

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been, and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws and, subject to certain exceptions, may not be offered or sold in the United States. See “Plan of Distribution”. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities in the United States.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of InnVest Real Estate Investment Trust at 7<sup>th</sup> Floor, 5090 Explorer Drive, Mississauga, Ontario, L4W 4T9, telephone (905) 206-7100, and are also available electronically at [www.sedar.com](http://www.sedar.com).

## SHORT FORM PROSPECTUS

New Issue

August 6, 2010



### INNVEST REAL ESTATE INVESTMENT TRUST

**\$75,000,000**

#### **6.00% Convertible Unsecured Subordinated Debentures**

This short form prospectus qualifies the distribution of \$75,000,000 aggregate principal amount of 6.00% convertible unsecured subordinated debentures, Series E (the “**Debentures**”) of InnVest Real Estate Investment Trust (the “**REIT**”) at a price of \$1,000 per Debenture (the “**Offering**”). The Debentures bear interest at an annual rate of 6.00% payable semi-annually in arrears on March 31 and September 30 in each year, commencing March 31, 2011, and will mature on September 30, 2017 (the “**Maturity Date**”). See “Description of the Debentures”.

Each Debenture is convertible into freely-tradable units (“**Units**”) of the REIT at the option of the holder at any time prior to 4:00 p.m. (Toronto time) on the earlier of September 30, 2017 and the last business day immediately preceding the date specified by the REIT for redemption of the Debentures, at a conversion price of \$8.00 per Unit (the “**Conversion Price**”), being a conversion rate of 125.0000 Units per \$1,000 principal amount of Debentures, subject to adjustment in certain events in accordance with the Indenture (as defined herein). Except in limited circumstances, holders converting their Debentures will receive accrued and unpaid interest on such Debentures, if any, for the period from the last interest payment date (or the date of issue if no interest has yet been paid by the REIT) to and including the last record date declared by the REIT for determining holders of Units (“**Unitholders**”) entitled to receive distributions on the Units. Further particulars concerning the conversion privilege, including provisions for the adjustment of the Conversion Price in certain events are set out under “Description of the Debentures — Conversion Rights”. **A holder of Debentures will not be entitled to deferred tax treatment on the conversion, redemption or repayment at maturity of such Debentures. See “Certain Canadian Federal Income Tax Considerations”.**

Price: **\$1,000 per Debenture**

	Price to the Public <sup>(1)</sup>	Underwriters' Fee	Net Proceeds to the REIT <sup>(2)</sup>
Per Debenture .....	\$1,000	\$37.50	\$962.50
Total Offering .....	\$75,000,000	\$2,812,500	\$72,187,500

Notes:

- (1) The offering price for the Debentures was established through negotiation between the REIT and the Underwriters.
- (2) Before deducting expenses of the Offering estimated at \$500,000 which, together with the Underwriters' fee, will be paid from the proceeds of the Offering. See “Plan of Distribution”.

The Debentures are not redeemable prior to September 30, 2013. On or after September 30, 2013 and prior to September 30, 2015, the Debentures may be redeemed by the REIT, in whole or in part, on not less than 30 days' prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Units on the Toronto Stock Exchange (“TSX”) for the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On or after September 30, 2015 and prior to September 30, 2017, the Debentures may be redeemed by the REIT, in whole or in part, at any time at a redemption price equal to the principal amount thereof plus accrued and unpaid interest. See “Description of Debentures — Redemption”.

Subject to any required regulatory approvals, the REIT may, at its option, elect to satisfy its obligation to pay, in whole or in part, the principal amount of the Debentures that are to be redeemed or that have matured, on not more than 60 days' and not less than 30 days' prior notice, by delivering that number of freely-tradable Units obtained by dividing the principal amount of the Debentures that are to be redeemed or that have matured, as the case may be, by 95% of the volume-weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date fixed for redemption or the Maturity Date, as applicable. See “Description of the Debentures — Method of Payment”.

The Debentures are being offered pursuant to an underwriting agreement (the “**Underwriting Agreement**”) dated July 28, 2010 between the REIT and Scotia Capital Inc., CIBC World Markets Inc., TD Securities Inc., RBC Dominion Securities Inc., and Canaccord Genuity Corp. (collectively, the “**Underwriters**” and each an “**Underwriter**”).

The Underwriters, as principals, conditionally offer the Debentures, subject to prior sale, if, as and when issued by the REIT and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement and subject to the approval of certain legal matters on behalf of the REIT by Davies Ward Phillips & Vineberg LLP and on behalf of the Underwriters by Osler, Hoskin & Harcourt LLP. In connection with the Offering, the Underwriters may, subject to applicable laws, effect transactions intended to stabilize or maintain the market price for the Debentures at levels above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time. The Underwriters propose to offer the Debentures initially at the offering price specified above. **After a reasonable effort has been made to sell all of the Debentures at the price specified, the Underwriters may subsequently reduce the selling price to investors from time to time in order to sell any of the Debentures remaining unsold. Any such reduction will not affect the proceeds received by the REIT. See “Plan of Distribution”.**

Subscriptions for the Debentures will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. The closing of the Offering is expected to occur on or about August 13, 2010 or such later date as the REIT and the Underwriters may agree, but in any event not later than August 20, 2010. Registration and transfers of Debentures and Units issuable upon conversion, redemption or maturity of the Debentures will be effected only through the book-based system administered by CDS Clearing and Depository Services Inc. (“**CDS**”). Beneficial owners of Debentures or Units will not, except in limited circumstances, be entitled to receive a physical certificate evidencing their ownership of Debentures or Units. See “Description of the Debentures — Book-Based System” and “Description of the Units — Book-Based System”.

**There is currently no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures purchased under this short form prospectus.** The TSX has conditionally approved the listing of the Debentures and the Units issuable upon conversion of the Debentures. The listing is subject to the REIT fulfilling all of the listing requirements of the TSX on or before October 21, 2010. The Units are listed on the TSX under the symbol “INN.UN”. On July 21, 2010, the day before the announcement of the Offering, the closing price of the Units on the TSX was \$6.04 per Unit.

**An affiliate of RBC Dominion Securities Inc. is a lender to the REIT under the Bridge Loan (as defined herein) and the Credit Line (as defined herein). Certain affiliates of the Underwriters have provided and may provide in the future investment banking, commercial banking and other financial services to the REIT for which they have received or will receive compensation. Accordingly, the REIT may be considered to be a “connected issuer” of each of the Underwriters within the meaning of applicable Canadian securities legislation. See “Relationship Between the REIT and Certain Underwriters”.**

**Investing in the Debentures involves risks. The risk factors identified under the heading “Risk Factors” in this short form prospectus should be carefully reviewed and evaluated by prospective purchasers before purchasing the securities being offered hereunder.**

The REIT is an unincorporated open-ended real estate investment trust governed by the laws of the Province of Ontario. **The REIT is not a trust company and is not registered under applicable legislation governing trust companies as it does not carry on or intend to carry on the business of a trust company. Units are not “deposits” within the meaning of the Canada Deposit Insurance Corporation Act and are not insured under the provisions of that Act or any other legislation.**

**The REIT’s earnings coverage ratios, on a *pro forma* basis after giving effect to the issuance of the Debentures and the repayment of certain indebtedness, are less than one-to-one. See “Earnings Coverage”.**

Although the REIT intends to make distributions of a portion of its available cash to holders of the Units (the “Unitholders”), these cash distributions are not assured. A return on an investment in Units, in the event a holder converts Debentures into Units in accordance with their terms, is not comparable to the return on an investment in a fixed-income security. The ability of the REIT to make cash distributions and the actual amount distributed will be dependent upon numerous factors, including the financial performance of the REIT, seasonal fluctuations in operating results, the REIT’s debt covenants and obligations, the REIT’s working capital requirements, the REIT’s future capital requirements and the redemption of Units, if any. The market value of the Units may deteriorate if the REIT is unable to maintain current levels of cash distributions in the future, and that deterioration may be material. See “Risk Factors”.

The return on a Unit is subject to Canadian income tax. The Canadian income tax consequences to Unitholders who are Canadian residents will depend, in part, on the composition for tax purposes of distributions paid by the REIT, portions of which may be fully or partially taxable or may constitute tax deferred distributions which are not subject to tax at the time of receipt but reduce a Unitholder’s adjusted cost base in the Units for Canadian income tax purposes. That composition may change over time, thus affecting a Unitholder’s after-tax return. Subject to the application of the SIFT Rules (as defined herein) discussed under the heading “Certain Canadian Federal Income Tax Considerations”, distributions of the net income of the REIT are generally taxed as ordinary income in the hands of a Unitholder while distributions in excess of the net income of the REIT are generally tax-deferred (and reduce the Unitholder’s cost base in the Unit for tax purposes). Distributions of income and returns of capital to a Unitholder that is not resident in Canada for purposes of the *Income Tax Act* (Canada), as amended (the “**Tax Act**”), or is a partnership that is not a “Canadian partnership” for purposes of the Tax Act may be subject to Canadian withholding tax. Prospective holders of Debentures should consult their own tax advisors with respect to the Canadian income tax considerations applicable in their circumstances.

The registered and head office of the REIT is located at 7<sup>th</sup> Floor, 5090 Explorer Drive, Mississauga, Ontario, L4W 4T9.

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### ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the REIT, and Osler, Hoskin & Harcourt LLP, counsel to the Underwriters, provided that the REIT qualifies as a mutual fund trust under the Tax Act and the Units are listed on a designated stock exchange in Canada on the date of closing of the Offering, the Debentures, as at that date, will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, registered disability savings plans, deferred profit sharing plans, registered education savings plans and tax-free savings accounts, each as defined in the Tax Act (“**Exempt Plans**”). Units acquired under the terms of the Debentures, if issued on the date of issue of the Debentures and provided the REIT qualifies as a mutual fund trust on such date, would be qualified investments under the Tax Act for Exempt Plans. Based on the provisions of the Tax Act in force on the date hereof, the Debentures will continue to be qualified investments under the Tax Act for Exempt Plans after implementation of the Plan of Arrangement referred to below under “Recent Developments”, provided that the REIT and IOT (as defined herein) continue to qualify as mutual fund trusts and provided that the Units and IOT Units (as defined herein) are listed on a designated stock exchange at the relevant time. The TSX has conditionally approved the listing and posting for trading of Stapled Units (as defined herein) comprised of Units and IOT Units on the TSX under the symbol “INN.UN” in substitution for the Units following completion of the Plan of Arrangement. In addition, based on the provisions of the Tax Act in force on the date hereof, Units and IOT Units acquired after implementation of the Plan of Arrangement referred to below in the section entitled “Recent Developments” will be qualified investments under the Tax Act for Exempt Plans on the date of acquisition provided that the REIT and IOT qualify as mutual fund trusts on such date. See “Certain Canadian Federal Income Tax Considerations”.

The holder of a tax-free savings account that governs a trust which holds Debentures, Units or IOT Units (including Units and IOT Units included in Stapled Units, acquired under the terms of the Debentures) will be subject to a penalty tax if the holder does not deal at arm’s length with the REIT or IOT for purposes of the Tax Act or if the holder has a significant interest (within the meaning of the Tax Act) in the REIT or IOT, or in a corporation, partnership or trust with which the REIT or IOT does not deal at arm’s length for purposes of the Tax Act.

## MEANING OF CERTAIN REFERENCES

In this short form prospectus, references to the “REIT” include its subsidiaries where the context requires. References to dollars or “\$” are to Canadian currency.

## NON-GAAP FINANCIAL MEASURES

The REIT issues guidance on and reports on certain non-GAAP measures, including “hotel operating income”, “funds from operations” and “Distributable Income”, that it uses to evaluate its operating performance and measure its ability to earn and distribute cash returns to Unitholders. Because non-GAAP measures do not have a standardized meaning as prescribed by GAAP and may differ from those used by other issuers, securities regulations require that non-GAAP measures be clearly defined and qualified, reconciled with their nearest GAAP measure and given no more prominence than the closest GAAP measure. Such information is presented below and in the sections dealing with these financial measures in the documents incorporated by reference herein.

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

## NOTE REGARDING FORWARD-LOOKING STATEMENTS

This short form prospectus, including the documents incorporated by reference herein, contains forward-looking statements, including statements regarding the REIT’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 statements are typically identified 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 the REIT’s estimates and assumptions, which are subject to risks and uncertainties, including those described under “Risk Factors” in this short form prospectus and in the documents incorporated by reference herein. Reference is also made to the disclosure concerning forward-looking statements in the documents incorporated by reference herein.

When relying on forward-looking statements to make decisions, the REIT cautions readers not to place undue reliance on these statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, which may cause the REIT’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, among others: changes in business strategies; general global economic and business conditions; 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; technological changes; and those factors discussed in the section entitled “Risk Factors” in this short form prospectus. The REIT does not undertake to update any forward- looking statements that may be made from time to time by or on behalf of the REIT, except as required by Canadian securities laws.

## DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this short form prospectus from documents filed with the securities commissions or similar regulatory authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the REIT at 7<sup>th</sup> Floor, 5090 Explorer Drive, Mississauga, Ontario, L4W 4T9, telephone (905) 206-7100, and are also available electronically at [www.sedar.com](http://www.sedar.com).

The following documents, filed with the securities commissions or similar regulatory authorities in Canada, are specifically incorporated by reference in, and form an integral part of, this short form prospectus:

- (i) the annual information form of the REIT dated March 10, 2010 for the year ended December 31, 2009 (the “**AIF**”);
- (ii) the audited consolidated financial statements of the REIT for the years ended December 31, 2009 and 2008, together with the notes thereto and the auditors’ report thereon (the “**Annual Financial Statements**”);
- (iii) management’s discussion and analysis of the consolidated financial condition and results of operations of the REIT for the year ended December 31, 2009 (the “**Annual MD&A**”);
- (iv) the unaudited interim consolidated financial statements of the REIT for the three months ended March 31, 2010 and 2009, together with the notes thereto (the “**First Quarter Financial Statements**”);
- (v) management’s discussion and analysis of the consolidated financial condition and results of operations of the REIT for the three months ended March 31, 2010 (the “**First Quarter MD&A**”);
- (vi) the management information circular of the REIT dated May 13, 2010 (the “**Circular**”) prepared in connection with the REIT’s annual and special meeting of Unitholders held on June 16, 2010 (the “**Annual and Special Meeting**”); and
- (vii) the material change report of the REIT dated July 27, 2010 in respect of the Offering.

