

INNVEST

INNVEST REAL ESTATE INVESTMENT TRUST | QUARTERLY REPORT 2012

Q1
2012

An in-depth look at InnVest's financial results for the three months ended March 31, 2012.



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Letter to Unitholders

We continue to see modest improvement in the Canadian lodging industry's fundamentals. Our hotels achieved rate growth which contributed to improved margins and earnings during the quarter. We expect revenues and earnings to continue to improve heading into the important summer season as many of our hotels benefit from renovations undertaken over the past year.

First Quarter Highlights

- Revenue per available room ("RevPAR") on a same hotel basis increased 1.9% driven by a 2.1% increase in average daily rate ("ADR");
- Gross operating profit generated from hotel operations ("Hotel GOP") increased 7.2%;
- Hotel GOP margins increased 60 basis points;
- Net loss was \$30.2 million compared to a loss of \$20.0 million in the prior year. Excluding non-cash charges required by IFRS (unrealized losses on liabilities presented at fair value and finance costs relating to the presentation of certain equity instruments as liabilities under IFRS), deferred income taxes and depreciation and amortization, InnVest's realized an adjusted net loss of \$2.4 million compared to a loss of \$3.0 million in the prior period;
- Funds from operations ("FFO") was a loss of \$0.023 per diluted unit for the quarter as compared with a loss of \$0.033 from the prior period. Distributable loss was \$0.063 per unit diluted as compared with a loss of \$0.074 in the prior period; and
- In March 2012, InnVest refinanced a \$151.9 million mortgage that was scheduled to expire in March 2013. We are in the process of finalizing the renewal of a \$164.2 million mortgage that matures in November 2012.

Uncertainty in the world economy continues to impact our business. InnVest's broad, diversified portfolio remains a key advantage in the current environment.

Looking ahead, we are focused on driving internal growth within our existing portfolio. In 2011, we began an important multi-year capital program to enhance our product offering at a number of our hotels. These targeted investments are expected to improve our hotels' competitive positioning and operating performance through increased occupancies and rates. An enhanced product, coupled with improving demand and constrained new supply should enable InnVest to realize cash flow growth.

Given upcoming changes in the tax treatment of real estate investment trusts, like InnVest, that have issued "stapled" securities, we intend to complete an internal reorganization to unwind the stapled unit structure. We are appreciative of the overwhelming support received by our unitholders at a special meeting held during the first quarter and expect to complete the reorganization effective June 30, 2012.

(signed)

Kenneth Gibson
Chief Executive Officer

May 10, 2012

Management's Discussion and Analysis

INTRODUCTION

InnVest Real Estate Investment Trust (the "REIT") is an unincorporated open-ended real estate investment trust which owns a portfolio of 143 hotels across Canada representing approximately 19,000 guest rooms operated under internationally recognized brands. The REIT leases its hotels to InnVest Operations Trust ("IOT"), an unincorporated open-ended taxable investment trust. IOT indirectly holds all of the hotel operating assets, earns revenues from hotel customers and pays rent to the REIT. IOT also indirectly holds a 50% interest in Choice Hotels Canada Inc., one of the largest franchisors of hotels in Canada, and earns revenues from franchising fees. The REIT and IOT are both governed by the laws of Ontario and a Declaration of Trust. The REIT and IOT are collectively referred to in this management's discussion and analysis ("MD&A") as "InnVest". The unaudited interim condensed consolidated financial statements ("Interim Financial Statements") and financial data included in this MD&A reflect the unaudited interim condensed consolidated financial results of IOT and the REIT. Refer to page 4 for proposed changes to InnVest's corporate structure in 2012. This MD&A is dated May 10, 2012.

The following MD&A is intended to assist readers in understanding InnVest, its history, business environment, strategies, performance and risk factors and includes a discussion of the results of

operations and financial condition of InnVest for the three months ended March 31, 2012, with a comparison to the results of operations of InnVest for the three months ended March 31, 2011. The MD&A should be read in conjunction with the Interim Financial Statements of InnVest and the notes thereto as at, and for three months ended, March 31, 2012 and 2011.

Monetary data in tabular form and in the text, unless otherwise indicated, are in thousands of Canadian dollars, except for per unit, average daily rate ("ADR"), and revenue per available room ("RevPAR") amounts.

Certain measures in this MD&A do not have any standardized meaning as prescribed by GAAP and therefore are considered non-GAAP measures. Please refer to *Non-GAAP Financial Measures and Additional GAAP Financial Measures* on page 13 for a discussion of those measures used by InnVest, including a reconciliation to IFRS financial measures.

Additional information relating to InnVest, including its Annual Information Form, can be accessed on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") located at www.sedar.com and on its website at www.innvestreit.com.

FORWARD-LOOKING STATEMENTS

In the interest of providing InnVest unitholders and potential investors with information regarding InnVest, certain statements contained in this MD&A constitute forward-looking statements within the meaning of applicable securities laws. These statements include, but are not limited to, statements made concerning InnVest's objectives, its strategies to achieve those objectives, as well as other statements with respect to management's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, circumstances and performance or expectations that are not historical facts. Forward-looking information typically contains statements with words such as "outlook", "objective", "may", "continue", "anticipate", "believe", "expect", "estimate", "plan", "intend", "forecast", "project" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.

These forward-looking statements are not guarantees of future events or performance and, by their nature, are based on InnVest's estimates and assumptions, which are subject to risks and uncertainties, including those described under "Risks and uncertainties" in this MD&A. Readers are cautioned not to place

undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By its nature, InnVest's forward-looking information involves numerous assumptions, inherent risks and uncertainties, which may cause InnVest's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Factors that could cause actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements include, but are not limited to, changes in business strategies; general global economic and business conditions; medical concerns relating to travel and/or specific destinations; general global credit market conditions; the effects of competition and pricing pressures; industry overcapacity; shifts in market demands; changes in laws and regulations, including environmental and regulatory laws; potential increases in maintenance and operating costs; uncertainties of litigation; labour disputes; timing of completion of capital or maintenance projects; currency and interest rate fluctuations; various events which could disrupt operations; and technological changes.

Although InnVest believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will be consistent with these forward-looking statements. The forward-looking statements contained in this MD&A are made as of the date of this MD&A.

Except as required by law, InnVest does not undertake any obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise. All forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

BUSINESS OVERVIEW

InnVest holds one of Canada's largest hotel portfolios together with a 50% interest in Choice Hotels Canada Inc., one of the largest franchisors of hotels in Canada. InnVest's portfolio is well diversified across hotel accommodation categories, brands, geography and customers.

Hotel Real Estate Owner

As at March 31, 2012, InnVest's portfolio comprised 143 hotel properties operated under internationally recognized franchise brands. The hotel portfolio is evenly divided between full-service and limited-service hotels based on number of rooms. Full-service hotels however, generate higher revenues per room given higher ADRs charged and greater ancillary services sold. As a result, full-service hotels in the portfolio accounted for approximately 67% of hotel revenues during the three months ended March 31, 2012. Approximately 78% of first quarter hotel revenues were generated

from room revenues with the remainder being generated from food and beverage sales and other services including meeting space rental, parking, retail operations and telephone use.

InnVest's hotels are operated by four hotel management companies which earn base and incentive fees related to the revenues and profitability of each hotel. The hotels' primary operating costs include wages, food costs, utilities, management fees and sales and marketing expenses. Other property level expenses include property taxes, ground rent for leasehold interests and property insurance. Many of these property level expenses are relatively fixed and do not necessarily change in accordance with revenue levels.

InnVest's hotels are typically located near major thoroughfares in urban and suburban areas, business centres, government and manufacturing facilities, universities, airports and tourist attractions. The hotels have a diverse customer base, including business travelers, leisure travelers, tours, associations and corporate groups.

	Ontario		Quebec		Atlantic		Western		Total		% of Total Guest Rooms
	No. of Hotels	No. of Guest Rooms	No. of Hotels	No. of Guest Rooms	No. of Hotels	No. of Guest Rooms	No. of Hotels	No. of Guest Rooms	No. of Hotels	No. of Guest Rooms	
Comfort Inn	36	2,913	22	1,739	15	1,118	9	745	82	6,515	35.0%
Delta Hotel	1	220	3	1,048	4	1,017	2	689	10	2,974	16.0%
Holiday Inn, Holiday Inn Express	13	2,180	1	176	1	196	1	151	16	2,703	14.5%
Quality Hotel, Quality Suites	5	881	5	689	1	159	1	126	12	1,855	10.0%
Travelodge	3	368	-	-	-	-	4	889	7	1,257	6.8%
Hilton Hotel	-	-	1	571	1	197	-	-	2	768	4.1%
Fairmont Hotels & Resorts	-	-	-	-	-	-	2	604	2	604	3.3%
Radisson Hotel/Suites	2	388	-	-	-	-	-	-	2	388	2.1%
Staybridge Suites	3	342	-	-	-	-	-	-	3	342	1.8%
Sheraton Suites	-	-	-	-	-	-	1	323	1	323	1.7%
Best Western	1	130	-	-	-	-	-	-	1	130	0.7%
Hilton Garden Inn	1	120	-	-	-	-	-	-	1	120	0.6%
Hilton Homewood Suites	1	83	-	-	-	-	-	-	1	83	0.4%
Independent	3	554	-	-	-	-	-	-	3	554	3.0%
Total	69	8,179	32	4,223	22	2,687	20	3,527	143	18,616	100.0%

Franchise Business

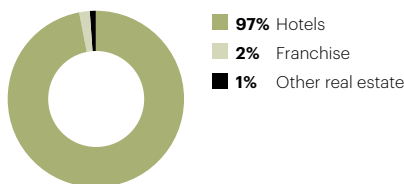
InnVest owns 50% of Choice Hotels Canada Inc. ("CHC"), which has franchise agreements with approximately 300 locations in Canada. The remaining 50% interest is owned by Choice Hotels International Inc. ("Choice International"), one of the largest hotel franchise companies in the world. In addition to strong international brand recognition, Choice International has a centralized reservation system, sales and marketing programs and proprietary property management systems.

In 1993, CHC was granted a 99-year licence to franchise all Choice hotel brands in Canada, including Comfort Inn, Quality Suites and Quality Hotels. CHC earns franchise revenue by charging hotel owners a monthly royalty fee based on a percentage of the revenue generated by the licenced properties and by selling franchises.

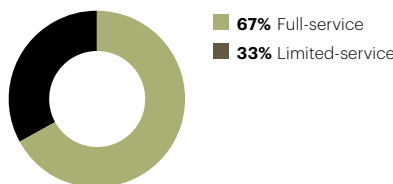
Office, Retail and Retirement Home Business

InnVest owns office and retail real estate as well as a retirement home. These real estate interests are adjacent to owned hotels and were acquired as part of certain hotel acquisitions.

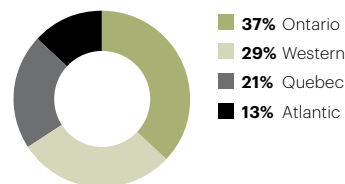
2012 YEAR-TO-DATE TOTAL REVENUES



2012 YEAR-TO-DATE HOTEL REVENUES BY SERVICE CATEGORY



2012 YEAR-TO-DATE HOTEL REVENUES BY GEOGRAPHY



Reorganization of InnVest’s tax structure

In response to changes announced in July 2011 relating to the treatment under the *Income Tax Act* (Canada) of issuers of “stapled” securities, InnVest anticipates completing a reorganization to unwind the stapled structure through a merger of IOT into the REIT (the “2012 Reorganization”). The 2012 Reorganization will result in all the former stapled unitholders and stapled debenture holders of the REIT and IOT holding only units or convertible debentures, as the case may be, of the REIT. The merged entity will be governed as a trust.

The 2012 Reorganization was approved by 99.9% of the votes cast in person or by proxy by InnVest unitholders at a special meeting held on February 23, 2012. On February 29, 2012, InnVest

received final court approval of the plan of arrangement forming part of the 2012 Reorganization from the Ontario Superior Court of Justice. Management expects to complete the 2012 Reorganization on or about June 30, 2012.

Pending completion of the 2012 Reorganization, InnVest is restricted from issuing stapled securities, subject to certain exceptions. As a consequence, InnVest suspended its distribution reinvestment plan (“DRIP”) beginning in August 2011 until further notice and will satisfy all Trustee and deferred executive compensation in cash as opposed to the usual partial satisfaction in the form of units.

BUSINESS STRATEGY

The long-term view on the Canadian lodging industry remains positive based on improving hotel demand and a low supply environment. InnVest is focused on internal growth in its existing portfolio through revenue enhancing and cost reduction initiatives and making prudent capital allocation decisions to increase long-term value and grow cash flows. InnVest is undertaking an important capital investment program to help revitalize its portfolio of limited-service hotels as well as invest in brand initiatives including Delta, Holiday Inn, Hilton and Radisson hotels. The ultimate extent and timing of these planned capital investments will be dependent on business levels and capital availability.

Operating Strategy

InnVest’s operating focus aims to enhance the performance of each hotel and improve its RevPAR penetration versus its competitive set. Since early 2011, several profit-improving capital investment projects have been undertaken to help hotels capture greater market share from their competitors. InnVest continues to manage its portfolio aggressively with emphasis on cost efficiencies and maximizing the performance and cash flow of each of its hotels.

InnVest’s diversification by location, brand, customer and market position is a core component of its operating strategy. Since

individual markets can be affected by local events and economic conditions, geographic diversification helps limit the impact of such factors on the overall portfolio. Diversification across customers and brands allows InnVest to effectively manage its rooms based on changing demand drivers, thereby optimizing financial performance through improved occupancy and ADR.

InnVest’s hotels are managed by four hotel management companies, each bringing unique expertise to the portfolio. Westmont Hospitality Canada Limited (“Westmont”), a division of one of the largest privately held managers of hotels in the world, manages the majority of InnVest’s hotels (129 hotels). InnVest also partners with other third-party managers including Delta Hotels (9 hotels), Fairmont Hotels (3 hotels) and Hilton Hotels (2 hotels), each an experienced hotel manager with recognized brands.

