INNVEST REAL ESTATE INVESTMENT TRUST
THIRD QUARTER REPORT 2015

ELEVATING PERFORMANCE

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INTRODUCTION

InnVest Real Estate Investment Trust ("InnVest" or the "REIT") is an unincorporated open-ended real estate investment trust owning interests in a portfolio of hotels across Canada. The unaudited interim condensed consolidated financial statements ("Interim Financial Statements") and financial data included in this management's discussion and analysis ("MD&A") reflect the consolidated financial results of InnVest. This MD&A is dated November 11, 2015.

The following MD&A is intended to assist readers in understanding InnVest, its history, business environment, strategies, performance, outlook and risk factors and includes a discussion of the results of operations and financial condition of InnVest for the three and nine months ended September 30, 2015, with a comparison to the results of operations and financial condition for the three and nine months ended September 30, 2014. The MD&A should be read in conjunction with the Interim Financial Statements of InnVest and the notes thereto for the three and nine months ended September 30, 2015 and 2014 and the audited statements for the year ended December 31, 2014.

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

Certain measures in this MD&A do not have any standardized meaning as prescribed by International Financial Reporting Standards ("IFRS") and therefore are considered non-IFRS measures. Refer to *Non-IFRS Financial Measures and Additional IFRS Financial Measures* for a discussion of those measures used by InnVest, including a reconciliation to IFRS financial measures.

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

FORWARD-LOOKING STATEMENTS

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

These forward-looking statements are not guarantees of future events or performance and, by their nature, are based on InnVest's estimates and assumptions, which are subject to risks and uncertainties, including those described under "Risks and uncertainties" in this MD&A and Annual Information Form ("AIF"). Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By its nature, InnVest's forward-looking information involves numerous assumptions, inherent risks and uncertainties, which may cause InnVest's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Factors that could cause actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements include, but are not limited to, the status of InnVest as a real estate investment trust for Canadian federal income tax purposes in any year; achievement of plans to develop an optimal asset portfolio through completion of acquisitions, divestitures, and reinvestments within the timeframes necessary to generate the desired return on investment; maintain adequate liquidity; extent of realized benefits from internalization of the asset management functions; ability to refinance debt maturities as planned; ability to extend the operating line as planned; ability to achieve and maintain a lower debt leverage target; ability to reduce payout ratio; ability to sustain the current level of unit distributions; ability to fund acquisitions at a capital cost and equity/debt mix as desired; lender concentration; general global credit market conditions including currency and interest rate fluctuations; general global economic and business conditions; variable regional economic conditions including dependence on manufacturing, oil or other resource markets; the impact of lower oil prices and the decline in the Canadian dollar compared to the U.S. dollar on travel; the effects of competition and pricing pressures from multiple bidders for acquisitions; development and opening of new hotel properties; aggressive marketing, and service or product quality improvements by competitors; extent of industry overcapacity; changes in the level of cross-border travel by Americans to Canada and other possible shifts in market demands; adverse changes in laws and regulations, including environmental and taxation; potential increases in maintenance and operating costs; possible variances in the amount and timing of completion for planned capital or maintenance projects; failure of planned capital projects to result in desired shift in business mix and the effect of a data breach or significant disruption of hotel operator information technology networks as a result of cyber attacks.

Although InnVest believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will be consistent with these forward-looking statements. The forward-looking statements contained in this MD&A are made as of the date of this MD&A. Except as required by law, InnVest does not undertake any obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise. All forward looking statements contained in this MD&A are expressly qualified by this cautionary statement.

OUR BUSINESS

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

Hotel Real Estate Owner

As September 30, 2015, InnVest's portfolio comprised 109 hotel properties (14,084 rooms) as well as partial interests in two additional hotels. The partial interests include a 20% interest in the Fairmont Royal York (1,363 rooms), which InnVest acquired in February 2015 and a 33.3% interest in the Courtyard by Marriott in Toronto (575 rooms) that was acquired on August 26, 2015. InnVest accounts for its partial interests in these two hotels using the equity method. On September 1, 2015, InnVest acquired a 100% interest in the Hotel Saskatchewan, Regina ("Hotel Saskatchewan") and since the beginning of 2015 the REIT has sold two hotels. InnVest's "same-hotel" metrics for the three and nine months ended September 30, 2015 are based on the portfolio of 107 hotels owned over the entire periods presented, excluding acquisitions and divestitures completed during the periods presented.

InnVest's hotel portfolio consists of hotels in two main service level categories, which are Full-service and Limited service. Full-service hotels are generally mid-scale, upscale or luxury hotels with a restaurant, lounge facilities and meeting space and offer additional services, often including bell service and room service. These hotels typically generate significant food and beverage revenue.

Limited-service hotels typically have rooms-only operations, (i.e. with limited or no food and beverage service) or offer a bedroom and bathroom for the night, but very few other additional services and amenities. These hotels are often in the budget or economy group and do not typically generate food and beverage revenue. Limited-service hotels tend to have higher operating margins due to the greater proportion of room revenue.

Full-service hotels represent 46% of InnVest's total rooms and generate higher revenues per room given higher average daily rates charged and greater ancillary services sold. As a result, full-service hotels in the portfolio accounted for approximately 65% of hotel revenues generated during the nine months ended September 30, 2015 (2014 – 61%). Approximately 78% of hotel revenues (2014 – 80%) were generated from room revenues during the first nine months of 2015, with the remainder being generated from food and beverage sales and other services including meeting space rental, parking, retail operations and internet and telephone use.

The hotels' primary operating costs include wages, food and beverage costs, room supplies, utilities, repairs and maintenance, management fees, brand related fees and sales and marketing expenses. Other property level expenses include property taxes, ground rent for leasehold interests and property insurance which are relatively fixed and do not change in accordance with revenue levels.

InnVest's hotels are operated by five hotel management companies which earn base and incentive fees related to the revenues and profitability of each hotel. As at September 30, 2015, Westmont Hospitality Canada Limited ("Westmont"), a division of one of the largest privately held managers of hotels in the world, managed the majority of InnVest's hotels (97 hotels). InnVest also partners with other brand managers including Marriott International Inc. (including Delta Hotels) (7 hotels), Fairmont Hotels Inc. (4 hotels), Hilton Canada Co. (2 hotels) and Hyatt Hotels of Canada Inc. (1 hotel), each an experienced hotel manager. All but one hotel (Les Suites, Ottawa) are operated under widely-recognized international brands. While independent hotels may do well in certain strong market locations, we believe that most travellers prefer the consistent service, loyalty programs and quality associated with recognized brands.

