CDS is responsible for establishing and maintaining book-entry accounts for its participants having interests in Units represented by the global certificates.

If CDS notifies InnVest REIT that it is unwilling or unable to continue as custodian of the global certificates, or if at any time it ceases to be a clearing agency or otherwise ceases to be eligible to be the custodian of the global certificates and InnVest REIT is unable to locate a qualified successor, or if InnVest REIT elects to terminate the book-entry system, beneficial owners of Units represented by the global certificates will receive definitive Unit certificates.

Issuance of Units

The Declaration of Trust provides that Units or rights to acquire Units may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trustees determine. Unitholders do not have any pre-emptive rights whereby additional Units proposed to be issued are first offered to existing Unitholders. New Units may be issued for cash through public offerings, through rights offerings to existing Unitholders (*i.e.*, in which Unitholders receive rights to subscribe for new Units in proportion to their existing holdings of Units, which rights may be exercised or sold to other investors), through private placements (*i.e.*, offerings to specific investors which are not made generally available to the public or existing Unitholders), or through the Distribution Reinvestment Plan. See "Information About the REIT - Distribution Reinvestment Plan". In certain instances, InnVest REIT may also issue new Units as consideration for the acquisition of new properties or assets. The price or the value of the consideration for which Units may be issued will be determined by the Trustees. Issued and outstanding Units may be subdivided or consolidated from time to time by the Trustees without Unitholder approval. No certificates for fractional Units will be issued, and fractional Units will not entitle the holders thereof to vote.

Distribution Reinvestment Plan

The REIT has established a Distribution Reinvestment Plan (the "Plan") pursuant to which Unitholders resident in Canada and holding a minimum of 500 Units may elect to have all their distributions of income of the REIT automatically reinvested in additional Units at a price per Unit equal to the average of the trading price of on the Toronto Stock Exchange for the five trading days ending on the second trading day immediately preceding the date of a monthly distribution (the "Average Market Price"). A Unitholder who so elects will receive an additional bonus distribution of Units equal in value to 3% of each distribution that was reinvested. No fractional Units will be issued under the plan; instead, a cash adjustment based upon the Average Market Price will be paid in lieu of any fractional Units otherwise issuable under the plan within 10 days after the distribution date. No brokerage commissions are payable in connection with the purchase of Units under the Distribution Reinvestment Plan and all administrative costs are borne by the REIT.

The only registered Unitholder will be CDS. As such, beneficial Unitholders (i.e., individuals or entities who hold Units through a broker or other intermediary participating in the CDS system) will only be entitled to enrol in the plan through their CDS participant. Statements detailing the number of additional Units acquired through the distribution reinvestment plan will only be provided to beneficial Unitholders through their CDS participants.

Proceeds from the issuance of additional Units by InnVest REIT pursuant to the distribution reinvestment plan will be added to the working capital of the REIT.

Additional information on the Distribution Reinvestment Plan can be found on www.innvestreit.com.

Purchases of Units

InnVest REIT may from time to time purchase Units in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such purchases will constitute an "issuer bid" under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof.

Redemption Right

Units are redeemable at any time on demand by the holders thereof. A Unitholder not otherwise holding a fully registered Unit certificate who wishes to exercise the redemption right is required to obtain a redemption notice form from his or her investment dealer who will be required to deliver the completed redemption notice form to InnVest REIT through CDS. Upon receipt of the redemption notice by InnVest REIT, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Unit equal to the lesser of: (i) 90% of the "market price" (calculated in accordance with the provisions of the Declaration of Trust) of the Units on the principal market on which the Units are quoted for trading during the 10 trading day period commencing immediately subsequent to the date upon which the Units were surrendered for redemption; and (ii) the "closing market price" (calculated in accordance with the provisions of the Declaration of Trust) on the principal market on which the Units are quoted for trading on the redemption date.

The aggregate redemption price payable by InnVest REIT in respect of any Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment on the last day of the month following the month in which the Units were tendered for redemption, provided that the entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the limitations that: (i) the total amount payable by InnVest REIT in respect of such Units and all other Units tendered for redemption in the same calendar month shall not exceed \$50,000 (provided that such limitation may be waived at the discretion of the Trustees); (ii) at the time such Units are tendered for redemption, the outstanding Units are listed for trading on a stock exchange or traded or quoted on another market which the Trustees consider, in their sole discretion, provides representative fair market value prices for the Units; and (iii) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange on any market on which the Units are quoted for trading) on the redemption date or for more than five trading days during the 10 trading day period commencing immediately after the redemption date.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the foregoing limitations, then each Unit tendered for redemption shall, subject to obtaining all applicable regulatory approvals, be redeemed by way of a distribution *in specie* of Notes issued by InnVest Properties Corp. The aggregate principal amounts of such Notes would equal the redemption

price payable by the REIT. The term of such Notes would be 25 years, subject to earlier repayment at the option of InnVest REIT, and they would bear interest equal to the then current prime lending rate, as quoted by the provider of the Operating Facility, plus 1%.

It is anticipated that the redemption right described above will not be the primary mechanism for Unitholders to dispose of their Units.

Meetings of Unitholders

The Declaration of Trust provides that meetings of Unitholders must be called and held for the appointment or removal of Trustees (except for a nominee of the Whitehall Funds or the Westmont Group), the appointment or removal of the auditors of InnVest REIT, the approval of amendments to the Declaration of Trust, except as described below under "Amendments to the Declaration of Trust", the sale of the assets of InnVest REIT as an entirety or substantially as an entirety (other than as part of an internal reorganization) and the liquidation or dissolution of InnVest REIT. A resolution appointing or removing a Trustee (except for a nominee of the Whitehall Funds or the Westmont Group) or the auditors of InnVest REIT must be passed by a simple majority of the votes cast by Unitholders. The balance of the foregoing matters must be passed by a Special Resolution of Unitholders. Meetings of Unitholders will be called and held annually for the election of the Trustees and the appointment of auditors of InnVest REIT and the second annual meeting of Unitholders will be held on May 26, 2004.

A meeting of Unitholders may be convened at any time and for any purpose by the Trustees and must be convened if requisitioned by the holders of not less than 5% of the Units then outstanding by a written requisition. A requisition must state in reasonable detail the business proposed to be transacted at the meeting. Unitholders have the right to obtain a list of Unitholders to the same extent and upon the same conditions as those which apply to shareholders of a corporation governed by the *Canada Business Corporations Act*.

Unitholders may attend and vote at all meetings of the Unitholders either in person or by proxy and a proxyholder need not be a Unitholder. Two persons present in person or represented by proxy and representing in the aggregate at least 10% of the votes attaching to all outstanding Units shall constitute a quorum for the transaction of business at all such meetings. If no quorum is present at any such meeting when called, the meeting, if called on the requisition of Unitholders, will be terminated and otherwise will be adjourned for not less than 10 days, and at the adjourned meeting, the Unitholders then present in person or represented by proxy will form the necessary quorum.

The Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders.

Limitation on Non-Resident Ownership

At no time may more than 49% of the Units (on either a basic or fully-diluted basis) be held for the benefit of non-residents of Canada (within the meaning of the Tax Act). The Trustees may require declarations as to the jurisdictions in which beneficial owners of Units are resident or declarations from holders of Units as to whether such Units are held for the benefit of non-residents.

If the Trustees become aware that more than 49% of the Units (on either a basic or fully-diluted basis) then outstanding are held, or may be held, for the benefit of non-residents or that such a situation is imminent, the Trustees may make a public announcement thereof and shall not accept a subscription for Units from or issue or register a transfer of Units to a person unless the person provides a declaration that

the person is not a non-resident. If, notwithstanding the foregoing, the Trustees determined that a majority of the Units are held for the benefit of non-residents, the Trustees may send a notice to non-resident holders of Units, chosen in inverse order to the order of acquisition or registration or in such manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not more than 60 days. If the Unitholders receiving such notice have not sold the specified number of Units or provided the Trustees with satisfactory evidence that they are not non-residents and do not hold their Units for the benefit of non-residents within such period, the Trustees may sell such Units on behalf of such Unitholders and, in the interim, the voting and distribution rights attaching to such Units shall be suspended. Upon such sale, the affected holders shall cease to be holders of Units and their rights shall be limited to receiving the net proceeds of sale.

Amendments to the Declaration of Trust

The Declaration of Trust may be amended or altered from time to time by Special Resolution of the Unitholders.

The Trustees may, without the approval of the Unitholders, make certain amendments to the Declaration of Trust from time to time including amendments:

- for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Trustees or over InnVest REIT, its status as a "mutual fund trust" under the Tax Act or the distribution of Units;
- which, in the opinion of the Trustees, provide additional protection for the Unitholders;
- which remove any conflicts or inconsistencies in the Declaration of Trust or make minor corrections which are, in the opinion of the Trustees, necessary or desirable and not prejudicial to the Unitholders;
- which, in the opinion of the Trustees, are necessary or desirable as a result of changes in taxation laws; and
- for any purpose (except one in respect of which a Unitholder vote is specifically otherwise required) if the Trustees are of the opinion that the amendment is not prejudicial to Unitholders and is necessary or desirable.

Term of InnVest REIT and Sale of Substantially All Assets

InnVest REIT has been established for an indefinite term. Pursuant to the Declaration of Trust, termination of InnVest REIT, the sale or transfer of the assets of the REIT as an entirety or substantially as an entirety (other than as part of an internal reorganization of the assets of InnVest REIT approved by the Trustees) requires approval of the Unitholders by Special Resolution.

Takeover Bids

The Declaration of Trust contains provisions to the effect that if a takeover bid is made for the Units (as defined in the *Securities Act* (Ontario)) and not less than 90% of the Units (other than Units held at the date of the takeover bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders

who did not accept the offer on the terms offered by the offeror or at the fair value of such Unitholders' Units determined in accordance with the procedures set out in the Declaration of Trust.

Information and Reports

InnVest REIT will furnish to Unitholders such financial statements (including quarterly and annual consolidated financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial legislation.

Prior to each meeting of Unitholders, the Trustees will provide the Unitholders (along with notice of such meeting) all such information as is required by applicable law to be provided to such holders.