Capital Allocation Strategy

InnVest continually evaluates its capital allocation opportunities to drive the long-term profitability of the portfolio. Following its inception, InnVest expanded its portfolio, broadening its market base and diversifying its risk profile by growing its full-service portfolio. In recent years, InnVest’s capital allocation efforts have been focused on maximizing the potential of its existing portfolio by investing capital into internal profit-improving opportunities.

Acquisition opportunities that meet InnVest's investment parameters have been limited over the past several years, however availability is expected to increase as operating trends in the industry improve.

InnVest constantly evaluates its current real estate holdings to optimize diversification and capitalize on embedded value or higher return opportunities. From time to time, certain assets are identified that may not support InnVest's long term objectives given limited growth prospects in earnings and value.

InnVest's ability to recycle capital through hotel sales has been impacted by constrained financing availability which has limited the pool of buyers and proceeds offered. Today's lending environment favours larger, diversified portfolios with long-established lender relationships. With favourable industry performance expectations,

financing conditions are expected to improve, enabling buyer and seller expectations to converge. InnVest is exploring asset sale opportunities for a limited number of non-strategic assets where the potential for earnings growth is slower, the long-term capital needs are higher or where InnVest can capitalize on embedded value.

During the three months ended March 31, 2012, InnVest completed the sale of one hotel previously held as an operating lease. As at March 31, 2012, InnVest has classified four limited-service hotels as held for sale (494 rooms) and expects to generate aggregate gross proceeds approximating \$22.0 million. Closing for three of these asset sales is expected in the second quarter of 2012 with the fourth anticipated to close by the end of 2012.

OUTLOOK

Uncertainty in the world economy continues to impact our business. InnVest's broad, diversified portfolio remains a key advantage in the current environment.

Looking ahead, we are focused on driving internal growth within our existing portfolio. In 2011, we began an important multi-year capital program to enhance our product offering at a number of our hotels. These targeted investments are expected to improve our hotels' competitive positioning and operating performance through increased occupancies and rates. An enhanced product, coupled with improving demand and constrained new supply should enable InnVest to realize cash flow growth.

FIRST QUARTER 2012 OPERATING RESULTS REVIEW

Financial Highlights

- RevPAR on a same hotel basis increased 1.9% driven by a 2.1% increase in ADR;
- Gross operating profit generated from hotel operations ("Hotel GOP") increased 7.2%;
- Hotel GOP margins increased 60 basis points;
- Net loss was \$30.2 million compared to a loss of \$20.0 million in the prior year. Excluding non-cash charges required by IFRS (unrealized losses on liabilities presented at fair value and finance costs relating to the presentation of certain equity instruments as liabilities under IFRS), deferred income taxes and depreciation and amortization, InnVest realized an adjusted net loss of \$2.4 million compared to a loss of \$3.0 million in the prior period;
- Funds from operations ("FFO") was a loss of \$0.023 per diluted unit for the quarter as compared with a loss of \$0.033 from the prior period. Distributable loss was \$0.063 per unit diluted as compared with a loss of \$0.074 in the prior period; and
- In March 2012, InnVest completed the five-year extension of a \$151.9 million mortgage which was scheduled to expire in March 2013. InnVest is in the process of finalizing the renewal of a \$164.2 million mortgage that matures in November 2012.

The first quarter is traditionally InnVest's lowest earnings period. Given the seasonality of the portfolio, the first quarter is not reflective of anticipated results for the annual period. Refer to Quarterly Results on page 9.

	Three months ended March 31,	
	2012	2011
Revenues	\$ 131,923	\$ 129,034
Gross operating profit ⁽¹⁾	17,738	16,633
Net loss and comprehensive loss	(30,197)	(20,035)
Funds from operations ⁽¹⁾	(2,156)	(3,000)
Distributable loss ⁽¹⁾	(5,901)	(6,722)
Distributions declared	9,344	11,371
Per unit diluted:		
Net loss	\$ (0.323)	\$ (0.222)
Funds from operations	(0.023)	(0.033)
Distributable loss ⁽²⁾	(0.063)	(0.074)
Distributions	0.0999	0.1251

(1) Refer to *Non-GAAP Financial Measures and Additional GAAP Measures* on page 13.

(2) Distributable loss per unit is calculated on a basis consistent with that prescribed by IFRS for calculating net loss per unit.

Revenues

	Three months ended March 31,		
	2012	2011	Variance
Hotel	\$ 128,978	\$ 126,274	2.1%
Franchise	2,113	1,845	14.5%
Other real estate properties	832	915	(9.1%)
Revenues	\$ 131,923	\$ 129,034	2.2%

Revenues increased by 2.2% or \$2.9 million to \$131.9 million. Generating approximately 97% of total revenues, InnVest's principal business is the ownership of hotel real estate. Franchise revenues (representing InnVest's 50% proportionate share of CHC) increased 14.5% reflecting the growth in CHC franchise distribution and room revenues during the period. Revenues from other real estate

RevPAR increased 1.9% based on a 2.1% increase in ADR which offset a 0.2 point decline in occupancy.

	Occupancy		ADR		RevPAR	
	Variance to 2011		Variance to 2011		Variance to 2011	
Ontario	51.8%	(2.2 pts)	\$ 106.70	1.6%	\$ 55.27	(2.5%)
Quebec	54.1%	1.8 pts	\$ 105.19	(0.8%)	\$ 56.92	2.7%
Atlantic	48.8%	(0.8 pts)	\$ 106.60	(0.9%)	\$ 52.06	(2.4%)
Western	57.8%	2.6 pts	\$ 146.35	5.8%	\$ 84.53	10.7%
Total	53.0%	(0.2 pts)	\$ 114.52	2.1 %	\$ 60.72	1.9%

Note: Gross hotel revenues on a same-hotel basis, excluding one hotel which was classified as an operating lease.

Room Revenues

Room revenues for the three months ended March 31, 2012 increased 2.4%, or \$2.3 million, to \$100.6 million. Strength in the Quebec and Western regions offset room revenue declines in Ontario and Atlantic Canada. Room revenues during the first quarter of 2012 benefitted from one incremental day as a result of the leap year. Hotel room revenues are net of \$2.2 million (2011 – \$2.0 million) of costs associated with third party loyalty programs.

Room revenue variance	Three months ended March 31, 2012		
	Number of hotel rooms	Variance to 2011 \$	Variance to 2011 %
Base Portfolio			
Ontario	8,179	\$ (792)	(1.9%)
Quebec	4,223	649	3.1%
Atlantic	2,687	(313)	(2.5%)
Western	3,527	2,794	11.8%
Total	18,616	\$ 2,338	2.4%

Room revenue for the Ontario region declined 1.9% with ADR growth offset by reduced occupancy. The year-over-year decline was attributable to softness throughout southwestern Ontario. These results offset strong performance in the Ottawa market and relatively stable results through the balance of the region.

The Quebec region realized a 3.1% growth in room revenue led by performance in Quebec City. The Hilton Quebec City realized RevPAR growth of over 10% following hotel renovations completed in the second quarter of 2011. This performance was somewhat offset by weaker results in downtown Montreal given soft group business during the quarter.

properties were down 9.1% reflecting the impact of displacement caused by renovations undertaken during the period.

HOTEL REVENUES

Hotel revenues consist primarily of revenue generated from room occupancy. Non-room revenues include food and beverage services and other miscellaneous revenue streams associated with hotel operations such as space leases, vending commissions, movie rentals, parking and telephone. Room revenues accounted for approximately 78% of total hotel revenues during the three months ended March 31, 2012 (2011 – 78%).

The hospitality industry is highly correlated to the economy given its impact on discretionary travel demand, including demand from corporate and leisure customers. For the three months ended March 31, 2012, hotel revenues increased 2.1%, or \$2.7 million to \$129.0 million.

Room revenue in the Atlantic region decreased 2.5% through a combination of occupancy and ADR decline. The year-over-year decline was attributable to the prior year benefit of strong group activity relating to the Canada Winter Games held in Halifax.

InnVest's portfolio of Western hotels realized room revenue increases of 11.8% driven by a combination of occupancy and ADR gains. Strength was realized across all markets led by an almost 30% RevPAR gain at the Fairmont Palliser following hotel renovations completed in the second quarter of 2011.

Non-Room Revenues

For the three months ended March 31, 2012, non-room revenues totaled \$28.3 million, up \$367, or 1.3%, compared to the prior year.

Hotel, other real estate properties and franchise expense

	Three months ended March 31,		
	2012	2011	Variance
Operating expenses	\$ 94,455	\$ 92,972	1.6%
Property taxes, rent and insurance	13,162	13,359	(1.5%)
Management fees	5,054	4,756	6.3%
Franchise	1,514	1,314	15.2%
Hotel, other real estate properties and franchise expenses	\$ 114,185	\$ 112,401	1.6%

InnVest continually focuses on managing all costs to maximize overall profitability without impacting the service levels offered to its guests. Further savings opportunities are limited given the extent of adjustments made throughout the portfolio over the last several years. Management's focus is on limiting incremental costs associated with improved occupancy in the portfolio to enable margin expansion. Many property level expenses, including property taxes, rent and insurance are relatively fixed and do not necessarily change in accordance with overall demand levels.

Hotel, other real estate properties and franchise expenses for the three months ended March 31, 2012 increased \$1.8 million or 1.6% when compared to the same period in 2011. Operating expenses reflect inflationary cost increases which were somewhat offset by property tax savings achieved. Higher management fees are reflective of increased revenues realized and incentive fee expectations in select hotels. Franchise expenses increased 15.2% reflecting incremental costs associated with the growth in CHC franchise distribution as compared to the prior period.

Gross operating profit

	Three months ended March 31,		
	2012	2011	Variance
Hotel properties	\$ 16,887	\$ 15,748	7.2%
Franchise business	599	531	12.8%
Other real estate properties	252	354	(28.8%)
Gross operating profit	\$ 17,738	\$ 16,633	6.6%

Gross operating profit ("GOP") for the three months ended March 31, 2012 improved \$1.1 million or 6.6% resulting from the \$1.1 million increase in gross operating profit from hotel operations ("Hotel GOP"). Gains in franchise GOP (growth in franchise business) was offset by a reduction in GOP from other real estate properties (displacement caused by renovations).

HOTEL GOP

The hotel industry has a high level of fixed costs with incremental revenue gains requiring marginal increases in costs. As a result, revenue growth achieved beyond inflation contributes to substantial operating leverage for the portfolio. Notably, while occupancy growth contributes to improved profitability, more profit is achieved through increases in ADR.

For the three months ended March 31, 2012, Hotel GOP margins increased 60 basis points to 13.1%. InnVest generated Hotel GOP of \$16.9 million, up 7.2% or \$1.1 million as compared to the prior year. The 2.1% growth in hotel revenues during the first quarter was achieved through ADR gains which contributed to the improvement in margins.

Regional Hotel GOP results are reflective of the RevPAR achieved during the quarter.

Hotel GOP variance	Three months ended March 31, 2012		
	Number of hotel rooms	Variance to 2011 \$	Variance to 2011 %
Base Portfolio			
Ontario	8,179	\$ 91	1.4%
Quebec	4,223	(42)	(2.9%)
Atlantic	2,687	(377)	(76.3%)
Western	3,527	1,534	21.0%
Sub-total	18,616	1,206	7.7%
Other	-	(67)	(100.0%)
Total	18,616	\$ 1,139	7.2%

Other Expenses

	Three months ended March 31,		
	2012	2011	Variance
Corporate and administrative	\$ 1,693	\$ 1,366	23.9%
Interest expense:			
Mortgages and other debt	12,846	13,406	(4.2%)
Convertible debentures	5,586	4,888	14.3%
Other income	(11)	(27)	(59.5%)
Depreciation and amortization	23,969	23,530	1.9%
Other expenses	\$ 44,083	\$ 43,163	2.1%

Other expenses for the three months ended March 31, 2012 increased \$920 or 2.1% to \$44.1 million. Higher corporate and administrative expenses during the period reflect costs associated with the 2012 Reorganization and the increase in the market price of InnVest's units during the period and its corresponding non-cash increase in executive compensation.

Total interest expense was relatively unchanged year-over year. Interest on mortgages benefitted from a lower floating interest rate renewal beginning in March 2011. This mortgage was refinanced at the end of March 2012. Lower mortgage expense was offset by the full period inclusion of the \$50.0 million of Series F Stapled Debentures which were issued in March 2011.

Finance costs – Distributions

For the three months ended March 31, 2012, \$36 of distributions paid are categorized as finance costs as compared to \$1.7 million in the prior period. These relate to certain equity-based instruments which are classified as liabilities and whose corresponding distributions are treated as finance costs. All distributions declared in 2012 were allocated to the REIT units as compared to a portion which were allocated to IOT unitholders in the prior period.

Unrealized fair value loss

InnVest is required to account for various unit-based instruments as financial liabilities. These instruments are remeasured at their fair value at each reporting period resulting in non-cash items based upon the price of InnVest's units at each reporting date. The unrealized non-cash gains or losses are recognized in the consolidated statement of net income (loss).

The increase in the market price of InnVest units at March 30, 2012 (\$5.26) as compared to December 31, 2011 (\$4.13) contributed to an increased liability value as at the reporting date and a corresponding non-cash loss to earnings during three months ended March 31, 2012. The prior period loss reflected the higher market price of InnVest units at March 31, 2011 (\$6.93) as compared to December 31, 2010 (\$6.75) resulting in a corresponding non-cash loss.

Income Taxes

For the three months ended March 31, 2012, InnVest generated a deferred income tax recovery of \$10.3 million as compared to a recovery of \$10.7 million in 2011. The recovery primarily reflects the estimated first quarter tax losses in IOT which are recognized at the undistributed tax rate. This recovery is expected to be partially reversed in the second quarter given the seasonality of earnings.