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

Retail and Retirement Home Property

At September 30, 2015, InnVest owned one retail complex as well as one retirement home. These real estate interests are adjacent to an owned hotel and were included as part of the hotel's acquisition. InnVest does not consider these assets to be core to its business and intends to divest of these assets. During the third quarter, these real estate assets were classified as held for sale. For the nine months ended September 30, 2015, this line of business contributed $0.6 million in revenues (2014 – $0.5 million).

HOTEL MANAGEMENT DIVERSIFICATION(1)

OUTER CIRCLE
YTD 2015
Hotel Revenue %

- **54%** Westmont
- **16%** Fairmont
- **12%** Marriott (including Delta)
- **10%** Hyatt
- **8%** Hilton

INNER CIRCLE
Q3 2015 Hotel GOP %

- **59%** Westmont
- **15%** Fairmont
- **11%** Hyatt
- **9%** Marriott (including Delta)
- **6%** Hilton

HOTEL SERVICE CATEGORY DIVERSIFICATION(1)

OUTER CIRCLE
YTD 2015
Hotel Revenue %

- **65%** Full Service
- **35%** Limited Service

INNER CIRCLE
Q3 2015 Hotel GOP %

- **55%** Full Service
- **45%** Limited Service

HOTEL GEOGRAPHIC DIVERSIFICATION(1)

OUTER CIRCLE
YTD 2015
Hotel Revenue %

- **33%** Ontario
- **18%** Quebec
- **13%** Atlantic
- **36%** Western(2)

INNER CIRCLE
Q3 2015 Hotel GOP %

- **33%** Ontario
- **15%** Quebec
- **14%** Atlantic
- **38%** Western(2)

(1) Based on portfolio as at September 30, 2015.
(2) Included in the Western region are hotels in the province of Alberta, which are limited to the cities of Calgary and Edmonton. Primarily, as a result the acquisition of the Hyatt Regency Vancouver, the divestiture of non-strategic hotels since early 2014 and softening demand related to lower oil prices, the contribution from Alberta to room revenues for the nine months ended September 30, 2015, has been reduced to 16.2% from 19.7% in 2014 and Hotel GOP has been reduced from 25.2% in 2014 to 18.7% for nine months ended September 30, 2015.

Franchise Business

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

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

InnVest accounts for its interest in Choice Canada under the equity method.

KEY PERFORMANCE INDICATORS

Key performance indicators play an important role in evaluating the performance of the portfolio and achievement of InnVest's objectives. These key performance indicators are also used by management to measure the REIT's relative performance against its peers in the lodging industry.

- **Revenue per available room (RevPAR):** RevPAR is defined as the product of the average daily rate (ADR) achieved and the average daily occupancy. RevPAR measures room revenues and is a commonly used measure within the hotel industry to evaluate hotel operations.

  RevPAR changes driven by occupancy have different implications on gross operating profit than changes driven by ADR. Higher occupancy will generate incremental revenues such as food and beverage but will also result in higher costs relating to providing such services. ADR increases will not generate incremental revenue for ancillary services; however, they also will not result in meaningful additional costs and, therefore, ADR increases tend to have a greater positive impact on profitability.
- **Hotel gross operating profit (Hotel GOP):** Hotel operations contribute all of InnVest's overall gross operating profit. Defined as hotel revenues less expenses related to hotel operations, Hotel GOP measures property level results before debt service and facilitates comparisons between InnVest and its hotel competitors.
- **Hotel GOP margin:** Defined as Hotel GOP as a percentage of hotel revenues, this key performance indicator measures an individual hotel's profitability efficiency in relation to top-line revenue.
- **Funds from operations (FFO) and adjusted funds from operations (AFFO):** These indicators measure profitability and cash flow after all internal funding requirements including debt service. AFFO also considers funding requirements for the annual furniture, fixtures and equipment reserve ("FF&E Reserve"). FFO and AFFO are non-IFRS financial measures which do not have a standardized meaning and may not be comparable to similar financial measures used by other organizations. Refer to *Non-IFRS Financial Measures and Additional IFRS Financial Measures*.
- **Liquidity:** Management constantly monitors its cash flow, cash balances and availability under credit facilities to ensure sufficient liquidity to fund the operating and capital needs of the business and pay its monthly cash distributions to Unitholders. Liquidity is calculated as the sum of cash balances and availability under the revolving credit facility and capital expenditure loan facility.
- **RevPAR Index or Penetration:** RevPAR Index measures an individual hotel's performance compared to its local or regional competitive set, as applicable. RevPAR Index accounts for market volatility by measuring a hotel's relative performance against its direct competitive set. RevPAR Index is calculated by dividing an individual hotel's RevPAR by its market RevPAR. The RevPAR Index of a hotel reflects a measurement of the property's ability to obtain its relative share of RevPAR for its specific market. An index above 100% indicates a hotel achieving more than its relative share of the market RevPAR, while an index below 100% represents a property not attaining its relative share of the market RevPAR.

FINANCIAL AND OPERATING PERFORMANCE HIGHLIGHTS

	Three Months		Nine Months	
Period Ended September 30,	**2015**	2014	**2015**	2014
Consolidated Performance:				
Number of hotel properties – end of the period	**109**	112	**109**	112
Number of hotel rooms – end of the period	**14,084**	13,867	**14,084**	13,867
Occupancy (%)	**76.7%**	74.2%	**66.8%**	64.8%
ADR	**$ 140.21**	$ 129.43	**$ 133.42**	$ 124.22
RevPAR	**$ 107.56**	$ 96.05	**$ 89.15**	$ 80.47
Revenues	**$ 166,557**	$ 148,434	**$ 426,053**	$ 409,096
Gross operating profit (GOP)(1)	**56,654**	48,398	**118,146**	101,055
Gross operating margin	**34.0%**	32.6%	**27.7%**	24.7%
Net income (loss) and comprehensive income (loss)	**14,301**	16,508	**752**	(13,545)
Funds from operations (FFO)(1)	**39,378**	31,720	**65,407**	48,092
Adjusted funds from operations (AFFO)(1)	**35,746**	27,319	**55,456**	36,146
Distributions declared	**$ 13,261**	$ 9,481	**$ 37,412**	$ 28,312
Same Hotel Performance:				
Number of hotel properties	**107**	107	**107**	107
Occupancy (%)	**76.2%**	74.4%	**66.3%**	65.1%
ADR	**$ 133.63**	$ 131.58	**$ 128.60**	$ 126.34
RevPAR	**$ 101.87**	$ 97.93	**$ 85.25**	$ 82.29
Room Revenues	**$ 121,696**	$ 116,946	**$ 301,711**	$ 291,337
GOP	**$ 49,757**	$ 46,722	**$ 104,472**	$ 95,550
GOP margin	**33.8%**	32.9%	**27.6%**	26.0%
Per Unit:				
Net income (loss) per diluted unit	**$ 0.109**	$ 0.161	**$ 0.006**	$ (0.143)
FFO per diluted unit	**$ 0.275**	$ 0.278	**$ 0.511**	$ 0.467
AFFO per diluted unit	**$ 0.247**	$ 0.239	**$ 0.430**	$ 0.358
Distributions per unit	**$ 0.0999**	$ 0.0999	**$ 0.2997**	$ 0.2997
FFO and AFFO – Weighted average units outstanding – basic	**130,954,208**	94,863,069	**124,000,648**	94,388,753
FFO and AFFO – Weighted average units outstanding – diluted	**157,570,074**	130,628,458	**152,011,842**	128,513,979