Investment Guidelines and Operating Policies

Investment Guidelines

The Declaration of Trust provides that the assets of InnVest REIT may be invested only in accordance with the following guidelines:

- (a) InnVest REIT will invest, directly or indirectly (including through corporations, limited partnerships, general partnerships (if permitted by changes in tax laws) or trusts), in interests in real property on which hotels are situated and the hotel businesses conducted thereon, primarily in Canada, and in entities whose activities consist primarily of franchising hotels;
- (b) notwithstanding any other provisions of the Declaration of Trust, InnVest REIT shall not make any investment, take any action or omit to take any action that would result in:
 - (i) InnVest REIT not qualifying as a "Unit trust" and a "mutual fund trust" for the purposes of the Tax Act; (ii) the Units being disqualified for investment by Deferred Income Plans; or (iii) the Units being foreign property for the purpose of the Tax Act;
- (c) InnVest REIT may invest in a joint venture arrangement with one or more third parties only if the assets owned by the joint venture and the activities of the joint venture otherwise comply with the investment guidelines and operating policies of InnVest REIT, and:
 - (i) the joint venture arrangement is one pursuant to which the REIT holds an interest in real property jointly or in common with others ("joint venturers") either directly or through the ownership of securities of a corporation or other entity (a "joint venture entity") as co-owner;
 - (ii) InnVest REIT's interest in the joint venture arrangement is not subject to any restriction on transfer other than a right of first offer, if any, in favour of the joint venturers;
 - (iii) InnVest REIT has a right of first offer to buy the interests of the other joint venturers;

- (iv) the joint venture arrangement provides an appropriate buy-sell mechanism to enable a joint venturer to purchase the other joint venturer's interests or to sell its interest;
- (v) the joint venture arrangement provides that the liability of the REIT to third parties is several and not joint and several, provided however that, subject to any remedies that each joint venturer may have against the other joint venturers, a joint venturer may be required to give up its interest in any particular property owned by the joint venture entity as a result of another joint venturer's failure to honour its proportionate share of the obligations relating to such property; and
- (vi) the joint venture arrangement permits, but does not require, InnVest REIT or its designee to participate fully in the management thereof;

provided, however, that the investment by InnVest REIT in Choice Canada shall be specifically excluded from these requirements;

- (d) except for temporary investments held in cash, deposits with a Canadian chartered bank or trust company registered under the laws of a province of Canada, short-term government debt securities or in money market instruments of, or guaranteed by, a Schedule 1 Canadian bank maturing prior to one year from the date of purchase of such securities by InnVest REIT or in short-term commercial paper, notes, bonds or other debt securities of a Canadian corporation, trust or other entity maturing prior to one year from the date of issue and having a rating of at least R-1 (Mid) by Dominion Bond Rating Service or A-1 (Mid) by Standard & Poor's Corporation, InnVest REIT may not hold securities other than securities of a joint venture entity or an entity wholly-owned by InnVest REIT formed and operated solely for the purpose of holding a particular real property or real properties, holding and/or managing hotel operating assets or whose activities consist primarily of franchising hotels, and provided that, notwithstanding anything contained in the Declaration of Trust to the contrary, InnVest REIT may acquire securities of other real estate investment trusts;
- (e) the REIT shall not invest in rights to or interests in mineral or other natural resources, including oil or gas, except as incidental to an investment in real property;
- (f) InnVest REIT shall not invest in raw land for development (or improved land with a view to demolishing the improvements) except for existing properties with additional development potential or properties adjacent to existing properties owned by InnVest REIT for the purpose of: (i) the renovation or expansion of existing facilities; or (ii) the development of new facilities that will be capital property of REIT;
- (g) InnVest REIT may invest in mortgages and mortgage bonds (including, with the consent of a majority of the Trustees, a participating or convertible mortgage) where:
 - (i) the real property that is security therefore is income-producing real property which otherwise meets the investment guidelines of the REIT;
 - (ii) the amount of the mortgage loan is not in excess of 75% of the market value of the property securing the mortgage and the mortgage has at least a 1.2 times debt service coverage level, which is obtained by dividing operating income for the

- particular property by the total principal and interest payments under all mortgages of such property;
- (iii) the mortgage is a first mortgage registered on title to the real property which is security therefore; and
 - (iv) the aggregate value of the investments of InnVest REIT in these mortgages, after giving effect to the proposed investment, will not exceed 20% of Adjusted Unitholders' Equity (calculated by taking the aggregate of (i) the amount of Unitholders' equity and (ii) the amount of accumulated depreciation and amortization recorded in the books and records of the REIT in respect of its properties, in each case calculated in accordance with GAAP) calculated at the time of such investment;
- (h) notwithstanding paragraph (g), InnVest REIT may invest in mortgages if an intention is to use the acquisition of the mortgages as a potential method of acquiring control of a real property or a portfolio of properties and the property or properties would otherwise meet the investment guidelines of the REIT and provided the aggregate value of the investments of InnVest REIT in these mortgages (including mortgage loans referred to in (i)), after giving effect to the proposed investment, will not exceed 20% of Adjusted Unitholders' Equity calculated at the time of such investment;
- (i) notwithstanding paragraph (g), InnVest REIT may also invest in mortgages where:
- (i) the mortgage is a "vendor take-back" mortgage granted to the REIT in connection with the sale by it of existing real property and as a means of financing the purchaser's acquisition of such property from the REIT;
 - (ii) the mortgage is interest bearing;
 - (iii) the mortgage is registered on title to the real property which is security therefore;
 - (iv) the mortgage has a maturity not exceeding five years;
 - (v) the amount of the mortgage loan is not in excess of 75% of the selling price of the property securing the mortgage; and
 - (vi) the aggregate value of these mortgages (including mortgages and mortgage bonds in which InnVest REIT is permitted to invest by virtue of paragraphs (g) and (h)), after giving effect to the proposed investment, will not exceed 20% of the Adjusted Unitholders' Equity calculated at the time of such investment;
- (j) all of InnVest REIT's hotel and other real property investments shall be leased to qualified operators (the Operator and its subsidiaries being qualified operators); and
- (k) InnVest REIT may invest an aggregate amount (which, in the case of an amount invested to acquire real property, shall be the purchase price less the amount of any indebtedness assumed or incurred by InnVest REIT and secured by a mortgage on such property) of up to 15% of Adjusted Unitholders' Equity in investments or transactions which do not comply with paragraphs (a), (c), (d), (f), (g), (h) or (i).

For the purposes of the foregoing guidelines, the assets, liabilities and transactions of a corporation or other entity wholly or partially owned by InnVest REIT will be deemed to be those of the REIT on a proportionate consolidation basis. In addition, any references in the foregoing to an investment in real property will be deemed to include an investment in a joint venture arrangement that holds real property.

Operating Policies

The Trustees shall conduct the operations and affairs of InnVest REIT in accordance with the following policies and shall not permit any subsidiary of InnVest REIT to conduct its operations and affairs other than in accordance with the following policies:

- (a) InnVest REIT and its subsidiaries shall not purchase, sell, market or trade in currency or interest rate futures contracts other than for hedging purposes where, for the purposes hereof, the term "hedging" shall have the meaning ascribed thereto by National Instrument 81-102 adopted by the Canadian Securities Administrators, as amended from time to time;
- (b) (i) any written instrument creating an obligation which is, or includes the granting by InnVest REIT of, a mortgage; and (ii) to the extent the Trustees determine to be practicable and consistent with their fiduciary duty to act in the best interests of the Unitholders, any written instrument which is, in the judgment of the Trustees, a material obligation, shall in each case contain a provision or be subject to an acknowledgement to the effect that the obligation being created is not personally binding upon, and that resort shall not be had to, nor shall recourse or satisfaction be sought from, the private property of any of the Trustees, Unitholders, annuitants under a plan of which a Unitholder acts as a trustee or carrier, or officers, employees or agents of InnVest REIT, but that only property of the REIT or a specific portion thereof shall be bound; provided that InnVest REIT is not required, but shall use reasonable efforts, to comply with this requirement in respect of obligations assumed by InnVest REIT upon the acquisition of real property;
- (c) InnVest REIT shall not lease or sublease to any person (except a wholly-owned subsidiary), any real property, premises or space where that person and its affiliates would, after the contemplated lease or sublease, be leasing or subleasing real property, premises or space having a fair market value net of encumbrances in excess of 5% of Adjusted Unitholders' Equity;
- (d) except for renovation or expansion of existing facilities and the development of new facilities as permitted under paragraph (f) under the heading "Information About the REIT – Investment Guidelines and Operating Policies – Investment Guidelines", InnVest REIT shall not engage in construction or development of real property except as necessary to maintain its real property in good repair or to enhance the income producing ability of properties in which the REIT has an interest;
- (e) title to each real property shall be held by and registered in the name of InnVest REIT, the Trustees or in the name of a corporation or other entity directly or indirectly wholly-owned by InnVest REIT or jointly owned by InnVest REIT with joint venturers;
- (f) the REIT shall not incur or assume any indebtedness under a mortgage or other security where (i) in the case of an individual property, the amount borrowed exceeds 75% of the

market value of such individual property, or (ii) in the case of more than one property or a pool or portfolio of properties, the amount borrowed exceeds 75% of the market value of such properties on an aggregate basis, in either case, calculated at the time of assuming such indebtedness;

- (g) InnVest REIT shall not incur or assume any indebtedness (other than temporary indebtedness, if any, due to vendors of the initial Portfolio in connection with the initial acquisition transaction, non-interest bearing indebtedness and trade accounts payable) if, after giving effect to the incurrence or assumption of such indebtedness, the Financial Leverage Ratio would exceed 50% (60% including any convertible debentures of the REIT);
- (h) InnVest REIT shall not directly or indirectly guarantee any indebtedness or liabilities of any kind of a third party except indebtedness assumed or incurred under a mortgage by a corporation or other entity wholly-owned by InnVest REIT or jointly by InnVest REIT with joint venturers and operated solely for the purpose of holding a particular property or properties where such mortgage, if granted by InnVest REIT directly, would not cause InnVest REIT to otherwise contravene the restrictions set out under the heading "Investment Guidelines and Operating Policies", and, where such mortgage is granted by a joint venture entity, subject to a joint venturer being required to give up its interest in a property owned by the joint venture entity as a result of another joint venturer's failure to honour its proportionate share of the obligations relating to such property, the liability of InnVest REIT is limited strictly to the proportion of the mortgage loan equal to the REIT's proportionate ownership interest in the joint venture entity;
- (i) InnVest REIT shall obtain an independent valuation of each property that it intends to acquire from or sell to a Related Party;
- (j) InnVest REIT shall obtain and maintain at all times insurance coverage in respect of potential liabilities of InnVest REIT and the accidental loss of value of the assets of InnVest REIT from risks, in amounts, with such insurers, and on such terms as the Trustees consider appropriate, taking into account all relevant factors including the practices of owners of comparable properties;
- (k) InnVest REIT shall obtain or cause the Operator to obtain such physical and environmental reports as the Trustees consider advisable for each future hotel property to be acquired by it; and
- (l) InnVest REIT shall not issue additional Units (other than pursuant to the Convertible Debentures) unless the Trustees consider such issuances not to be dilutive to ensuing annual distributions of Distributable Income to existing Unitholders.