For 2012, management estimates that approximately 40% of distributions will not be taxable to unitholders (2011 – 60%).

CHANGES IN FINANCIAL CONDITION**Operating Activities**

For the three months ended March 31, 2012, cash utilized by operating activities totaled \$4.9 million relatively unchanged from the comparative period.

Financing Activities

Financing activities reflect the regular payment of mortgage principal amortization. During the three months ended March 31, 2012, InnVest drew \$44.7 million on its operating loan. Given the seasonality of operations, first quarter distributions and capital expenditures are typically financed by cash on hand or the use of the operating line.

Financing activities in the prior period reflect net proceeds of \$71.8 million from equity and convertible debentures issued in March 2011 (gross proceeds of \$75.2 million). Proceeds were partially used to repay the \$7.2 million balance previously drawn on the line of credit.

Net Loss

For the three months ended March 31, 2012, InnVest realized a net loss of \$30.2 million, or \$0.323 per unit diluted compared to a net loss of \$20.0 million, or \$0.222 per unit diluted for the same period in 2011. Excluding non-cash charges required by IFRS (unrealized losses on liabilities presented at fair value and finance costs relating to the presentation of certain equity instruments as liabilities under IFRS), deferred income taxes and depreciation and amortization, InnVest realized an adjusted net loss of \$2.4 million compared to a loss of \$3.0 million in the prior period.

Funds from Operations

For the three months ended March 31, 2012, InnVest generated an FFO loss of \$2.2 million (\$0.023 per unit diluted) compared to a loss of \$3.0 million in the prior period (\$0.033 per unit diluted) reflecting the growth in GOP achieved year-over-year. Refer to *Non-GAAP Financial Measures and Additional GAAP Measures* on page 13 for a reconciliation of net loss to FFO.

Distributable Loss

For the three months ended March 31, 2012, InnVest generated a distributable loss of \$5.9 million (\$0.063 per unit diluted) compared to \$6.7 million in the prior period (\$0.074 per unit diluted) benefitting from the growth in GOP achieved. Refer to *Non-GAAP Financial Measures and Additional GAAP Financial Measures* on page 13 for a reconciliation of IFRS net loss to distributable loss.

Distributions declared in the three months ended March 31, 2012 totaled \$9.3 million, or \$0.0999 per unit (2011 – \$11.4 million or \$0.1251 per unit). The decrease in total distributions paid reflects reduced monthly distributions beginning in November 2011. Refer to *Distributions to Unitholders* on page 11.

Cash distributions for the three months ended March 31, 2012 totaled \$9.3 million (2011 – \$9.4 million) which excludes distributions which are included on the consolidated statement of net loss.

Investing Activities

Each year, InnVest notionally sets aside between 3% and 5% of total hotel revenues at each hotel to replace furniture, fixtures and equipment and to fund capital improvements (the "FF&E Reserve"). Capital expenditures during the three months ended March 31, 2012 totaled \$9.9 million (2011 – \$13.2 million) compared to the notional FF&E Reserve of \$5.4 million (2011 – \$5.3 million).

The incremental \$4.5 million invested above the notional FF&E Reserve during the quarter reflects a number of profit-improving projects designed to increase cash flow and improve profitability including room renovations at the Delta Centre-Ville and brand upgrades at a number of our Holiday Inn and Hilton hotels.

Investing activities in the prior period also reflect proceeds from vendor-take-back mortgages of \$2.7 million relating to the sale of two properties in 2009.

QUARTERLY RESULTS

Seasonality

InnVest's operations are seasonal and as such its results are not consistent throughout the year. Revenue earned from hotel operations fluctuates throughout the year, with the third quarter being the highest due to the increased level of leisure travel in the summer months and the first quarter being the lowest because leisure travel tends to be lower. The results from operations vary materially from quarter to quarter because of the seasonal nature of the revenue stream and the fact that certain costs such as property taxes, insurance, interest, depreciation and amortization, and corporate and administrative expenses are fixed or virtually fixed.

	Quarter ended (unaudited)								
	Mar 31 2012	Dec 31 2011	Sept 30 2011	June 30 2011	March 31 2011	Dec 31 2010	Sept 30 2010	June 30 2010	
Revenues	\$ 131,923	\$ 150,361	\$ 175,980	\$ 161,733	\$ 129,034	\$ 149,439	\$ 174,539	\$ 163,810	
Gross operating profit	17,738	28,999	52,374	42,001	16,633	29,004	52,472	44,764	
Net (loss) income	(30,197)	(4,324)	66,929	1,965	(20,035)	213,928	(4,432)	(41,317)	
FFO	(2,156)	10,101	33,695	24,498	(3,000)	8,607	31,964	24,256	
Distributable (loss) income	(5,901)	5,547	28,128	19,487	(6,722)	4,142	26,607	19,054	
Distributions declared	9,344	10,130	11,701	11,694	11,371	11,197	11,138	11,090	
Per unit – diluted:									
Net (loss) income	\$ (0.323)	\$ (0.046)	\$ 0.581	\$ 0.021	\$ (0.222)	\$ -	\$ -	\$ -	
FFO	(0.023)	0.108	0.314	0.240	(0.033)	0.096	0.326	0.264	
Distributable (loss) income	(0.063)	0.059	0.262	0.192	(0.074)	0.046	0.271	0.205	
Trust units outstanding	93,538,022	93,538,022	93,538,022	93,518,392	93,336,231	89,474,691	89,046,308	88,975,426	
Weighted average trust units outstanding	93,538,022	93,538,022	93,532,175	93,425,837	90,266,593	89,556,904	89,017,278	88,430,620	
Total assets	\$ 1,568,348	\$ 1,564,111	\$ 1,589,573	\$ 1,613,106	\$ 1,636,500	\$ 1,598,837	\$ 1,614,517	\$ 1,691,345	
Total long-term debt	818,866	804,569	808,303	815,330	821,504	840,930	832,818	934,969	

LIQUIDITY AND CAPITAL RESOURCES

InnVest has several sources of liquidity including the following:

CASH GENERATED FROM HOTEL OPERATIONS

InnVest's operations are seasonal with the first quarter typically being the weakest earnings period given the low level of business and leisure travel during these months. Over the annual period, InnVest anticipates generating Hotel GOP sufficient to fund distributions to unitholders, capital expenditures and debt service requirements.

LINE OF CREDIT

InnVest has a line of credit with a major banking institution up to a maximum of \$50.0 million. The line of credit is used to finance temporary shortfalls in cash resulting from business seasonality and working capital fluctuations. The credit facility may also be used to provide short-term financing in the event of the acquisition of a new hotel. At March 31, 2012, \$44.7 million was drawn on the line of credit (December 31, 2011 – nil).

ISSUING ADDITIONAL DEBT

InnVest also has the ability to raise funds by mortgaging its properties or by issuing either debt or convertible debt securities. InnVest typically uses long-term debt financing to refinance existing debt or to finance an acquisition. The choice of debt instrument used is dependent on then-current market conditions. The ability to secure debt financing on reasonable terms is ultimately dependent on market conditions and the lender's determination of InnVest's creditworthiness. At March 31, 2012, substantially all of InnVest's assets have been pledged as security under debt agreements.

ISSUING ADDITIONAL EQUITY SECURITIES

InnVest's listing on The Toronto Stock Exchange gives it the ability to access, subject to market conditions, additional equity through the issuance of additional units or other equity instruments. InnVest issued \$25.2 million of equity and \$50.0 million of convertible debentures during the first quarter of 2011. Following tax changes announced in July 2011, InnVest is restricted from issuing stapled securities, subject to certain exceptions (Refer to *Reorganization of InnVest's tax structure* on page 4).

Management believes that InnVest's credit facilities, cash on hand and expected cash flow from operations, when combined with the potential to sell assets or access debt and equity markets, will allow InnVest to meet all its financial commitments. If necessary, near term disruptions to operating earnings and cash flow could be addressed through reductions in discretionary capital allocation decisions such as capital investments above the FF&E Reserve and/or distributions.

Cash on Hand

At March 31, 2012, InnVest has cash totaling \$24.4 million, of which \$5.9 million is restricted to undertake capital refurbishments in accordance with certain mortgage and franchise agreements.

Each year, InnVest sets aside a notional FF&E Reserve totaling between 3% and 5% of total hotel revenue. Capital expenditures during the three months ended March 31, 2012 totaled \$9.9 million (2011 – \$13.2 million) compared to the notional FF&E Reserve of \$5.4 million (2011 – \$5.3 million). Incremental capital above the notional FF&E Reserve in 2012 was funded with cash on hand or available credit facilities.

The following chart shows the changes in the restricted FF&E Reserve cash balance for the three months ended March 31, 2012, along with the comparable period.

	Three months ended March 31,	
	2012	2011
Opening balance	\$ 6,031	\$ 3,831
FF&E Reserve	5,421	5,279
Transferred from operating cash	4,324	8,176
Capital expenditures	(9,893)	(13,200)
Closing balance	\$ 5,883	\$ 4,086

Debt Strategy

InnVest's debt strategy involves the use of three forms of debt: conventional property-specific secured mortgages, unsecured convertible debentures and secured floating rate bank financing. Management's objectives are to access the lowest cost of debt with the most flexible terms and to have a staggered debt maturity schedule to manage interest rate and refinancing risk.

CREDIT FACILITY AND BRIDGE LOAN

InnVest's operations are seasonal (see Quarterly Results). InnVest's credit facility ensures that the seasonal fluctuation in cash flows will not affect its ability to operate in the normal course of business.

During the first quarter of 2012, InnVest amended its existing credit agreement to increase the maximum amount available under its line of credit on a seasonal basis. The credit line was increased from \$40.0 million to \$50.0 million through June 15, 2012 and to \$45.0 million through August 31, 2012. Thereafter the line of credit will return to the \$40.0 million level. InnVest will use the increased line of credit availability to provide additional liquidity and flexibility to accommodate seasonal working capital needs, to fund capital expenditures and for corporate general purposes. The credit facility, secured by 13 hotels, expires in August 2013.

At March 31, 2012, \$44.7 million was drawn on the credit facility (December 31, 2011 - \$nil). Letters of credit totaling \$3.6 million (December 31, 2011 - \$3.6 million) were also drawn against the facility.

The amount of the operating line is subject to a mortgageability test which is based on the operating results of the secured properties. Interest rates are based on the lesser of (i) Canadian prime rate plus 2.5% and (ii) the Canadian Bankers' Acceptance rate plus 3.5%. Based on the operating results of the secured properties for the four quarters ended March 31, 2012, InnVest qualifies for \$48.9 million of the \$50.0 million availability under the line of credit, inclusive of the temporary \$10.0 million increase.

At March 31, 2012, InnVest has a \$4.3 million (December 31, 2011 - \$4.3 million) bridge loan secured by one hotel. During the first quarter of 2012, the bridge loan was extended to mature March 1, 2013. The bridge loan requires quarterly principal payments of \$250 beginning June 30, 2012 and bears interest at the Canadian Bankers' Acceptance rate plus 3.5%.

MORTGAGES PAYABLE AND CONVERTIBLE DEBENTURES

InnVest attempts to stagger the maturity of fixed term debt to minimize interest and financing risks.

At March 31, 2012, InnVest has mortgages payable of \$794.2 million (December 31, 2011 - \$804.8 million) with a weighted average term of 2.7 years (December 31, 2011 - 2.2 years) and a weighted average interest rate of 6.0% (December 31, 2011 - 5.6%). Approximately 9.7% of InnVest's mortgage debt is at floating rate.

During the first quarter of 2012, InnVest completed the renewal of a \$151.9 million mortgage which was scheduled to expire in March 2013. The mortgage, secured by six full-service hotels, has an interest rate of 5.3% and has a three year term with two one-year extensions, at InnVest's option.

Mortgage maturities during the remainder of 2012 total \$172.3 million at an average interest rate of 7.4%. This includes three separate maturities including one of approximately \$164.2 million with a large Canadian institutional lender. Forty limited-service hotels serve as collateral on this mortgage which matures in November 2012. InnVest is in the process of finalizing the terms of a five-year extension on this mortgage pool. Assuming the completion of this renewal, the pro forma weighted average term to maturity at March 31, 2012 would increase to 3.6 years and the weighted average interest rate would approximate 5.6%.

At March 31, 2012, InnVest has approximately \$129.3 million of mortgages secured by conduit financing maturing in 2014 and 2015.

At March 31, 2012, InnVest has five series of fixed-rate convertible debentures totaling \$306.3 million (December 31, 2011 - \$306.3 million). These convertible debentures mature between May 2013 and March 2018.

Based on recent and ongoing negotiations with lenders and its knowledge and experience refinancing mortgages, management expects to address all its maturities in the normal course of business. Prior to August 2011, credit spreads were showing signs of contraction. Following concerns raised by the European debt crisis in August 2011, credit spreads had begun to increase but are now showing signs of decreasing. Notwithstanding, the underlying bond yields have decreased significantly over the past three years such that the overall cost of debt remains attractive.

Leverage

InnVest is not permitted to exceed certain financial leverage amounts under the terms of the REIT and IOT Declarations of Trust. InnVest is permitted to hold indebtedness up to a level of 60% of gross asset value (75% including convertible debentures). The financial ratio will be computed as of the last day of each financial year excluding any indebtedness under any operating line, non-interest bearing indebtedness, trade accounts payable and for greater certainty, deferred income tax liability.

At March 31, 2012, InnVest's leverage excluding and including convertible debentures was 44.7% (December 31, 2011 - 45.6%) and 61.8% (December 31, 2011 - 62.9%), respectively.