**Any documents of the type referred to above and any interim financial statements, management’s discussions and analyses, business acquisition reports or material change reports (excluding confidential material change reports) filed by the REIT with the securities commissions or similar regulatory authorities in each of the provinces and territories of Canada subsequent to the date of this short form prospectus and prior to the termination of this distribution shall be deemed to be incorporated by reference into this short form prospectus. Any statement in this short form prospectus contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document or statement that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that was required to be stated or that was necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.**

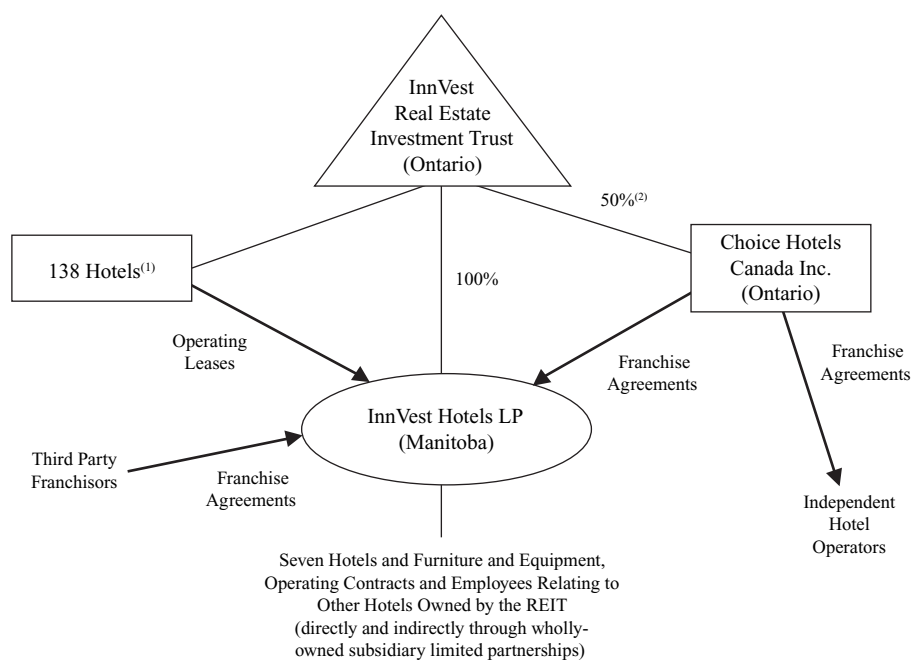
## INVEST REAL ESTATE INVESTMENT TRUST

The REIT is an unincorporated open-ended real estate investment trust governed by an amended and restated declaration of trust dated as of January 1, 2007, as amended (the “**Declaration of Trust**”) and the laws of the Province of Ontario. The REIT is focused on the ownership and acquisition of hotel properties. The REIT also indirectly owns 50% of Choice Hotels Canada Inc., the largest franchisor of hotels in Canada as measured by hotels under franchise.

The head office and the registered office of the REIT are located at 7<sup>th</sup> Floor, 5090 Explorer Drive, Mississauga, Ontario, L4W 4T9. The REIT is a “mutual fund trust” as defined by the Tax Act, but it is not a “mutual fund” as defined by applicable securities legislation.

The REIT currently holds, directly and indirectly, 145 Canadian hotel properties, Canada’s largest hotel portfolio as measured both by number of hotels and by number of guest rooms. The REIT’s hotels are operated under international brands, including Comfort Inn<sup>®</sup>, Delta Hotels<sup>®</sup>, Holiday Inn<sup>®</sup> and Travelodge<sup>®</sup>, which make up approximately 75% of the hotel portfolio’s total guest rooms.

The following chart illustrates the primary structural and contractual relationships between the REIT and its principal subsidiary entities and certain third parties as of August 5, 2010:



(1) Eight hotels are owned by subsidiary corporations and one hotel is owned by a subsidiary trust. The balance of the hotels are owned directly by the REIT or indirectly through subsidiary limited partnerships.

(2) Held through a wholly-owned subsidiary of the REIT.



## RECENT DEVELOPMENTS

The following is a summary of significant developments in the operations and affairs of the REIT which have occurred since March 31, 2010, being the last day of the period in respect of which the REIT has filed the First Quarter Financial Statements and the First Quarter MD&A.

### Plan of Arrangement

At the REIT's Annual and Special Meeting, Unitholders passed a special resolution authorizing and approving a proposed reorganization, including certain transactions to be effected by way of a plan of arrangement pursuant to the *Canada Business Corporations Act* (the "**Plan of Arrangement**"), involving the REIT and certain of its subsidiaries.

Pursuant to the Plan of Arrangement, the REIT will transfer its hotel operating assets and its interest in the Choice Hotels Canada Inc. franchising business to InnVest Operations Trust ("**IOT**"), a wholly-owned subsidiary trust of the REIT, and each Unitholder will receive, for each Unit held, a non-voting trust unit of IOT (an "**IOT Unit**"). A subsidiary of the REIT will hold all of the voting trust units of IOT. Unitholders will continue to have one vote per Unit and be entitled to exercise their voting rights at the REIT level. For a structure chart depicting the structure of the REIT and IOT following implementation of the Plan of Arrangement, please see "Business of Meeting and Summary – Organizational Structure Before and After the Reorganization" in the Circular.

Following the completion of the Plan of Arrangement, Unitholders' investments will be held through two separate trusts, the REIT and IOT. Each issued and outstanding Unit will trade together with an IOT Unit as a "**Stapled Unit**". The TSX has conditionally approved the listing and posting for trading of the Stapled Units on the TSX under the symbol "INN.UN" in substitution for the Units following completion of the Plan of Arrangement.

Accordingly, following the Plan of Arrangement, Unitholders will retain an identical economic interest in the combined InnVest group and, other than upon certain uncoupling events, they will only be able to alter their proportionate interest in the REIT if they correspondingly alter their proportionate interest in IOT, and vice versa.

Unitholders will receive distributions from both the REIT and IOT. It is expected that the REIT will qualify as a "real estate investment trust" under the Tax Act. Accordingly, it is expected that income distributed by the REIT will not be taxed at the REIT level and will be taxed in the hands of Unitholders in the same manner as it is currently taxed. IOT will be subject to entity-level tax on its taxable income at corporate tax rates. Most or all distributions made by IOT (other than return-of-capital distributions) will be taxed in the hands of Unitholders as dividends. Please see "Certain Canadian Federal Income Tax Considerations".

On July 22, 2010, the REIT obtained the final order of the Ontario Superior Court of Justice approving the Plan of Arrangement. The Plan of Arrangement approved by the Court incorporates amendments to the Plan of Arrangement approved by the Unitholders. These amendments are technical in nature and do not affect in any material respect the steps to be undertaken pursuant to the Plan of Arrangement. It is expected that the Plan of Arrangement will become effective on or about December 31, 2010 (the "**Effective Date**").

### Effect of Plan of Arrangement on Debentureholders

Pursuant to the Indenture, following the Plan of Arrangement any holder of any of the outstanding debentures of the REIT, including the Debentures to be issued in connection with the Offering (collectively, the "**Outstanding Debentures**") who has not exercised his, her or its right of conversion prior to the Effective Date, upon the exercise of such right thereafter, will be entitled to receive, and shall accept, in lieu of Units then sought to be acquired by him, her or it, that number of Stapled Units (or, following an uncoupling event, that number of IOT Units and Units) to which such holder would have been entitled if, on the Effective Date, such holder had been the registered holder of the number of Units sought to be acquired by him, her or it and which he, she or it was entitled to acquire upon the exercise of the conversion right.

The REIT, IOT and the Debenture Trustee (as defined herein) will enter into a supplemental indenture effective as of the Effective Date that will provide, to the extent possible, for the application of the provisions set forth in the Indenture with respect to the rights and interests of the holders of the Outstanding Debentures following the Effective Date to the end that the provisions set forth in the Indenture will correspondingly be made applicable, as nearly as may reasonably be, with respect to any Stapled Units (or, following an event that causes the Units and the IOT Units to no longer trade together on the TSX as a Stapled Unit, an equal number of IOT Units and Units) to which a holder will be entitled on the exercise of its

conversion rights after the Effective Date. IOT will also agree to become jointly and severally liable with the REIT for the REIT's obligations under the Indenture.

For more information regarding the effect of the Plan of Arrangement on a holder of Debentures, please see the section in the Circular entitled "Plan of Arrangement – Reorganization – Debenture Indenture".

### **Amendments to the Declaration of Trust**

At the Annual and Special Meeting, Unitholders passed a special resolution authorizing and approving certain amendments to the Declaration of Trust to assist the REIT with the transition of its reporting to International Financial Reporting Standards. On June 25, 2010, the Declaration of Trust was amended in accordance with the special resolution of the Unitholders.

The Unitholders also passed a special resolution authorizing and approving the amendment and restatement of the Declaration of Trust as of the Effective Date to accommodate the Stapled Unit structure that will result from the Plan of Arrangement. In addition, certain amendments will be made to corporate governance provisions in the Declaration of Trust to bring such provisions in line with the current provisions of the *Canada Business Corporations Act*. Please see the section in the Circular entitled "Amendments to the REIT Declaration of Trust – Reorganization and Corporate Governance".

## CONSOLIDATED CAPITALIZATION

The following table sets forth the cash and cash equivalents and the consolidated capitalization of the REIT: (i) as at March 31, 2010, the date of the REIT's most recently filed financial statements; and (ii) as at March 31, 2010, after giving effect to the Offering, as though it had been completed on March 31, 2010, and assuming a portion of the net proceeds from the Offering is used to redeem the REIT's 6.25% Series A Convertible Debentures due April 15, 2011 (the "Series A Debentures") and other indebtedness. The table should be read in conjunction with the First Quarter Financial Statements.

	As at March 31, 2010	
	Actual	As Adjusted
	(in thousands of \$)	
Cash		
Cash and cash equivalents .....	\$79,775	\$79,775
Restricted cash .....	3,690	3,690
<b>Total Cash</b> .....	83,465	83,465
Indebtedness		
Bridge Loan .....	6,000	6,000
Mortgages <sup>(1)</sup> .....	929,170	903,247
Convertible debentures <sup>(2)</sup> .....	226,518	249,463
<b>Total Indebtedness</b> <sup>(3)</sup> .....	1,161,688	1,158,710
Unitholders' equity .....	470,292	473,270
<b>Total Capitalization</b> .....	1,631,980	1,631,980

(1) Net of debt issuance costs of \$5,749.

(2) Net of allocation to equity of \$12,642, accretion and issuance costs of \$1,569.

(3) The REIT is not permitted to exceed certain financial leverage amounts under the terms of the Declaration of Trust. The REIT is permitted to have indebtedness, excluding convertible debentures, up to a level of 50% of its gross asset value. Further, the REIT is permitted to have indebtedness and convertible debentures up to a level of 60% of its gross asset value. The REIT calculates indebtedness in accordance with GAAP, excluding non-interest bearing indebtedness, trade accounts payable, and any future income tax liability. The REIT calculates gross asset value at any time as the total book value of assets on the REIT's then most recent publicly-issued consolidated balance sheet, plus the accumulated depreciation and amortization thereon, less certain future tax liabilities. At March 31, 2010, the REIT's financial leverage excluding and including convertible debentures was 45.1% and 56.5%, respectively. The REIT's financial leverage excluding and including convertible debentures (assuming a portion of the net proceeds from the Offering is used to redeem the Series A Debentures) will be approximately 43.9% and 56.7%, respectively.

## USE OF PROCEEDS

The net proceeds to the REIT from the Offering, after deducting the Underwriters' fee and certain other expenses of the Offering, are estimated to be \$71,688,000. The Underwriters' fee and the other expenses of the Offering will be paid out of the general funds of the REIT.

The net proceeds from the Offering will be used by the REIT to redeem the Series A Debentures, to repay other indebtedness and for general trust purposes. As of August 5, 2010, \$45,764,000 of principal amount and accrued and unpaid interest remained outstanding under the Series A Debentures.

## EARNINGS COVERAGE

The following *pro forma* earnings coverage ratios are calculated on a consolidated basis for the year ended December 31, 2009 and the 12-month period ended March 31, 2010, in each case after giving effect to (i) the issuance of the Debentures, (ii) the issuance or retirement of any long-term financial liabilities of the REIT subsequent to the end of each period and (iii) the retirement of all long-term financial liabilities to be retired using the proceeds to be realized from the issuance of the Debentures, as though such issuances or retirements had occurred at the beginning of the applicable periods.

	12 Months Ended December 31, 2009	12 Months Ended March 31, 2010
	<i>(pro forma)</i>	
Interest requirements (in thousands of \$) <sup>(1)</sup> .....	73,834	74,467
Earnings before interest expense and taxes (in thousands of \$) <sup>(2)</sup> .....	14,175	10,929
<b>Earnings coverage</b> <sup>(1)(2)(3)</sup> .....	0.19	0.15
Interest requirements before discontinued operations (in thousands of \$) <sup>(1)</sup> .....	73,265	73,898
Earnings before interest expense, taxes, discontinued operations and writedowns (in thousands of \$) <sup>(2)(4)</sup> .....	26,675	23,058
<b>Adjusted earnings coverage</b> <sup>(1)(2)(4)(5)</sup> .....	0.36	0.31

- (1) For the purpose of this calculation, *pro forma* interest requirements assume that all of the REIT's outstanding convertible debentures (including the Debentures) will be characterized as 100% debt and interest payments will be classified as interest expense in the financial statements.
- (2) The REIT's earnings for the year ended December 31, 2009 and the 12-month period ending March 31, 2010 were reduced by \$91,218 (\$90,688 excluding discontinued operations) and \$91,729, respectively, on account of depreciation and amortization, but do not include reserves of \$25,085 and \$24,812, respectively, for replacement of furniture, fixtures and equipment and capital improvements.
- (3) Earnings coverage is equal to net income before interest expense and taxes divided by interest expense on all debt.
- (4) Discontinued operations and writedowns relate to hotel properties that have been reclassified in the REIT's financial statements as "assets held for sale".
- (5) Adjusted earnings coverage is equal to net income before interest expense, taxes, discontinued operations and writedowns divided by interest expense on all debt excluding debt relating to discontinued operations.