For the purpose of the foregoing policies, the assets, liabilities and transactions of a corporation or other entity wholly or partially owned by InnVest REIT will be deemed to be those of the REIT on a proportionate consolidated basis. In addition, any references in the foregoing to an investment in real property include an investment in a joint venture that holds real property.

Distribution Policy

The following summarizes the distribution policy of the REIT as contained in the Declaration of Trust. The distribution policy may be amended only with the approval of a majority of the votes cast at a meeting of Unitholders.

General

InnVest REIT will distribute, to the extent possible, equal monthly cash distributions to Unitholders, on or about the 15th day of each month (with the January 15th distribution being payable as of the preceding December 31st), constituting not less than 80% of the REIT's Distributable Income, based on the estimated Distributable Income for the calendar year. The REIT currently intends to distribute approximately 90% of its Distributable Income on an annual basis. If the Trustees determine that it would be in the best interests of InnVest REIT, they may reduce for any period the percentage of Distributable Income to be distributed to Unitholders.

Distributable Income is determined after deduction of a reserve for replacement of furniture, fixtures and equipment and capital improvements. This reserve has initially been set, and is expected to remain constant, at 4% of the REIT's gross revenues, except in 2008 and 2009 when management of the REIT anticipates increasing this reserve to 5.5% to fund planned additional refurbishments of significant capital items.

Distributions may be adjusted for amounts paid in prior periods if the actual Distributable Income for the prior periods is greater than or less than the Trustees' estimates for the prior periods. Unitholders will also be entitled to receive a cash distribution each year, paid on or about January 15th of the following year (being payable as of the preceding December 31st), of any excess of the income (including taxable capital gains, if any) of InnVest REIT for the purposes of the Tax Act (plus the non-taxable portion of capital gains, if any) for the year over distributions otherwise made for that year. The distributions for any month will be payable to the Unitholders of record at the close of business on the last business day of the month. Distributions shall be made in cash and may be reinvested in Units through the REIT's distribution reinvestment plan, described below.

The Portfolio is subject to variations in revenues, with revenues during the second and third calendar quarters being generally higher than those in the first and fourth quarters. As a result, it is anticipated that InnVest REIT will draw down on the Operating Facility during the first and fourth quarters in order to augment otherwise lower cash distributions to a point where cash distributions are as even as possible throughout the calendar year. Distributions paid in cash for the period from July 26, 2002 to December 31, 2002 totalled \$0.4869 per Unit or \$20 million. Distributions paid in cash and by Units issued under the distribution reinvestment plan (see "Information About the REIT - Distribution Reinvestment Plan") in 2003 totalled \$1.1250 per Unit or \$46.3 million.

Computation of Distributable Income for Distribution Purposes

The Distributable Income of InnVest REIT will be calculated based on net income of InnVest REIT as set out in its consolidated financial statements determined in accordance with GAAP, subject to certain adjustments set out in the Declaration of Trust, including the adding back of depreciation and amortization, amortization of fair value debt adjustments and future income tax expense, excluding any gains or losses on the disposition of real property and future income tax benefits, and deducting the amount calculated for the reserve for replacement of furniture, fixtures and equipment and capital improvements and the interest on convertible debentures that is not included in the computation of net income. Distributable Income so calculated may reflect any other adjustments determined by the

Trustees in their discretion and may be estimated whenever the actual amount has not been fully determined. Such estimates will be adjusted as of the subsequent distribution date when the amount of Distributable Income has been finally determined.

Tax Deferral on Distributions

The adjusted cost base of Units held by a Unitholder will generally be reduced by the non-taxable portion of distributions made to the Unitholder (other than the non-taxable portion of certain capital gains). A Unitholder will generally realize a capital gain to the extent that the adjusted cost base of the Unitholder's Units would otherwise be a negative amount. The non-taxable portion of distributions for any year may be adjusted following any reassessment by the Canada Customs and Revenue Agency for that year. In 2002 and 2003 the non-taxable portion of distributions made to Unitholders was 36.8% and 52.5% respectively.

SELECTED FINANCIAL INFORMATION

The following table sets out selected financial information as at December 31, 2003 and for the year ended December 31, 2003 and should be read in conjunction with the consolidated financial statements of the REIT.

	<u>As at December 31, 2003</u>	<u>As at December 31, 2002</u>
Balance Sheet Data		
<i>(in thousands)</i>		
Total Assets	\$ 887,054	\$ 932,912
Total Long-term Debt (includes current portion of long-term debt)	\$ 310,926	\$ 319,462
	<u>Year Ended December 31, 2003</u>	<u>Period from July 26, 2002 to December 31, 2002</u>
Revenue and Earnings Data		
<i>(in thousands)</i>		
Hotel Revenues.....	\$ 224,216	\$ 109,230
Hotel Operating Income.....	\$ 80,210	\$ 44,529
Net Income	\$ 10,858	\$ 20,387
Net Income Per Unit - basic	\$ 0.071	\$ 0.419
- fully diluted	\$ 0.071	\$ 0.419
Other Data		
Average Daily Rate ("ADR").....	\$ 81.77	\$ 83.14
Occupancy	60.3%	66.1%
Revenue per Available Room ("RevPAR").....	\$ 49.28	\$ 54.94
Distributions Per Unit	\$ 1.125	\$ 0.4869

MANAGEMENT'S DISCUSSION AND ANALYSIS

"Management's Discussion and Analysis" beginning on page 11 and ending on page 24 of the REIT's 2003 Annual report is incorporated herein by reference.

MARKET FOR UNITS

The Units are listed on the Toronto Stock Exchange under the symbol "INN.UN".

MANAGEMENT OF THE REIT

Trustees and Officers

The name and municipality of residence, office held with InnVest REIT and principal occupation of each Trustee and officer of InnVest REIT are as follows:

<u>Name and Municipality of Residence</u>	<u>Office with the REIT</u>	<u>Principal Occupation</u>
Majid Mangalji ⁽¹⁾⁽³⁾ Wimbledon, England	Trustee, Chair of the Board of Trustees	President, Westmont Group
Frank Anderson, FCA ⁽²⁾⁽³⁾⁽⁴⁾ Toronto, Ontario	Trustee	President, LIN Solutions Inc. (consulting)
Brian C. Collyer ⁽¹⁾⁽³⁾ Le Vesinet, France	Trustee	Vice-President, Goldman, Sachs & Co. (investment bank)
Morton Gross, Q.C. ⁽²⁾⁽³⁾⁽⁶⁾ Toronto, Ontario	Trustee	Partner, Borden Ladner Gervais LLP (law firm)
Michael P. Kitt ⁽²⁾⁽³⁾⁽⁴⁾⁽⁶⁾ Toronto, Ontario	Trustee	Executive Vice-President, Development, The Cadillac Fairview Corporation Limited (real estate)
Minhas N. Mohamed ⁽²⁾⁽³⁾⁽⁴⁾⁽⁶⁾ Toronto, Ontario	Trustee	Managing Partner, MM Venture Partners (venture capital)
Lauren J. Zucker ⁽³⁾⁽⁵⁾ New York, New York	Trustee	Vice-President, Goldman, Sachs & Co. (investment bank)
Kenneth D. Gibson Conroe, Texas	President and Chief Executive Officer	President and Chief Executive Officer, InnVest REIT and Chief Operating Officer, Westmont Hospitality Management Limited and the Manager
Tamara L. Lawson Toronto, Ontario	Chief Financial Officer and Secretary	Chief Financial Officer and Secretary, InnVest REIT and Chief Financial Officer, Westmont Hospitality Management Limited and the Manager

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- (1) Westmont Group Nominee
(2) Independent Trustee
(3) Member of the Investment Committee
(4) Member of the Audit Committee
(5) Whitehall Funds Nominee
(6) Member of the Compensation and Corporate Governance Committee

Each of the Trustees has been a trustee of the REIT since it was formed on July 26, 2002. Each trustee was last appointed on May 21, 2003 and will serve as a Trustee until the second annual meeting of the REIT, scheduled for May 26, 2004, or until his or her successor is elected or appointed. Pursuant to the Declaration of Trust the Whitehall Funds have the right to appoint one trustee, as they currently own between 5% and 15% of the outstanding Units. The Westmont Group has the right to appoint one trustee as it owns, in the aggregate, at least 5% of the outstanding Units. The Manager has the right to appoint one trustee, provided that the Master Hotel Management Agreement remains in effect and that the appointment would not result in a majority of the trustees not being independent trustees. Currently, the Whitehall Funds and the Westmont Group are entitled to collectively appoint three of the seven trustees. The remaining trustees are to be elected by a plurality of the votes cast at the meeting. The Whitehall Funds and the Westmont Group are entitled to vote their Units for the election of the remaining four trustees. All of the Independent Trustees are standing for re-election at the REIT's May 26, 2004 annual meeting.

As a group, the Trustees beneficially own, directly or indirectly, or exercise control or direction over, a total of 33,045 Units, which represents less than 1% of the outstanding Units.

The nature and extent of the experience of the Trustees and officers of InnVest REIT in the real estate industry and their principal occupations are as follows:

Majid Mangalji is Founder and President of the Westmont Group which started its hospitality business approximately 30 years ago. Mr. Mangalji has been involved in all aspects of the development of the Westmont Group. During this period it has grown from a single hotel to become one of the largest private hotel owner/operators in the world with a significant presence in North America, Europe, and Asia. As the head of this global hotel group, Mr. Mangalji has developed an extensive knowledge of international hospitality markets, investing and operating in these markets and has created strong relationships with major international hotel brands, leading financial institutions, and investment funds. Mr. Mangalji sits on the boards of the principal hospitality companies in which the Westmont Group invests. He holds a business degree with a double major in Accounting and Marketing from the University Of Bradford, England.