March 31, 2012		
Total assets per consolidated balance sheet	\$ 1,568,348	
Accumulated depreciation and amortization	255,223	
Deferred income tax asset	(32,281)	
Deferred income tax asset liability	(3,193)	
Gross asset value	\$ 1,788,097	
Book value of mortgages and other indebtedness ⁽¹⁾	\$ 798,418	44.7%
Convertible debentures ⁽²⁾	306,338	17.1%
Total debt	\$ 1,104,756	61.8%

(1) Adjusted to eliminate financing issuance costs.

(2) Adjusted to face value.

Contractual Obligations Repayment Summary

Given available liquidity, access to capital and expectations of improving economic and operating trends, management expects to be able to fund all commitments in the normal course of business.

The following table summarizes InnVest's contractual obligations as at March 31, 2012.

	Remainder of 2012	2013	2014	2015	2016	2017 and thereafter	Total
Accounts payable and other liabilities	\$ 74,016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 74,016
Mortgage payable – principal	176,640	16,087	305,863	217,460	47,685	16,194	779,929
Mortgage payable – interest	33,645	32,313	20,792	7,970	3,687	790	99,197
Operating Line of Credit – principal	10,000	34,665	-	-	-	-	44,665
Operating Line of Credit – interest	1,410	1,114	-	-	-	-	2,524
Bridge loan – principal	750	3,500	-	-	-	-	4,250
Bridge loan – interest	111	-	-	-	-	-	111
Convertible debentures – principal	-	74,980	70,000	-	36,358	125,000	306,338
Convertible debentures – interest	11,461	15,799	13,924	9,829	8,602	8,813	68,428
Long-term land leases	3,601	4,826	4,826	4,128	3,896	79,329	100,606
Capital commitments	8,632	-	-	-	-	-	8,632
	\$ 320,266	\$ 183,284	\$ 415,405	\$ 239,387	\$ 100,228	\$ 230,126	\$ 1,488,696

InnVest has leasehold interests in 12 of its hotels. The leaseholds require minimum annual average lease payments and expire between 2016 and 2088.

DISTRIBUTIONS TO UNITHOLDERS

For the three months ended March 31, 2012, distributions totaling \$9.3 million were declared (\$0.0999 per unit) as compared to \$11.4 million (\$0.1251) declared in the prior period. In November 2011, InnVest announced a reduction in distributions paid to unitholders to \$0.40 per unit annually (\$0.0333 per month), as compared to the prior distribution level of \$0.50 per unit annually (\$0.0417 per month). The Board of Trustees unanimously approved the reduction of distributions after careful consideration of the environment faced by InnVest and its desire to conserve liquidity to fund profit-improving capital investments throughout the portfolio. The monthly distribution reduction offset incremental distributions incurred following the issuance of 3,600,000 units in March 2011.

In August 2011, InnVest suspended its DRIP given restrictions on the issuance of units following the announcement of new tax rules. Refer to *Reorganization of InnVest's tax structure* on page 4.

For the twelve months ended March 31, 2012, InnVest's payout ratio was 90.7% (90.3% on a cash basis excluding the non-cash distributions made through the DRIP). The lower payout ratio as compared to the year ended December 31, 2011 primarily reflects the distribution reduction beginning in November 2011. Based on the current annual distribution level of \$0.40 per unit, the payout ratio for the twelve months ended March 31, 2012 would approximate 79%.

Liquidity to fund distributions is generated from cash flow from operations, cash on hand, available bank operating lines and by the ability to finance certain unencumbered or under-leveraged assets. First and fourth quarter distributions are typically partially funded through cash on hand or InnVest's credit facility given the seasonality of revenues in contrast to costs which are fixed throughout the year.

	Twelve months ended March 31		Years ended December 31,		
	2012	2011	2010	2009	2008
		As reported pursuant to IFRS		As reported pursuant to Canadian GAAP	
Distributable income	\$ 47,261	\$ 46,440	\$ 41,776	\$ 51,524	\$ 85,540
Distributions	42,869	44,896	44,384	51,297	78,473
Distributable income in excess of (less than) distributions	4,392	1,544	(2,608)	227	7,067
Non-cash distributions made through the DRIP	197	309	1,688	2,756	13,234
Distributable income in excess of (less than) cash distributions	\$ 4,589	\$ 1,853	\$ (920)	\$ 2,983	\$ 20,301
Payout ratios:					
Total distributions	90.7%	96.7%	106.2%	99.6%	91.7%
Cash distributions (excluding DRIP)	90.3%	96.0%	102.2%	94.2%	76.3%

Distributions to unitholders are approved by InnVest's Board of Trustees. Each month, InnVest may distribute such percentage of its estimated distributable income as the Trustees determine in their discretion. In exercising their discretion to approve the level of distributions, the Trustees use forecasts prepared by management and other financial information to determine if sufficient cash flow will be available to fund distributions. Such financial information is subject to change due to the nature of the Canadian hotel industry which can be difficult to predict, even in the short-run. Refer to *Risks and Uncertainties* on page 15.

UNIT INFORMATION

Each issued and outstanding REIT unit trades together with an IOT non-voting unit on a "stapled" basis on the TSX. The REIT, through a subsidiary, holds all of the voting units of IOT. Refer to *Reorganization of InnVest's tax structure* on page 4 for a description of the planned 2012 Reorganization.

At May 10, 2012, a total of 93,538,022 units of each of the REIT and IOT were outstanding. During the three months ended March 31, 2012 and 2011, InnVest issued units as follows:

	2012	2011
Units outstanding, January 1	93,538,022	89,474,691
Units issued	-	3,600,000
Conversion of debentures	-	211,927
Dividend reinvestment plan	-	16,259
Executive compensation plan	-	27,740
Trustee compensation plan	-	5,614
Units outstanding, March 31	93,538,022	93,336,231

Units issued

On March 8, 2011, InnVest issued 3,600,000 units, at a price of \$7.00 per unit or \$25.2 million. Proceeds, net of issuance costs, totaled \$23.9 million.

Units issuable on conversion of convertible debentures

The following table summarizes the number of units issuable based on the convertible debentures outstanding as at March 31, 2012.

Convertible debentures	Maturity date	Conversion strike price	Balance outstanding	Units to be issued upon conversion
Series B – 6.00%	May 31, 2013	\$14.90	\$74,980	5,032,214
Series C – 5.85%	August 1, 2014	\$14.70	\$70,000	4,761,904
Series D – 6.75%	March 31, 2016	\$5.70	\$36,358	6,378,596
Series E – 6.00%	September 30, 2017	\$8.00	\$75,000	9,375,000
Series F – 5.75%	March 30, 2018	\$9.45	\$50,000	5,291,005

On March 15, 2011, InnVest closed a bought deal of \$50.0 million, 5.75% convertible unsecured subordinated debentures (“Series F – 5.75% Debentures”) due March 30, 2018.

For each series of debentures, InnVest may elect, from time to time, to satisfy its obligation to pay interest by delivering units. Also, for each of its debentures, InnVest may, at its option, on not more than 60 days’ and not less than 30 days’ prior notice and subject to applicable regulatory approval, elect to satisfy its obligation to repay all or any portion of the principal amount of the debentures that are to be redeemed or that are to mature by issuing units. The number of units to be issued in respect of each debenture will be determined by dividing the principal amount by 95% of the volume-weighted average trading price of the units on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fifth trading day preceding the date fixed for redemption or maturity, as the case may be.

Dividend reinvestment plan (“DRIP”)

InnVest had a DRIP whereby eligible Canadian unitholders could elect to have their monthly distributions automatically reinvested in additional units of InnVest. On August 12, 2011 InnVest suspended its DRIP until further notice given restrictions on the issuance of units following the announcement of new tax rules. Refer to *Reorganization of InnVest’s tax structure* on page 4.

Normal course issuer bid

Commencing on November 15, 2011, InnVest initiated normal course issuer bids (“NCIBs”) to repurchase units as well as each of its series of convertible debentures. Units and convertible debentures purchased will be cancelled. At March 31, 2012, no purchases have been made under the NCIBs. The NCIBs expire on November 14, 2012.

Executive and Trustee compensation programs

InnVest’s executive compensation program provides for the grant of restricted units to certain senior employees of the REIT. Units granted vest equally on the third and fourth anniversary of the effective date of grant. At March 31, 2012, there were 81,466 unvested executive units granted under the plan (December 31, 2011 – 116,814). In addition, 50% of InnVest Trustees’ annual retainer compensation is typically payable in units (based on the then-current market price).

Given current restrictions on the issuance of stapled securities prior to the 2012 Reorganization (refer to *Reorganization of InnVest’s tax structure* on page 4) InnVest suspended the issuance from treasury of units in payment of vested executive units and of the Trustees’ annual compensation. Accordingly, pending completion of the 2012 Reorganization, InnVest currently satisfies these obligations by cash payment.

In January 2012, 36,882 units vested under the executive compensation plan which were satisfied in cash.

NON-GAAP FINANCIAL MEASURES AND ADDITIONAL GAAP MEASURES

InnVest’s consolidated financial statements are prepared in accordance with IFRS. Included in this MD&A are certain non-GAAP and additional GAAP measures, which are measures of InnVest’s historical or future financial performance that are not calculated and presented in accordance with IFRS. These measures are unlikely to be comparable to similar measures presented by other reporting issuers. InnVest uses these measures to better assess its underlying performance and provides these additional measures so that investors may do the same. The following discussion defines the measures used by InnVest and presents why management believes they are useful supplemental measures of InnVest’s performance.

Additional GAAP Measures

GROSS OPERATING PROFIT (“GOP”)

GOP is defined as revenues less hotel, other real estate properties and franchise expense. GOP reflects results of operations from InnVest’s various business segments: hotel ownership, franchise business and other real estate assets. For the three months ended March 31, 2012, InnVest’s hotel ownership operations accounted for 95% of its total GOP (2011 – 95%).

Measures which reflect the cash flow generating ability of real estate assets are commonly used by real estate owners which, when considered with IFRS measures, give management a more complete understanding of property level results before debt service. It also facilitates comparisons between InnVest and its competitors. Management believes that GOP, specifically Hotel GOP, is one of InnVest’s key performance indicators since it helps management, lenders and investors evaluate the ongoing hotel profitability. Management believes GOP to be a meaningful indicator of its operating performance.

GOP has been calculated as follows:

	Three months ended March 31,	
	2012	2011
Revenues	\$ 131,923	\$ 129,034
Hotel, other real estate properties and franchise expenses	114,185	112,401
Gross operating profit	\$ 17,738	\$ 16,633

Non-GAAP Measures

FUNDS FROM OPERATIONS ("FFO")

FFO is a common measure of performance in the real estate investment trust industry. FFO is one measure used by industry analysts and investors in the determination of InnVest's valuation, its ability to fund distributions and investors' investment return requirements. As a result, InnVest believes that FFO is a useful supplemental measure of its operating performance for investors. FFO assumes that the value of real estate investments does not necessarily decrease on a systematic basis over time, an assumption inherent in IFRS, and it adjusts for items included in IFRS net income that do not necessarily provide the best indicator of operating performance, such as gains or losses on the sale of, and provisions for impairment against, hotel properties as well as changes in the fair value of certain equity-based financial instruments classified as financial liabilities.

FFO should not be considered a substitute for net income or cash flow from operating activities determined in accordance with IFRS.

InnVest presents FFO in accordance with Real Property Association of Canada's ("REALpac") White Paper on Funds From Operations issued in June 2010 except that InnVest excludes unusual items which are not in the normal course of business and are not expected to reoccur. InnVest's method of calculating FFO may be different from that of other organizations.

InnVest calculates FFO by using net income and adjusting for:

- Depreciation, amortization and accretion, excluding amortization of deferred financing costs;
- Deferred income tax expense or recovery;
- Non-cash writedown of assets held for sale as well as the impairment provision on hotel properties;
- Non-cash effect of certain equity-based financial instruments classified as financial liabilities under IFRS (includes distributions treated as interest expense and changes to fair value each reporting period); and
- Non-recurring costs that may impact cash flow.

A reconciliation of IFRS net loss to FFO is as follows:

	Three months ended March 31,	
	2012	2011
Net loss	\$ (30,197)	\$ (20,035)
Add/(deduct):		
Depreciation and amortization	23,969	23,530
Deferred income tax recovery	(10,334)	(10,694)
Unrealized loss on liabilities presented at fair value	14,150	2,474
Finance costs – distributions	36	1,725
SIFT transition expenses	220	-
FFO	\$ (2,156)	\$ (3,000)
FFO per unit:		
Basic and diluted	\$ (0.023)	\$ (0.033)
Weighted average units outstanding:		
Basic and diluted	93,538,022	90,266,593

DISTRIBUTABLE LOSS

Distributable income or loss is commonly used in the real estate investment trust industry to measure performance. Distributable income or loss is intended to approximate cash earnings. It is defined in InnVest's Declaration of Trust to mean net income (loss) of InnVest and its consolidated subsidiaries as reported in its consolidated financial statements adjusted for:

- Depreciation, amortization and accretion and future income tax (recovery) expense;
- Any gains or losses on the disposition of any real property;
- The reserve for replacement of furniture, fixtures and equipment and capital improvements; and
- Any other adjustment determined by the Board of Trustees in their discretion.

A reconciliation of IFRS net loss to distributable loss is as follows:

	Three months ended March 31,	
	2012	2011
Net loss	\$ (30,197)	\$ (20,035)
Add/(deduct):		
Depreciation and amortization	23,969	23,530
Deferred income tax recovery	(10,334)	(10,694)
Unrealized loss on liabilities presented at fair value	14,150	2,474
Finance costs – distributions	36	1,725
SIFT transition expenses	220	-
Non-cash portion of convertible debenture interest and accretion	992	896
Non-cash portion of mortgage interest expense	684	661
FF&E Reserve	(5,421)	(5,279)
Distributable loss	\$ (5,901)	\$ (6,722)
Distributable loss per unit:		
Basic and diluted	\$ (0.063)	\$ (0.074)
Weighted average units outstanding:		
Basic and diluted	93,538,022	90,266,593

Distributable income or loss is one measure used by industry analysts in the determination of InnVest's per unit value, its ability to fund distributions and investment returns for current or potential investors. Distributable income is also used by management and the Board of Trustees to determine the level of distributions to unitholders and also serves as an important measure for investors in their evaluation of the performance of management.