The REIT's earnings coverage ratios for the year ended December 31, 2009 and the 12-month period ending March 31, 2010 are 0.19 and 0.15, respectively. Excluding losses from discontinued operations and writedowns on assets held for sale, the REIT's adjusted earnings coverage ratios are 0.36 and 0.31, respectively. To achieve earnings coverage ratios of one-to-one, the REIT's earnings before interest expense and taxes for the year ended December 31, 2009 and the 12-month period ending March 31, 2010 would have to increase, respectively, by \$59,659 and \$63,538 (\$46,590 and \$50,840 excluding losses from discontinued operations and writedowns on assets held for sale).

## DESCRIPTION OF THE DEBENTURES

The following is a summary of the material attributes and characteristics of the Debentures. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the terms of the trust indenture (the "**Indenture**") dated July 26, 2002 between the REIT and Computershare Trust Company of Canada, as trustee (the "**Debenture Trustee**").

### General

The Debentures will be issued as a new series under the Indenture and a supplement thereto to be dated as of the closing of the Offering.

The Debentures to be issued will be in the aggregate principal amount of \$75,000,000. The REIT may, from time to time, without the consent of the holders of the Debentures, issue additional debentures of the same series or of a different series under the Indenture, in addition to the Debentures offered hereby.

The Debentures will be dated as of the closing of the Offering and will mature on September 30, 2017. The Debentures will be issuable only in denominations of \$1,000 and integral multiples thereof and will bear interest from and including the date of issue at 6.00 % per annum, which will be payable semi-annually in arrears on March 31 and September 30 in each year, commencing on March 31, 2011. The first interest payment will include interest accrued from the date of the closing of the Offering to, but excluding, March 31, 2011.

The principal amount of the Debentures is payable in lawful money of Canada or, at the option of the REIT and subject to applicable regulatory approval, by delivery of Units as further described under "— Method of Payment — Payment of Principal on Redemption or at Maturity". The interest on the Debentures is payable in lawful money of Canada

including, at the option of the REIT and subject to applicable regulatory approval, in accordance with the Interest Payment Election as described under “— Method of Payment — Interest Payment Election”.

The Debentures are direct obligations of the REIT and are not to be secured by any mortgage, pledge, hypothec or other charge and will be subordinated to other liabilities of the REIT as described under “— Subordination”. The Indenture does not restrict the REIT from incurring additional indebtedness for borrowed money or from mortgaging, pledging or charging its properties to secure any indebtedness.

### **Subordination**

The Indenture provides that the Debentures are subordinated in right of payment of principal and interest to all present and future Senior Indebtedness (as defined herein) of the REIT. No payment of principal (including redemption payments) or interest on the Debentures may be made (i) if any Senior Indebtedness is not paid when due and any applicable grace period with respect to such payment default on Senior Indebtedness has ended and such default has not been cured or waived or ceased to exist, or (ii) if the maturity of any Senior Indebtedness has been accelerated because of a default and either such acceleration has not been rescinded or such Senior Indebtedness has not been repaid. Upon any distribution of assets of the REIT to creditors upon any dissolution, winding-up, total liquidation or reorganization of the REIT, whether in bankruptcy, insolvency or receivership proceedings, upon an “assignment for the benefit of creditors”, or otherwise, all principal, premium, if any, and interest due on all Senior Indebtedness of the REIT must be paid in full before the holders of the Debentures are entitled to receive or retain any payment.

Neither the Indenture nor the Debentures will limit the ability of the REIT to incur additional indebtedness, including indebtedness that ranks senior to the Debentures, or from mortgaging, pledging or charging its properties to secure any indebtedness.

The term “Senior Indebtedness” means the principal of, and the interest and premium (or any other amounts payable thereunder), if any, on:

- (i) all indebtedness, liabilities and obligations of the REIT (other than the REIT’s Series A Debentures, 6.00% Series B convertible debentures, 5.85% Series C convertible debentures and 6.75% Series D convertible debentures (collectively, the “**Existing Debentures**”) and the Debentures), whether outstanding on the date of the Indenture or thereafter created, incurred, assumed or guaranteed in connection with the acquisition by the REIT of any businesses, properties or other assets or for monies borrowed or raised by whatever means (including, without limitation, by means of commercial paper, bankers’ acceptances, letters of credit, debt instruments, bank debt and financial leases, and any liability evidenced by bonds, debentures, notes or similar instruments) or in connection with the acquisition of any businesses, properties or other assets or for monies borrowed or raised by whatever means (including, without limitation, by means of commercial paper, bankers’ acceptances, letters of credit, debt instruments, bank debt and financial leases, and any liability evidenced by bonds, debentures, notes or similar instruments) by others including, without limitation, any subsidiary of the REIT for payment of which the REIT is responsible or liable, whether absolutely or contingently; and
- (ii) renewals, extensions, restructurings, refinancings and refundings of any such indebtedness, liabilities or obligations;

unless in each case it is provided by the terms of the instrument creating or evidencing such indebtedness, liabilities or obligations that such indebtedness, liabilities or obligations are not superior in right of payment to debentures issued under the Indenture which by their terms are subordinated.

The Debentures are direct unsecured obligations of the REIT. Each Debenture will rank *pari passu* with each other Debenture of the same series (regardless of their actual date or terms of issue) and, subject to statutory preferred exceptions, with all other present and future subordinated and unsecured indebtedness of the REIT (including the Existing Debentures) except for sinking fund provisions, if any, applicable to different series of Debentures or other similar types of obligations of the REIT.

## Conversion Rights

Each Debenture is convertible into freely-tradable Units of the REIT, at the option of the holder, at any time prior to 4:00 p.m. (Toronto time) on the earlier of September 30, 2017 and the last business day immediately preceding the date specified by the REIT for redemption of the Debentures, at a conversion price of \$8.00 per Unit (the “**Conversion Price**”), being a conversion rate of 125.0000 Units per \$1,000 principal amount of Debentures, subject to adjustment upon the occurrence of certain events in accordance with the Indenture. If all conversion rights attaching to the Debentures are exercised, the REIT will be required to issue 9,375,000 additional Units, subject to anti-dilution adjustments. No adjustment will be made for distributions on Units issuable upon conversion. Holders converting their Debentures will be entitled to receive, in addition to the applicable number of Units to be received on conversion, accrued and unpaid interest, if any, for the period from the last interest payment date (or the date of issue if no interest has yet been paid by the REIT) to and including the last record date declared by the REIT for determining the Unitholders entitled to receive distributions on the Units prior to the date of conversion; provided that, in the event the REIT has suspended or has publicly announced the suspension of regular distributions to Unitholders prior to the date on which a holder converts the Debentures held by such holder, and such suspension is in effect on such conversion date, such holder, in addition to the applicable number of Units to be received on conversion, will be entitled to receive accrued and unpaid interest for the period from the last interest payment date prior to the date of conversion (or the date of issue if no interest has yet been paid by the REIT) to and including the date of conversion.

Subject to the provisions thereof, the Indenture provides for the adjustment of the Conversion Price upon the occurrence of certain events including: (i) the subdivision or consolidation of the outstanding Units; (ii) the distribution of Units to Unitholders by way of distribution or otherwise other than an issue of securities to Unitholders who have elected to receive distributions in securities of the REIT in lieu of receiving cash distributions paid in the ordinary course; (iii) the issuance of options, rights or warrants to all or substantially all Unitholders entitling them to acquire Units or other securities convertible into Units at less than 95% of the then current market price (as defined in the Indenture to mean the weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date of the applicable event) of the Units; and (iv) the distribution to all or substantially all Unitholders of (A) units of any class other than Units and other than units distributed to Unitholders who have elected to receive dividends or distributions in the form of such units in lieu of dividends or distributions paid in the ordinary course, (B) rights, options or warrants (excluding rights, options or warrants entitling the holders thereof for a period of not more than 45 days to subscribe for or purchase Units or securities convertible into Units), (C) evidences of its indebtedness, or (D) assets (excluding dividends or distributions paid in the ordinary course). There will be no adjustment of the Conversion Price in respect of any event described above if the holders of the Debentures are allowed to participate as though they had converted their Debentures prior to the applicable record date or effective date, as the case may be, of such event. The REIT will not be required to make adjustments in the Conversion Price unless the cumulative effect of such adjustments would change the Conversion Price by at least 1%.

In the case of any reclassification or capital reorganization (other than a change resulting from consolidation or subdivision) of the Units or in the case of any consolidation, amalgamation, reorganization or merger of the REIT with or into any other entity, or in the case of any sale or conveyance of the property and assets of the REIT as, or substantially as, an entirety to any other entity, or a liquidation, dissolution or winding-up of the REIT, the terms of the conversion privilege shall be adjusted so that each holder of a Debenture shall, after such reclassification, capital reorganization, consolidation, amalgamation, reorganization, merger, sale, conveyance, liquidation, dissolution or winding-up, be entitled to receive and shall accept the number of Units or other securities or other property that, on the exercise of the conversion right, such holder would be entitled to receive if, on the effective date thereof, it had been the holder of the number of Units into which the Debenture was convertible prior to the effective date of such reclassification, capital reorganization, consolidation, amalgamation, reorganization, merger, sale, conveyance, liquidation, dissolution or winding-up.

No fractional Units will be issued on any conversion, but in lieu thereof, the REIT shall satisfy fractional interests by a cash payment equal to the current market price of the fractional interest which would have been issued.

Pursuant to the Indenture, following the Plan of Arrangement any holder of any Outstanding Debentures who has not exercised his, her or its right of conversion prior to the Effective Date, upon the exercise of such right thereafter, will be entitled to receive, and shall accept, in lieu of Units then sought to be acquired by him, her or it, that number of Stapled Units (or, following an uncoupling event, that number of IOT Units and Units) to which such holder would have been entitled if, on the Effective Date, such holder had been the registered holder of the number of Units sought to be acquired by him, her or it and which he, she or it was entitled to acquire upon the exercise of the conversion right.

## Redemption

The Debentures will not be redeemable prior to September 30, 2013, except in the event of the satisfaction of certain conditions after a Change of Control (as defined herein) has occurred. On or after September 30, 2013 and prior to September 30, 2015, the Debentures will be redeemable at the option of the REIT, in whole or in part from time to time, on not less than 30 days' prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given exceeds 125% of the Conversion Price. On or after September 30, 2015 and prior to September 30, 2017, the Debentures will be redeemable at the option of the REIT, in whole or in part and from time to time, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest. Any Debentures redeemed by the REIT will be cancelled and will not be reissued.

In the case of redemption of less than all of the Debentures, the Debentures to be redeemed will be selected by the Debenture Trustee on a *pro rata* basis to the nearest multiple of \$1,000 or by lot in such manner as the Debenture Trustee deems equitable.

## Put Right upon a Change of Control

Upon the occurrence of a change of control involving the acquisition, by any person or persons acting jointly or in concert, of voting control or direction over an aggregate of 66<sup>2</sup>/<sub>3</sub>% or more of the outstanding Units, or securities convertible into or carrying the right to acquire Units (a "**Change of Control**"), each holder of Debentures may require the REIT to purchase, on the date which is 30 days following the giving of notice of a Change of Control as set out below (the "**Put Date**"), all or any part of such holder's Debentures at a price equal to 101% of the principal amount thereof (the "**Put Price**") plus accrued and unpaid interest up to but excluding the Put Date.

If 90% or more in aggregate principal amount of the Debentures outstanding on the date the REIT provides notice of a Change of Control to the Debenture Trustee has been tendered for purchase on the Put Date, the REIT has the right to redeem all the remaining Debentures on such date at the Put Price. Notice of such redemption must be given to the Debenture Trustee by the REIT prior to the Put Date and, as soon as possible thereafter, by the Debenture Trustee to the holders of the Debentures not tendered for purchase.

## Method of Payment

### *Payment of Principal on Redemption or at Maturity*

On redemption or at maturity, the REIT will repay the indebtedness represented by the Debentures by paying to the Debenture Trustee in lawful money of Canada an amount required to repay the principal amount of the outstanding Debentures, together with accrued and unpaid interest thereon. The REIT 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 and delivering freely-tradable Units to the holders of the Debentures. The number of Units to be issued in respect of each Debenture will be determined by dividing the principal amount of the Debentures that are to be redeemed or that are to mature, as the case may be, by 95% of the volume-weighted average trading price of the Units on the TSX 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. No fractional Units will be issued on redemption, but in lieu thereof, the REIT shall satisfy fractional interests by a cash payment equal to the market price of the fractional interest.

### *Interest Payment Election*

Unless an Event of Default (as defined herein) has occurred and is continuing, and subject to receiving any required regulatory approvals, the REIT may elect, from time to time, to satisfy its obligation to pay interest on the Debentures (the "**Interest Obligation**") on the date it is payable under the Indenture (each an "**Interest Payment Date**"), by delivering a sufficient number of Units to the Debenture Trustee required to satisfy all or any part of the Interest Obligation in accordance with the Indenture (the "**Interest Payment Election**"). The Indenture provides that, upon such election, the Debenture Trustee shall: (i) accept delivery from the REIT of the Units; (ii) accept bids with respect to, and consummate sales of, such Units, each as the REIT shall direct in its absolute discretion; (iii) invest the proceeds of such sales in Government Obligations (as defined in the Indenture) that mature prior to the applicable Interest Payment Date, and use the proceeds

received from such Government Obligations, together with any proceeds from the sale of Units not invested as aforesaid, to satisfy the Interest Obligation; and (iv) perform any other action necessarily incidental thereto.

The Indenture sets forth the procedures to be followed by the REIT and the Debenture Trustee in order to effect the Interest Payment Election. If an Interest Payment Election is made, the sole right of a holder of Debentures in respect of interest will be to receive cash from the Debenture Trustee out of the proceeds of the sale of Units (plus any amount received by the Debenture Trustee from the REIT attributable to fractional Units) in full satisfaction of the Interest Obligation, and the holder of such Debentures will have no further recourse to the REIT in respect of the Interest Obligation.

Neither the REIT's making of the Interest Payment Election nor the consummation of sales of Units will (i) result in the holders of the Debentures not being entitled to receive on the applicable Interest Payment Date cash in an aggregate amount equal to the Interest Obligation payable on such date or (ii) entitle such holders to receive any Units in satisfaction of the Interest Obligation.