Frank Anderson, FCA is currently the President of LIN Solutions Inc., and was a senior partner in the Toronto office of a major accounting firm until his retirement in 1999. He specialized in the consumer products, real estate, hospitality and advertising industries. Mr. Anderson was Executive Vice President of Hy & Zel's, a discount drug store chain, from July 2002 until January 2003. Mr. Anderson is a member of the Board of Directors of the Canadian Council of Christians and Jews and the Founding Chairman of Cornerstone 52 Foundation, a charitable organization dedicated to funding children's charities. He also serves as Vice Chair of the Heart and Stroke Foundation of Ontario. He is also a member of the Board and chairman of the Audit Committee for O&Y REIT, Dundee Wealth Management Inc. and Counsel Corporation. Mr. Anderson obtained an undergraduate degree in Economics from the University of Glasgow, his C.A. designation from the Institute of Chartered Accountants of Scotland and was elected a Fellow of the Institute of Chartered Accountants of Ontario in 1997.

Brian C. Collyer is a Vice President in the Real Estate Principal Investment Area of Goldman, Sachs & Co. responsible for the management of Whitehall Street Real Estate Funds investments in Europe and Latin America. Prior to joining Goldman, Sachs & Co., Mr. Collyer was responsible for the origination of mortgage and real estate investments for a large Canadian public real estate company and has managed the sale, joint venture, acquisition and initial public offering of more than US\$5 billion of Canadian and U.S. real estate assets. Mr. Collyer holds an undergraduate degree in Architecture from the

University of Manitoba and a Master of Business Administration from McGill University in Montreal. He was also a member of Canada's 1984 Olympic team.

Morton Gross, Q.C. is a senior partner in the Toronto office of the law firm of Borden Ladner Gervais LLP, where he practises in the areas of commercial and real estate law, including in the area of hotels and hospitality. Mr. Gross is the Chair of his firm's National Real Estate Professional Group. Prior to joining Borden Ladner Gervais LLP in 1982, he specialized in real estate law at his own firm. Mr. Gross holds a Bachelor of Laws degree from the University of Toronto and was called to the Ontario Bar in 1967.

Michael P. Kitt is the Executive Vice-President, Development for The Cadillac Fairview Corporation Limited, which invests in, owns and manages commercial real estate. Mr. Kitt is responsible for Cadillac Fairview's office and retail development programs. Prior to joining Cadillac Fairview in 1996, he was Portfolio Manager, Real Estate for the Ontario Teachers' Pension Plan Board. He holds an undergraduate degree from the University of Manitoba and is a Chartered Financial Analyst.

Minhas N. Mohamed is the founder of MM Venture Partners and has overall management and strategic responsibility for the partnership. MM Venture Partners provides debt and equity financing to early and mid-stage Canadian information technology and biotechnology companies. Prior to founding MM Venture Partners in August 1998, Mr. Mohamed spent 10 years as a senior partner and shareholder of Quorum Funding Corporation, one of Canada's leading dedicated emerging technology funds. He has been a director of many public companies, including Promis Systems and Quorum Funding Corporation. Mr. Mohamed is a founding member and former Chairman of the Toronto Venture Group. He is also a member of the Association of Venture Capital Corporations. Mr. Mohamed is a graduate of the University of Western Ontario and is a Chartered Accountant and a Chartered Financial Analyst.

Lauren J. Zucker is a Vice President in the Real Estate Principal Investment Area at Goldman, Sachs & Co. Since joining Goldman, Sachs & Co. in 1991, Ms. Zucker has spent time in both the firm's New York and Hong Kong offices and has focused principally on investing and managing the Whitehall Street Real Estate Funds. Ms. Zucker also serves on Goldman Sachs' Urban Investment Group's Investment Committee. She holds an undergraduate degree from Brown University and a Master of Business Administration from Harvard University.

Kenneth D. Gibson is the President and Chief Executive Officer of InnVest REIT and Chief Operating Officer of Westmont Hospitality Management Limited and the Manager. He leads the Canadian operations for the Westmont Group and has been in the Canadian hotel marketplace with the Westmont Group since 1994. Prior to joining the Westmont Group in 1990, Mr. Gibson held the position of Vice-President of Operations for Texas-based Southwest Inns, a hotel development and management company. He is also Chairman of the Board of Choice Canada.

Tamara L. Lawson is the Chief Financial Officer and Secretary of InnVest REIT and the Chief Financial Officer of Westmont Hospitality Management Limited and the Manager. Prior to joining the Westmont Group in 2001, she served as Senior Vice-President & Chief Financial Officer of MDS Proteomics Inc., a world leading proteomics biotechnology company. Prior to joining MDS Proteomics in 2000, she held numerous senior executive positions at several major Canadian companies, including Executive Vice-President, Chief Financial Officer and Secretary of Chapters Inc. (1998 to 2000) and Treasurer of Sears Canada Inc. (1995 to 1998). She is also currently a director of Choice Canada. Ms. Lawson holds a Master of Business Administration degree from York University and has been a Chartered Accountant since 1982.

Conflict of Interest Restrictions and Provisions

The Declaration of Trust contains "conflict of interest" provisions that are intended to provide certain protections to Unitholders without creating undue limitations on the REIT. Given that the Trustees are engaged in a wide range of activities, the Declaration of Trust contains provisions, similar to those contained in the *Canada Business Corporations Act*, that require each Trustee or officer to disclose to InnVest REIT any interest in a material contract or transaction or proposed material contract or transaction with InnVest REIT (including a contract or transaction involving the making or disposition of any investment in real property or a joint venture arrangement) or the fact that such person is a director or officer of or otherwise has a material interest in any person who is a party to a material contract or transaction or proposed material contract or transaction with InnVest REIT. Such disclosure is required to be made at the first meeting at which a proposed contract or transaction is considered. In the event that a material contract or transaction or proposed material contract or transaction is one that in the ordinary course would not require approval by the Trustees, a Trustee or an officer of InnVest REIT is required to disclose in writing to InnVest REIT, or request to have entered into the minutes of meetings of Trustees, the nature and extent of his or her interest forthwith after the Trustee or officer becomes aware of the contract or transaction or proposed contract or transaction. In any case, a Trustee or officer who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction is one relating primarily to his or her remuneration as a Trustee, officer, employee or agent of InnVest REIT or one for indemnity under the provisions of the Declaration of Trust or liability insurance.

The Declaration of Trust contains provisions to address potential conflicts of interest arising between InnVest REIT and any Related Party. Among other things, InnVest REIT must obtain a valuation in respect of any property that it intends to purchase from or sell to a Related Party by a valuator engaged by, and prepared under the supervision of, a committee of two or more Independent Trustees who have no interest in such transaction. In addition, each transaction between InnVest REIT and a Related Party must be on commercially reasonable terms and requires the approval of at least 66 ²/₃% of InnVest REIT's Independent Trustees who have no interest in such transaction.

Independent Trustee Matters

In addition to requiring the approval of a majority of the Trustees, approval of not less than 66 ²/₃% of the Independent Trustees who have no interest in the matter is required with respect to any decision:

- (a) to make a material change to the Master Hotel Management Agreement or administrative services agreements (described below), change the fees payable to the Manager, renew the Master Hotel Management Agreement or the administrative services agreements at the end of their respective terms or appoint a substitute for the Manager after the end of the term of the Master Hotel Management Agreement;
- (b) to enter into any agreement or transaction in which any Related Party has a material interest or make a material change to any such agreement or transaction;
- (c) relating to a claim by or against any Related Party;
- (d) relating to a claim in which the interests of a person referred to in paragraph (c) above differ from the interests of InnVest REIT;

- (e) to increase the number of Trustees by no more than one-third in accordance with the Declaration of Trust and to appoint Trustees to fill the vacancies so created;
- (f) to recommend to the Unitholders that the number of Trustees be increased, where a vote of Unitholders thereon is required, and to nominate individuals as Trustees to fill the vacancies so created;
- (g) to acquire any real or other property in which a Related Party has an interest or to sell any interest in any real or other property to a Related Party;
- (h) to make any changes in compensation of an employee who is also an employee of a Related Party;
- (i) to grant options to purchase Units under any Unit option plan approved by the Trustees or to award any right to acquire or other right or interest in Units or securities convertible into or exchangeable for Units under any plan approved by the Trustees; and
- (j) to approve or enforce any agreement entered into by the InnVest REIT with a Trustee who is not an Independent Trustee or an associate thereof, with a Related Party, or with the Manager or any successor as hotel manager under the Master Hotel Management Agreement.

Master Hotel Management Agreement

The Operator has entered into the Master Hotel Management Agreement with the Manager, under which the Manager is responsible for the management of each of the Hotel Businesses. The Manager manages the Hotel Businesses and provides customary hotel management services, including preparation of annual operating and capital budgets and marketing plans, accounting and financial reporting, supervision of sales and marketing, human resource management, purchasing, management and supervision of construction and technical services, information technology, franchise relations and evaluations, supervision of property repairs and maintenance, supervision of compliance with material contracts relating to the Hotel Properties, leasing, yield management and quality control.

The obligations of the Manager under the Master Hotel Management Agreement are guaranteed by Westmont Hospitality Management Limited. The Manager and the guarantor are both part of the Westmont Group. The obligations of the Operator are guaranteed by InnVest Properties Corp.

The Master Hotel Management Agreement has been effective since July 26, 2002 and has an initial term of 10 years. Thereafter, the agreement is subject to two successive five-year renewal terms, subject to the consent of the Manager and approval by the Operator. If the REIT acquires any additional hotels during the term of the Master Hotel Management Agreement, the Manager will manage such additional hotels in accordance with the Master Hotel Management Agreement for the balance of the term of the agreement.

The Master Hotel Management agreement provides for the payment of an annual management fee to the Manager during the term of the agreement, including renewal periods, in an amount equal to 3.375% of gross revenues from the Portfolio, calculated and payable monthly. In addition, the Manager is entitled to an annual incentive fee. The incentive fee is equal to the sum of: (i) 15% of the amount by which 90% of Distributable Income in any year exceeds the First Incentive Fee Hurdle but is less than or equal to the Second Incentive Fee Hurdle, plus (ii) 20% of the amount by which 90% of Distributable Income exceeds the Second Incentive Fee Hurdle but is less than or equal to the Third Incentive Fee

Hurdle, plus (iii) 25% of the amount by which 90% of Distributable Income exceeds the Third Incentive Fee Hurdle. For this purpose, the First Incentive Fee Hurdle is an amount equal to the product of \$1.125 per Unit multiplied by the weighted average number of Units outstanding during the relevant period. The Second Incentive Fee Hurdle is an amount equal to the product of \$1.275 per Unit multiplied by the weighted average number of Units outstanding during the relevant period. The Third Incentive Fee Hurdle is an amount equal to the product of \$1.425 per Unit multiplied by the weighted average number of Units outstanding during the relevant period. The incentive fee hurdle calculations are subject to customary anti-dilution provisions, primarily to protect the Manager, in the event of certain events including, without limitation, Unit splits, Unit consolidations and distributions to Unitholders other than in the ordinary course of business resulting from, among other things, refinancings or asset sales. For example, such a distribution would lead to a proportional reduction in the incentive fee hurdles and, conversely, a Unit consolidation would lead to a proportional increase in the incentive fee hurdles.