In addition, when evaluating acquisition opportunities, the distributable income to be generated by the asset is reviewed by management to determine whether a proposed acquisition will generate an increase in distributable income per unit. Therefore, distributable income is an important measure for management as a guideline through which operating and financial decisions are made and is an integral part of the investment decision for investors and potential investors.

The following table reconciles cash flows from operating activities to distributable income in accordance with Canadian Securities Administrators Staff Notice 41-201 *Income Trusts and*

Other Indirect Offerings. Management considers distributable cash to be equivalent to distributable income. The reconciliation has been prepared using reasonable and supportable assumptions which reflect InnVest's planned courses of action given management's judgment about the most probable set of economic conditions.

The reconciliation of cash flow from operating activities to distributable loss is as follows:

	Three months ended March 31,	
	2012	2011
Cash flow utilized		
in operating activities	\$ (4,913)	\$ (4,950)
Changes in non-cash		
working capital	2,111	133
Other	2,322	3,374
FF&E Reserve	(5,421)	(5,279)
Distributable loss	\$ (5,901)	\$ (6,722)

RELATED PARTY TRANSACTIONS

On July 26, 2002, InnVest entered into a management agreement for hotel management and accounting services and an administrative services agreement (the "Agreements") with Westmont. Westmont is controlled by a minority unitholder of InnVest. The current term of the Agreements expires June 25, 2017 and includes an additional renewal term for a five-year extension, subject to the consent of Westmont and approval by InnVest. The Agreements are subject to non-compete arrangements for limited-service hotels in Canada. The Agreements provide for the payment of an annual management fee to Westmont equal to 3.375% of gross hotel revenue during the term of the Agreements, including renewal periods. In addition, Westmont may receive an annual incentive fee if InnVest achieves distributable income in excess of \$1.25 per unit. To date, no management incentive fees have been paid under the Agreements.

In addition to the base management fee and incentive fee, Westmont is entitled to reasonable fees based on a percentage of the cost of purchasing certain goods and supplies and certain construction costs and capital expenditures, fees for accounting services, reasonable out-of-pocket costs and expenses, other than general and administrative expenses or overhead costs except as otherwise provided in the Agreements, and project management and general contractor service fees related to hotel renovations managed by Westmont. Also, for certain hotels owned by InnVest and not managed by Westmont, Westmont is entitled to an asset management fee based on a fixed percentage of the purchase price of the hotel or a fixed percentage of Hotel GOP, subject to an annual minimum fee.

Total management and other fees paid to Westmont for the three months ended March 31, 2012 were \$4.1 million (2011 – \$3.9 million). These fees represent approximately 67% (2011 – 69%) of total hotel management and other fees paid by InnVest to the four hotel management companies with which it partners over the periods presented.

RISKS AND UNCERTAINTIES

The achievement of InnVest's objectives is, in part, dependent on the successful mitigation of business risks identified. All real estate investments are subject to a degree of risk including changes in general economic and local market conditions, competition from other hotels, new supply, equity and credit markets conditions, fluctuations in interest costs, compliance with legislative requirements and various other factors.

There have been no changes to InnVest's assessment of its risk factors since December 31, 2011. For a discussion of risk factors that have been identified, readers should refer to InnVest's 2011 Annual Report and InnVest's latest Annual Information Form, both of which are available on SEDAR.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of InnVest's financial position and results of operations are based upon its Interim Financial Statements, which have been prepared in accordance with IFRS. The preparation of financial statements requires management to make judgments, estimates and assumptions concerning the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Management uses its judgment and knowledge from past experience as a basis for estimates and other assumptions required in the preparation of the financial statements. Management's estimates and assumptions are evaluated and updated on a regular basis taking into account current market conditions. The actual results may materially differ, if management were to use different estimates and assumptions.

FUTURE ACCOUNTING CHANGES

InnVest has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on its consolidated financial statements and note disclosures. These standards and interpretations are effective from January 1, 2013, except for IAS 1 which is applicable to periods starting on and after July 1, 2012, and IFRS 9 for which the effective date is January 1, 2015. Early adoption is permitted in each case, subject to certain conditions. InnVest is currently assessing the impact of these standards and interpretations on its financial statements.

IFRS 9, Financial instruments

IFRS 9, *Financial Instruments* will replace IAS 39, *Financial Instruments: Recognition and Measurement* for classification and measurement of financial assets and liabilities.

IFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value. Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. A fair value option is provided for financial instruments otherwise measured at amortized cost.

This standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

IFRS 10, Consolidated financial statements

IFRS 10 replaces the consolidation requirements in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12 *Consolidation – Special Purpose Entities*. Earlier application is permitted, provided IFRS 11, IFRS 12 and the related amendments to IAS 27 and 28 are adopted at the same time.

The significant accounting policies used in the preparation of the Interim Financial Statements for the three months ended March 31, 2012 are consistent with those reported in the audited consolidated financial statements for the year ended December 31, 2011.

InnVest's MD&A for the year ended December 31, 2011 contains a discussion of InnVest's significant accounting policies most affected by estimates and judgment used in the preparation of its financial statements, being its accounting policies relating to the valuation of its hotel properties in assessing impairment, the fair value of other financial assets and liabilities, the componentization and expected useful life of hotel properties, and the valuation of defined benefit pension plans. Management has determined that at March 31, 2012, there is no change to its assessment of its significant accounting policies most affected by estimates and judgments as detailed in the MD&A for the year ended December 31, 2011.

IFRS 11, Joint arrangements

IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturer*. Earlier application is permitted, provided IFRS 10, IFRS 12 and the amendments to IAS 27 and 28 are adopted at the same time.

IFRS 12, Disclosure of interests in other entities

IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.

IFRS 13, Fair value measurement

IFRS 13 is a new standard that defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions).

IAS 27, Separate financial statements

IAS 27 was re-issued by the IASB on May 12, 2011 in order to conform to changes as a result of the issuance of IFRS 10, IFRS 11, and IFRS 12. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements as the consolidation guidance will now be included in IFRS 10.

IAS 28, Investments in associates and joint ventures

IAS 28 was re-issued by the IASB on May 12, 2011 in order to conform to changes as a result of the issuance of IFRS 10, IFRS 11, and IFRS 12. IAS 28 continues to prescribe the accounting for investments in associates, but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee.

Amendments to IAS 1 on presentation of items of other comprehensive income

The amendments retain the option to present profit or loss and other comprehensive income either in one continuous statement or in two separate but consecutive statements. Items of other

comprehensive income are required to be grouped into those that will and will not be subsequently reclassified to profit or loss. Tax on items of other comprehensive income is required to be allocated on the same basis. The measurement and recognition of items of profit or loss and other comprehensive income are not affected by the amendments.

Amendments to IAS 19 – Employee benefits

The amendments require the recognition of changes in the defined benefit obligation and in plan assets when those changes occur, eliminating the corridor approach and accelerating the recognition of past service costs.

CONTROLS AND PROCEDURES

Management of InnVest is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS. In accordance with National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, the Chief Executive Officer and the Chief Financial Officer have assessed, or caused an assessment to be made under their direct supervision, of the design and operating effectiveness of InnVest's internal controls over financial reporting as at March 31, 2012, and based on that assessment have concluded that InnVest's internal controls over financial reporting were appropriately designed and were operating effectively.

During the three-month interim period ended March 31, 2012 there were no changes in InnVest's internal controls over financial reporting which have significantly affected, or are reasonably likely to significantly affect, InnVest's internal controls over financial reporting.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The inherent limitations in all controls systems ensure that no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgment could ultimately prove to be incorrect under varying conditions and circumstances; and/or (ii) the impact of material errors.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars) (unaudited)

March 31, 2012 December 31, 2011

	March 31, 2012	December 31, 2011
Assets		
Current assets		
Cash	\$ 18,562	\$ 7,639
Accounts receivable	30,152	31,744
Prepaid expenses and other assets	10,895	8,801
Assets held for sale (Note 4)	19,034	-
	78,643	48,184
Non-current assets		
Restricted cash (Note 3)	5,883	6,031
Hotel properties (Note 5)	1,417,604	1,453,718
Other real estate properties (Note 6)	18,847	18,742
Intangible assets (Note 7)	15,090	15,426
Deferred income tax asset (Note 14)	32,281	22,010
Total assets	\$ 1,568,348	\$ 1,564,111
Liabilities		
Current liabilities		
Bank indebtedness (Note 8)	\$ 4,250	\$ -
Accounts payable and accrued liabilities	74,016	78,083
Distributions payable	3,115	3,115
Long-term debt (Note 9)	195,860	204,963
Other long-term obligations (Note 12)	147	147
Liabilities related to assets held for sale (Note 4)	14,747	-
Non-current liabilities		
Long-term debt (Note 9)	292,135	286,308
Convertible debentures (Note 10)	623,006	599,606
Provisions (Note 11)	289,860	288,867
Other long-term obligations (Note 12)	10,974	11,662
Deferred income tax liability (Note 14)	5,945	5,873
	3,193	3,255
	1,225,113	1,195,571
Unitholders and other liabilities (Note 16)	53,354	39,118
Unitholders' equity	289,881	329,422
	\$ 1,568,348	\$ 1,564,111

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS(in thousands of Canadian dollars, except per unit amounts)
(unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Revenues (Note 23)	\$ 131,923	\$ 129,034
Hotel, Other real estate properties and Franchise expenses		
Operating expenses (Note 20)	94,455	92,972
Property taxes, rent and insurance	13,162	13,359
Management fees (Note 20)	5,054	4,756
Franchise expenses	1,514	1,314
	114,185	112,401
Gross operating profit	17,738	16,633
Other expenses		
Corporate and administrative (Note 20)	1,693	1,366
Interest expense		
Mortgages and other debt	12,846	13,406
Convertible debentures	5,586	4,888
Other income	(11)	(27)
Depreciation and amortization	23,969	23,530
Finance costs – distributions (Note 21)	36	1,725
Unrealized loss on liabilities presented at fair value (Note 22)	14,150	2,474
Loss before income tax recovery	(40,531)	(30,729)
Income tax recovery (Note 14)	(10,334)	(10,694)
Net loss and comprehensive loss	\$ (30,197)	\$ (20,035)
Net loss per unit (Note 18)		
Basic and diluted	\$ (0.323)	\$ (0.222)

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

(in thousands of Canadian dollars) (unaudited)	Deficit	Units in \$	Total
Balance December 31, 2010	\$ (268,811)	\$ 573,558	\$ 304,747
Changes during the period			
Net loss and comprehensive loss	(20,035)	-	(20,035)
Distributions to unitholders	(9,691)	-	(9,691)
Issue of new units, net	-	20,405	20,405
Conversion of debentures	-	1,030	1,030
Distribution reinvestment plan units issued	-	95	95
Vested executive compensation	-	186	186
Trustee compensation	-	38	38
Balance March 31, 2011	\$ (298,537)	\$ 595,312	\$ 296,775
Balance December 31, 2011	\$ (266,917)	\$ 596,339	\$ 329,422
Changes during the period			
Net loss and comprehensive loss	(30,197)	-	(30,197)
Distributions to unitholders	(9,344)	-	(9,344)
Balance March 31, 2012	\$ (306,458)	\$ 596,339	\$ 289,881

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars) (unaudited)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Operating activities		
Net loss	\$ (30,197)	\$ (20,035)
Add (deduct) items not affecting operations		
Depreciation and amortization	23,969	23,530
Unrealized loss on liabilities presented at fair value (Note 22)	14,150	2,474
Interest on mortgages and other debt	12,846	13,406
Convertible debentures interest and accretion	5,586	4,888
Interest expense paid	(18,822)	(18,610)
Deferred income tax recovery	(10,334)	(10,694)
Non-cash executive and trustee compensation	-	224
Changes in non-cash working capital (Note 19)	(2,111)	(133)
Cash utilized in operations	(4,913)	(4,950)
Financing activities		
Repayment of long-term debt	(9,628)	(6,888)
Issue of convertible debentures, net of issuance costs	-	47,875
Issue of new stapled units, net of issuance costs	-	23,942
Unit distributions	(9,344)	(9,418)
Increase in (repayment of) operating loan	44,665	(7,200)
Cash generated from financing activities	25,693	48,311
Investing activities		
Capital expenditures on hotel properties	(9,893)	(13,200)
Change in intangible assets	(112)	(138)
Proceeds from mortgage receivable	-	2,700
Increase (decrease) in restricted cash	148	(255)
Cash utilized in investing activities	(9,857)	(10,893)
Increase in cash during the period	10,923	32,468
Cash, beginning of the period	7,639	9,001
Cash, end of the period	\$ 18,562	\$ 41,469

The accompanying notes are an integral part of these condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

March 31, 2012 (all Canadian dollar amounts are in thousands, except unit and per unit amounts) (unaudited)

1. BASIS OF PRESENTATION

InnVest Real Estate Investment Trust (the "REIT") is an unincorporated open-ended real estate investment trust governed by the laws of Ontario. The REIT began operations on July 26, 2002. As at March 31, 2012, the REIT owned 143 Canadian hotels operated under international brands. Effective December 31, 2010, the REIT leased its hotels to InnVest Operations Trust ("IOT"), an unincorporated open-ended taxable investment trust. IOT directly and indirectly holds all of the hotel operating assets, earns revenues from hotel customers and pays rent to the REIT. IOT also indirectly holds a 50% interest in Choice Hotels Canada Inc. ("CHC"). The REIT and IOT are collectively referred to as "InnVest". Each issued and outstanding unit of the REIT trades together with a non-voting unit of IOT as a stapled unit ("InnVest Unit") on the Toronto Stock Exchange (the "TSX") under the symbol INN.UN. All non-voting units of IOT are owned by the unitholders of the REIT. The REIT owns all of the voting units of IOT, representing 1.5% of total units of IOT. Refer to Note 14 for a discussion of the proposed corporate reorganization of InnVest in 2012.