### **Events of Default and Waiver**

The Indenture provides that an event of default ("**Event of Default**") in respect of the Debentures will result upon the occurrence of certain events described in the Indenture, including if any one or more of the following events has occurred and is continuing with respect to the Debentures: (i) failure for 15 days to pay the interest on the Debentures when due; (ii) failure to pay principal or premium, if any, on the Debentures when due, whether at maturity, upon redemption, by declaration or otherwise; (iii) failure for 60 days after written notice to the REIT by the Debenture Trustee to comply with any of its obligations under the Debentures or the Indenture or any indenture supplemental thereto (other than those referred to in (i) and (ii) above); (iv) failure for 10 days to deliver Units (or cash in lieu of fractional Units) in accordance with the terms of the Indenture when such Units (or cash in lieu of fractional Units) are required to be delivered, upon conversion of a Debenture; (v) default under any agreement evidencing indebtedness for money borrowed by the REIT or a subsidiary of the REIT where such indebtedness shall be accelerated so that it shall be or become due or payable prior to the date on which the same would otherwise become due and payable and the aggregate amount thereof so accelerated exceeds \$35 million and such acceleration is not rescinded or annulled within five business days after written notice to the REIT by the Debenture Trustee; (vi) certain events of bankruptcy or insolvency affecting the REIT under bankruptcy, insolvency or analogous laws; (vii) a decree or court order issuing sequestration or process of execution against all or a substantial portion of the property of the REIT, appointing a receiver of all or a substantial part of the property of the REIT, or ordering the winding-up or liquidation of the affairs of the REIT and any such decree or order continues unstayed and in effect for 60 days; (viii) if a resolution is passed for the winding-up or liquidation of the REIT; or (ix) if, after the date of the Indenture, any proceedings with respect to the REIT are taken with respect to a compromise or arrangement, with respect to creditors of the REIT generally, under the applicable legislation of any jurisdiction.

The Indenture provides that if an Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and shall, upon the request of holders of not less than 25% of the aggregate principal amount of the Debentures then outstanding, declare the principal and interest on all Debentures then outstanding and all other monies then outstanding to be due and payable.

In addition to the powers exercisable by Extraordinary Resolution (as defined herein), the holders of 66<sup>2</sup>/<sub>3</sub>% in aggregate principal amount of the debentures of all series issued pursuant to the Indenture (the "**Issued Debentures**") at the time outstanding may waive any existing default and its consequences; provided that, if the Event of Default has occurred by reason of the non-observance or non-performance by the REIT of any covenant applicable only to one or more series of Issued Debentures, then the holders of at least 66<sup>2</sup>/<sub>3</sub>% of the principal amount of the outstanding debentures of that series shall be entitled to exercise this power.

The Debenture Trustee, so long as it has not become bound to declare the principal and interest on the Issued Debentures then outstanding to be due and payable, or to obtain or enforce payment of the same, shall have the power to waive any Event of Default if, in the Debenture Trustee's opinion, the default shall have been cured or adequate satisfaction shall have been made therefor.

When a default is waived by the Debenture Trustee or holders of Issued Debentures, it is deemed cured and will cease to exist, but that waiver does not extend to any subsequent or other default or impair any consequent right.



## **Modification**

With certain exceptions, the Indenture and the rights of the holders of Debentures may be modified by the REIT with the consent of a majority of the holders of Debentures present and voting at a meeting at which not less than 25% of the principal amount of the Issued Debentures then outstanding are present in person or by proxy (an “**Ordinary Resolution**”).

The Indenture also provides that certain changes, including (i) changes relating to the modification of the terms of the Debentures, or any reduction of the rate of interest or extension of the time of payment of any principal or interest due thereon, (ii) the modification, abrogation, alteration, compromise or arrangement of the rights of the holders of Debentures or the Debenture Trustee against the REIT, or (iii) the waiver of any default under the Indenture, may be made if authorized by Extraordinary Resolution. The term “**Extraordinary Resolution**” is defined in the Indenture to mean, in effect, a resolution passed by the affirmative votes of the holders of not less than 66<sup>2</sup>/<sub>3</sub>% of the aggregate principal amount of the Issued Debentures represented and voting at a duly constituted meeting of holders of Issued Debentures.

If the business to be transacted at any meeting by Extraordinary Resolution or otherwise especially affects the rights of holders of Issued Debentures of one or more series in a manner or to an extent differing in any material way from that in or to which the rights of holders of Issued Debentures of any other series are affected, then the holders of at least 66<sup>2</sup>/<sub>3</sub>% of the principal amount of the outstanding debentures of that specially affected series shall be entitled to vote separately at a meeting at which not less than 25% of the principal amount of the debentures of that series then outstanding are present in person or by proxy.

All actions which may be taken by holders of Issued Debentures by Ordinary Resolution and Extraordinary Resolution and all actions requiring the approval of at least 66<sup>2</sup>/<sub>3</sub>% of a series of Issued Debentures may also be taken and exercised by an instrument or instruments in writing signed by the holders of not less than 66<sup>2</sup>/<sub>3</sub>% in aggregate principal amount of the Issued Debentures or series of Issued Debentures then outstanding, as the case may be.

The REIT and the Debenture Trustee may, without the consent or concurrence of the holders of Issued Debentures, by supplemental indenture or otherwise, make any changes or corrections in the Indenture which it shall have been advised by counsel are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provisions or clerical omissions or mistakes or manifest errors contained therein or in any indenture supplemental thereto.

## **Book-Based System**

The Debentures will be issued in “book-entry only” form and must be purchased or transferred through a participant in the depository service of CDS. On the closing of the Offering, the Debenture Trustee will cause the Debentures to be delivered to CDS and registered in the name of its nominee. The Debentures will be evidenced by a single book-entry only certificate. Registration of interests in and transfers of the Debentures will be made only through the depository service of CDS.

A purchaser acquiring a beneficial interest in the Debentures will not, except in limited circumstances, be entitled to a certificate or other instrument from the Debenture Trustee or CDS evidencing that purchaser’s interest therein, and such purchaser will not be shown on the records maintained by CDS, except through a participant in the depository services of CDS. Such purchaser will receive a confirmation of purchase from the Underwriters or other registered dealer from whom Debentures are purchased.

## **Limitation on Non-Resident Ownership**

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

If the trustees of the REIT become aware that more than 49% of the Units (on either a basic or fully-diluted basis) then outstanding are held, or may be held, for the benefit of non-residents or that such a situation is imminent, the REIT may make a public announcement thereof and shall notify the Debenture Trustee in writing and the Debenture Trustee shall not accept a subscription for Debentures from or issue or register a transfer of Debentures to a person unless the person provides a declaration that the person is not a non-resident. If, notwithstanding the foregoing, the trustees of the REIT determine that more than 49% of the Units (on either a basic or fully-diluted basis) are held for the benefit of non-residents, the REIT may

send a notice to non-resident holders of Debentures, chosen in inverse order to the order of acquisition or registration or in such manner as the trustees of the REIT may consider equitable and practicable, requiring them to sell their Debentures or a portion thereof within a specified period of not more than 60 days. If the holders of Debentures receiving such notice have not sold the specified number of Debentures or provided the trustees of the REIT with satisfactory evidence that they are not non-residents of Canada and do not hold their Debentures for the benefit of non-residents within such period, the REIT may sell such Debentures on behalf of such holders of Debentures and, in the interim, all rights attaching to such Debentures (including any right to receive payments of interest) shall be immediately suspended and the rights of any such holders of Debentures in respect of such Debentures shall be limited to receiving the net proceeds of sale (net of any withholding tax).

## DESCRIPTION OF THE UNITS

The following is a summary of the material attributes and characteristics of the Units. A more detailed summary of the attributes of the Units can be found under the heading “Description of Securities and Declaration of Trust” in the AIF.

### General

The Units are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* and are not insured under the provisions of such Act or any other legislation. The Units are not shares in the REIT and Unitholders do not have statutory rights of shareholders of a corporation incorporated under either the *Business Corporations Act* (Ontario) or the *Canada Business Corporations Act*, including, for example, the right to bring “oppression” or “derivative” actions. Furthermore, the REIT is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

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

### Issuance of Units

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

### Purchase of Units by the REIT

The REIT may from time to time purchase Units in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such purchases will constitute an “issuer bid” under Canadian securities legislation and must be conducted in accordance with the applicable requirements thereof. In November 2009, the REIT renewed its normal course issuer bid to repurchase up to 8,032,364 Units, representing approximately 10% of the REIT’s public float. As at August 5, 2010, the REIT has purchased 13,268 Units under its current normal course issuer bid, all of which were transferred to the trustees of the REIT in satisfaction of a portion of their annual retainer fee. Under the REIT’s previous normal course issuer bid, which terminated on November 10, 2009, the REIT purchased 633,136 Units, of which 615,049 Units were cancelled upon purchase and the remaining 18,087 Units were transferred to the trustees of the REIT in satisfaction of a portion of their annual retainer fee.

## Redemption Right

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

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

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the foregoing limitations, then each Unit tendered for redemption shall, subject to obtaining all applicable regulatory approvals, be redeemed by way of a distribution *in specie* of notes issued by InnVest Hotels LP or another subsidiary of the REIT (“Notes”). The aggregate principal amounts of any such Notes would equal the redemption price payable by the REIT. The term of the Notes would be 25 years, subject to earlier repayment at the option of the REIT, and the Notes would bear interest equal to the then current prime lending rate, as quoted by the provider of the REIT’s operating loan facility, plus 1%.

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

## Book-Based System

Except as otherwise provided below, the Units are represented in the form of one or more fully registered global unit certificates held by, or on behalf of, CDS, as depository of such global unit certificates for the participants of CDS, registered in the name of CDS or its nominee, and registration of ownership and transfers of the Units are effected only through the book-based system administered by CDS.

Except as described below, no holder of a Unit is entitled to a certificate or other instrument from the REIT evidencing that holder’s ownership thereof, and no holder of a beneficial interest in a Unit is shown on the records maintained by CDS except through book-entry accounts of a participant of CDS acting on behalf of the beneficial owners. CDS is responsible for establishing and maintaining book-entry accounts for its participants having interests in the global unit certificates. Sales of interests in the global unit certificates can only be completed through participants in the depository services of CDS.

Units are issued in fully registered form to holders or their nominees, if any, who purchase Units pursuant to a private placement of Units made in reliance upon Rule 144A adopted under the United States *Securities Act of 1933*, as amended (the “1933 Act”) and to transferees thereof in the United States who purchase such Units in reliance upon Rule 144A. If any such privately placed Units represented by definitive certificates are subsequently traded into Canada, the registrar and transfer agent will deliver a certificate registered in the name of CDS or its nominee representing such Units and, thereafter, registration of ownership and transfers of such Units will be made through the book-based system administered by CDS.

Except in the case of U.S. purchasers purchasing the Units under Rule 144A, Units will be issued in fully registered form to holders or their nominees, other than CDS or its nominee, only if: (i) the REIT is required to do so by applicable law;

(ii) the depository system of CDS ceases to exist; (iii) the REIT determines that CDS is no longer willing or able or qualified to discharge properly its responsibility as depository and the REIT is unable to locate a qualified successor; or (iv) the REIT at its option elects to terminate its participation in the book-based system in respect of the Units through CDS.

### **Transfer and Exchange of Units**

Transfers of beneficial ownership of Units represented by global unit certificates are effected through records maintained by CDS or its nominees (with respect to interests of participants) and on the records of participants (with respect to interests of persons other than participants). Unless the REIT elects, in its sole discretion, to prepare and deliver definitive certificates representing the Units, beneficial owners who are not participants in the book-based system administered by CDS, but who desire to purchase, sell or otherwise transfer ownership of or other interest in global unit certificates, may do so only through participants in the book-based system administered by CDS.

The ability of a beneficial owner of an interest in a Unit represented by a global unit certificate to pledge the Unit or otherwise take action with respect to such owner's interest in the Unit represented by a global unit certificate (other than through a participant) may be limited due to the lack of a physical certificate.

Registered holders of definitive certificates representing Units may transfer such Units upon payment of taxes or other charges incidental thereto, if any, by executing and delivering a form of transfer together with the Unit certificates to the registrar for the Units at its principal office in the City of Toronto, Ontario or such other city or cities as may from time to time be designated by the REIT, whereupon new Unit certificates will be issued in authorized denominations in the same aggregate principal amount as the Unit certificates so transferred, registered in the name of the transferees. Any request to transfer or exchange Units may not be honoured by the REIT and the transfer agent for the Units if such transfer or exchange is in contravention of United States federal or state securities laws or would require the REIT to register as an investment company under the United States *Investment Company Act of 1940*.

### **Limitation on Non-Resident Ownership**

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

If the trustees of the REIT become aware that more than 49% of the Units (on either a basic or fully-diluted basis) then outstanding are held, or may be held, for the benefit of non-residents or that such a situation is imminent, the REIT may make a public announcement thereof and shall not accept a subscription for Units from, or issue or register a transfer of Units to, a person unless the person provides a declaration that the person is not a non-resident. If, notwithstanding the foregoing, the trustees of the REIT determine that more than 49% of the Units (on either a basic or fully-diluted basis) are held for the benefit of non-residents, the REIT may send a notice to non-resident holders of Units, chosen in inverse order to the order of acquisition or registration or in such manner as the trustees of the REIT may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not more than 60 days. If the Unitholders receiving such notice have not sold the specified number of Units or provided the trustees of the REIT with satisfactory evidence that they are not non-residents of Canada and do not hold their Units for the benefit of non-residents within such period, the REIT may sell such Units on behalf of such Unitholders and, in the interim, the voting and distribution rights attaching to such Units shall be suspended. Upon such sale, the affected holders shall cease to be holders of Units and their rights shall be limited to receiving the net proceeds of sale (net of any withholding tax).

### **Amendments to Declaration of Trust**

The Declaration of Trust may be amended or altered from time to time. Certain amendments require approval by at least  $66\frac{2}{3}\%$  of the votes cast at a meeting of Unitholders called for such purpose. Other amendments to the Declaration of Trust require approval by a majority of the votes cast at a meeting of Unitholders called for such purpose.