As at:	**September 30, 2015(2)**	December 31, 2014	September 30, 2014
Total assets	**1,333,835**	1,329,285	1,186,098
Gross mortgages and other debt	**806,191**	801,363	763,858
Convertible debentures	**211,220**	247,608	247,608
Weighted average term to maturity(3)	**5.0 yrs**	2.8 yrs	3.5 yrs
Weighted average interest rate(3)	**5.0%**	5.5%	5.7%
Total debt to gross asset value (leverage ratio)(4)(5)	**58.1%**	62.0%	65.8%
Total debt to total capitalization(4)(5)	**60.6%**	60.1%	66.7%
Debt service coverage ratio (times)(4)(5)	**1.9 x**	1.6 x	1.6 x
Interest coverage ratio (times)(4)	**2.5 x**	2.0 x	2.1 x
Floating rate debt as % of total debt	**15.2%**	21.0%	12.9%
Total potential liquidity(6)	**72,690**	121,292	126,390
Twelve-month trailing AFFO payout ratio	**75.9%**	88.4%	85.0%
Twelve-month trailing AFFO payout ratio (including DRIP)	**67.9%**	81.2%	79.6%

(1) Refer to Non-IFRS Financial Measures and Additional IFRS Financial Measures.
(2) Calculations related to debt excluding InnVest's share of the floating rate mortgage debt on the Fairmont Royal York hotel of 22.1 million.
(3) Mortgages & other debt.
(4) Calculated on a trailing 12-month basis.
(5) Total Debt consists of Mortgage and other debt and convertible debentures.
(6) Total potential liquidity is defined as cash on hand, the availability under credit facilities and restricted cash.

OUR STRATEGY

Since announcing our Strategic Plan in early 2013 and the reconstituted Board of Trustees in March 2014 which included the addition of new independent Board members, we renegotiated our key property management agreement with Westmont on more favourable terms and improved corporate governance. We hired a new CEO and other key executive positions. We have also made significant progress in achieving all three key strategic plan objectives: repositioning our property portfolio, growing with key acquisitions and strengthening InnVest's financial position. These three objectives remain a primary focus for InnVest and the foundation of our value enhancing strategies. Building on this foundation, we continue to focus on growth with an objective of developing the premier lodging portfolio in the Canadian industry.

With these in mind, the strategic initiatives for the company fall into three primary areas:

1. Portfolio composition – invest and divest as appropriate to drive superior return on investment
2. Growth – leverage our internalized expertise to grow our business
3. Financial – continue to strengthen InnVest's balance sheet and financial position

Following the addition of new leadership and the internalization of the asset management platform, Management is currently reviewing InnVest's longer-term strategic objectives and expects to update the Strategic Plan in 2016.

Initiative	Objective	Year-to-Date Accomplishments
1. Portfolio Composition: *Invest in high quality assets and divest as appropriate to drive superior return on investment*	A key to success in the lodging industry is to own a well-diversified portfolio made up of high quality competitive assets in each of the markets where we are represented – hotels that will outperform in periods of growth and that are better insulated from declines during economic downturns. Optimal property attributes include high barrier to entry city-centre markets as well as highly competitive assets in secondary and tertiary markets. We are focused on being diversified in three primary categories: 1. Geography 2. Asset Class 3. Brand/Manager	• Acquired a 100% interest in the Hotel Saskatchewan, Regina on September 1, 2015. Renovations are currently underway to re-position and re-brand this hotel to an Autograph Hotel by Marriott. • Acquired a 33.3% interest in the Courtyard by Marriott, Toronto on August 26, 2015. • Acquired a 20% interest in the Fairmont Royal York Hotel ("Royal York Hotel") in downtown Toronto during the first quarter of 2015, expanding our presence in this high barrier to entry market. • The Hyatt Regency Vancouver was acquired in December 2014 with 2015 being InnVest's first full year of ownership of this hotel. This hotel provided InnVest with its first presence in the growing downtown Vancouver market. This addition also expanded InnVest's brand and management relationships and enhanced its geographical diversification. • All acquisitions are full-service hotels located in high quality, highly visible and high barrier to entry markets in central downtown locations. In addition, the third quarter acquisitions expand InnVest's relationship with Marriott.
	Part of optimizing our portfolio involves investing in our assets to ensure they are competitive within their markets. We have made significant investments in our properties in the past two years including the renovation of InnVest's 58 core Comfort Inn hotels and continue to see meaningful opportunities to improve the competitive positioning of other hotels within the core portfolio. Core hotels are characterized as hotels with investment metrics that are accretive to InnVest's cost of capital, located in stable or growing long-term markets, achieve their fair market share or above and show favourable potential growth prospects through capital investment or repositioning.	• The core Comfort Inn portfolio (renovated in 2013 and 2014) experienced 7.1% growth in room revenues during the third quarter of 2015 and 12.0% improvement in Hotel GOP as compared to the prior year. For the first nine months of the year, room revenues for the renovated core Comfort Inn portfolio grew 9.6%, with improvement in Hotel GOP of 23.0%.