Revenues earned from hotel operations fluctuate throughout the year, with the third quarter being the highest due to the increased level of leisure travel in the summer months and the first quarter being the lowest as leisure travel tends to be lower at that time of year.

InnVest's registered office is at 5090 Explorer Drive, Suite 700, Mississauga, Ontario L4W 4T9.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" as issued by the International Financial Accounting Standards Board ("IASB"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed. The interim financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2011.

These interim financial statements should be read in conjunction with InnVest's consolidated financial statements for the year ended December 31, 2011.

b) Estimates

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies. The critical accounting estimates and judgments have been set out in Note 2 of InnVest's consolidated financial statements for the year ended December 31, 2011.

c) Assets held for sale

Assets held for sale are presented in current assets at the lower of their carrying amount and fair value less the costs to sell. In order to meet the criteria to be classified as held for sale, the sale must be highly probable and it is available for immediate sale in its present condition. A sale is defined as highly probable if it is expected to sell within a year and is approved by the Board of Trustees. The liabilities related to these assets are reclassified to current liabilities once the assets are classified as held for sale.

3. RESTRICTED CASH

The restricted cash of \$5,883 (December 31, 2011 - \$6,031) is being held by InnVest to undertake capital refurbishments in accordance with certain mortgage and franchise agreements.

4. ASSETS HELD FOR SALE

Assets held for sale includes two Ontario hotels, one Western hotel and one Quebec hotel. All assets and liabilities relating to these assets have been reclassified to current assets and current liabilities on the condensed consolidated balance sheet at March 31, 2012 and are outlined in the table below. Assets held for sale are at the lower of their carrying amount and fair value less the estimated costs to sell. The sales, which have been approved by the Board of Trustees, are expected to occur in the second quarter of 2012 for all but one Ontario hotel, which is expected to close by the end of 2012. The operations of these hotels are not presented as discontinued operations on the condensed consolidated statement of net loss and comprehensive loss as they do not represent a separate geographical area of operations.

	2012
Assets:	
Accounts receivable	\$ 167
Prepaid expenses and other assets	27
Hotel properties (Note 5)	18,840
Total assets	19,034
Liabilities	
Accounts payable and other liabilities	434
Long-term debt (Note 9)	14,239
Provisions (Note 11)	74
Total liabilities	\$ 14,747

The land amount included in hotel properties is \$2,633 at March 31, 2012.

5. HOTEL PROPERTIES

	Land, Building and Leaseholds	Building Finishes	Electrical and Mechanical	Furniture, Fixtures and Equipment	Total
Cost (including deemed cost)					
Opening balance January 1, 2012	\$ 987,840	\$ 302,221	\$ 238,087	\$ 146,446	\$ 1,674,594
Sale of hotel	(3,130)	-	-	-	(3,130)
Reclass to assets held for sale (Note 4)	(12,298)	(4,478)	(3,906)	(1,584)	(22,266)
Derecognition of assets	-	-	-	(3,663)	(3,663)
Additions	1,477	3,529	1,516	3,147	9,669
Fair value of decommissioning and restoration provision	(614)	-	-	-	(614)
Balance at March 31, 2012	973,275	301,272	235,697	144,346	1,654,590
Accumulated depreciation and amortization					
Opening balance at January 1, 2012	40,552	81,189	15,314	83,821	220,876
Sale of hotel	(197)	-	-	-	(197)
Reclass to assets held for sale (Note 4)	(576)	(1,434)	(275)	(1,141)	(3,426)
Derecognition of assets	-	-	-	(3,663)	(3,663)
Depreciation and amortization	5,145	10,522	1,952	5,777	23,396
Balance at March 31, 2012	44,924	90,277	16,991	84,794	236,986
Carrying value, March 31, 2012	\$ 928,351	\$ 210,995	\$ 218,706	\$ 59,552	\$ 1,417,604

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Land, Building and Leaseholds	Building Finishes	Electrical and Mechanical	Furniture, Fixtures and Equipment	Total
Cost (Including deemed cost)					
Opening balance January 1, 2011	\$ 978,286	\$ 286,491	\$ 231,443	\$ 146,239	\$ 1,642,459
Derecognition of assets	-	-	-	(15,368)	(15,368)
Additions	14,921	15,730	6,644	15,575	52,870
Fair value of decommissioning and restoration provision	3,344	-	-	-	3,344
Writedown of assets to recoverable amount	(8,711)	-	-	-	(8,711)
Balance at December 31, 2011	987,840	302,221	238,087	146,446	1,674,594
Accumulated depreciation and amortization					
Opening balance January 1, 2011	20,616	39,443	7,532	76,383	143,974
Derecognition of assets	-	-	-	(15,368)	(15,368)
Depreciation and amortization	19,936	41,746	7,782	22,806	92,270
Balance at December 31, 2011	40,552	81,189	15,314	83,821	220,876
Carrying value, December 31, 2011	\$ 947,288	\$ 221,032	\$ 222,773	\$ 62,625	\$ 1,453,718

The land amount included in land, building and leaseholds is \$168,047 at March 31, 2012 (December 31, 2011 – \$171,364). This amount is not depreciated. Hotel properties at March 31, 2012 include \$9,080 relating to leased assets (December 31, 2011 – \$9,277).

6. OTHER REAL ESTATE PROPERTIES

Other real estate properties include office and retail properties and a retirement residence. The land amount included in land and building is \$1,624 at March 31, 2012 and December 31, 2011. This amount is not depreciated.

	Land and Building	Furniture, Fixtures and Equipment	Total
Cost (including deemed cost)			
Opening balance January 1, 2012	\$ 19,417	\$ 68	\$ 19,485
Additions	222	2	224
Balance at March 31, 2012	19,639	70	19,709
Accumulated depreciation and amortization			
Opening balance at January 1, 2012	727	16	743
Depreciation and amortization	117	2	119
Balance at March 31, 2012	844	18	862
Carrying value, March 31, 2012	\$ 18,795	\$ 52	\$ 18,847

	Land and Building	Furniture, Fixtures and Equipment	Total
Cost (including deemed cost)			
Opening balance January 1, 2011	\$ 16,066	\$ 100	\$ 16,166
Derecognition of assets	-	(56)	(56)
Additions	3,351	24	3,375
Balance at December 31, 2011	19,417	68	19,485
Accumulated depreciation and amortization			
Opening balance January 1, 2011	438	62	500
Derecognition of assets	-	(56)	(56)
Depreciation and amortization	289	10	299
Balance at December 31, 2011	727	16	743
Carrying value, December 31, 2011	\$ 18,690	\$ 52	\$ 18,742

7. INTANGIBLE ASSETS

	Licence Contracts	Franchise Rights	Total
Cost			
Opening balance January 1, 2012	\$ 26,320	\$ 2,605	\$ 28,925
Additions	-	112	112
Balance at March 31, 2012	26,320	2,717	29,037
Accumulated depreciation and amortization			
Opening balance at January 1, 2012	12,415	1,084	13,499
Depreciation and amortization	329	119	448
Balance at March 31, 2012	12,744	1,203	13,947
Carrying value, March 31, 2012	\$ 13,576	\$ 1,514	\$ 15,090
	Licence Contracts	Franchise Rights	Total
Cost			
Opening balance January 1, 2011	\$ 26,320	\$ 3,853	\$ 30,173
Derecognition of assets	-	(1,439)	\$ (1,439)
Additions	-	191	191
Balance at December 31, 2011	26,320	2,605	28,925
Accumulated depreciation and amortization			
Opening balance January 1, 2011	11,099	1,545	12,644
Derecognition of assets	-	(1,439)	(1,439)
Depreciation and amortization	1,316	978	2,294
Balance at December 31, 2011	12,415	1,084	13,499
Carrying value, December 31, 2011	\$ 13,905	\$ 1,521	\$ 15,426

The amortization expense has been included in the line item 'Depreciation and amortization' in the condensed consolidated statement of net loss and comprehensive loss.

8. BANK INDEBTEDNESS

As at March 31, 2012, the bridge loan amount was \$4,250 (December 31, 2011 - \$4,250 classified as long-term debt). In early 2012, InnVest extended the bridge loan to March 1, 2013. The bridge loan requires quarterly principal payments of \$250 starting June 30, 2012 and bears interest at the Canadian Bankers' Acceptance rate plus 3.5%.

9. LONG-TERM DEBT

	March 31, 2012	December 31, 2011
Mortgages payable	\$ 794,168	\$ 804,832
Operating line	44,665	-
Bank indebtedness	-	4,250
Total debt before reclass of debt related to assets held for sale	838,833	809,082
Reclass to liabilities related to assets held for sale (Note 4)	(14,239)	-
	824,594	809,082
Less debt issuance costs	(5,728)	(4,513)
Total Long-term debt	818,866	804,569
Less current portion	(195,860)	(204,963)
Net long-term debt	\$ 623,006	\$ 599,606

Substantially all of InnVest's assets have been pledged as security under debt agreements. At March 31, 2012, long-term debt had a weighted average interest rate of 5.9% (December 31, 2011 - 5.6%) and a weighted average effective interest rate of 6.3% (December 31, 2011 - 6.0%). The long-term debt is repayable in average monthly payments of principal and interest totalling \$5,757 and matures at various dates from September 30, 2012 to March 21, 2018.

On March 30, 2012, InnVest refinanced \$151,937 of debt with one of its lenders, which was due in March 2013. The new debt has an interest rate of 5.3% and has a three-year term with two one-year extension options.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

During the first quarter of 2012, InnVest amended its existing operating line agreement to increase the maximum amount available from \$40,000 to \$50,000 through June 15, 2012 and to \$45,000 through August 31, 2012. After August 31, 2012, the line of credit will return to \$40,000. The operating line bears interest at either the Canadian bank prime rate plus 2.5% or the Canadian Bankers' Acceptance rate plus 3.5%. It is secured by 13 properties and is due August 31, 2013. The amount drawn on the operating line as at March 31, 2012 was \$44,665 (December 31, 2011 – \$ nil).

The amount of the operating line is subject to a mortgageability test, which is based on the operating results of the secured properties, calculated quarterly on a trailing four quarters basis. Based on the operating results of the secured properties for the four quarters ended March 31, 2012, InnVest qualifies for \$48,928 of the maximum amount of \$50,000, inclusive of the temporary \$10,000 increase.

Scheduled repayment of long-term debt is as follows:

	Regular Amortization	Due on Maturity	Total
Remainder of 2012	\$ 14,325	\$ 172,314	\$ 186,639
2013	16,088	34,665	50,753
2014	11,401	294,462	305,863
2015	4,760	212,700	217,460
2016	2,190	45,495	47,685
2017 and thereafter	944	15,250	16,194
	\$ 49,708	\$ 774,886	\$ 824,594

The current portion of long-term debt on the balance sheet is based on the twelve months ending March 31, 2013, whereas the repayment schedule above reflects the fiscal year.

The estimated fair value of InnVest's mortgages payable at March 31, 2012 was approximately \$848,363 (December 31, 2011 – \$826,409). This estimate was determined by discounting expected cash flows at interest rates that reflect current market conditions for debt with similar terms, maturities and credit risk.

Long-term debt includes \$126,206 (December 31, 2011 – \$82,617), which is subject to floating interest rates. Annual interest expense will increase by \$1,262 for every 1% increase in the base Bankers' Acceptance rate.

Interest expense on mortgages and other debt, interest on operating and bridge loans and convertible debentures interest are considered operating items in the statements of cash flows.

10. CONVERTIBLE DEBENTURES

The details of the convertible debentures outstanding as at the periods presented are outlined in the tables below:

Debenture	Original Face Amount	Maturity Date	Effective Interest Rate	Interest Rate	Conversion Strike Price	Outstanding Principal March 31, 2012	Outstanding Principal December 31, 2011
Series B	\$ 75,000	May 31, 2013	6.00%	7.53%	\$ 14.90	\$ 74,980	\$ 74,980
Series C	\$ 70,000	August 1, 2014	5.85%	7.42%	\$ 14.70	\$ 70,000	\$ 70,000
Series D	\$ 50,000	March 31, 2016	6.75%	9.41%	\$ 5.70	\$ 36,358	\$ 36,358
Series E	\$ 75,000	September 30, 2017	6.00%	7.75%	\$ 8.00	\$ 75,000	\$ 75,000
Series F	\$ 50,000	March 30, 2018	5.75%	7.40%	\$ 9.45	\$ 50,000	\$ 50,000
Total outstanding						\$ 306,338	\$ 306,338

The net proceeds received from the issuance of each convertible debenture have been split between a financial liability element and the conversion option component, representing the value attributable to the option to convert the financial liability into equity of InnVest. InnVest has separated the conversion option component for each of its series of convertible debentures and measures such component at fair value at each reporting date.

	March 31, 2012	December 31, 2011
Convertible debentures	\$ 306,338	\$ 306,338
Less financing costs and accretion	(1,266)	(2,259)
Less allocation of conversion feature value	(15,212)	(15,212)
	\$ 289,860	\$ 288,867

The conversion feature of the convertible debentures is recorded as a liability under Unitholders' liabilities and measured at fair value (see Note 16).

The fair value of InnVest's convertible debentures, estimated based on the market price for each series of convertible debentures as at March 31, 2012, is \$306,994 (December 31, 2011 – \$289,940).