In addition to the base management fee and incentive fee, the Manager is entitled to: (i) reasonable fees based on a percentage of the cost of purchasing certain goods and supplies for the Hotel Businesses and of certain construction costs and certain capital expenditures, and (ii) fees for accounting services. The Manager is also entitled to be reimbursed for all reasonable out-of-pocket costs and expenses (other than general and administrative expenses or overhead costs except as otherwise provided in the Administrative Services Agreements) incurred by the Manager in the performance of its duties under the Agreement, provided that such costs have been identified in a budget approved by the Operator or otherwise are approved in writing by the Operator prior to being incurred by the Manager.

Internalization of the management of the Hotel Businesses on the basis of payment to the Manager of a fee in excess of the sum of the base management fee and incentive fee payable during the 12 months preceding such internalization is subject to the approval of not less than 66 ²/₃% of the votes cast by Unitholders (excluding Units beneficially-owned by or on behalf of the Westmont Group) at a meeting called for such purpose.

The Operator has the right to terminate the Master Hotel Management Agreement if, in two consecutive years: (i) certain performance tests relating to the achievement of 80% of the annual budgeted net operating cash flow for the Portfolio are not met, and (ii) a market test relating to the achievement of 90% of the average achieved RevPAR relative to a competitive set of limited service hotels is not satisfied. The termination right will not be triggered if the failure to achieve the performance test is a result of force majeure or specified acts or defaults by the Operator. Unless it is otherwise in default under the Master Hotel Management Agreement, the Manager has the right once during the first five years of the initial term and once during the second five years of the initial term to cure any performance test failure by making a payment to the Operator of the deficiency in net operating cash flow below the performance test criteria. Such payment may, at the Manager's option, be made by set-off against management fees. If the Operator terminates the Master Hotel Management Agreement pursuant to this termination right, no compensation is payable to the Manager other than accrued fees and reimbursable costs.

The Manager may not terminate the Master Hotel Management Agreement during the first five years of the initial term but thereafter may terminate the agreement without compensation on six months' prior written notice provided that, upon request of the Operator, the Manager shall delay the effective date of such termination for a further six months. If control of InnVest REIT passes to a person of ill-repute or a competitor of the Manager, the Manager is entitled to terminate the Master Hotel Management Agreement and to receive compensation equal to the base management fee and incentive fee paid in the preceding 12 months. In addition, the Operator and the Manager have termination rights after customary events of default, including bankruptcy or insolvency proceedings or similar events, subject to customary notice and cure rights.

The Master Hotel Management Agreement provides that the Operator will make a termination payment to the Manager if the REIT sells a hotel or hotels to an unrelated third party during the term of the agreement and the Manager is not continued as manager of the hotel or hotels that are sold. If the hotel or hotels being sold in any 12 month period represent 10% or less of the Gross Book Value of the Portfolio, such termination payment will be equal to the sum of base management fee and incentive fee reasonably allocable to that hotel or hotels over the 12 months immediately preceding the sale. If the hotel or hotels being sold in any 12 month period represent more than 10% of the Gross Book Value of the Portfolio, such termination payment will be the amount that is equal to the base management fee and incentive fee over the 36 months immediately preceding the sale reasonably allocable to the hotel or hotels being sold that represent in excess of 10% of the Gross Book Value of the Portfolio.

The Manager has agreed that it will not sell or assign the Master Hotel Management Agreement during the first two years of the initial term without the consent of the Operator which may be withheld in its sole discretion. Thereafter, any sale or assignment of the agreement or change of control of the Manager is subject to the approval of the Operator, which approval shall not be unreasonably withheld if the person acquiring the agreement or control of the Manager is a hotel management company having comparable experience and operating and service standards equal to or better than those of the Manager and if all consents, approvals or waivers required under applicable franchise agreements, mortgages, agreements with Choice Canada and Choice International and land leases which contain restrictions relating to a sale or assignment of the Master Hotel Management Agreement or a change of control of the Manager have been obtained without material adverse consequence or material cost to the REIT.

Certain significant decisions or consents by the Operator, such as renewal terms and extensions, consents to assignment of the Master Hotel Management Agreement or change of control of the Manager are subject to ratification by the Independent Trustees on behalf of the REIT and the approval of annual budgets and other reimbursements to the Manager are subject to the approval of the Trustees on behalf of the REIT, in each case as the sole shareholder of the general partner of the Operator. In consideration for services rendered in 2003, the Manager was paid approximately \$7.6 million in management fees and approximately \$2.4 million for other services.

Administrative Services Agreements

The Manager provides to InnVest REIT and the Operator certain administrative and support services, including the provision of: (i) office space and office equipment; (ii) communications and computer systems; and (iii) such administrative and secretarial support services as reasonably required from time to time to support the ongoing administration and operation of the REIT and the Operator. Such services will be provided on a cost recovery basis pursuant to a budget to be agreed and approved annually by 66²/₃% of the Independent Trustees.

The administrative services agreements have the same term as the Master Hotel Management Agreement. Each of the REIT and the Operator may terminate its respective administrative services agreement if the Master Hotel Management Agreement is terminated. The aggregate fee paid to the Manager for the provision of the services under the administrative services agreements for the year ended December 31, 2003 was \$550,000.

RISK FACTORS

Real Estate Investment Risks

As InnVest REIT owns hotel properties, its investments are subject to risks generally incident to the ownership of real property. One of the factors contributing to the underlying value of the REIT's real

estate investments and its income and ability to make distributions to its Unitholders is the ability of the Operator and its subsidiary partnerships under the supervision of the Manager, to operate the hotels in the Portfolio and any subsequently acquired hotels in a manner sufficient to maintain or increase revenues and to generate sufficient income in excess of operating expenses. Income from the hotels may be adversely affected by changes in national economic conditions, changes in local market conditions due to changes in general or local economic conditions and neighbourhood characteristics, changes in interest rates and in the availability, cost and terms of mortgage funds, the impact of present or future environmental legislation and compliance with environmental laws, the ongoing need for capital improvements, particularly in older structures, changes in real estate assessed values and taxes payable on such values (including as a result of possible increased assessments as a result of the acquisition of the Portfolio by the REIT) and other operating expenses, changes in governmental laws, regulations, rules and fiscal policies, changes in zoning laws, civil unrest, acts of God, including earthquakes and other natural disasters and acts of terrorism or war (which may result in uninsured losses). When interest rates increase, the cost of acquiring, developing, expanding or renovating real property increases and real property values may decrease as the number of potential buyers decreases. Similarly, as financing becomes less available, it becomes more difficult to both acquire and to sell real property. Finally, governments can, under eminent domain laws, expropriate or take real property for less compensation than an owner believes the property is worth. Almost all of these factors are beyond the control of the REIT and the Manager.

Real estate investments are relatively illiquid. There can be no assurance that the REIT will be able to dispose of an investment when it finds disposition advantageous or necessary or that the sale price of any disposition will recoup or exceed the amount of the REIT's investment. The ability of the REIT to vary its real estate portfolio in response to changes in economic and other conditions will be limited. If the REIT were required to liquidate its real property investments, the proceeds to it might be significantly less than the aggregate carrying value of its properties.

Hotel Industry Risks

InnVest REIT directly or indirectly owns, and the Operator (directly or through its subsidiary partnerships) operates, hotels. As a result, the REIT is subject to the operating risks inherent in the Canadian hotel industry. In addition to the specific conditions discussed in more detail below, these risks include:

- cyclical downturns arising from changes in general and local economic conditions;
- changes in the level of business and commercial travel and tourism;
- increases in the supply of accommodations in local markets which may adversely affect the results of operations;
- competition from other hotels;
- the recurring need for renovation, refurbishment and improvement of hotel properties;
- changes in wages, prices, energy costs and construction and maintenance costs that may result from inflation, government regulations, changes in interest rates or currency fluctuations;
- availability of financing for operating or capital requirements;

- seasonal fluctuations in hotel operating income produced throughout the year;
- increases in operating costs due to inflation which may not necessarily be offset by increased room rates;
- increases in expenses of travel, particularly automotive travel; and
- other factors, including medical concerns related to travelling to Canada, acts of terrorism, natural disasters, extreme weather conditions and labour shortages, work stoppages or disputes.

Competition

The Canadian hotel industry is highly competitive. Each of the hotels in the Portfolio is located in an area that includes other hotels owned or operated by third parties. InnVest REIT competes locally and regionally with existing hotels and will compete with hotels that may be developed in the future. Some of the competitors of hotels in the Portfolio may have substantially greater marketing and financial resources than the REIT. The number of competitive hotel properties in a particular area could have a material adverse effect on the occupancy rates and ADR of the hotels in the Portfolio.

The Whitehall Funds and the Westmont Group continue to own hotels and, subject to the non-competition arrangements relating to the acquisition of limited service hotels in Canada competing in the budget or economy sector of the hotel market, may, in certain circumstances, acquire additional hotels, including limited service hotels that compete with properties of the REIT. An affiliate of the Manager also currently manages approximately 40 hotels in Canada that are not included in the Portfolio, and the Westmont Group may manage additional hotels not owned by the REIT, including limited service hotels. These managed properties may also compete with properties owned by the REIT.

Investment Concentration in the Mid-Scale Limited Service Hotel Sector

InnVest REIT primarily owns interests in Canadian mid-scale limited service hotel properties. As a result, the REIT is subject to risks inherent in investing significantly in a single sector of a market. However, in April 2004 the REIT finalized the acquisition of nine mid-scale with food and beverage hotels. This acquisition will help to mitigate the concentration risk associated with the REIT's exposure to, predominantly, the mid-scale limited service sector of the Canadian Hotel Industry.

Acquisition Strategy Risks

In addition to seeking operational efficiencies in the operation of the Portfolio, the REIT will seek to increase cash flow and enhance Unit value by acquiring additional hotel properties that meet its investment criteria and by applying its operating strategy to improve the financial performance of the subsequently acquired hotels. Acquisitions entail risks that investments will fail to perform in accordance with expectations and that judgments with respect to the costs of improvements to bring an acquired property up to appropriate standards will prove inaccurate, as well as general investment risks associated with any new real estate investment.