The trustees of the REIT may, without the approval of the Unitholders, make certain amendments to the Declaration of Trust, including amendments:

- (i) for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over: (A) the trustees of the REIT; (B) the status of the REIT as a “mutual fund trust” under the Tax Act; or (C) the distribution of Units;
- (ii) which, in the opinion of the trustees of the REIT, provide additional protection for the Unitholders;
- (iii) to remove any conflicts or inconsistencies in the Declaration of Trust or to make minor corrections which are, in the opinion of the trustees of the REIT, necessary or desirable and not prejudicial to the Unitholders;
- (iv) which, in the opinion of the trustees of the REIT, are necessary or desirable as a result of changes in taxation or other laws; and
- (v) for any purpose (except one in respect of which a Unitholder vote is specifically otherwise required) which, in the opinion of the trustees of the REIT, is not prejudicial to Unitholders and is necessary or desirable.

## **Distributions**

The REIT may distribute to Unitholders on or about the 15th day of each month such percentage of the estimated Distributable Income for the month then ended as the trustees of the REIT determine in their discretion.

Distributions to Unitholders are approved on a monthly basis by the trustees of the REIT. In exercising their discretion to approve the level of distributions, the trustees utilize internal 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 continual change due to the nature of the Canadian hotel industry, which is difficult to predict even in the short term.

Distributable Income is determined after deduction of a reserve for replacement of furniture, fixtures and equipment and capital improvements. The reserve on the REIT’s existing portfolio is approximately 4% of the REIT’s gross revenues. See “Non-GAAP Financial Measures”.

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

The REIT paid the following monthly distributions in cash and by Units issued under the REIT’s distribution reinvestment plan: \$0.09375 per Unit from September 2002 to November 2008, \$0.0625 per Unit from December 2008 to September 2009 and \$0.0417 per Unit from October 2009 to the date hereof.

Although the REIT intends to make distributions of available cash to its Unitholders, these cash distributions may be reduced or suspended. The actual amount distributed will depend on numerous factors, including the financial performance of the REIT, seasonal fluctuations in operating results, the REIT’s debt covenants and obligations, the REIT’s working capital requirements, the REIT’s future capital requirements, the redemption of Units, if any, and other factors which may be beyond the control of the REIT. In addition, the market value of the Units of the REIT may decline if the REIT is unable to meet its cash distribution targets in the future, and that decline may be significant. See “Risk Factors”.

The adjusted cost base of Units held by a Unitholder will generally be reduced by the non-taxable portion of distributions made to such Unitholder (other than the non-taxable portion of certain capital gains). A Unitholder will generally realize a capital gain to the extent that the adjusted cost base of the Unitholder’s Units would otherwise be a negative amount. The non-taxable portion of distributions for any year may be adjusted following any reassessment by the Canada Revenue Agency (“CRA”) for that year. In 2003, 2004, 2005, 2006, 2007, 2008 and 2009 the non-taxable portion of distributions made to Unitholders was 52.50%, 46.02%, 47.23%, 40.50%, 40.00%, 44.00% and 70.00%, respectively.

## PLAN OF DISTRIBUTION

Pursuant to the Underwriting Agreement, the REIT has agreed to issue and sell an aggregate of \$75,000,000 principal amount of Debentures to the Underwriters, and the Underwriters have severally agreed to purchase from the REIT, as principals, such Debentures on or about August 13, 2010, or on such later date as the REIT and the Underwriters may agree, but in any event not later than August 20, 2010. Delivery of the Debentures is conditional upon payment on closing by the Underwriters to the REIT of \$1,000 per Debenture for a total consideration of \$75,000,000. The Underwriting Agreement provides that the REIT will pay or cause to be paid to the Underwriters a fee of \$2,812,500 (\$37.50 per Debenture) in consideration of their services in connection with the Offering. The Underwriters' fee in respect of the Debentures is payable on closing of the offering.

The obligations of the Underwriters under the Underwriting Agreement are several and may be terminated at their discretion upon the occurrence of certain stated events, including certain stated events materially adversely affecting the financial markets in Canada. The Underwriters are, however, obligated to take up and pay for all Debentures if any securities are purchased under the Underwriting Agreement. The Underwriting Agreement also provides that the REIT will indemnify the Underwriters and their directors, officers, agents, shareholders and employees against certain liabilities and expenses.

The REIT has agreed, subject to certain exceptions, not to create, issue or sell, or enter into an agreement to create, issue or sell, Units or any securities convertible or exchangeable for Units for a period of 90 days subsequent to the closing of the Offering without the consent of the Underwriters, which consent may not be unreasonably withheld or delayed.

**There is currently no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures purchased under this short form prospectus.** The TSX has conditionally approved the listing of the Debentures and the Units issuable upon conversion of the Debentures. The listing is subject to the REIT fulfilling all of the listing requirements of the TSX on or before October 21, 2010.

The Underwriters propose to offer the Debentures initially at the offering price specified on the cover page of this short form prospectus. After the Underwriters have made a reasonable effort to sell all of the Debentures at the price specified on the cover page, the offering price may be decreased and may be further changed from time to time to an amount not greater than that set out on the cover page, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers of the Units is less than the amount paid by the Underwriters to the REIT.

Pursuant to the policy statement of certain securities regulators, the Underwriters may not, throughout the period of distribution, bid for or purchase Debentures. The foregoing restriction is subject to certain exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of the Debentures. These exceptions include: (i) a bid or purchase permitted under the Universal Market Integrity Rules relating to market stabilization and passive market making activities; and (ii) a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of the distribution. Such transactions, if commenced, may be discontinued at any time. The REIT has been advised by the Underwriters that, in connection with the Offering and subject to applicable laws, the Underwriters may effect transactions that stabilize or maintain the market price of the Debentures at levels other than those which might otherwise prevail on the open market.

The Debentures offered by this short form prospectus have not been and will not be registered under the 1933 Act, or any U.S. state securities laws, and may not be offered or sold within the United States, except in accordance with Rule 144A under the 1933 Act to "Qualified Institutional Buyers" (as such term is defined under Rule 144A under the 1933 Act) in transactions exempt from the registration requirements of the 1933 Act and applicable state securities laws.

## RELATIONSHIP BETWEEN THE REIT AND CERTAIN UNDERWRITERS

An affiliate of RBC Dominion Securities Inc. is a lender to the REIT under its \$6.0 million bridge loan due March 1, 2011 (the "**Bridge Loan**"), and its \$40 million operating line of credit due August 2011 (the "**Credit Line**"). Certain affiliates of the Underwriters have provided and may provide in the future investment banking, commercial banking and other financial services to the REIT for which they have received or will receive compensation. Accordingly, the REIT may be considered to be a "connected issuer" of each of the Underwriters within the meaning of applicable Canadian securities legislation.

As at August 5, 2010, \$6.0 million and \$nil was outstanding under the Bridge Loan and the Credit Line, respectively. As at that date, the REIT was in compliance in all material respects with the terms and conditions of each of the Bridge Loan and the Credit Line and no breach under either facility had been waived by the lender thereto. The Bridge Loan and the Credit Line are currently secured by one property and 14 properties, respectively. There has been no material change in the financial position of the REIT since the execution of the agreements governing the Bridge Loan and the Credit Line, except as described elsewhere in this short form prospectus and in the documents incorporated by reference herein. The decision to purchase Debentures by the Underwriters was made independently of the lender under the Bridge Loan and the Credit Line and any other affiliates of the Underwriters, and no such persons had any influence as to the determination of the terms of the distribution of the Debentures. The interest rate on the Debentures, the Conversion Price and the other terms and conditions of the Offering were established through negotiations between the REIT and the Underwriters, without involvement of the lender under the Bridge Loan and the Credit Line. In addition, none of Scotia Capital Inc., CIBC World Markets Inc., TD Securities Inc., RBC Dominion Securities Inc., and Canaccord Genuity Corp. will receive any benefit from the Offering, other than the respective portion of the Underwriters' fee payable by the REIT to such Underwriters.

### CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the REIT, and Osler, Hoskin & Harcourt LLP, counsel to the Underwriters, the following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable under the Tax Act to the acquisition, holding and disposition of Debentures or any Units or Stapled Units (including Units and IOT Units) acquired under the terms of the Debentures (collectively, the "**Securities**") by a holder who acquires Debentures pursuant to the Offering. This summary is applicable to a holder who, for purposes of the Tax Act, is resident in Canada, deals at arm's length and is not affiliated with the REIT and IOT and holds the Securities as capital property (a "**Holder**"). Generally, the Securities will be considered to be capital property to a holder provided the holder does not hold the Securities in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade. Certain holders who might not otherwise be considered to hold their Securities as capital property may, in certain circumstances, be entitled to make the irrevocable election permitted by subsection 39(4) of the Tax Act to have such Securities, and any other "Canadian security" (as defined in the Tax Act) owned in the taxation year in which the election is made and all subsequent taxation years, deemed to be capital property. Such holders should consult their own tax advisors regarding their particular circumstances.

This summary is not applicable to a holder: (i) that is a "financial institution" for purposes of the mark-to-market rules; (ii) that is a "specified financial institution"; (iii) an interest in which is a "tax shelter investment"; or (iv) that has elected to determine its Canadian tax results in accordance with a "functional currency", as each of those terms is defined in the Tax Act. Such holders should consult their own tax advisors to determine the tax consequences to them of the acquisition, holding and disposition of Securities. In addition, this summary does not address the deductibility of interest by an investor who has borrowed money to acquire Debentures under this Offering.

This summary is based upon the facts set out in this short form prospectus, in the AIF and in the Annual Financial Statements, information provided by the REIT's management, the current provisions of the Tax Act and the regulations thereunder and counsel's understanding of the current published administrative policies and assessing practices of the CRA. This summary takes into account all specific proposals to amend the Tax Act and the regulations thereunder publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Tax Proposals**"). This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial decision or action, and does not take into account provincial, territorial or foreign tax legislation or considerations, which may differ significantly from those discussed herein. This summary assumes that the Tax Proposals will be enacted as proposed, but no assurances can be given that this will be the case. There can be no assurances that the CRA will not change its administrative policies and assessing practices. With respect to opinions and views based on representations and statements of management of the REIT as to matters of fact, counsel has assumed the accuracy of such representations and statements in giving such opinions and views.

This summary also is based on the description of the Plan of Arrangement contained in the Circular, and assumes that the Plan of Arrangement as so described will be completed by the end of 2010, and that thereafter the only significant assets of the REIT will be its investments in InnVest Master LP, or "**IMLP**" (which directly or through subsidiaries will lease Canadian hotel properties to direct or indirect subsidiaries of InnVest Hotels LP, or the "**Operator**") and the only significant assets of IOT will be its investments in the Operator (which directly or through subsidiaries will carry on Canadian hotel operations or license hotel franchise rights in Canada).

This summary assumes that the REIT does and will continue to qualify as a “mutual fund trust” under the Tax Act while the Securities remain outstanding, and that IOT will so qualify on and after the effective date for the Plan of Arrangement and will continue to so qualify while the Securities remain outstanding. This assumption is based upon a certificate of the REIT as to certain factual matters. If the REIT and IOT do not qualify as mutual fund trusts, the income tax considerations described below would in some respects be materially different. See “— Status of the REIT and IOT – Mutual Fund Trust.”

**This summary is not exhaustive of all possible Canadian federal tax considerations applicable to an investment in Securities. Moreover, the income and other tax consequences of acquiring, holding or disposing of Securities will vary depending on the holder’s particular circumstances. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any prospective purchaser of Securities. Consequently, a prospective holder should consult the holder’s own tax advisor for advice with respect to the tax consequences of an investment in Securities based on the prospective holder’s particular circumstances.**

This summary does not address any Canadian federal income tax considerations applicable to non-residents of Canada, and non-residents should consult their own tax advisors regarding the tax consequences of acquiring, holding and disposing of Securities. Distributions on Securities or amounts paid in respect thereof, whether paid in cash or units, will be paid net of any applicable withholding tax.

## **Taxation of Holders of Debentures**

### *Interest on Debentures*

A Holder of Debentures that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on the Debentures that accrues (or is deemed to accrue) to it to the end of the particular taxation year (or if the Holder disposes of the Debentures in the year, that accrues or is deemed to accrue to it until the time of disposition) or that has become receivable by or is received by the Holder before the end of that taxation year, including on a conversion, redemption or repayment on maturity, except to the extent that such interest was included in computing the Holder’s income for a preceding taxation year.

Any other Holder will be required to include in computing income for a taxation year all interest on the Debentures that is received or receivable by the Holder in that taxation year (depending upon the method regularly followed by the Holder in computing income), including on a conversion, redemption or repayment on maturity, except to the extent that the interest was included in the Holder’s income for a preceding taxation year.

A 1% premium paid by the REIT, or by the REIT and IOT, to a Holder of Debentures on a Put Date will generally be deemed to be interest received at that time by the Holder if such premium is paid because of the repayment by it of the Debentures before their maturity and to the extent that such premium can reasonably be considered to relate to, and does not exceed the value on the Put Date, of the interest that would have been paid or payable by the REIT, or by the REIT and IOT, as the case may be, on the Debentures for taxation years of the REIT (or IOT) ending after the Put Date.

A Holder that is a “Canadian-controlled private corporation” (as defined in the Tax Act) may be liable to pay an additional refundable tax on investment income, including amounts in respect of interest.

### *Exercise of Conversion Privilege*

Stapled Units represent ownership of Units and IOT Units. References in this summary to a Unit or IOT Unit include a Unit or IOT Unit acquired or held as part of a Stapled Unit.

A Holder of a Debenture who pursuant to the conversion privilege converts a Debenture into Units or (following the Plan of Arrangement) Units and IOT Units will be considered to have disposed of the Debenture for proceeds of disposition equal to the aggregate of the fair market value of the units so acquired at the time of the exchange and the amount of any cash received in lieu of fractional units. The Holder will realize a capital gain or capital loss computed as described below under “— Dispositions of Debentures”. The cost to the Holder of the Units, or Units and IOT Units, so acquired will also be equal to their fair market value at the time of acquisition, and must be averaged with the adjusted cost base of all other Units or IOT Units, as the case may be, held as capital property by the Holder for the purposes of calculating the adjusted cost base of such units. The cost of Units or IOT Units acquired by reinvestment pursuant to the distribution reinvestment plan of the



REIT (or, following the implementation of the Plan of Arrangement, of the REIT and IOT) will be the amount of such reinvestment allocated to such Units or IOT Units.