Initiative	Objective	Year-to-Date Accomplishments
	For 2015, management expects to invest approximately \$60 million in capital improvements, including the two recent acquisitions finalized in the third quarter, with the potential for some planned projects to extend into the first quarter of 2016. The following capital improvements are planned for the fourth quarter of 2015; • The final phase of room renovations at the Delta London Armouries. • Commence guest room renovations at the Delta Beausejour in Moncton following the licence renewal for this hotel. • Completing the lobby and restaurant renovations at the Hotel Saskatchewan. • Commencing the addition of a Fairmont Gold room product and lounge at the Fairmont Hotel Macdonald. • Management is reviewing a number of additional renovations to address upcoming franchise license renewals and repositioning opportunities across the portfolio. • Capital improvements are expected to be funded by net proceeds from the remaining hotel sales as well as available liquidity. The extent and timing of InnVest's future capital investments depend on the assessment of return expectations, market considerations (timed to minimize displacement where possible) and alternative uses for our capital. The majority of capital improvements take place in the first and fourth quarters in order to minimize the impact on business operations during the popular summer months.	• Invested \$28.6 million in capital improvements during the nine months of 2015: – Completed the final phase of room renovations at the Fairmont Palliser and the Sheraton Suites Eau Claire in Calgary early in the second quarter of 2015; – First phase of the room renovations at the Delta London Armouries were completed in August; – Completed the lobby renovations at Moncton's Delta Beausejour in the second quarter and the meeting level renovations were finished in September. Room renovations are scheduled to begin in the fall; – Room renovations are largely completed at the Toronto Fairmont Royal York with over 900 of the 1,363 rooms substantially completed by the end of the third quarter of 2015; – Completing the first phase of renovations at the Hotel Saskatchewan in Regina to rebrand the hotel to a Marriott Autograph Collection Hotel.
	We also look to recycle capital from the planned sale of non-core assets to improve the overall quality and diversification of the portfolio. • Remaining non-core assets targeted for sale (5 hotels at September 30, 2015; 7 hotels at December 31, 2014) are expected to generate gross proceeds of over \$25 million (net proceeds of approximately \$20 million, after mortgage debt repayment).	• Thus far, in 2015, a total of two of hotels have been sold, for aggregate gross proceeds of \$15.3 million (net proceeds of \$7.0 million). Since the beginning of 2014, InnVest has divested of 21 low cash flow yielding non-core assets (the "hotel sales").
2. Growth: *Growing our business*	Capitalize on InnVest's recently internalized asset management platform.	• Hired new a full-time CEO in January 2015; • InnVest internalized its asset management function late in 2014 enabling it to have direct oversight of the portfolio; and • Hired key resources in 2015 as we continue to enhance our internal team and capabilities.
	Pursue acquisitions to grow and diversify the portfolio and through acquisitions enhance the balance sheet by reducing leverage.	• Acquired the Hotel Saskatchewan, Regina, a hotel positioned at the top of its market. • Acquired a 33.3% interest in the Courtyard by Marriott in Toronto. • Acquired a 20% interest in the Royal York Hotel in February 2015.
	Build on operating progress achieved by leveraging our renovated properties and experienced internalized asset management platform to drive internal growth and revenue by shifting business to higher-margin segments and capturing greater market share.	• Hotel GOP margins strengthened 130 basis points in the third quarter and 300 basis points in the first nine months of 2015 primarily driven by the renovated Comfort Inn portfolio and the recently acquired Hyatt Regency in Vancouver. • Aided by InnVest's active asset management oversight, the Hyatt Regency Vancouver grew its RevPAR Index by 1.5 points and ADR Index 6.9 points during the first nine months of the year.

Initiative	Objective	Year-to-Date Accomplishments
3. Financial: *Further strengthening the balance sheet and financial position*	Maintain a strong balance sheet with lower leverage and staggered debt maturities in order to minimize InnVest's cost of capital and provide adequate financial flexibility to withstand market cycles.	• Maintained liquidity of $69.5 million at September 30, 2015 as compared to $119.1 million at December 31, 2014, which included $25 million of capital raised to fund the Royal York Hotel acquisition in early 2015. • In July 2015, InnVest completed a successful bought-deal equity offering, raising gross proceeds of $48.3 million, including an over-allotment option, to fund a portion of the acquisition of the Hotel Saskatchewan, Regina and Courtyard by Marriott in Toronto. Management intends to place new mortgage financing of approximately $23 million in respect of the Hotel Saskatchewan, representing 50% of the purchase price and certain capital expenditures incurred to convert the hotel to the Marriott Autograph collection. • Participated in the purchase of the Courtyard by Marriott in Toronto, funded 70% with equity and the balance of approximately $10 million from its operating line of credit, representing 30% of the purchase price of its 33.3% interest in the hotel.
	• Target leverage reduction below 60% (debt to gross asset value).	• Improved debt to gross asset value leverage to 58.1% at September 30, 2015 from 62.0% at December 31, 2014 and 65.8% at September 30, 2014.
	• Reduce reliance on convertible debentures.	• Early redemption of our $36.4 million Series D convertible debentures ("Series D Debentures") in March 2015, which resulted in approximately 90% of the Series D debentures converting to equity.
	• Capitalize on the availability of debt at historically low interest rates to refinance debt, lowering the weighted average interest rate and extending our average term to maturities.	• During the third quarter of 2015, mortgage loans on 23 hotel properties totalling $216 million bearing a weighted average interest rate of 5.2% were refinanced with new mortgage loans totalling $195.1 with a weighted average interest rate of 3.7%. The new mortgage loans were secured by nine hotel properties. In addition, 12 hotels and $36 million of capacity were added to the $100 million operating, acquisition and capital expenditure credit line. The remaining two hotels remain unencumbered pending disposition. • In the second quarter, finalized an $80 million 10-year mortgage on the Hyatt Regency Vancouver at a fixed interest rate of 3.75%. • The weighted average interest rate has improved from 5.5% at December 31, 2014 to 5.0% at September 30, 2015. • The weighted average term to maturity has been extended from 2.8 years at December 31, 2014 to 5.0 years at September 30, 2015.
	• Lower distribution payout ratio to improve financial flexibility by increasing profitability.	• 75.9% trailing payout ratio as compared to 88.4% at December 31, 2014 and 85.0% at September 30, 2014, reflecting the year over year improvement in operating performance with continued operating improvements expected through the balance of the year.

OUTLOOK

According to the Conference Board of Canada outlook issued in October 2015, economic growth for Canada is forecast to be 1.6% in 2015 and 2.3% in 2016, a revision from prior forecasts of 1.9% and 2.2%, respectively. For the first seven months of the year, Canadian Gross Domestic Product ("GDP") experienced declines for the first five months but modest increases for June and July and it is expected to improve in the latter half of the year. While growth is forecast in 2015 across most provinces in Canada, Alberta's economy continues to be negatively impacted by the decline in crude oil prices. Saskatchewan's economy is also expected to be impacted by the decline in crude oil prices and drought conditions. Of note, British Columbia, Manitoba, Ontario and Prince Edward Island are expected to exceed the national average growth rate in 2015 which would benefit our newest acquisition in Vancouver and our newly renovated full-service hotel in Winnipeg. The economic outlook should be stronger in 2016, particularly in British Columbia, Saskatchewan, and Manitoba which are expected to exceed the expected Canadian growth rate. Saskatchewan's economy is forecasted to rebound due to expected growth in resource production and the construction industry which will positively impact our recently acquired and renovated, Hotel Saskatchewan in Regina. As previously forecasted by InnVest, operating results for our portfolio are expected to be positively impacted from our high-quality newly renovated hotels within the portfolio including significant room renovations at the Fairmont Royal York hotel in Toronto, the lower gas prices and relatively low Canadian dollar, and internalization of the asset management function. The reduction in retail gas prices due to lower oil prices, and the decline in the Canadian dollar compared to the U.S. dollar, are expected, over time, to help mitigate the negative impact of low crude oil prices on the overall Canadian economy as more Canadians choose to travel domestically. Early 2015 projections were that overnight U.S. travel to Canada would increase 3.5% in 2015 compared to only a 1.2% increase in 2014. For the first seven months of 2015, according to Destination Canada, overnight trips from the U.S. are up 11.6%. Our broad, diversified portfolio of quality assets provides us with appropriate risk mitigation in the face of regional disparities. In addition, industry fundamentals in the Canadian hotel business are expected to strengthen in 2015, with demand increases expected to outpace to increases in supply. According to HVS Global Hospitality Services, Canadian national RevPAR is forecasted to grow 3.4% in 2015 and 4.7% in 2016.