Availability of Cash Flow

Distributable Income accruing to Unitholders may exceed actual cash available to InnVest REIT from time to time because of items such as principal repayments, capital expenditures, seasonal fluctuations in operating results and redemption of Units, if any. The REIT may be required to borrow

funds or reduce distributions in order to accommodate such items. The REIT anticipates temporarily funding such items, if necessary, through the Operating Facility, to the extent that it is available.

Cash Distributions Are Not Guaranteed and May Fluctuate with InnVest REIT's Performance

Although the REIT intends, to the extent possible, to make equal monthly cash distributions to the Unitholders, such cash distributions are not guaranteed and may fluctuate with its performance. The REIT depends on revenue generated from the Portfolio to make such distributions. There can be no assurance regarding the amount of revenue generated by the Portfolio. The amount of Distributable Income will depend upon numerous factors, including the profitability of the Portfolio, fluctuations in working capital, interest rates, capital expenditures, and other factors which may be beyond the control of the REIT. If the Trustees determine that it would be in the best interests of the REIT, they may reduce for any period the percentage of Distributable Income to be distributed to the Unitholders.

Borrowing Risks

As at December 31, 2003, InnVest REIT had approximately \$310.1 million of indebtedness (excluding the convertible debentures), representing a Financial Leverage Ratio of approximately 38.9%. The REIT is subject to the risks associated with debt financing, including the risks that cash flow from operations will be insufficient to meet required payments of principal and interest, the risk that existing debt will not be able to be refinanced or that terms of such refinancings will not be as favourable to the REIT and the risk that necessary capital expenditures for such purposes as renovations and other improvements will not be able to be financed on favourable terms or at all. In such circumstances, if the REIT were in need of capital to repay indebtedness in accordance with its terms or otherwise, it could be required to liquidate one or more investments in hotel properties at times which may not permit realization of the maximum return on such investments or could be required to agree to additional financing on unfavourable terms. In addition, the REIT is subject to the risk that its interest expense may increase on the refinancing of existing indebtedness or on any portion of its indebtedness that bears interest at floating rates if interest rates increase, which could have a material adverse effect on the results of operations of the REIT and its ability to make distributions. The REIT's financing arrangements contain covenants, including a covenant that the lender under the Term Credit Facility shall have the right to approve any change of the hotel manager for the relevant Hotel Properties, covenants restricting transfers of the relevant Hotel Properties, including transfers from the REIT's subsidiaries to the REIT, and covenants restricting the REIT's ability to sell the Operator or InnVest Properties Corp. and covenants to provide cash reserves for major capital expenditures from time to time. Future financing agreements may contain similar, or more restrictive, provisions and covenants. If the REIT fails to comply with the restrictions in current or future financing arrangements, its lenders may be able to accelerate related debt as well as any other debt to which a cross-default or cross-acceleration provision applies. A default could also allow creditors to foreclose, sell or realize on the property securing such debt or exercise other remedies against the REIT. Credit facilities typically require repayment of funds or cash flow sweeps when certain coverage ratios are not met.

The REIT, the Operator and InnVest Properties Corp. have granted security interests over substantially all of their assets to secure indebtedness owing under the Existing Mortgages and the New Credit Facilities. If the REIT is not able to meet its debt service obligations, it risks the loss of some or all of its assets to foreclosure or sale.

Availability of Additional Capital

The acquisition of hotels, as well as ongoing renovations, refurbishment and improvements required to maintain and operate new and existing properties, are capital intensive. InnVest REIT sets

aside 4% of revenues for the replacement of furniture, fixture and equipment reserve and capital improvements (“FF&E reserve”) and the FF&E reserve was \$13.4 million at December 31, 2003. However, where the cost of capital improvements exceeds the FF&E reserve, or the cost of certain capital improvements reduces the reserve to significantly lower levels, the REIT will be required to fund these activities principally by issuing additional Units or incurring additional indebtedness. Access to capital markets for additional Unit financings and the availability of additional borrowing will depend on prevailing market conditions and the acceptability of the terms offered. In addition, the Declaration of Trust prohibits the REIT from incurring or assuming any indebtedness if it would result in the Financial Leverage Ratio exceeding 50% (60% including convertible debentures). There can be no assurance that the REIT will be able to complete additional Unit financings or borrow additional funds on terms acceptable to it, or at all. If the REIT were unable to secure additional funding for acquisitions or required improvements, it would be required to curtail these activities, which could have a material adverse effect on its results of operations and financial condition.

Franchised Hotels

Each of the hotels in the Portfolio is subject to a franchise agreement, and hotels in the REIT invests after the date of this annual information form may also be operated under franchise agreements. The continuation of the franchises is subject to specified operating standards and other terms and conditions. Such standards are often subject to change over time, in some cases at the discretion of the franchisor, and may restrict a franchisee's ability to make improvements or modifications to a hotel property without the consent of the franchisor. Franchisors typically periodically inspect licensed properties to confirm adherence to operating standards. The failure of a hotel in the Portfolio to conform to such standards or of the REIT, or of the Operator to maintain such standards or adhere to such other terms and conditions could result in the loss or cancellation of the franchise agreement and potential liquidated damages. In a large portfolio, it is typical that, each year, several hotels will fail to pass such inspections. From time to time, hotels in the Portfolio have not passed an inspection but have subsequently passed re-inspections upon compliance with noted deficiencies. It is possible that a franchisor could condition the continuation of a franchise agreement on the completion of capital improvements which the Trustees determine are too expensive or otherwise unwarranted in light of general economic conditions or the operating results or prospects of the affected hotel. In that event, the Trustees may elect to allow the franchise agreement to lapse. If a franchise were terminated, the REIT and the Operator would generally seek to obtain a suitable replacement franchise. However, there can be no assurance that the REIT and the Operator would be able to obtain a suitable replacement franchise on acceptable terms or at all. The loss of a franchise agreement could have a material adverse effect upon the operations or the underlying value of the hotel covered by the franchise because of the loss of associated name recognition, marketing support and centralized reservation systems provided by the franchisor.

One hundred of the hotels in the Portfolio are operated under Choice flags. Despite its 50% ownership of Choice Canada, under Choice Canada's master franchise agreement with Choice International, the Choice-branded hotels in the Portfolio are required to operate to standards determined by Choice Canada, and representatives of Choice Canada must approve any hotel to be reflagged under a Choice flag. The REIT is subject to risks related to the concentration in the Portfolio of hotels operating under the Choice flags, including the risk of a reduction in hotel revenue following any adverse publicity related to the Choice flags, which could have a material adverse effect on the REIT's results of operations and financial condition.

The shareholders' agreement for Choice Canada prohibits affiliates (within the meaning of the *Business Corporations Act* (Ontario)) of the REIT's subsidiary that is shareholder in Choice Canada from operating a number of hotels under flags that compete with the Choice flags exceeding 20% of the total number of hotels operating under franchise from Choice Canada from time to time (this 20% limit is

currently equivalent to approximately 54 hotels). The Operator operates 23 hotels under such competing flags. While the REIT believes, based on the advice of counsel to the REIT, that this restriction in the Choice Canada shareholders' agreement does not apply to the Operator as it does not constitute an affiliate under that definition, if the restriction were determined to apply it could restrict the REIT's ability to acquire additional hotels under competing flags in excess of the specified limit. In addition, the termination of the shareholders' agreement would have a material adverse effect on the REIT.

Reliance on Franchisees by Choice Canada

The growth of Choice Canada's business is, in part, dependent on its ability to attract and retain qualified franchisees in Canada and on the ability of Choice Canada's franchisees to maximize penetration of their designated markets and operate their hotels successfully. Although Choice Canada has established criteria to evaluate prospective franchisees, there can be no assurance that its existing or future franchisees will have the business abilities or access to financial resources necessary to open the required number of hotels or that they will successfully develop or operate these hotels in their franchise areas in a manner consistent with Choice Canada's standards. There can be no assurance that Choice Canada will be able to attract qualified franchisees.

Potential Labour Disruptions

A significant number of the employees employed at the hotels in the Portfolio are unionized and governed by collective agreements. Individual hotels have experienced, and may in the future experience, labour disruptions or difficulties which could affect the short-term operating performance of particular hotels. Relations with employees could deteriorate due to disputes related to, among other things, wage or benefit levels or the REIT's response to changes in government regulation of workers in the workplace. Hotel operations rely heavily on employees. Any labour shortage or stoppage caused by disagreements with employees, including unionized employees, could adversely affect the ability of the REIT's hotels to operate and could result in the temporary closure of particular hotels, the reduction of occupancy and room revenue or damage to the REIT's reputation. Any such labour difficulties could have a material adverse effect on the REIT's results of operations, business, prospects and financial condition.

Environmental Risks

Under various environmental laws and regulations, a current or previous owner or operator of real property may be liable for the costs of remediation of contamination or hazardous or toxic substances on, under or in a property. Environmental laws and regulations often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such contamination or hazardous or toxic substances. In addition, the presence of contamination or hazardous or toxic substances, or the failure to remediate properly, may adversely affect the owner's ability to borrow using a property as collateral. In connection with the ownership of the Portfolio, InnVest REIT may be potentially liable for any such remediation costs.

In connection with the REIT's acquisition of the Portfolio, Phase I environmental site assessments and, where appropriate, Phase II environmental site assessments were completed in respect of each of the Hotel Properties. Based on the results of these assessments, the REIT believes that the Hotel Properties are operated in substantial compliance with all material environmental laws and regulations and that the current estimated cost of remediation or capital expenditures with respect to actual or potential environmental conditions will not have a material adverse effect on InnVest REIT's results of operations, business, prospects and financial condition. There can be no assurance that such assessments have identified all material environmental contamination or hazardous or toxic substances or violations of

environmental laws or regulations. Further, the costs involved in remediating contaminated property can be difficult to estimate and could exceed current estimated amounts.

The Operator, directly or through its subsidiary partnerships, intends to make the necessary capital and operating expenditures to comply with environmental laws and regulations. Although there can be no assurances, the REIT does not believe that costs relating to environmental matters will have a material adverse effect on its results of operations, business, prospects and financial condition. However, environmental laws and regulations may change and the REIT or its subsidiaries may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations may have a material adverse effect on the REIT's results of operations, business, prospects and financial condition. Environmental laws and regulations may also limit future development or expansion of the Hotel Properties.