#### *Redemption or Repayment of Debentures*

If the REIT (or the REIT and IOT) redeems a Debenture prior to maturity or repays a Debenture upon maturity and the Holder does not exercise the conversion privilege prior to such redemption or repayment, the Holder will be considered to have disposed of the Debenture for proceeds of disposition equal to the amount received by the Holder (other than the amount received on account of interest) on such redemption or repayment. If the Holder receives Units, or Units and IOT Units, on redemption or repayment, the Holder will be considered to have proceeds of disposition equal to the aggregate of the fair market value of the units so received and the amount of any cash received in lieu of fractional units. The Holder may realize a capital gain or capital loss computed as described below under “— Dispositions of Debentures”. The cost to the Holder of the units so received will also be equal to their fair market value at the time of acquisition and must be averaged with the adjusted cost base of all other Units, or IOT Units, as the case may be, held as capital property by the Holder for the purpose of calculating the adjusted cost base of such units.

#### *Plan of Arrangement*

In the view of counsel, implementation of the Plan of Arrangement should not cause a Holder to be considered to dispose of its Debentures. (Were this view not correct, Holders generally would be considered to dispose of their Debenture at the effective date of the Plan of Arrangement for proceeds of disposition based on their Debentures’ fair market value immediately after that time, with the consequences of such disposition generally as described below under “-Dispositions of Debentures” except that, in most circumstances, the recognition of any capital loss otherwise arising on such disposition would be denied or suspended until at least the time of any subsequent disposition of such Debentures.)

#### *Dispositions of Debentures*

A disposition or deemed disposition by a Holder of a Debenture will generally result in the Holder realizing a capital gain (or capital loss) equal to the amount by which the proceeds of disposition (adjusted as described below) are greater (or less) than the aggregate of the Holder’s adjusted cost base thereof and any reasonable costs of disposition. Any such capital gain or capital loss will be treated, for tax purposes, in the same manner as capital gains and capital losses arising from a disposition of Units which treatment is discussed below under “— Taxation of Holders of Units — Dispositions of Units or IOT Units” and “Taxable Capital Gains and other Investment Income”.

Upon such a disposition or deemed disposition of a Debenture, interest accrued thereon to the date of disposition and not yet due will be included in computing the Holder’s income, except to the extent such amount was otherwise included in the Holder’s income, and will be excluded in computing the Holder’s proceeds of disposition of the Debenture. A Holder who has overaccrued interest income will generally be entitled to a deduction in computing the Holder’s income for a taxation year in which the Debenture is disposed of for an amount equal to such overaccrued interest.

A capital gain realized by a Holder who is an individual or a trust (other than certain specified trusts) may give rise to a liability for alternative minimum tax.

A Canadian-controlled private corporation that disposes of Debentures may be liable to pay an additional refundable tax on investment income, including taxable capital gains.

## Taxation of Holders of Units

### *Plan of Arrangement*

The consequences or potential consequences to Holders of Units of the implementation of the Plan of Arrangement are described in the Circular under “Certain Canadian Federal Income Tax Considerations – Taxation of Unitholders – Unitholders Resident in Canada – Reorganization.” As discussed there, management of the REIT did not anticipate (and has advised counsel that it continues to not anticipate) that any, or any significant, taxable capital gains or other income will be allocated to Holders of Units as a result of the implementation of the reorganization described in the Circular provided that the fair market value of the relevant assets that will be disposed of on that reorganization do not appreciate significantly to the time of implementation of the reorganization. However, as also noted, the relevant assets could so appreciate, or the CRA might challenge the valuation of such assets.

### *Distributions on Units and IOT Units*

A Holder of Units, or of Units and IOT Units (including Units, or Units and IOT Units, acquired under the terms of a Debenture) will be deemed in a particular taxation year of the Holder to receive a dividend from a taxable Canadian corporation to the extent that an amount paid or payable, or deemed to be paid or payable, to the Holder in that taxation year by IOT (or by the REIT, if it is subject to taxation under the SIFT Rules, as discussed below under “Taxation of the REIT,” for the taxation year of the REIT in which such amount is paid or payable) is not deductible in computing the income of IOT (or the REIT, as the case may be) by virtue of the SIFT Rules. A Holder of Units and IOT Units (or of Units before the implementation of the Plan of Arrangement) is generally required to include in computing income the portion of the net income of the REIT and (in respect of any of its IOT Units) IOT, including net taxable capital gains (determined for purposes of the Tax Act), that is paid or payable, or deemed to be paid or payable, to the Holder (whether or not those amounts are reinvested under the distribution reinvestment plan of the REIT (and, following the Plan of Arrangement, IOT)), except to the extent that such amount is already included in the computation of the Holder’s income as a deemed dividend, as described in the preceding sentence.

Management of the REIT has advised counsel that the REIT and (following implementation of the Plan of Arrangement) IOT will designate, to the extent permitted by the Tax Act, the portion of taxable dividends received by the REIT and IOT from any taxable Canadian corporation owned by the REIT and IOT (or by subsidiary limited partnerships and allocated to the REIT or IOT in accordance with the Tax Act) as may reasonably be considered to be an amount included in the income of Holders (with the exception of amounts that already are deemed to be taxable dividends under the SIFT Rules). Any such designated amount will be deemed for purposes of the Tax Act, to be received by the Holders of Units and any IOT Units as taxable dividends from the taxable Canadian corporations from which such amounts were derived.

Amounts that are deemed, for purposes of the Tax Act, to be received by the Holders as a taxable dividend as described in the two paragraphs above will be subject to the general rules regarding the taxation of taxable dividends paid by taxable Canadian corporations. Thus, they will be subject, *inter alia*, to the gross-up and dividend tax credit provisions in respect of Holders who are individuals, to the refundable tax under Part IV of the Tax Act in respect of Holders that are private corporations and certain other corporations controlled directly or indirectly by or for the benefit of an individual (other than a trust) or related group of individuals (other than trusts), and to the deduction in computing taxable income in respect of Holders that are corporations. In addition, eligible dividends received by a Holder who is an individual will be eligible for an enhanced dividend tax credit. Amounts received by such a Holder from IOT (or the REIT) that are deemed under the SIFT Rules to be taxable dividends will be eligible dividends. Amounts received by a Holder who is an individual that are deemed to be dividends as a result of a designation by the REIT or IOT, as described in the paragraph immediately above, also will be eligible dividends provided that the corporate dividend payer makes the required designation to cause such taxable dividend to be an eligible dividend.

Management of the REIT has advised counsel that the REIT and (following implementation of the Plan of Arrangement) IOT will also designate, to the extent permitted by the Tax Act, the portion of the taxable income distributed to Holders of Units, or of Units and IOT Units, as the case may be, as may reasonably be considered to consist of net taxable capital gains of the REIT or IOT, as the case may be, other than taxable capital gains that are deemed to be taxable dividends under the SIFT Rules. Any such designated amounts will be deemed for tax purposes to be received by Holders of Units, or Units and IOT Units, in the year as a taxable capital gain and will be subject to the general rules relating to the taxation of capital gains described below under “Taxable Capital Gains and other Investment Income.” The non-taxable portion of any net capital gains of the REIT or IOT, the taxable portion of which is so deemed to be paid to a Holder in a taxation year, will not be included in computing such Holder’s income for the year.

Based on the REIT's past distribution practices, the amount distributed by it to Holders of Units in a year may exceed the net income of the REIT for tax purposes for that year. The same result potentially could occur for distributions by IOT. Distributions by the REIT or IOT in excess of its net income for tax purposes in a year, including amounts that may reasonably be considered to be distributions of any non-taxable dividends received by the REIT or IOT and designated by it in respect of the Holder ("non-taxable dividend distributions"), will not generally be included in the Holder's income for the year. However, a Holder will be required to reduce the adjusted cost base of its Units or IOT Units, as the case may be, by the portion of any amount paid or payable to the Holder by the REIT or IOT, as the case may be (other than the non-taxable portion of certain capital gains the taxable portion of which was designated by the REIT or IOT for the year as described in the paragraph above and certain non-taxable dividend distributions) that was not included in computing the Holder's income. A Holder will realize a capital gain to the extent that the adjusted cost base of such Holder's Units or IOT Units, as the case may be, would otherwise be a negative amount, and the adjusted cost base of such units will be deemed to be nil immediately thereafter.

#### *Dispositions of Units or IOT Units*

A Holder of Units who disposes of a Stapled Unit will be required to make a reasonable allocation of the proceeds of such disposition between the Unit and the IOT Unit represented by the Stapled Unit. The tax implications of such disposition will then be determined as if the Holder had separately disposed of one Unit and one IOT Unit for proceeds of disposition as so allocated.

On the disposition or deemed disposition of a Unit or IOT Unit by a Holder thereof (including a Unit or IOT Unit included in a Stapled Unit that is disposed of), whether on redemption or otherwise, the Holder will generally realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition exceed (or are less than) the aggregate of the Holder's adjusted cost base of the Unit or IOT Unit, as the case may be, and any reasonable costs of disposition. Proceeds of disposition will not include an amount payable by the REIT or IOT, as the case may be, that is otherwise required to be included in the Holder's income (such as an amount designated as payable by the REIT or IOT to a redeeming Holder out of capital gains or income of the REIT or IOT as described above). In the case of a redemption of Units and IOT Units, management of the REIT has advised counsel that the REIT or IOT will advise the redeeming Holder as to the respective redemption prices of the Units, on the one hand, and the IOT Units on the other hand.

For the purpose of determining the adjusted cost base to a Holder of Units or IOT Units, when a Unit or IOT Unit is acquired, the cost of the newly-acquired unit will be averaged with the adjusted cost base of all identical Units or IOT Units, as the case may be, owned by the Holder as capital property immediately before that acquisition. The adjusted cost base of a Unit or IOT Unit to a Holder will include all amounts paid by the Holder for such unit, with certain adjustments. The cost of Units or IOT Units acquired on the reinvestment of distributions under the distribution reinvestment plan of the REIT or (following implementation of the Plan of Arrangement) of it and IOT will be the amount of such investment allocated to such Units or IOT Units.

Where Units, or Units and IOT Units, are redeemed by the transfer of Notes (of IMLP, the Operator or another subsidiary) to the Holder thereof, the Holder will be considered to have disposed of such units for proceeds of disposition to the Holder equal to the fair market value of the Notes so distributed less any income or capital gain realized by the REIT or IOT, as the case may be, as a result of the redemption of those units to the extent such income or capital gain is designated by the REIT or IOT as payable by it to the redeeming Holder. Any such income and the taxable portion of any such capital gain that has been so designated will be required to be included in computing the Holder's income. The cost of any Notes transferred by the REIT or IOT to a Holder upon a redemption of Units will be equal to the fair market value of the Notes at the time of disposition.

#### *Taxable Capital Gains and other Investment Income*

One-half of any capital gain realized by a Holder of Units, or of Units and IOT Units, and the amount of any net taxable capital gains designated by the REIT or IOT in respect of such a Holder, will be included in the Holder's income as a taxable capital gain. One-half of any capital loss realized by such a Holder on a disposition, or deemed disposition, of Units or IOT Units, is required to be deducted only from taxable capital gains of the Holder in the year of disposition, and any excess of one-half of such capital losses over taxable capital gains may generally be deducted in computing taxable income in the three preceding taxation years or in any subsequent taxation year, to the extent and under the circumstances described in the Tax Act.

A Holder that is a “Canadian controlled private corporation” (as defined in the Tax Act) may be liable to pay an additional refundable tax on certain investment income for the year, including taxable capital gains.

In general terms, net income of the REIT or IOT paid or payable, or deemed to be paid or payable, to a Holder who is an individual or a trust of a specified type, that is designated as taxable dividends or as net realized capital gains, and capital gains realized on the disposition of Units or IOT Units, may increase the Holder’s liability for alternative minimum tax.

## **Status of the REIT and IOT**

### *Mutual Fund Trust*

This summary assumes that each of the REIT and IOT qualifies, and will continue at all times to qualify, as a “mutual fund trust” for purposes of the Tax Act.

To qualify as a mutual fund trust, the REIT or IOT, as the case may be, must be a “unit trust” as defined in the Tax Act, must be resident in Canada, must (in the case of the REIT, and potentially also IOT) not be established or maintained primarily for the benefit of non-residents, and must restrict its undertaking to: (i) the investing of its funds in property (other than real property or an interest in real property or an immovable or real right in an immovable), (ii) the acquiring, holding, maintaining, improving, leasing or managing of any real property (or interest in real property) or of any immovable (or real right in immovables) that is capital property of the REIT or IOT, as the case may be, or (iii) any combination of the activities described in (i) or (ii).

To qualify as a mutual fund trust, each such trust also must have at least 150 unitholders holding not less than one “block of units” of a class which have an aggregate fair market value of not less than \$500. It must also be the case that either

- (a) units of such class are qualified for distribution to the public (within the meaning of the regulations under the Tax Act), or
- (b) in the case of a trust created after 1999, there has been a lawful distribution in a province to the public of units of such class, and under the laws of that province, no prospectus, registration statement or similar document is required to be filed in respect of such distribution.

If either of the REIT or IOT were not to qualify as a mutual fund trust at any particular time, the Canadian federal income tax considerations described herein would, in some respects, be materially different.

### *Qualified Investment*

Subject to the limitations, qualifications, provisos and assumptions set out under “Eligibility for Investment”, the Units, IOT Units and Debentures will be qualified investments under the Tax Act for Exempt Plans. See “Eligibility for Investment”.

The Units will cease to be qualified investments for Exempt Plans if the REIT ceases to qualify as a mutual fund trust and the Units cease to be listed on a designated stock exchange; and similarly, the IOT Units will cease to be so qualified if IOT ceases to qualify as a mutual fund trust and the IOT Units cease to be listed on a designated stock exchange; and the Debentures will cease to be so qualified if the REIT or IOT ceases to qualify as a mutual fund trust, or the Units or IOT Units cease to be so listed, if on the occurrence of either event the Debentures are not listed on a designated stock exchange. Notes of the Operator or IMLP (or of another subsidiary of the REIT or IOT) received as a result of an *in specie* redemption of Units or IOT Units by the REIT would not be qualified investments for Exempt Plans, which could give rise to adverse consequences to the Exempt Plan or the annuitant or beneficiary thereunder. Accordingly, Exempt Plans that own Units or IOT Units should consult their own tax advisors before deciding to exercise the redemption rights attaching to such units.