We continue to expect our renovated hotels to benefit from completed capital investments, our newly acquired hotels make a contribution to our results, and our core portfolio capitalizes on positive industry fundamentals. The continuing impact of lower crude oil prices on the overall Canadian economy could constrain our growth over the near term. The lower Canadian dollar following the recent interest rate cuts should continue to have a positive impact on our business by creating an incentive for Canadians to travel domestically and attracting more U.S. visitors.

Prudent financial management and an improved balance sheet have helped lower our cost of capital and better position InnVest to take advantage of potential further growth opportunities. We continue to see significant redevelopment and return-on-investment projects within our existing portfolio. We are also evaluating opportunities to further expand, diversify and upgrade our portfolio through select acquisitions and ongoing improvements to the balance sheet through acquisitions.

Recent Events

InnVest is committed to enhancing unitholder alignment and growing unitholder value. InnVest's strategy to reduce leverage (including reducing InnVest's reliance on dilutive convertible securities), and improve return on investment through divestitures, acquisitions and capital investments is expected to enhance the stability and growth of the portfolio's long-term cash flows and valuation.

ACQUISITIONS

In September 2015, the Hotel Saskatchewan located in downtown Regina was acquired for a gross purchase price of $38.0 million and as part of the agreement, the REIT reimbursed the vendor for $7.0 million in renovation capital spent as part of the hotel re-branding. The purchase was satisfied with available cash on hand following the $48.3 million equity raise in July and capacity under InnVest's existing credit facility. InnVest expects to obtain long-term mortgage financing at approximately 50% of the purchase price and anticipated capital expenditures. The 224-room hotel is undergoing repositioning and a re-branding to the prestigious Marriott Autograph Collection of properties. The Hotel Saskatchewan is a full-service, 224-room upscale hotel located in downtown Regina. The hotel features a restaurant and lounge, a tea room, 14,000 square feet of meeting space, 3,600 square feet of leased commercial space, and a 92-space adjacent parking lot.

On August 26, 2015, InnVest acquired a one-third interest in the Courtyard by Marriott Hotel in downtown Toronto for $33.0 million, satisfied with available cash and capacity under its existing credit facility. KingSett Real Estate Growth LP No. 5 ("KingSett") acquired the two-thirds interest. The hotel is a select-service, upper midscale property strategically located on Yonge Street one block north of College Street in downtown Toronto. It consists of two towers situated on approximately 1.5 acres of land. Containing 575 rooms, it also offers an indoor pool and fitness facility, business centre, 14,000 square feet of meeting space, two restaurants, 4,600 square feet of retail space and a 101-space underground parking garage.

FINANCING

On July 2, 2015, InnVest filed a base shelf prospectus, which is valid for a 25-month period, during which time InnVest may offer trust units, debt securities, warrants and subscription receipts, or any combination thereof, having an aggregate offering price of up to $500.0 million. On July 15, 2015, InnVest issued by way of public offering 9,660,000 units under a base shelf prospectus (including 1,260,000 units issued on July 22, 2015, pursuant to the full exercise of the underwriters' over-allotment option), at a price of $5.00 per unit for aggregate gross proceeds of $48.3 million.

In the third quarter, InnVest completed the following mortgage financings:

- In July 2015, financed the Fairmont Palliser Calgary, Alberta with a 10-year $82.5 million mortgage at a fixed interest rate of 4.0% with a U.S. financial institution.
- On July 24, 2015, financed one Comfort Inn with a 10-year $1.2 million mortgage at a fixed interest rate of 3.96%.
- In August 2015, financed four hotels with a 7-year $36.0 million mortgage at a fixed interest rate of 3.95% with a Canadian financial institution.

- In September 2015, financed the Fairmont Macdonald Edmonton, Alberta with a 5-year $40.0 million mortgage at a fixed interest rate of 3.5% with a Canadian financial institution.
- In September 2015, financed the Delta Beausejour Moncton and the Delta Prince Edward Island Charlottetown with a 5-year $35.4 million mortgage at a fixed interest rate of 3.65% with a Canadian financial institution.

Q3 2015 HIGHLIGHTS

Strategic Highlights

- Acquired the Hotel Saskatchewan, Regina for gross proceeds of $38.0 million and $7.0 million in capital expenditures;
- Purchased a 33.3% interest in the Courtyard by Marriott, Toronto for $33.0 million;
- Finalized an $82.5 million 10-year mortgage on the Fairmont Palliser Calgary at a fixed interest rate of 4.0%;
- Finalized a $40.0 million 5-year mortgage on the Fairmont Macdonald Edmonton at a fixed interest rate of 3.5%;
- Finalized a $36 million 7-year mortgage on four hotels at a fixed interest rate of 3.95%;
- Finalized a $35.4 million 5-year mortgage on the Delta Beausejour Moncton and Delta Prince Edward Island Charlottetown at a fixed interest rate of 3.65%;
- Reduced leverage from 62.0% at the end of 2014 to 58.1% at September 30, 2015; and
- Extended the weighted average term to maturity on mortgage debt from 2.8 years at December 31, 2014 to 5.0 years at September 30, 2015 and reduced the weighted average interest rate of mortgage debt from 5.5% at December 31, 2014 to 5.0% at September 30, 2015.