Acquisition Risks

The Portfolio is subject to the risks of acquisition. InnVest REIT holds a number of the hotels within the Portfolio indirectly through its ownership of InnVest Properties Corp., which in turn holds some of these hotels indirectly. InnVest Properties Corp. is a company resulting from numerous amalgamations and reorganizations. It is possible that entities within the InnVest Properties Corp. structure may be subject to unknown or undisclosed liabilities which could have a material adverse impact on the results of operations and financial condition of the REIT. Representations and warranties obtained by the REIT may not adequately protect against such liabilities or recourse against the sellers may be limited by the financial capacity of the sellers.

Uninsured and Underinsured Losses

The Declaration of Trust requires that InnVest REIT obtain and maintain at all times insurance coverage in respect of its potential liabilities and the accidental loss of value of its assets from risks, in amounts, with such insurers, and on such terms as the Trustees consider appropriate, taking into account all relevant factors including the practices of owners of comparable properties. Management of the REIT believes that the insurance coverage to be maintained is of the type and amount customarily obtained for or by an owner of real property assets. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes and floods, or acts of terrorism that may be uninsurable or not economically insurable. The Trustees will use their discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance coverage on the REIT's investments at a reasonable cost and on suitable terms. This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of InnVest REIT's lost investment. Certain factors, including inflation, changes in building codes and ordinances and environmental considerations, also might make it unattractive to use insurance proceeds to replace the property after such property has been damaged or destroyed. Under such circumstances, the insurance proceeds received by the REIT might not be adequate to restore its economic position with respect to such property.

Reliance on Key Personnel

InnVest REIT and the Manager depend on the services of certain key personnel, including the Senior Executives. The loss of the services of any of these key personnel could have a material adverse effect on the REIT. In addition, such personnel are generally required to devote only 50% of business hours to managing the affairs of the REIT. Furthermore, the employment agreements of these key employees will be terminated upon termination of the Master Hotel Management Agreement and may be

terminated by the REIT upon the expiry and non-renewal of the term of the Master Hotel Management Agreement.

Dependence on and Relationship with the Manager

The Manager provides hotel management services to the Operator and its subsidiary partnerships. The REIT is dependent on the Manager with respect to the management and the operation of the hotels in the Portfolio. Under the Master Hotel Management Agreement, the Manager has agreed that it will not sell or assign the Master Hotel Management Agreement, and that there will be no change of control of the Manager during the first two years of the initial term. Thereafter, the Westmont Group may sell the Manager or sell or assign the Master Hotel Management Agreement subject, in each case, to the approval of not less than 66 ²/₃% of the Independent Trustees, which shall not be unreasonably withheld if the person acquiring the agreement or control of the Manager is a hotel management company having comparable experience and operating and service standards equal to or better than those of the Manager and if all necessary third party consents and other approvals have been obtained without adverse consequence to the REIT. The Manager may terminate the agreement, generally on six months' notice, after the first five years of the initial term of the Agreement. There can be no assurance that if the Manager were to terminate the Master Hotel Management Agreement a suitable replacement would be found.

Termination Rights under Master Hotel Management Agreement

The Master Hotel Management Agreement has been effective since July 26, 2002 and the initial term is 10 years with two five-year renewal rights subject to the consent of the Manager and approval of the Independent Trustees. During the initial 10-year term, there is no express right of termination by the REIT absent customary events of default, including bankruptcy or insolvency proceedings or similar events, or underperformance over two consecutive years relative both to budget and to average RevPAR of a competitive set of limited service hotels. In the event that hotels representing less than 10% of the Gross Book Value of the Portfolio are sold in any 12-month period and the Manager is not continued as manager of the hotels, the REIT has the ability to terminate the agreement in respect of the hotels sold upon the payment of an amount equal to the base and incentive fee allocable to the hotels during the preceding twelve months. In the event that hotels representing more than 10% of the value of the initial Portfolio are sold in any 12-month period and the Manager is not continued as manager of the hotels, then the termination fee will be based on the base and incentive fees during the preceding 36 months allocable to the hotels being sold that represent in excess of 10% of the Gross Book Value of the Portfolio.

Potential Conflicts of Interest

The REIT was established to purchase, directly and indirectly, the Portfolio. The Independent Trustees have not received independent advice pertaining to the agreements that were entered into by the REIT, the Manager and the REIT's promoters in connection with the purchase of the Portfolio and the REIT's initial public offering. In addition, InnVest REIT may be subject to various conflicts of interest because of the fact that the Manager and its respective directors, officers and associates, as well as the Trustees, are engaged in a wide range of business activities, including hotel management, acquisition and ownership. Additionally, certain Trustees are officers and directors of entities that are a part of the Westmont Group which could give rise to conflicts of interest. The REIT may become involved in transactions which conflict with the interests of the foregoing. The Trustees, the officers of the REIT and associates or affiliates of the Manager may from time to time deal with persons, firms, institutions or corporations with which the REIT may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of the REIT. In addition, from time to time, these persons may be competing with the REIT for available investment opportunities. The

Declaration of Trust contains provisions to address these potential conflicts of interest. See “Management of the REIT – Conflict of Interest Restrictions and Provisions” and “Management of the REIT – Independent Trustee Matters”.

Tax-Related Risks

The extent to which distributions will be tax deferred in the future will depend on the extent that InnVest REIT can shelter its taxable income by claiming capital cost allowances, interest and other available deductions. In addition, the extent to which InnVest Properties Corp. will be able to shelter its taxable income will depend on the extent to which it can claim capital cost allowances, interest and other available deductions. Furthermore, many of the hotels that are retained by InnVest Properties Corp. will have a low cost amount for Canadian income tax purposes with the consequence that their sale likely would give rise to a gain for income tax purposes even if the sale price did not exceed their value on the date of the formation of the REIT. As a result, disposing of these properties may be unattractive to the REIT, even if the Trustees were to determine that the disposition would otherwise be in the best interests of the REIT.

There can be no assurance that the laws and regulations and the administrative and assessing practices of the Canada Customs and Revenue Agency respecting the treatment of mutual fund trusts or the deductibility of interest will not be changed in a manner which adversely affects Unitholders. If the REIT ceases to qualify as a mutual fund trust under the Tax Act, the Units will cease to be qualified investments for Deferred Income Plans and RESPs. The REIT will endeavour to ensure that the Units continue to be qualified investments for Deferred Income Plans and RESPs. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments and there is no assurance that the conditions prescribed for such qualified or eligible investments will be adhered to at any particular time.

There can be no assurance that the taxation authorities will not seek to challenge the amount of expenses deducted. On October 31, 2003, the Department of Finance released, for public comment, proposed amendments to the Tax Act that relate to the deductibility of interest and other expenses for income tax purposes for taxation years commencing after 2004. In general, the proposed amendments may deny the realization of losses in respect of a business or property in a year if, in that year, it is not reasonable to expect that the taxpayer will realize a cumulative profit from that business or property for the period in which the taxpayer has carried on, and can reasonably be expected to carry on, that business or has held, and can reasonably be expected to hold, that property. Management believes that it is reasonable to expect that the REIT and its subsidiaries will realize a cumulative profit from their respective properties and businesses, as the case may be.

The March 23, 2004 federal Budget proposed that after 2004 trusts governed by a registered pension plan, pension corporations, various tax-exempt pension investment corporations and the Canada Pension Plan Investment Board would become subject in some circumstances to a 1% per month special tax if they were treated under the detailed proposal as being directly or indirectly invested in a business income trust other than an exempt trust. Due to uncertainties in how this proposal (which has not yet been reflected in draft legislation) would apply, it is not possible to give assurances that Units of the REIT would not subject such exempt persons to this special tax after 2004.

Deterrents to Acquisition of the REIT

Holders of Vendor Convertible Debentures may redeem debentures at a redemption price of 101% in the event of a change of control of the REIT. Further, the Manager has a right in certain circumstances to terminate the Master Hotel Management Agreement in the event of a change of control,

in which circumstances it would receive a fee equal to the base fee and incentive fee under such agreement for the preceding 12 months. The existence of these provisions may make the REIT less attractive as an acquisition candidate.

Unpredictability and Volatility of Unit Price

The Units of the REIT will not necessarily trade at values determined by reference to the underlying value of the REIT's business. The prices at which the Units will trade cannot be predicted. The market price of the Units could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. The annual yield on the Units as compared to the annual yield on other financial instruments may also influence the price of Units in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the Units.

Future Sales of Securities of the REIT

As at April 30, 2004 45,442,094 Units were outstanding (56,969,536 Units after giving effect to the conversion of all Convertible Debentures). The Whitehall Funds collectively own 7% of the Units. All of the currently outstanding Units are eligible for sale in the public market, subject to any applicable restrictions under securities laws. The Whitehall Funds may sell any or all of the securities of the REIT owned by them. There is no assurance that the Whitehall Funds will not dispose of the securities of the REIT owned by them or that the strategic relationships between the REIT and the Whitehall Funds will be maintained in the future.

Sales of a substantial number of Units in the public market could adversely affect the prevailing market price of the Units and could impair the REIT's ability to raise additional capital through an offering of its equity securities.

Restrictions on Certain Unitholders and Liquidity of Units

The Declaration of Trust imposes restrictions on non-resident Unitholders who are prohibited from beneficially owning more than 49% of the Units. This restriction may limit the rights of certain Unitholders, including non-residents of Canada, to acquire Units, to exercise their rights as Unitholders and to initiate and complete take-over bids in respect of the Units. As a result, these restrictions may limit the demand for Units from certain Unitholders and thereby adversely affect the liquidity and market value of the Units held by the public.

Structural Subordination of Units

In the event of a bankruptcy, liquidation or reorganization of the REIT or any of its subsidiaries, holders of certain of their indebtedness and certain trade creditors will generally be entitled to payment of their claims from the assets of the REIT and those subsidiaries before any assets are made available for distribution to the Unitholders. The Units will be effectively subordinated to most of the indebtedness and other liabilities of the REIT and its subsidiaries, expected to be approximately \$362.9 million. Neither the REIT nor any of its subsidiaries will be limited in its ability to incur additional secured or unsecured indebtedness.

Redemption Right

It is anticipated that the redemption right will not be the primary mechanism for holders of Units to liquidate their investments. Cash redemptions are subject to limitations. Notes which may be distributed *in specie* to Unitholders in connection with a redemption will not be listed on any stock exchange and no established market is expected to develop in such notes and they may be subject to resale restrictions under applicable securities laws.