## **Taxation of the REIT**

### *Application of SIFT Rules after 2010*

A special taxation regime (the “**SIFT Rules**”) applies to specified investment flow-through trusts or partnerships and investors in such trusts or partnerships. Were the REIT to become subject to the SIFT Rules, it would no longer be able

to deduct any part of the amounts payable to Unitholders in respect of its “non-portfolio earnings”, which include: (i) income from its “non-portfolio properties” (in excess of any losses for the taxation year from non-portfolio properties); and (ii) taxable capital gains from dispositions of non-portfolio properties (exceeding allowable capital losses from the disposition of such properties). For this purpose, “non-portfolio properties” include: (i) the Canadian real and immovable properties (or resource properties) of the REIT if their total fair market value is greater than 50% of the equity value of the REIT; (ii) a property that the REIT (or a person or partnership with which it does not deal at arm’s length) uses in the course of carrying on a business in Canada; and (iii) securities of a “subject entity” if the REIT holds securities of the subject entity that have a total fair market value that is greater than 10% of the subject entity’s equity value or if the REIT holds securities of the subject entity which, together with all securities held by it in entities affiliated with the subject entity, have a total fair market value that is greater than 50% of the REIT’s equity value. A “subject entity” includes corporations resident in Canada, trusts resident in Canada, and “Canadian resident partnerships”. “Securities” are broadly defined, and include, among other things, any liability of a corporation, trust or partnership, in addition to shares, most trust interests and partnership interests, and rights to acquire such a Security.

Management of the REIT anticipates that following the Plan of Arrangement, most of the property of the REIT will consist of securities of IMLP and the general partner thereof; and that most of the property of IMLP, in turn, will consist of Canadian hotels that it leases to IOT subsidiaries, and securities of subsidiaries of IMLP (principally, subsidiary partnerships) which lease Canadian hotels to IOT subsidiaries. Accordingly, it is anticipated that following the Plan of Arrangement, most of the REIT’s property will be non-portfolio property, and that substantially all of its income (were it subject to the SIFT Rules) would be non-portfolio earnings.

The amount (subject to potential adjustments) of income which the REIT was unable to deduct by virtue of the SIFT Rules would be taxed under the SIFT Rules at a combined federal and provincial tax rate similar to that of a corporation. The application of the SIFT Rules to the REIT would not change the treatment under the Tax Act of distributions in a year that are in excess of the REIT’s net income for the year.

#### *Effective Dates for SIFT Rules*

For its 2011 and subsequent taxation years, the REIT will not be subject to the SIFT Rules only if it satisfies the REIT Exception discussed below under “REIT Exception”. For its 2010 taxation year, the REIT will not be able to satisfy the REIT Exception given that the REIT Exception must be satisfied throughout the year, and the Plan of Arrangement has not yet been implemented. However, the REIT nonetheless will not be subject to the SIFT Rules for its 2010 taxation year provided that (i) it would have been a SIFT trust on October 31, 2006, if the definition “SIFT trust” had been in force on that date and applied to the trust on that date, and (ii) it has complied with the “normal growth” guidelines (respecting growth in its equity capital) issued by the Department of Finance on December 15, 2006, as amended effective December 4, 2008 and as may be amended further from time to time (the “**Growth Guidelines**”) unless the growth arises as a result of a prescribed transaction.

Management of the REIT has advised counsel that these conditions for the REIT to not be subject to the SIFT Rules in 2010 are expected to be satisfied. In particular, management has calculated that the issuance of Units, convertible debentures and subscription receipts for Units since October 31, 2006 by the REIT has not caused the REIT, and the issuance of Debentures under this offering will not cause the REIT, to exceed “normal growth” under the Growth Guidelines, and that management does not currently anticipate that the REIT will (before 2011) exceed normal growth under the Growth Guidelines. It is assumed for the purposes of this summary that the REIT will not currently be subject to the SIFT Rules in 2010. However, were the REIT to effect substantial issuances of additional Units or convertible debentures (or other equity substitutes) before 2011, the REIT might become subject to the SIFT Rules in its 2010 taxation year.

#### *REIT Exception*

The SIFT Rules are not applicable to “real estate investment trusts” (as defined in the Tax Act) that meet certain specified criteria relating to the nature of their income and investments (the “**REIT Exception**”). In particular, in order for the REIT to qualify for the REIT Exception in a particular taxation year:

- (i) the REIT must, at no time in the taxation year, hold “non-portfolio property” other than “qualified REIT properties”,
- (ii) not less than 95% of the REIT’s revenues for the taxation year must be derived from one or more of the following: “rent from real or immovable properties”; interest; capital gains from dispositions of “real or immovable properties”; dividends; and royalties;

- (iii) not less than 75% of the REIT's revenues for the taxation year must be derived from one or more of the following: "rent from real or immovable properties"; interest from mortgages or hypothecs on "real or immovable properties"; and capital gains from dispositions of "real or immovable properties"; and
- (iv) at no time in the taxation year may the total fair market value of all properties held by the REIT, each of which is a "real or immovable property", cash (including bank deposits, deposits with credit unions and bankers' acceptances), or, generally, a debt obligation of a government in Canada or certain other public bodies, be less than 75% of the equity value of the REIT at that time.

The definition of "qualified REIT property" includes property held by the REIT that is: "real or immovable property"; a security of a "subject entity" that is a nominee holder of legal title of real or immovable property; and property that is ancillary to the earning by the REIT of (A) rent from "real or immovable property" or (B) capital gains from the disposition of such properties. In addition, under a look-through rule, securities of a subsidiary limited partnership or corporation of the REIT could qualify as "qualified REIT property" if the subsidiary itself satisfies the four tests listed above for the REIT to qualify for the REIT Exception. For the foregoing purposes, "rent from real or immovable properties" excludes among other things rent based on profits and payments for the occupation or use of a hotel room.

Management of the REIT has advised counsel that it is anticipated that following the implementation of the Plan of Arrangement, the REIT will not hold any non-portfolio property that is not a qualified REIT property. Furthermore, management of the REIT has advised that it anticipates that for the 2011 taxation year of the REIT, it will satisfy the 95% revenue test, the 75% revenue test and the 75% asset test also listed above.

No advance income tax ruling was sought from the CRA that the Plan of Arrangement will accomplish its objective of qualifying the REIT for the REIT Exception, and there is a risk that the CRA could challenge this result. Furthermore, the REIT Exception rules do not contain any safe harbour rules for the acquisition of "non-portfolio property" (other than "qualified REIT property") with a *de minimis* value; nor do they provide any grace periods for the correction of temporary breaches in a taxation year of the requirements of those rules. There also can be no assurance that the Tax Act will not be amended to restrict or eliminate access by the REIT to the REIT Exception. **Given these considerations, the exacting nature of the REIT Exception rules and the requirement that they be satisfied throughout the taxation year by each direct and indirect REIT subsidiary, along with the REIT itself, there is a risk that the REIT will not qualify under the REIT Exception for one or more of its taxation years after 2010. Were this to occur, the level of monthly cash distributions made on the Units could be negatively affected.**

Except where otherwise noted, the discussion in this summary assumes that the REIT will satisfy the REIT Exception.

#### *General Considerations for Taxation of the REIT*

The taxation year of the REIT is the calendar year. In each taxation year, the REIT is subject to tax under the Tax Act on its income for the year, including net realized taxable capital gains, computed in accordance with the detailed provisions of the Tax Act, less any portion thereof that it deducts in respect of amounts paid or payable or deemed to be paid or payable in the year to Holders of Units. (As noted above under "—Application of SIFT Rules after 2010", the REIT will not generally be entitled to deduct amounts that are paid or payable by it out of non-portfolio earnings if it should become subject to taxation under the SIFT Rules.) An amount will be considered to be payable to a Holder of Units in a taxation year if it is paid to the Holder in the year by the REIT or if the Holder is entitled in that year to enforce payment of the amount. Losses incurred by the REIT cannot be allocated to Holders, but may be deducted by the REIT in future years in accordance with the Tax Act.

The income for purposes of the Tax Act of the REIT for a taxation year will include its share of the income of IMLP (which has a calendar taxation year) for its corresponding taxation year (and for 2010 will also include its share of the income of the Operator, which also has a calendar taxation year). If IMLP (or, in 2010, the Operator) were to incur losses for purposes of the Tax Act, the REIT's ability to deduct such losses may be limited by certain rules under the Tax Act. Similar considerations apply to subsidiary partnerships of IMLP (or the Operator).

In general, the REIT will not be subject to tax on amounts received as distributions from IMLP (or other subsidiary partnerships). Generally, distributions to the REIT in excess of its allocated share of the income of IMLP (or other subsidiary limited partnership) for a fiscal year will result in a reduction of the adjusted cost base of the REIT's units in such partnership

by the amount of such excess. If, as a result, the REIT's adjusted cost base at the end of the taxation year of its units in IMLP (or other partnership) would otherwise be a negative amount, the REIT will be deemed to realize a capital gain in such amount for that year, and the REIT's adjusted cost base at the beginning of the next taxation year of its units in the partnership will then be nil.

In computing its income for purposes of the Tax Act, the REIT may deduct reasonable administrative costs, interest and other expenses incurred by it for the purpose of earning income. The REIT may also deduct from its income for the year a portion of any reasonable expenses incurred by it to issue Units and most debt, including convertible debentures. The portion of such issue expenses deductible by the REIT in a taxation year is 20% of such issue expenses pro rated for a taxation year of the REIT that is less than 365 days.

In the event the REIT is otherwise liable for tax on its net realized taxable capital gains for a taxation year, it will be entitled for such taxation year to reduce (or receive a refund in respect of) its liability for such tax by an amount determined under the Tax Act based on the redemption of Units during the year (the "**Capital Gains Refund**"). In certain circumstances, the Capital Gains Refund in a particular taxation year may not completely offset the REIT's tax liability for such taxation year arising as a result of the creation and distribution of Notes in connection with the redemption of Units. Thus, the Declaration of Trust provides that any capital gains realized by the REIT as a result of such redemption may be allocated to the Holders redeeming their Units. The taxable portion of such capital gains must be included in the income of the redeeming Holder.

The Tax Act provides for a special tax, the Part XII.2 tax, on the designated income (including income from Canadian real property, taxable capital gains from dispositions of taxable Canadian property and income from businesses carried on in Canada) of certain trusts which have designated beneficiaries (including non-resident persons and certain tax-exempt persons). This special tax does not apply to a trust for a taxation year if the trust is a mutual fund trust throughout such year. Accordingly, provided the REIT qualifies as a mutual fund trust throughout a taxation year, it will not be subject to the special tax for such taxation year.

## **Taxation of IOT**

The distribution of the IOT Units to Holders of Units (including any Units acquired under the terms of a Debenture) will occur on the effective date for the Plan of Arrangement (anticipated to be December 31, 2010), at which time the IOT Units will be listed. The discussion below applies to the treatment of IOT under the Tax Act for its taxation years commencing after December 31, 2010. For such taxation years, IOT will be a SIFT trust and be subject to the SIFT Rules and, accordingly, will not generally be entitled, in the computation of its income for purposes of the Tax Act, to deduct amounts that are paid or payable by it out of "non-portfolio earnings" (discussed above under "-Taxation of the REIT - General Considerations for Taxation of the REIT.")

The taxation year of IOT is the calendar year. In each taxation year, IOT is subject to tax under the Tax Act on its income for the year, including net realized taxable capital gains, computed in accordance with the detailed provisions of the Tax Act, less the portion thereof that it deducts that is the lesser of (i) the amounts paid or payable or deemed to be paid or payable in the year to Holders of IOT Units, and (ii) its net income for the year in excess of its non-portfolio earnings. An amount will be considered to be payable to a Holder of IOT Units in a taxation year if it is paid to the Holder in the year by IOT or if the Holder is entitled in that year to enforce payment of the amount. Management of the REIT has advised counsel that it anticipates that all or substantially all the income (if any) of IOT will be "non-portfolio earnings." The amount (subject to potential adjustments) of the income which IOT is unable to deduct by virtue of the SIFT Rules (generally, its reduced deduction by virtue of earning non-portfolio earnings) will be taxed under those rules at a combined federal and provincial tax rate similar to that applicable to a corporation. Losses incurred by the REIT cannot be allocated to Holders of IOT Units, but may be deducted by IOT in future years in accordance with the Tax Act.

If (contrary to the assumptions in this summary) IOT were not to distribute its income for a taxation year, it would be subject to tax under the Tax Act on that income at the top marginal tax rate applicable to Canadian-resident individuals, rather than the corporate rates of tax applicable under the SIFT Rules.

The income for purposes of the Tax Act of IOT for a year will include its share of the income of the Operator for its corresponding taxation year (which is also the calendar year). If the Operator were to incur losses for purposes of the Tax Act, IOT's ability to deduct such losses might be limited by certain rules under the Tax Act. Similar considerations apply to subsidiary partnerships of the Operator.

In computing its income for purposes of the Tax Act, IOT (or the Operator) may deduct reasonable administrative costs, interest and other expenses incurred by it for the purpose of earning income. In the case of rents payable by the Operator to IMLP or IMLP subsidiaries, the CRA may consider that the Operator is only entitled to deduct such rents in the computation of the Operator's income for purposes of the Tax Act to the extent that their amount does not exceed a fair market value rent for a lease of the relevant property. The same considerations apply to leases of properties by subsidiaries of IMLP to subsidiary partnerships of the Operator. Management of the REIT has advised counsel that it anticipates that the rent terms for leases of properties by IMLP or its subsidiaries to the Operator or its subsidiaries will satisfy this fair market value test.

The discussion above under "Taxation of the REIT – General Considerations for Taxation of REIT" of the deduction of issue expenses, the Capital Gains Refund rules and Part XII.2 tax also applies to IOT, as does the discussion there of the treatment of distributions from a subsidiary partnership (the Operator, in the case of IOT).