Operating Highlights

- Hotel performance for the third quarter and nine months ended September 30, 2015, up strongly driven by new hotel acquisitions, renovated properties, and sale of non-core properties, all resulting in a higher quality portfolio of assets;
- RevPAR up 12.0% for the quarter and 10.8% for the nine months ended September 30, 2015. Same-hotel RevPAR up 4.0% for the quarter and 3.6% for the nine months ended September 30, 2015 through a combination of both room rate and occupancy gains;
- GOP for the third quarter increased $8.3 million or 17.1% and GOP margins improved 140 basis points primarily due the strong performance of the renovated Comfort Inn portfolio and Hyatt Regency Vancouver acquisition. GOP was up 16.9% for the first nine months with 300 basis point margin improvement to 27.7%;
- Same-hotel GOP up 6.5% for the third quarter and 9.3% for the first nine months of the year. Same-hotel GOP margin up 90 basis points to 33.8% for the quarter and up 160 basis points to 27.6% for the first nine months of the year;
- The portfolio of 58 Comfort Inns renovated in 2013 and 2014 grew room revenue by 7.1% and Hotel GOP by 12.0% for the third quarter and for the nine months ended September 30, 2015 room revenue increased 9.6% and Hotel GOP by 23.0%;
- FFO and AFFO experienced increases of 24.1% and 30.8% respectively, against prior year's third quarter due to contributions from recent acquisitions and improved same-hotel performance;
- Third quarter FFO per unit of $0.275 relatively flat to the same period in prior year being negatively impacted by debt extinguishment costs of $0.012 and the negative drag of approximately $0.01 resulting from the $48.3 million equity issue closing in advance of the related acquisitions. FFO per unit up 9% to $0.511 for the first nine months of the year; and
- Per unit amounts in 2015 were impacted by the timing of the July 2015 equity offering, as proceeds were not fully invested until the acquisitions at the end of August and beginning of September. Year over year per unit amounts were also impacted by the 21% increase in the weighted average number of units outstanding for the third quarter and 18% for the year to date resulting from the July 2015 and November 2014 equity offerings.

The following discussion summarizes InnVest's performance for the three and nine months ended September 30, 2015 as compared to 2014.

Revenues

	Three months ended September 30,			Nine months ended September 30,		
	2015	2014	Variance %	**2015**	2014	Variance %
Hotel	**$ 166,318**	$ 148,254	12.2%	**$ 425,423**	$ 408,551	4.1%
Other real estate properties	**239**	180	32.8%	**630**	545	15.6%
Revenues	**$ 166,557**	$ 148,434	12.2%	**$ 426,053**	$ 409,096	4.1%

InnVest's principal business is the ownership of hotel real estate (see detailed discussion below). The revenue improvement for three and nine months ended September 30, 2015, compared to the same period in 2014, is primarily due to the addition of the Hyatt Regency Vancouver which was acquired at the end of the prior year, strong performance of the renovated Comfort Inn portfolio and offset by revenue related to the hotels sold in 2014 and 2015. Revenues from other real estate properties relate to a retail complex and retirement home adjacent to an existing hotel.

HOTEL REVENUES

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Variance %	**2015**	2014	Variance %
Room	**$ 135,458**	$ 122,828	10.3%	**$ 333,057**	$ 325,229	2.4%
Non-room	**30,860**	25,426	21.4%	**92,366**	83,322	10.9%
Hotel Revenues	**$ 166,318**	$ 148,254	12.2%	**$ 425,423**	$ 408,551	4.1%

Hotel revenues consist primarily of revenue generated from room occupancy. Non-room revenues include food and beverage services and other miscellaneous revenue streams associated with hotel operations such as meeting space rentals, parking, retail operations and telephone use. The increase in hotel revenues for the three and nine months ended September 30, 2015, was primarily due the addition of the Hyatt Regency Vancouver in December 2014 and strong performance of the renovated Comfort Inn portfolio offset by revenue related to the hotels sold. Since the beginning of 2014, 21 non-core hotels (2,679 rooms) have been sold (two in 2015 and 19 in 2014). Same-hotel revenue growth was 3.8% and 3.0% for the three and nine months ended September 30, 2015.

ROOM REVENUES

Total room revenues for the three and nine months ended September 30, 2015 increased $12.6 million or 10.3% and $7.8 million or 2.4%, respectively, owing largely to the contribution of room revenues from the Hyatt Regency Vancouver acquired in December 2014 and improved operating results from the renovated Comfort Inn portfolio.

Same-hotel room revenues during the three months ended September 30, 2015 improved $4.8 million or 4.1%. Notably, room revenue growth achieved from the Comfort Inn assets which were renovated in 2013 and 2014 grew 7.1% as compared to the prior year period. The hotels divested since the beginning of 2014 contributed to overall room revenue declines of $5.9 million compared to the prior year's third quarter while the acquisition of the Hyatt Regency Vancouver and Hotel Saskatchewan contributed $13.8 million in incremental room revenues for the third quarter.

Same-hotel room revenues during the nine months ended September 30, 2015 improved $10.4 million or 3.6%, while room revenue growth from the recently renovated Comfort Inn assets grew 9.6% in the first nine months of the year, as compared to the prior year period. The hotel divestitures contributed to an overall decline of $32.7 million compared to the same period in the prior year while the acquisition of the Hyatt Regency Vancouver and Hotel Saskatchewan contributed $30.1 million in incremental room revenues for the nine months ended September 30, 2015.

Room revenues for the three and nine months ended September 30, 2015 are net of $2.4 million and $6.6 million, respectively (2014 – $2.3 million and $6.5 million) of costs associated with third-party loyalty programs.

RevPAR during the three and nine months ended September 30, 2015 improved 12.0% and 10.8% respectively. RevPAR growth in 2015 was affected by the acquisition of the Hyatt Regency Vancouver and Hotel Saskatchewan Regina in the past 12 months and revenue displacement caused by renovations across the portfolio in 2014. This was somewhat mitigated by ongoing disruption caused by renovations at select hotels in 2015 or hotels still recovering from renovations undertaken in 2014.

Same-hotel RevPAR during the three and nine months ended September 30, 2015 improved 4.0% and 3.6% respectively with growth in occupancy and average daily rates as highlighted in the table below.