Nature of Units

Securities such as the Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. As holders of Units, Unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions.

Possibility of Unitholder Liability

Recourse for any liability of InnVest REIT is intended to be limited to its assets. The Declaration of Trust provides that no Unitholder or annuitant under a plan of which a Unitholder acts as Trustee or carrier (an "annuitant") will be held to have any personal liability as such, and that no resort shall be had to the private property of any Unitholder or annuitant to satisfy any obligation or claim arising out of or in connection with any contract, obligation or liability of the REIT or of the Trustees.

Because of uncertainties in the current law relating to investment trusts, there is a risk (which is considered by counsel to be remote in the circumstances) that a Unitholder or annuitant could be held personally liable for obligations of the REIT (to the extent that claims are not satisfied by the REIT) in respect of contracts that the REIT enters into and for certain liabilities arising other than out of contract including claims in tort, claims for taxes, and possibly certain other statutory liabilities. The Trustees intend to cause the REIT's operations to be conducted in such a way as to minimize any such risk, including by obtaining appropriate insurance and, where feasible, attempting to have every material written contract or commitment of the REIT contain an express disavowal of liability against the Unitholders (which in the opinion of the REIT's counsel will be effective). However, in conducting its affairs, the REIT will be acquiring real property investments, which may be subject to existing contractual obligations, including under leases. The REIT will use reasonable efforts to have any of these obligations modified so as not to be binding on any of the Unitholders or annuitants personally. However, the REIT may not be able to modify the obligations in all cases.

ADDITIONAL INFORMATION

Additional information, including trustees' and officers' remuneration and indebtedness, principal holders of the REIT's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the REIT's information circular for its most recent annual meeting of Unitholders and additional financial information is contained in the REIT's comparative financial statements for its most recently completed financial year.

The REIT will provide to any person or company, upon request to the Secretary at 5090 Explorer Drive, 7th Floor, Mississauga, Ontario L4W 4T9:

- (a) when securities of the REIT are in the course of a distribution under a preliminary short form prospectus or a short form prospectus:

- (i) one copy of this Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this Annual Information Form;
 - (ii) one copy of the comparative financial statements of the REIT for its most recently completed financial year for which financial statements have been filed together with the accompanying report of the auditor and one copy of the most recent interim financial statements of the REIT that have been filed, if any, for any period after the end of its most recently completed financial year;
 - (iii) one copy of the information circular of the REIT in respect of its most recent annual meeting of Unitholders that involved the election of Trustees or one copy of any annual filing prepared instead of such information circular, as appropriate; and
 - (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or short form prospectus and are not required to be provided under clauses (i), (ii) or (iii); or
- (b) at any other time, one copy of any documents referred to in clauses (a)(i), (ii) and (iii), provided that the REIT may require payment of a reasonable charge if the request is made by a person or company that is not a security holder of the REIT.

APPENDIX A

GLOSSARY OF TERMS

The following terms used in this annual information form have the meanings set out below.

"**Acquired Hotel Portfolio**" means, collectively, the 114 Canadian hotel properties in the Portfolio, the 50% interest in Choice Canada, various licence contracts, cash and current assets, as well as the assumption of certain mortgages and current liabilities, which the REIT and/or its subsidiaries acquired, on completion of the REIT's initial public offering on July 26, 2002 from affiliates of the Whitehall Funds and Westmont Holdings.

"**ADR**" means the average daily room rate, determined by dividing gross room revenue by the number of occupied room nights in the applicable period.

"**affiliate**" means, with respect to any person or limited partnership, any other person or limited partnership directly or indirectly controlling, controlled by or under direct or indirect, control with, such person.

"**associate**" has the meaning ascribed thereto in the *Securities Act* (Ontario).

"**Choice Canada**" means Choice Hotels Canada Inc.

"**Choice International**" means Choice Hotels International, Inc.

"**Deferred Income Plans**" means, collectively, trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans, each as defined in the Tax Act.

"**Distributable Income**" means net income of InnVest REIT as set out in its consolidated financial statements determined in accordance with GAAP, subject to certain adjustments set out in the Declaration of Trust, including the adding back of depreciation and amortization, amortization of fair value debt adjustments and future income tax expenses, excluding any gains or losses on the disposition of real property, and future income tax benefits and deducting the amount calculated for the reserve for replacement of furniture, fixtures and equipment and capital improvements, the interest on convertible debentures that is not included in the computation of net income and any other adjustments determined by the Trustees in their discretion.

"**Existing Management Agreements**" means the hotel management agreements between an affiliate of the Manager, InnVest Properties Corp. and certain subsidiaries of InnVest Properties Corp., as assigned to the Manager and amended on completion of the REIT's initial public offering, in respect of the day-to-day management of the Hotel Businesses.

"**Existing Mortgages**" means the mortgages to which the hotels in the Portfolio were subject immediately following the completion of the REIT's initial public offering excluding mortgages registered in connection with the New Credit Facilities.

"**Financial Leverage Ratio**" means, at any time, the ratio of total consolidated indebtedness of the REIT, as shown on its then most recent publicly issued balance sheet (calculated in accordance with GAAP but excluding temporary indebtedness, if any, due to the vendors of the Portfolio in connection with the initial acquisition transaction, non-interest bearing indebtedness, trade accounts payable and, for greater certainty, future income tax liability) to Gross Book Value.

"GAAP" means Canadian generally accepted accounting principles.

"**Gross Book Value**" means, at any time, the book value of the assets of InnVest REIT, as shown on its then most recent publicly issued balance sheet, plus the amount of accumulated depreciation and amortization shown thereon, less the amount of future income tax liability arising out of the indirect acquisition of the Portfolio.

"**Hotel Businesses**" means, collectively, the hotel businesses currently carried on at the Hotel Properties consisting of all of the assets involved in the operation of such properties, other than the Hotel Properties themselves, but including all furniture, moveable equipment, licences, contracts, inventory and goodwill in connection therewith, and, where the context requires, includes hotel businesses associated with any additional Hotel Properties acquired by InnVest REIT.

"**Hotel Properties**" means, collectively, the real property, buildings, fixtures (including attached equipment) and leasehold interests, if any, in the 114 hotel properties (excluding the Hotel Businesses) in the Portfolio and, where the context requires, includes any additional hotel properties acquired by InnVest REIT.

"**Independent Trustee**" means a Trustee who is "unrelated" as defined in section 474 of The Toronto Stock Exchange Company Manual (guidelines on corporate governance). A person serving as a nominee of the Whitehall Funds or the Westmont Group pursuant to a right to appoint such person under the Declaration of Trust is deemed not to be an Independent Trustee.

"**Manager**" means Westmont Hospitality Canada Limited and its successors or permitted assigns under the Master Hotel Management Agreement.

"**Maple Leaf**" means Maple Leaf Investment Holdings, L.P.

"**Master Hotel Management Agreement**" means the master hotel management agreement dated as of July 26, 2002 between the Operator, the Manager and others and including, except where the context otherwise indicates, the Existing Management Agreements and any other hotel management agreements executed from time to time with the Manager with respect to individual hotels in the Portfolio.

"**New Credit Facilities**" means the term credit facility and the operating facility, each with a Canadian chartered bank and obtained by the REIT immediately following the completion of the REIT's initial public offering.

"**Notes**" means notes of InnVest Properties Corp. issued from time to time and held by InnVest REIT.

"**Operator**" means InnVest Hotels Limited Partnership, a limited partnership established under the laws of the Province of Manitoba, and includes, unless otherwise indicated or the context otherwise requires, wholly-owned subsidiary partnerships of the Operator.

"**Portfolio**" means, collectively, the Hotel Properties and the Hotel Businesses.

"**Related Party**" means, with respect to any person, a person who is a "related party", as that term is defined in Ontario Securities Commission Rule 61-501, as amended from time to time (including any successor rule or policy thereto), and, with respect to InnVest REIT, shall include The Goldman Sachs Group Inc. and any real estate funds established by The Goldman Sachs Group Inc. so long as the Whitehall Funds have the right (which has not been renounced) to nominate a Trustee pursuant to the Declaration of Trust, and the Westmont Group and its affiliates and associates as long as the

Westmont Group continues to have the right (which has not been renounced) to appoint one or more nominees to the Board of Trustees or to act as hotel manager for the Portfolio.

"**RESPs**" means registered education savings plans, as defined in the Tax Act.

"**RevPAR**" means revenue per available room, determined by dividing gross room revenues by the number of available room nights in the applicable period.

"**Special Resolution**" means a resolution passed by not less than 66⅔% of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of approving such resolution, or approved in writing by the holders of not less than 66⅔% of the Units entitled to be voted on such resolution.

"**subsidiary**" means, with respect to any person or limited partnership, any other person or limited partnership directly or indirectly controlled by such person.

"**Tax Act**" means the *Income Tax Act* (Canada), as amended.

"**Trustees**" means the trustees of InnVest REIT from time to time.

"**Unitholders**" means the holders of Units from time to time.

"**Units**" means the units of InnVest REIT.

"**Westmont Group**" means the group of entities under common control commonly referred to as the Westmont Hospitality Group, including Westmont Hospitality Group, Inc., Westmont Hospitality Management Limited, the Manager, Maple Leaf, Westmont Holdings and other related companies.

"**Westmont Holdings**" means, collectively, Maple Leaf Investments, L.P., Maple Leaf Investments, Inc., Charter Hospitality L.P. and certain of their affiliates.

"**Westmont Restricted Parties**" means, collectively, the Westmont Group, certain of the Westmont Group principals and other entities managed or controlled by those principals. No other person will be considered a "Westmont Restricted Party" even if it is a Related Party of one of the Westmont Restricted Parties.

"**Whitehall Funds**" means, collectively, Whitehall XI, Whitehall Street Real Estate Limited Partnership V, Whitehall Street Real Estate Limited Partnership IX and certain of their affiliates.

"**Whitehall Restricted Parties**" means, collectively, Whitehall XI, Whitehall Street Real Estate Limited Partnership V, Whitehall Street Real Estate Limited Partnership IX, Whitehall Street Global Real Estate Limited Partnership 2001, Whitehall Parallel Global Real Estate Limited Partnership 2001, Whitehall Street International Real Estate Limited Partnership 2001 and any real estate opportunity funds established by Goldman, Sachs & Co. and its subsidiaries. No other person will be considered a "Whitehall Restricted Party" even if it is a Related Party of one of the Whitehall Restricted Parties.

"**Whitehall XI**" means Whitehall Street Real Estate Limited Partnership XI.