### PRIOR SALES

The following table summarizes the issuances by the REIT of Units and securities convertible into Units within the 12 months prior to the date of this short form prospectus:

<u>Date</u>	<u>Security</u>	<u>Price per Security</u>	<u>Number of Securities</u>
August 17, 2009.....	Units <sup>(2)</sup>	\$3.68	70,871
September 15, 2009.....	Units <sup>(2)</sup>	\$3.84	69,819
October 14, 2009.....	Units <sup>(5)</sup>	\$3.95	12,658,500
October 15, 2009.....	Units <sup>(2)</sup>	\$4.44	48,961
November 16, 2009.....	Units <sup>(2)</sup>	\$4.47	48,893
December 31, 2009.....	Debentures <sup>(6)</sup>	\$1,000	50,000
January 1, 2010.....	Units <sup>(3)</sup>	\$5.30	22,215
January 15, 2010.....	Units <sup>(2)</sup>	\$5.74	38,563
January 25, 2010.....	Units <sup>(4)</sup>	\$5.70	2,631
February 15, 2010.....	Units <sup>(2)</sup>	\$5.86	38,442
March 15, 2010.....	Units <sup>(2)</sup>	\$5.78	39,744
April 15, 2010.....	Units <sup>(2)</sup>	\$6.52	34,627
April 22, 2010.....	Units <sup>(4)</sup>	\$5.70	148,947
April 26, 2010.....	Units <sup>(4)</sup>	\$5.70	8,771
April 27, 2010.....	Units <sup>(4)</sup>	\$5.70	201,754
May 11, 2010.....	Units <sup>(4)</sup>	\$5.70	877,193
May 17, 2010.....	Units <sup>(2)</sup>	\$6.53	30,862
June 15, 2010.....	Units <sup>(2)</sup>	\$5.97	33,323
July 15, 2010.....	Units <sup>(2)</sup>	\$6.03	31,191
July 21, 2010.....	Units <sup>(1)</sup>	\$5.95	6,359

- (1) Issued to trustees of the REIT in satisfaction of a portion of their annual retainer fee.
- (2) Issued pursuant to the REIT's distribution reinvestment plan.
- (3) Issued pursuant to the REIT's executive incentive plan.
- (4) Issued upon conversion of convertible debentures.
- (5) Issued pursuant to the REIT's \$50 million offering of Units.
- (6) Issued pursuant to the REIT's \$50 million offering of 6.75% Series D convertible debentures.



## TRADING PRICE AND VOLUME

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Units and the REIT's Series A Debentures, 6.00% Series B convertible debentures, 5.85% Series C convertible debentures and 6.75% Series D convertible debentures on the TSX.

	Trading of Units		
	High	Low	Volume
	(\$)	(\$)	(#)
<b>2009</b>			
August.....	3.90	3.46	5,427,090
September.....	4.75	3.70	19,747,124
October.....	5.10	4.34	7,424,009
November.....	4.86	4.21	6,227,395
December.....	5.53	4.68	4,701,996
<b>2010</b>			
January.....	6.00	5.26	9,328,709
February.....	5.91	5.45	3,481,034
March.....	6.27	5.55	4,880,167
April.....	6.97	5.88	4,555,796
May.....	6.90	5.74	4,458,856
June.....	6.45	5.71	1,861,414
July.....	6.63	5.83	3,989,328
August (August 1-5).....	6.60	6.18	393,904

	Trading of 6.25% Series A Convertible Debentures			Trading of 6.00% Series B Convertible Debentures		
	High	Low	Volume	High	Low	Volume
	(\$)	(\$)	(#)	(\$)	(\$)	(#)
<b>2009</b>						
August.....	96.00	93.00	6,840	81.00	76.50	9,850
September.....	97.50	93.01	7,190	86.00	75.10	11,070
October.....	99.99	97.00	8,530	95.00	81.30	16,090
November.....	100.00	98.50	6,760	94.00	90.05	19,790
December.....	100.01	98.25	11,420	98.00	93.00	6,570
<b>2010</b>						
January.....	101.00	99.50	18,600	100.00	96.00	17,940
February.....	101.00	100.00	4,450	101.00	98.00	21,505
March.....	102.50	100.50	6,420	102.00	100.00	12,470
April.....	102.00	100.95	2,550	102.50	99.06	9,930
May.....	102.00	100.00	5,260	100.75	94.00	16,390
June.....	102.50	100.50	3,370	101.00	99.00	9,860
July.....	102.00	99.90	10,770	102.25	99.00	8,720
August (August 1-5).....	100.75	100.00	2,270	101.00	100.00	2,860

	Trading of 5.85% Series C Convertible Debentures			Trading of 6.75% Series D Convertible Debentures		
	High	Low	Volume	High	Low	Volume
	(\$)	(\$)	(#)	(\$)	(\$)	(#)
<b>2009</b>						
August.....	75.50	70.00	52,160	N/A	N/A	N/A
September.....	79.99	74.30	4,950	N/A	N/A	N/A
October.....	90.00	76.00	9,030	N/A	N/A	N/A
November.....	90.50	85.01	27,185	N/A	N/A	N/A
December.....	94.00	87.00	5,560	101.00	100.00	35,740
<b>2010</b>						
January.....	99.75	91.00	18,220	106.99	100.60	209,950
February.....	100.00	95.80	15,960	107.25	104.25	26,260
March.....	99.50	96.85	17,460	110.50	104.50	31,670
April.....	100.00	96.00	37,070	121.00	106.26	92,400
May.....	98.50	90.00	9,770	120.01	104.00	34,940
June.....	97.85	95.50	30,390	112.50	105.00	16,450
July.....	99.00	96.00	16,160	116.00	106.00	10,400
August (August 1-5).....	100.40	99.50	3,340	115.62	110.00	4,020

## RISK FACTORS

An investment in the Debentures involves certain risks. A prospective purchaser of Debentures should carefully consider the risk factors described under: (i) the heading “Risks and Uncertainties” found on pages 18 to 19 of the First Quarter MD&A and pages 35 to 37 of the Annual MD&A; (ii) the heading “Risk Factors” found on pages 43 to 56 of the AIF; (iii) note 12 of the First Quarter Financial Statements and notes 9 and 16 of the Annual Financial Statements, and (iv) the heading “Plan of Arrangement - Risks Related to the Arrangement” on pages 25 to 26 of the Circular, each of which is incorporated by reference herein. In addition, a prospective purchaser of Debentures should carefully consider the risk factors described below and in the other information contained in this short form prospectus (including the documents incorporated by reference herein).

### Matters Affecting Trading Prices for the Debentures

There is currently no trading market for the Debentures. The TSX has conditionally approved the listing of the Debentures, subject to the REIT fulfilling all of the listing requirements of the TSX on or before October 21, 2010. No assurance can be given that an active or liquid trading market for the Debentures will develop or be sustained. If an active or liquid market for the Debentures fails to develop or be sustained, the prices at which the Debentures trade may be adversely affected. Whether or not the Debentures will trade at lower prices depends on many factors, including liquidity of the Debentures, prevailing interest rates and the markets for similar securities, the market price of the Units, general economic conditions and the REIT’s financial condition, historic financial performance and future prospects.

### Credit Risk and Prior Ranking Indebtedness; Absence of Covenant Protection

The likelihood that purchasers of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the financial health of the REIT and its creditworthiness. In addition, the Debentures are unsecured obligations of the REIT and are subordinate in right of payment to all the REIT’s existing and future Senior Indebtedness. Therefore, if the REIT becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, the REIT’s assets will be available to pay its obligations with respect to the Debentures only after it has paid all of its senior and secured indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Debentures then outstanding. The Debentures are also effectively subordinate to claims of creditors of the REIT’s subsidiaries except to the extent the REIT is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors. The Indenture does not prohibit or limit the ability of the REIT or its subsidiaries to incur additional debt or liabilities (including Senior Indebtedness) or to make distributions, except, in respect of distributions, where an Event of Default has occurred and such default has not been cured or waived. The Indenture does not contain any provision specifically intended to protect holders of Debentures in the event of a future leveraged transaction involving the REIT.

## **Conversion Following Certain Transactions**

In the case of certain transactions, each Debenture will become convertible into the securities, cash or property receivable by a holder of Units in the kind and amount of securities, cash or property into which the Debenture was convertible immediately prior to the transaction. This change could substantially lessen or eliminate the value of the conversion privilege associated with the Debentures in the future. For example, if the REIT were acquired in a cash merger, each Debenture would become convertible solely into cash and would no longer be convertible into securities of the REIT. See “Description of the Debentures — Conversion Rights”.

## **The Units are Subject to Market Price Volatility**

The market price of the Units may be adversely affected by a variety of factors relating to the business of the REIT, including fluctuations in its operating and financial results, the results of any public announcements made by the REIT and its results of operations relative to analysts’ expectations. In addition, the market price and trading volume of equity securities have experienced substantial volatility in the past, sometimes based on factors unrelated to the financial performance or prospects of the companies involved. These factors include general fluctuations in the stock market, changes in global financial markets, general market conditions, macroeconomic developments in countries where such companies carry on business and globally, and market perceptions of the attractiveness of particular industries. The stock markets in general have recently experienced extreme volatility. This volatility may adversely affect the market price of the Units.

## **Potential Dilution**

The Declaration of Trust allows the REIT to issue an unlimited number of Units for such consideration and on such terms and conditions as shall be established by the trustees of the REIT, in many cases, without the approval of Unitholders. Except as described under the heading “Plan of Distribution”, the REIT may issue additional Units in subsequent offerings (including through the sale of securities convertible into or exercisable or exchangeable for Units) and on the conversion, exercise or exchange of options or other securities convertible into Units. The REIT may also issue Units to finance future acquisitions and other projects. The size of future issuances of Units or the effect that future issuances and sales of Units will have on the market price of the Units cannot be predicted at this time. Issuances of a substantial number of additional Units, or the perception that such issuances could occur, may adversely affect prevailing market prices for the Units. With any additional issuance of Units, investors will suffer dilution to their voting power and the REIT may experience dilution in its earnings per Unit.

## **Future Sales of Securities of the REIT**

As at August 5, 2010, 89,012,976 Units were outstanding (110,104,388 Units after giving effect to the conversion of all securities convertible into Units and the vesting of all unvested Units). The REIT has a number of Unitholders that own significant numbers of Units, including Westmont Hospitality Group, Inc. which, based on public filings, owns 8.9% of the Units. All of the currently outstanding Units are eligible for sale in the public market, subject to any applicable restrictions under securities laws. Westmont Hospitality Group, Inc. may at any time sell any or all of the securities of the REIT that it owns. Sales of a substantial number of Units or other securities of the REIT in the public market could adversely affect the prevailing market price of the Units or Debentures or other securities of the REIT and could impair the REIT’s ability to raise additional capital.

## **Distributions**

Cash distributions are not guaranteed and may fluctuate with the REIT’s performance. The REIT depends on revenue generated from its portfolio of hotels to make such distributions. There can be no assurance regarding the amount of revenue generated by such portfolio. The amount of Distributable Income will depend upon numerous factors, including the financial performance of the REIT, seasonal fluctuations in operating results, the REIT’s debt covenants and obligations, the REIT’s working capital requirements, the REIT’s future capital requirements, the redemption of Units, if any, and other factors which may be beyond the control of the REIT. If the trustees of the REIT determine that it would be in the best interests of the REIT, they may reduce for any period the percentage of Distributable Income to be distributed to the Unitholders. In November 2008 and September 2009, the REIT announced reductions in its monthly distribution. The reductions were implemented in light of the uncertain economic conditions which existed at the time, and the trustees’ desire to strengthen the REIT’s balance sheet and liquidity.

## **Structural Subordination of Units**

In the event of a bankruptcy, liquidation or reorganization of the REIT or any of its subsidiaries, holders of certain of their indebtedness and certain trade creditors will generally be entitled to payment of their claims from the assets of the REIT and those subsidiaries before any assets are made available for distribution to the Unitholders. The Units will be effectively subordinated to most of the indebtedness and other liabilities of the REIT and its subsidiaries, expected to be approximately \$1,440 million upon the closing of the Offering. Neither the REIT nor any of its subsidiaries will be limited in its ability to incur additional secured or unsecured indebtedness.

## **LEGAL MATTERS**

Certain legal matters relating to the Offering will be passed upon by Davies Ward Phillips & Vineberg LLP, on behalf of the REIT, and by Osler, Hoskin & Harcourt LLP, on behalf of the Underwriters. As at the date hereof, the partners and associates of each of Davies Ward Phillips & Vineberg LLP and Osler, Hoskin & Harcourt LLP beneficially own, directly or indirectly, less than one percent of the securities of the REIT and its associates and affiliates.

## **AUDITORS, TRANSFER AGENT AND REGISTRAR**

The auditors of the REIT are Deloitte & Touche LLP at their principal offices in Toronto, Ontario. Deloitte & Touche LLP has advised us that it is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

The transfer agent and registrar for the Debentures and the Units is Computershare Investor Services Inc. at its principal offices in Toronto, Ontario.

## **PURCHASERS' STATUTORY RIGHTS**

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. The right may be exercised within two business days after receipt or deemed receipt of a short form prospectus and any amendment thereto. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the short form prospectus and any amendment thereto contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal adviser.

### **AUDITORS' CONSENT**

We have read the short form prospectus (the "**Prospectus**") of InnVest Real Estate Investment Trust (the "**REIT**") dated August 6, 2010 qualifying the distribution of \$75,000,000 aggregate principal amount of 6.00% convertible unsecured subordinated debentures of the REIT. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the Prospectus of our report to the unitholders of the REIT on the consolidated balance sheets of the REIT as at December 31, 2009 and 2008, and the consolidated statements of net loss and comprehensive loss, unitholders' equity and cash flows for the years then ended. Our report is dated March 10, 2010.

Toronto, Ontario  
August 6, 2010

(Signed) DELOITTE & TOUCHE LLP  
Chartered Accountants  
Licensed Public Accountants

**CERTIFICATE OF THE REIT**

Dated: August 6, 2010

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces and territories of Canada.

(Signed) KENNETH D. GIBSON  
Chief Executive Officer

(Signed) TAMARA L. LAWSON  
Chief Financial Officer

On behalf of the Board of Trustees

(Signed) FRANK ANDERSON  
Trustee

(Signed) MAJID MANGALJI  
Trustee

## **CERTIFICATE OF THE UNDERWRITERS**

Dated: August 6, 2010

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces and territories of Canada.

**SCOTIA CAPITAL INC.**

By: (Signed) STEPHEN SENDER

**CIBC WORLD MARKETS INC.**

By: (Signed) MARK G. JOHNSON

**TD SECURITIES INC.**

By: (Signed) KURSAT KACIRA

**RBC DOMINION SECURITIES INC.**

By: (Signed) RICHARD N. MATHESON

**CANACCORD GENUITY CORP.**

By: (Signed) MARK EDWARDS



InnVest

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