	Three months ended September 30,			Nine months ended September 30,		
	2015	2014	Variance	**2015**	2014	Variance
Occupancy						
Ontario	**76.4%**	74.0%	2.4 pts	**67.8%**	66.7%	1.1 pts
Quebec	**78.3%**	74.2%	4.1 pts	**68.1%**	64.7%	3.4 pts
Atlantic	**79.1%**	79.9%	(0.8 pts)	**61.1%**	62.1%	(1.0 pts)
Western	**71.5%**	71.3%	0.2 pts	**65.2%**	64.6%	0.6 pts
Total	**76.2%**	74.4%	1.8 pts	**66.3%**	65.1%	1.2 pts
ADR						
Ontario	**$ 120.71**	$ 116.41	3.7%	**$ 116.63**	$ 112.53	3.6%
Quebec	**$ 129.77**	$ 128.06	1.3%	**$ 123.19**	$ 120.75	2.0%
Atlantic	**$ 136.19**	$ 127.67	6.7%	**$ 125.43**	$ 119.79	4.7%
Western	**$ 164.93**	$ 172.07	(4.2%)	**$ 163.12**	$ 167.28	(2.5%)
Total	**$ 133.63**	$ 131.58	1.6%	**$ 128.60**	$ 126.34	1.8%
RevPAR						
Ontario	**$ 92.20**	$ 86.14	7.0%	**$ 79.12**	$ 75.09	5.4%
Quebec	**$ 101.58**	$ 95.00	6.9%	**$ 83.92**	$ 78.13	7.4%
Atlantic	**$ 107.68**	$ 102.03	5.5%	**$ 76.68**	$ 74.42	3.0%
Western	**$ 117.94**	$ 122.66	(3.8%)	**$ 106.32**	$ 108.07	(1.6%)
Total	**$ 101.87**	$ 97.93	4.0%	**$ 85.25**	$ 82.29	3.6%

Note: Gross hotel revenues on a same-hotel basis (107 hotels), excluding hotels which were sold or acquired during the periods presented.

Room Revenue

	Number of Hotels	Number of Rooms	Three Months Ended September 30, 2015 Room Revenue	Variance to Prior Year Comparative Period $	%	Nine Months Ended September 30, 2015 Room Revenue	Variance to Prior Year Comparative Period $	%
Core Portfolio[1]:								
Ontario	48	5,620	**$ 46,811**	$ 3,022	6.9%	**$ 119,186**	$ 5,882	5.2%
Quebec	22	2,488	**23,446**	1,446	6.6%	**56,797**	3,986	7.5%
Atlantic	16	1,785	**18,237**	894	5.2%	**38,233**	1,011	2.7%
Western	16	2,670	**28,388**	(1,035)	(3.5%)	**75,709**	(1,095)	(1.4%)
Total Core Portfolio	102	12,563	**$ 116,882**	$ 4,327	3.8%	**$ 289,925**	$ 9,784	3.5%
Non-Core Portfolio	5	653	**4,814**	423	9.6%	**11,786**	590	5.3%
Same-Hotel Portfolio	107	13,216	**$ 121,696**	$ 4,750	4.1%	**$ 301,711**	$ 10,374	3.6%
Acquisitions	2	868	**13,762**	13,762	nm	**30,119**	30,119	nm
Total Current Portfolio	109	14,084	**$ 135,458**	$ 18,512	15.8%	**$ 331,830**	$ 40,493	13.9%
2015 dispositions	2	296	**–**	(1,904)	nm	**1,227**	(4,139)	nm
2014 dispositions	19	2,383	**–**	(3,978)	nm	**–**	(28,526)	nm
Total Portfolio		16,763	**$ 135,458**	$ 12,630	10.3%	**$ 333,057**	$ 7,828	2.4%

"nm" – not meaningful

(1) Core Portfolio hotels are defined as hotels with investment metrics that are accretive to InnVest's cost of capital, located in stable or growing long-term markets, achieve their fair market share or above and show favourable potential growth prospects through capital investment or repositioning.

Total Current Portfolio analysis for the three and nine months ended September 30, 2015:

- Experienced growth across the Ontario region driven by strength in Sudbury and Eastern Ontario due to renovations completed in prior years and increased market demand.
- Quebec region up strongly due primarily to renovations across the Comfort Inn portfolio and strong group demand at the Hilton Quebec City.
- Performance across the Atlantic region was impacted by the declining oil market in St. John's, Newfoundland, which offset growth following completed renovations at the Delta Prince Edward Island. In addition, the Delta Beausejour Moncton's ongoing meeting space renovations impacted the hotel's group room bookings in the third quarter.
- The Western region was down compared to prior year as strong performance at the Delta Winnipeg following completed renovations and was offset by softening demand in Calgary, Alberta and Saskatchewan due to the declining oil market.

Following the extensive renovation and repositioning of our 58 Comfort Inns in 2013 and 2014, these hotels are delivering growth rates which exceed results achieved from hotels which have not been renovated. We expect further improvement, particularly from those assets renovated in 2014, as these recently renovated hotels continue to shift their business mix to higher rated segments. Based on our experience, the typical period for these hotels to fully ramp up from the renovation can be a year or more, depending on the market.

In addition, a number of full-service hotels have undertaken extensive renovations since 2014 including:

- Phased renovations were underway through 2014 and 2015 at two hotels in Calgary (the Fairmont Palliser and the Sheraton Calgary Eau Claire) and renovations to both hotels were completed in the second quarter of 2015.
- Multi-year renovations to all guestrooms and public space at the Delta Winnipeg were completed in the third quarter of 2014.
- Renovations to all guestrooms and public space at the Delta Prince Edward were completed through the first half of 2014.
- Rebranded a hotel in London, Ontario to a Holiday Inn in the fourth quarter of 2014 following extensive renovations through the year.
- Started phased renovations to the Delta London Armouries in the first quarter of 2015. The first phase of guestroom renovations was completed in August 2015. Remaining guestrooms and public space renovations are expected to resume in the fall of 2015.
- Completed the meeting room level renovations at Moncton's Delta Beausejour in the third quarter of 2015.
- Room renovations are largely completed at the Toronto Fairmont Royal York with over 900 of 1,363 rooms renovated. The final floors of guest rooms are currently under renovation with targeted completion by the end of November.
- Having closed on the purchase of the Hotel Saskatchewan in September, InnVest is completing the renovations related to rebranding the hotel as part of the Marriott Autograph Collection in the fourth quarter.

The following table summarizes room revenue across our Core Portfolio and serves to highlight the displacement experienced while renovation work is underway, as well as the growth achieved-to-date following the completion of renovations. Moreover, the table highlights that revenues from renovated Comfort Inn hotels generally take a few quarters to ramp-up. Notably, the 27 Comfort Inn hotels which completed renovations in 2014 increased revenue by 11.1% and 13.9% for the three and nine months ended September 30, 2015, respectively. We continue to see meaningful growth from hotels renovated for more than one year as highlighted by the third quarter revenue growth of 4.1% and nine month revenue growth of 6.4% from Comfort Inn hotels renovated in 2013. These growth rates exceeds results achieved from hotels which have not been renovated, highlighting the return opportunities provided by internal investments within the existing portfolio.

Revenue for Other Core hotels was reflective of oil-related declines and on-going renovation activities experienced in Calgary, offset by improved performance in Quebec City owing to higher group demand as compared to the prior year. The non-core portfolio increase is largely due to the Delta Trois Rivieres, which underwent extensive exterior structure repairs in 2014 which resulted in the hotel being temporarily closed during the repairs.