The scheduled convertible debentures maturities are as follows:

	Due on Maturity
Remainder of 2012	\$ -
2013	74,980
2014	70,000
2015	-
2016	36,358
2017 and thereafter	125,000
	\$ 306,338
Financing costs and allocation of conversion feature value	(16,478)
	\$ 289,860

11. PROVISIONS

	Decommissioning and Restoration Obligations
Opening balance January 1, 2012	\$ 11,662
Reclass to liabilities related to assets held for sale (Note 4)	(74)
Effect of changes in the discount rate credited to hotel properties	(614)
Balance at March 31, 2012	10,974
Less: current portion	-
Non-current portion at March 31, 2012	\$ 10,974

	Decommissioning and Restoration Obligations	Legal Obligations	Total
Opening balance January 1, 2011	\$ 8,201	\$ 1,600	\$ 9,801
Settlements	-	(1,485)	(1,485)
Unused amount reversed	-	(115)	(115)
Effect of changes in the discount rate charged to hotel properties	3,461	-	3,461
	11,662	-	11,662
Less: current portion	-	-	-
Balance at December 31, 2011	\$ 11,662	\$ -	\$ 11,662

Decommissioning and restoration obligations

The provision for decommissioning and restoration relates to the estimated future cost of environmental obligations for certain properties. InnVest intends to settle the obligations at the end of the expected useful life of the hotel properties. For the three months ended March 31, 2012, the liability has been discounted at a rate of 2.7% (December 31, 2011 - 2.5%). Upon the initial recognition of the liability, the decommissioning and restoration obligation was capitalized in buildings and is being amortized over the remaining useful life. Additional provisions and effects of the change of the discount rate are capitalized in buildings and being amortized over the remaining useful life.

12. OTHER LONG-TERM OBLIGATIONS

	March 31, 2012	December 31, 2011
Finance lease	\$ 1,291	\$ 1,291
Other lease obligations	277	276
Employee retiring allowance	2,370	2,370
Retirement benefit plans	2,154	2,083
Total other long-term obligations	\$ 6,092	\$ 6,020
Less current portion	(147)	(147)
	\$ 5,945	\$ 5,873

InnVest has one finance lease relating to one hotel in Ontario with a lease term through 2023. InnVest has the option to purchase the hotel at a discounted amount at the conclusion of the lease. The fair value of the lease liability is approximately equal to its carrying amount.

InnVest is responsible to provide retirement allowances to certain unionized employees at a limited number of its hotels. Liabilities are recorded for employee retirement allowance benefits using actuarial valuations.

13. CAPITAL MANAGEMENT

InnVest manages its capital, which is defined as the aggregate of unitholders' equity and debt, under the terms of the Declarations of Trust for the REIT and IOT, collectively referred to as the "DOT". InnVest's capital management objectives are (i) to ensure compliance with debt and investment restrictions outlined in its DOT as well as external existing debt covenants, (ii) to allow for the implementation of its acquisition strategy and hotel property refurbishment program, and (iii) to build long-term unitholder value. Issuances of equity and debt are approved by the Board of Trustees through their review and approval of InnVest's strategic plan and annual budget plan, along with changes to the approved plans periodically throughout each year.

At March 31, 2012, InnVest's primary contractual obligations consisted of long-term mortgage obligations and convertible debentures. InnVest is not permitted to exceed certain financial leverage amounts under the terms of the DOT. InnVest is permitted to hold indebtedness excluding convertible debentures up to a level of 60% of gross asset value. Further, InnVest is permitted to have indebtedness and convertible debentures up to a level of 75% of gross asset value. Indebtedness is computed as of the last day of each financial year excluding any indebtedness under any operating line, non-interest bearing indebtedness, trade accounts payable and for greater certainty, deferred income tax liability.

Under the terms of the DOT individual property mortgages, or mortgages on a pool of properties, cannot exceed 75% of the fair value of the underlying property.

At March 31, 2012, InnVest's leverage excluding and including convertible debentures was 44.7% and 61.8%, respectively, calculated as follows:

	March 31, 2012		December 31, 2011	
Total assets per consolidated balance sheet		\$ 1,568,348		\$ 1,564,111
Accumulated depreciation and amortization		255,223		235,118
Deferred income tax asset		(32,281)		(22,010)
Deferred income tax liability		(3,193)		(3,255)
Gross asset value		\$ 1,788,097		\$ 1,773,964
Book value of mortgages and other indebtedness ⁽¹⁾	\$ 798,418	44.7%	\$ 809,082	45.6%
Convertible debentures ⁽²⁾	306,338	17.1%	306,338	17.3%
	\$ 1,104,756	61.8%	\$ 1,115,420	62.9%

(1) Adjusted to eliminate financing issuance costs.

(2) Adjusted to face value.

The DOT also includes guidelines that limit capital expended to, among other items, the following:

- Direct and indirect investments in real property on which hotels are situated and the hotel business conducted thereon, primarily in Canada, and in entities whose activities consist primarily of franchising hotels;
- Temporary investments held in cash, deposits with a Canadian chartered bank or trust company, short-term government debt securities or in money market instruments of, or guaranteed by, a Schedule 1 Canadian bank, short-term commercial paper, notes, bonds of other debt securities of a Canadian entity having a rating of at least R-1 (Mid) by Dominion Bond Rating Service or A-1 (Mid) by Standard & Poor's Corporation maturing prior to one year from the date of issue; and
- Investments in mortgages or mortgage bonds, where the related security is a first mortgage on income producing real property, which otherwise complies with (a) above and is subject to certain leverage limits and debt service coverage. The aggregate value of such investments shall not exceed 20% of the unitholders' equity.

InnVest is in compliance with these guidelines.

InnVest maintains an operating line with a Canadian chartered bank with the following covenants:

- Total indebtedness (including convertible debentures) up to a level of 70% of gross asset value;
- Trailing 12 months consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") to consolidated interest expense of not less than 1.8 times (March 31, 2012 - 2.1 times and December 31, 2011 - 2.1 times);
- Trailing 12 months consolidated EBITDA to consolidated debt service of not less than 1.5 times (March 31, 2012 - 1.6 times and December 31, 2011 - 1.6 times); and
- Unitholders' Equity, of not less than \$225,000 (March 31, 2012 - \$289,881 and December 31, 2011 \$329,422. Following the 2012 Reorganization (see Note 14), this requirement will increase to \$300,000 to account for the presentation of IOT as equity as compared to its current presentation in unitholders and other liabilities. As at March 31, 2012, the IOT liability totalled \$46,040 (Note 16).

14. INCOME TAXES AND DEFERRED INCOME TAX

On July 20, 2011, the Minister of Finance announced changes in, among other things, the tax treatment of real estate investment trusts that have issued “stapled” securities. If the Minister of Finance’s announcement is enacted as proposed and no changes are made to the existing structure of the REIT and IOT, then rents (and certain other amounts) paid by IOT to the REIT after the applicable transition date (expected to be July 20, 2012) would cease to be deductible in computing the income of IOT for Canadian income tax purposes.

In response to these proposed tax changes, InnVest intends to pursue a merger of IOT into the REIT effective on June 30, 2012 (the “2012 Reorganization”). The 2012 Reorganization would result in all the former stapled unitholders and stapled debenture holders of the REIT and IOT holding only units or convertible debentures, as the case may be, of the REIT. The merged entity would be governed as a trust. The 2012 Reorganization was approved by unitholders at a special meeting of unitholders held on February 23, 2012 and received final court approval of the plan of arrangement forming part of the 2012 Reorganization from the Ontario Superior Court of Justice on February 29, 2012. Management expects to complete the 2012 Reorganization on or about June 30, 2012.

Pending completion of the 2012 Reorganization, InnVest is restricted from issuing stapled securities subject to certain exceptions. As a consequence, InnVest suspended its distribution reinvestment plan (“DRIP”) beginning in August 2011 until further notice and will satisfy all Trustee and deferred executive compensation in cash as opposed to the usual partial satisfaction in the form of InnVest Units.

15. FINANCIAL INSTRUMENTS

Risk management

In the normal course of business, InnVest is exposed to a number of risks that can affect its operating performance. These risks, and the actions taken to manage them, are as follows:

INTEREST RATE RISK

The average term to maturity of InnVest’s long-term debt and convertible debentures combined is approximately three years. This strategy reduces InnVest’s exposure to re-pricing risk resulting from short-term interest rate fluctuations in any one year. Management is of the view that such a strategy will provide the most effective interest rate risk management for debt.

InnVest’s floating rate debt balance is monitored by management to minimize InnVest’s exposure to interest rate fluctuations. As at March 31, 2012, InnVest’s floating rate debt balance of \$126,206 (December 31, 2011 – \$82,617) is approximately 15.0% (December 31, 2011 – 10.2%) of total long-term debt, excluding convertible debentures.

CREDIT RISK

Credit risk relates to the possibility that hotel guests, either individual or corporate, do not pay the amounts owed to InnVest. InnVest mitigates this risk by limiting its exposure to customers allowed to pay by invoice after check out (“direct bill”). Accounts receivable as at March 31, 2012 are \$30,152 (December 31, 2011 – \$31,744). InnVest reviews accounts receivable regularly and the allowance for doubtful accounts is adjusted for any balances which are determined by management to be uncollectable. This provision adjustment is expensed in operating expenses. The allowance as at March 31, 2012 is \$526 or 1.7% (December 31, 2011 – \$530 or 1.7%) of total receivables. Bad debt expense included in operating expenses is \$30 for the three months ended March 31, 2012 (March 31, 2011 – credited by \$92 due to prior year over provision). Accounts receivable amounts outstanding for over 90 days, which have not been provided for, total \$103 at March 31, 2012 (December 31, 2011 – \$1,084).

LIQUIDITY RISK

Liquidity risk arises from the possibility of not having sufficient cash available to InnVest to fund its growth and capital maintenance programs and refinance its obligations as they arise. There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to InnVest or on any terms at all. There is also a risk that bank lenders will not refinance the operating and bridge loan facilities on terms and conditions acceptable to InnVest or on any terms at all.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Estimated maturities of InnVest's financial liabilities, excluding Unitholder liabilities, are:

	Remainder of 2012	2013	2014	2015	2016	2017 and Thereafter	Contractual Cash flows ⁽¹⁾
Accounts payable and accrued liabilities	\$ 74,016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 74,016
Mortgage payable – principal ⁽²⁾	176,640	16,087	305,863	217,460	47,685	16,194	779,929
Mortgage payable – interest ⁽³⁾	33,645	32,313	20,792	7,970	3,687	790	99,197
Operating line – principal	10,000	34,665	-	-	-	-	44,665
Operating line – interest	1,410	1,114	-	-	-	-	2,524
Bridge loan – principal	750	3,500	-	-	-	-	4,250
Bridge loan – interest	111	-	-	-	-	-	111
Convertible debentures – principal	-	74,980	70,000	-	36,358	125,000	306,338
Convertible debentures – interest	11,461	15,799	13,924	9,829	8,602	8,813	68,428
Long-term land leases	3,601	4,826	4,826	4,128	3,896	79,329	100,606
Total	\$ 311,634	\$ 183,284	\$ 415,405	\$ 239,387	\$ 100,228	\$ 230,126	\$ 1,480,064

(1) Contractual cash flows include principal and interest payments and include extension options available to InnVest.

(2) Mortgage principal includes regular amortization and repayments at maturity.

(3) Interest for floating rate debt is based on interest rates prevailing at March 31, 2012.

Fair values

The fair values of InnVest's financial assets and current liabilities approximate their recorded values at March 31, 2012 and December 31, 2011 due to their short-term nature.

The fair value of InnVest's long-term debt is greater than the carrying value by approximately \$9,530 at March 31, 2012 – (December 31, 2011 – \$17,327) due to changes in interest rates since the dates on which the individual mortgages were arranged. The fair value of long-term debt has been estimated based on the current market rates for mortgages with similar terms, credit risks and conditions.

The fair value of InnVest's convertible debentures is greater than the carrying value by approximately \$12,158 at March 31, 2012 (December 31, 2011 – \$558). The fair value of convertible debentures is based on the market price for each series of convertible debentures as at each reporting date.

The fair value hierarchy of financial instruments measured at fair value on the balance sheet is as follows:

	March 31, 2012			December 31, 2011		
	Level 1	Level 3	Total	Level 1	Level 3	Total
Financial Liabilities:						
InnVest Operations Trust	\$ -	\$ 46,040	\$ 46,040	\$ -	\$ 36,762	\$ 36,762
Exchangeable units	1,909	-	1,909	1,499	-	1,499
Convertible debentures holders' conversion option	-	4,976	4,976	-	514	514
Unvested executive compensation	429	-	429	343	-	343
Total financial liabilities	\$ 2,338	\$ 51,016	\$ 53,354	\$ 1,842	\$ 37,276	\$ 39,118

There were no transfers between Level 1 and Level 2 fair value measurements during the three months ended March 31, 2012 and 2011 and no transfer into and out of Level 3. There were no financial instruments measured at Level 2 at any of the dates presented.

The following table reconciles movements in financial instruments classified as Level 3 during the three months ended March 31, 2012 and 2011.

	InnVest Operations Trust	Convertible debentures holders' conversion option	March 31, 2012	InnVest Operations Trust	Convertible debentures holders' conversion option	Dec. 31, 2011
Balance at beginning of the period	\$ 36,762	\$ 514	\$ 37,276	\$ 89,234	\$ 19,097	\$ 108,331
(Gain) loss in net income	9,278	4,462	13,740	(56,356)	(20,614)	(76,970)
Issuance	-	-	-	-	2,200	2,200
Other	-	-	-	3,884	(169)	3,715
Balance at the end of the period	\$ 46,040	\$ 4,976	\$ 51,016	\$ 36,762	\$ 514	\$ 37,276

Fair value gains and losses are included in 'Unrealized loss on liabilities presented at fair value' (see Note 22).

Significant judgments, estimates and assumptions to unobservable inputs are used in determining the fair value of IOT and the convertible debentures holders' conversion option. For every 1% absolute change in IOT's relative value allocation of the consolidated entities, the liability changes by approximately \$4,846.

Letters of credit

As at March 31, 2012, InnVest has letters of credit totalling \$3,565 (December 31, 2011 - \$3,565) held on behalf of security deposits for various utility companies and liquor licences, and additional security for the pension liabilities.

16. UNITHOLDERS AND OTHER LIABILITIES

	March 31, 2012	December 31, 2011
InnVest Operations Trust	\$ 46,040	\$ 36,762
Exchangeable units	1,909	1,499
Convertible debentures holders' conversion option	4,976	514
Unvested executive compensation	429	343
Balance, end of period	\$ 53,354	\$ 39,118

InnVest Operations Trust

InnVest Operations Trust represents the InnVest unitholders' interest in IOT through ownership of the IOT non-voting units. Each non-voting unit of IOT trades together with each issued and outstanding unit of the REIT as an InnVest Unit. IOT indirectly holds the hotel operating assets along with a 50% interest in CHC. The IOT holdings are presented as liabilities at their fair value.

During the three months ended March 31, 2012, distributions totalling \$ nil (2011 - \$1,680) were paid on the IOT units and are included as finance costs in the condensed consolidated statement of net loss and comprehensive loss.

Exchangeable units

As part of an acquisition made in 2005, InnVest granted 362,869 exchangeable units ("Exchangeable Units") to a third party. The Exchangeable Units receive a monthly cash payment equal to the value of the cash distributions that would have been paid on the InnVest Units if they had been issued on the date of grant. The Exchangeable Units are exchangeable into InnVest Units with three business days of prior written notice to InnVest.

The Exchangeable Units are presented as liabilities at their fair value based on the market price of InnVest Units. During the three months ended March 31, 2012, distributions totalling \$36 (2011 - \$45) were paid on the Exchangeable Units and are included as finance costs in the condensed consolidated statement of net loss and comprehensive loss.

Convertible debentures holders' conversion option

InnVest has separated the conversion option component for each of its series of convertible debentures which are presented as liabilities. InnVest measures the conversion option component at fair value at each reporting date which is derived based on the volatility of InnVest Units' market price, market interest rates as well as management's judgment relating to interest rate spreads for instruments of similar terms and risks.

Executive compensation plan

The senior executives participate in an incentive plan that involves the grant of InnVest Units which vest over time. The payment will be satisfied through the issuance of InnVest Units. Unvested units are presented as liabilities at their fair value. Upon issuance of InnVest Units (following the satisfaction of all vesting conditions), the liability is reclassified to equity at the then-current fair value based on the market price of InnVest Units.

17. UNITS OUTSTANDING

An unlimited number of InnVest Units have been authorized, each of which represents an equal undivided beneficial interest in any distributions from InnVest. Per the DOT, InnVest Units cannot be issued from treasury unless the Trustees consider it not to be dilutive to ensuing annual distributions of distributable income to existing unitholders.

Units issued and outstanding:

	Units
Balance at January 1, 2011	89,474,691
Units issued	3,600,000
Units issued on conversion of debentures	371,221
Units issued under distribution reinvestment plan	47,609
Units issued under trustee and executive plans	44,501
Balance at December 31, 2011	93,538,022
Balance at March 31, 2012	93,538,022

Trustee compensation plan

The members of the Board of Trustees are meant to receive 50% of their annual retainer in units (based on the then current market price of the InnVest Units). InnVest has set aside 350,000 InnVest Units in reserve for this purpose. The balance in this reserve account at March 31, 2012 is 221,964 InnVest Units. Given current restrictions on the issuance of stapled securities (see Note 14), 100% of the Board of Trustees' compensation will be paid in cash pending completion of the 2012 Reorganization.

Executive compensation plan

The senior executives participate in the executive compensation plan under which InnVest Units are granted by the Board of Trustees from time to time. All granted units vest equally on the third and fourth anniversaries of the effective date of grant. InnVest has reserved a maximum of 1,000,000 InnVest Units for issuance under the plan. The balance in this reserve account at March 31, 2012 is 704,055 InnVest Units. An InnVest Unit granted through the plan entitles the holder to receive, on the vesting date, the then current fair market value of the InnVest Unit plus the value of the cash distributions that would have been paid on the InnVest Unit if it had been issued on the date of grant assuming the reinvestment of the distribution into InnVest Units. The payment will be satisfied through the issuance of InnVest Units.

The benefit resulting from the issuance of InnVest Units under this plan is recorded as compensation expense, included in 'Corporate and administrative' expense in the condensed consolidated statements of net loss and comprehensive loss.

The Board of Trustees approved the granting of nil units during the three months ended March 31, 2012 (2011 – 27,815 units). The Board of Trustees approved the granting of 36,000 units subsequent to March 31, 2012. Given current restrictions on the issuance of stapled securities (see Note 14), executive compensation units, which vested in advance of the 2012 Reorganization, were satisfied in cash as opposed to the issuance of InnVest Units.

At March 31, 2012, there were 81,466 (December 31, 2011 – 116,814) unvested executive units granted under the plan. The unvested units are presented as liabilities over the vesting periods.

Distribution reinvestment plan ("DRIP")

InnVest had a DRIP whereby eligible Canadian unitholders may have elected to have their distributions of income from InnVest automatically reinvested in additional InnVest Units. On August 12, 2011, InnVest suspended its DRIP until further notice (see Note 14).

Normal course issuer bids ("NCIBs")

In November 2011, the REIT and IOT jointly implemented NCIBs for their stapled units and Series F 5.75% Stapled Convertible Debentures and the REIT implemented NCIBs for its Series B 6.00% Convertible Debentures, Series C 5.85% Convertible Debentures, Series D 6.75% Convertible Debentures, Series E 6.00% Convertible Debentures. For the three months ended March 31, 2012, no units or convertible debentures were purchased under the NCIBs. The NCIBs expire November 14, 2012.

18. PER UNIT INFORMATION

The net income and weighted average number of units for the purposes of diluted earnings per unit are as follows:

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
	Net Loss	Weighted Average Units	Net Loss	Weighted Average Units
Basic and diluted	\$ (30,197)	93,538,022	\$ (20,035)	90,266,593

The following potential units are anti-dilutive and are therefore excluded from the weighted average number of units for the purposes of diluted earnings per unit.

Weighted Average Units	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Convertible debentures	30,838,721	26,744,114

For the three months ended March 31, 2012, InnVest declared \$9,344 distributions to unitholders (2011 - \$11,371) Subsequent to the end of the quarter, InnVest declared \$3,115 distributions to unitholders at \$0.0333 per month to May 10, 2012.

19. CHANGES IN NON-CASH WORKING CAPITAL

During the three months ended March 31, 2012 and 2011, cash generated from (utilized in) non-cash working capital was as follows:

	2012	2011
Accounts receivable	\$ 1,592	\$ (4,331)
Prepaid expenses and other assets	(2,294)	(2,851)
Accounts payable and other liabilities	(1,409)	7,049
Changes in non-cash working capital	\$ (2,111)	\$ (133)

20. RELATED PARTY DISCLOSURES

Westmont Hospitality Canada Limited

InnVest has a Management Agreement for hotel management and accounting services and an Administrative Services Agreement (the "Agreements") with Westmont Hospitality Canada Limited ("Westmont") pursuant to which Westmont is responsible for the management of the majority of the hotel businesses in InnVest.

Two trustees of InnVest have a direct or indirect controlling interest in Westmont and as such have a material interest in the Agreements. Westmont is considered a related party to InnVest as a result of its ability to exercise significant influence through the Agreements. At March 31, 2012, Westmont manages all but 14 of InnVest's hotels.

Westmont 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.

For certain hotels owned by InnVest and not managed by Westmont, Westmont is entitled to an asset management fee based on a fixed percentage of the purchase price of the hotel or a fixed percentage of hotel operating income, after the reserve for replacement of furniture, fixtures and equipment and capital improvements, subject to an annual minimum fee.

In addition to management fees and asset management fees, Westmont receives accounting fees based on a fixed charge per room which increases by the Consumer Price Index change annually.

Westmont also provides 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 InnVest's ongoing administration and operation of InnVest. Such services are provided on a cost recovery basis pursuant to a budget.

Westmont is entitled to fees based on a percentage of the cost of purchasing certain goods and supplies and certain construction costs and capital expenditures, fees for accounting services, reasonable out-of-pocket costs and expenses (other than general and administrative expenses or overhead costs except as otherwise provided in the Administrative Services Agreement) and project management and general contractor service fees related to hotel renovations managed by Westmont.

For assets sold which are managed by Westmont, InnVest pays a termination fee equal to the fees paid based on trailing 12 months revenues.

During the three months ended March 31, 2012 and 2011, the fees charged to InnVest pursuant to the Agreements were as follows:

	2012	2011
Management fees	\$ 2,548	\$ 2,454
Asset management fees (included in management fee expense)	478	503
Accounting services (included in hotel operating expenses)	621	596
Administrative services (included in corporate and administrative expenses)	118	116
Project management and general contractor services (capitalized to hotel properties)	281	271
	\$ 4,046	\$ 3,940

In addition, salaries of InnVest employees paid by Westmont and reimbursed by InnVest were \$112 for the three months ended March 31, 2012 (2011 – \$84). Included in accounts payable and accrued liabilities are amounts owed to Westmont at March 31, 2012 totalling \$1,416 (December 31, 2011 – \$1,563).

21. FINANCE COSTS – DISTRIBUTIONS

Distributions recorded as finance costs for the three months ended March 31, 2012 and 2011 are as follows:

	2012	2011
Distributions to IOT unitholders	\$ –	\$ 1,680
Distributions on Exchangeable units	36	45
	\$ 36	\$ 1,725

22. UNREALIZED LOSS ON LIABILITIES PRESENTED AT FAIR VALUE

Fair value loss recorded for the three months ended March 31, 2012 and 2011 are as follows:

	2012	2011
InnVest Operations Trust (Note 16)	\$ 9,278	\$ 2,601
Exchangeable units	410	66
Convertible debentures holders' conversion option	4,462	(193)
Loss for the period	\$ 14,150	\$ 2,474

23. SEGMENT INFORMATION

The management of InnVest's operations is organized within four Canadian geographical regions: Western, Ontario, Quebec and Atlantic.

Unallocated functions include the revenues and costs associated with InnVest's proportionate share of CHC's franchise business, InnVest's retail, office and retirement assets, and costs of central corporate services provided. All key financing, investing and capital allocation decisions are centrally managed.

Revenues

Three months ended March 31, 2012	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	\$ 37,431	\$ 48,107	\$ 27,154	\$ 16,286	\$ 128,978
Franchise business					2,113
Other real estate properties					832
Revenues					\$ 131,923
Three months ended March 31, 2011	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	\$ 33,824	\$ 49,333	\$ 26,561	\$ 16,556	\$ 126,274
Franchise business					1,845
Other real estate properties					915
Revenues					\$ 129,034

Net Income

Three months ended March 31, 2012	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	\$ 8,830	\$ 6,512	\$ 1,428	\$ 117	\$ 16,887
Franchise business					599
Other real estate properties					252
Gross operating profit					17,738
Other expenses, net					(58,269)
Income tax recovery					10,334
Net income					\$ (30,197)
Three months ended March 31, 2011	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	\$ 7,296	\$ 6,487	\$ 1,470	\$ 495	\$ 15,748
Franchise business					531
Other real estate properties					354
Gross operating profit					16,633
Other expenses, net					(47,362)
Income tax recovery					10,694
Net income					\$ (20,035)

Hotel properties

	Western	Ontario	Quebec	Atlantic	Total
March 31, 2012	\$ 402,649	\$ 533,727	\$ 300,207	\$ 181,021	\$ 1,417,604
December 31, 2011	\$ 417,670	\$ 546,639	\$ 305,916	\$ 183,493	\$ 1,453,718

Capital expenditures on hotel properties

	Western	Ontario	Quebec	Atlantic	Total
Three months ended March 31, 2012	\$ 1,337	\$ 4,217	\$ 3,307	\$ 1,032	\$ 9,893
Three months ended March 31, 2011	\$ 4,092	\$ 3,111	\$ 4,539	\$ 1,458	\$ 13,200

24. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These condensed consolidated financial statements were authorized for issue by the Board of Trustees of InnVest on May 10, 2012.

Corporate and Unitholder Information

Corporate office

5090 Explorer Drive, Suite 700
Mississauga, Ontario L4W 4T9
Toll-free: 1-877-209-3429
Phone: 905-206-7100
Fax: 905-206-7114
Email: investor@innvestreit.com
Website: www.innvestreit.com

Stock exchange listing

The Toronto Stock Exchange
Trading Symbol: INN.UN
Convertible Debentures:
INN.DB.B, INN.DB.C, INN.DB.D, INN.DB.E, INN.DB.F

Registrar and transfer agent

Inquiries regarding change of address, registered holdings, transfers and duplicate mailings should be directed to the following:

Computershare Trust Company of Canada
100 University Avenue, 11th floor
Toronto, Ontario
Phone: 1-800-564-6253
Fax: 1-866-249-777

Auditors

Deloitte & Touche LLP
Toronto, Ontario



Be our guest

BEST WESTERN 1-800-780-7234 • COMFORT INN 1-800-424-6423 • DELTA HOTELS 1-888-890-3222
 FAIRMONT HOTELS & RESORTS 1-800-257-7544 • HILTON GARDEN INN 1-877-782-9444 • HILTON HOTELS 1-800-445-8667
 HOLIDAY INN, HOLIDAY INN EXPRESS 1-888-465-4329 • HOMEWOOD SUITES HOTELS 1-800-225-5466
 QUALITY HOTEL, QUALITY SUITES 1-800-424-6423 • RADISSON 1-888-201-1718 • SHERATON HOTELS & RESORTS 1-800-325-3535
 STAYBRIDGE SUITES HOTELS 1-877-660-8550 • TRAVELODGE 1-800-578-7878



InnVest REIT holds one of Canada's largest hotel portfolios together with an interest in Choice Hotels Canada Inc., one of the largest franchisors of hotels in Canada. Our portfolio comprises 143 hotel properties with approximately 19,000 guest rooms, operated under 14 internationally recognized brands.