Room Revenue

	Number of Hotels	Number of Rooms	Three Months Ended September 30, 2015 Room Revenue	Variance to Prior Year Comparative Period $	%	Nine Months Ended September 30, 2015 Room Revenue	Variance to Prior Year Comparative Period $	%
Core Comfort Inn Portfolio								
Renovated in 2013[(1)]	31	2,502	**$ 19,157**	$ 752	4.1%	**$ 45,854**	$ 2,770	6.4%
Q1 2014[(1)] renovations	4	295	**2,907**	123	4.4%	**6,616**	763	13.0%
Q2 2014[(1)] renovations	11	686	**5,547**	327	6.3%	**13,272**	2,020	18.0%
Q3 2014[(1)] renovations	1	146	**784**	288	58.1%	**1,747**	334	23.6%
Q4 2014[(1)] renovations	11	842	**6,237**	811	14.9%	**14,511**	1,285	9.7%
Renovated in 2014	27	1,969	**15,475**	1,549	11.1%	**36,146**	4,402	13.9%
Renovated Core Comfort Portfolio	58	4,471	**34,632**	2,301	7.1%	**82,000**	7,172	9.6%
Full service Core hotels under renovations:								
2014 renovations[(1)]	3	747	**7,289**	1,442	24.7%	**18,003**	3,220	21.8%
2014 & 2015 renovations[(1)]	2	728	**12,995**	(1,423)	(9.9%)	**33,123**	(2,332)	(6.6%)
2015 renovations[(1)]	1	220	**1,528**	(142)	(8.5%)	**3,854**	(950)	(19.8%)
Other Core hotels	38	6,397	**60,438**	2,149	3.7%	**152,945**	2,674	1.8%
Total Core Portfolio[(2)]	102	12,563	**$ 116,882**	$ 4,327	3.8%	**$ 289,925**	$ 9,784	3.5%
Non-Core Portfolio	5	653	**4,814**	423	9.6%	**11,786**	590	5.3%
Same-Hotel Portfolio	107	13,216	**$ 121,696**	$ 4,750	4.1%	**$ 301,711**	$ 10,374	3.6%
Acquisition	2	868	**13,762**	13,762	nm	**30,119**	30,119	nm
Total Current Portfolio	109	14,084	**$ 135,458**	$ 18,512	15.8%	**$ 331,830**	$ 40,493	13.9%
2015 dispositions	2	296	**–**	(1,904)	nm	**1,227**	(4,139)	nm
2014 dispositions	19	2,383	**–**	(3,978)	nm	**–**	(28,526)	nm
Total Portfolio	130	16,763	**$ 135,458**	$ 12,630	10.3%	**$ 333,057**	$ 7,828	2.4%

(1) Based on the period in which substantial completion of renovations were completed.
(2) Excludes one hotel acquired during 2014, one hotel acquired in 2015, two sold hotels in 2015 and five non-core hotels which have been identified for divestiture.

NON-ROOM REVENUES

The sale of food and beverage represented over 80% of the non-room revenue earned in 2015 and 2014. Non-room revenues for the third quarter of 2015 increased $5.4 million or 21.4% and for the first nine months of 2015 increased $9.0 million or 10.9%, over the same periods in the prior year. The acquisition of the Hyatt Regency Vancouver in December 2014 contributed primarily to improved non-room revenues of $5.2 million and $15.0 million for the third quarter and first nine months of 2015, respectively. The hotels divested since 2014 partially offset this contribution. Same-hotel non-room revenues for the three months ended September 30, 2015 increased $0.6 million or 2.3% in 2015 largely due to increased wedding activity at the Fairmont Hotel Macdonald. Same-hotel non-room revenues for the nine months ended September 30, 2015 were relatively flat compared to the same period in the prior year.

Hotel and Other Real Estate Properties Expense

	Three Months Ended September 30, 2015	2014	Variance %	Nine Months Ended September 30, 2015	2014	Variance %
Hotel	**$ 109,741**	$ 99,814	9.9%	**$ 307,127**	$ 307,221	(0.0%)
Other real estate properties	**162**	222	(27.0%)	**780**	820	(4.9%)
Hotel and other real estate properties expense	**$ 109,903**	$ 100,036	9.9%	**$ 307,907**	$ 308,041	(0.0%)

InnVest, through its asset management function, continually works with its hotel operations managers to focus on managing all costs to maximize overall profitability while achieving desired service levels offered to guests. Management's focus is on limiting incremental costs associated with improved occupancy and/or adjusting costs in periods of declining occupancy in order to enable margin expansion. Many property level expenses, including property taxes, rent and insurance are relatively fixed and do not change in accordance with overall demand levels.

Hotel expenses increased $9.9 million or 9.9% for the third quarter due primarily to the addition of the Hyatt Regency Vancouver. For the nine months ended September 30, 2015, hotel expenses were flat, with the additional expenses related to the two new hotels offset by the elimination of costs associated with assets sold. Same-hotel expenses for the three months were up $2.3 million or 2.4% and flat for the nine months ended September 30, 2015 compared to the prior year's same periods in 2015.

Gross Operating Profit ("GOP")

	Three Months Ended September 30, 2015	2014	Variance %	Nine Months Ended September 30, 2015	2014	Variance %
Hotel	**$ 56,577**	$ 48,440	16.8%	**$ 118,296**	$ 101,330	16.7%
Other real estate properties	**77**	(42)	283.3%	**(150)**	(275)	45.6%
Hotel and other real estate properties GOP	**$ 56,654**	$ 48,398	17.1%	**$ 118,146**	$ 101,055	16.9%

For the third quarter, overall GOP improved $8.3 million or 17.1% compared to the same period in the prior year, primarily as a result of the addition of the Hyatt Regency Vancouver hotel, and the relatively lower yielding nature of assets sold as compared to the existing portfolio as well as the operating leverage derived from the year-over-year improvement in occupancy and room rates achieved.

For the nine months ended September 30, 2015, gross operating profit increased $17.1 million, or 16.9% compared to the same period in the prior year, highlighting the relatively lower cash flow yielding nature of hotels sold as compared to the existing portfolio.

HOTEL GOP

The hotel industry has a high level of fixed costs with incremental revenue gains requiring marginal increases in costs. As a result, revenue growth achieved beyond inflation can contribute to substantial operating leverage for the portfolio. Notably, while occupancy growth contributes to improved profitability, higher margins are achieved through increases in ADR. Conversely, in periods of marginal (below inflation) or declining revenues, decreases to expenses are limited, resulting in reduced profitability. The percentage GOP increases achieved for the third quarter and year-to-date are significantly higher than the percentage revenue increases resulting in the expansion of GOP margins. This highlights the positive operating leverage inherit in the hotel business when revenue increases outpace inflationary increases in costs and there is a relatively low level of variable costs associated with increased business volumes and higher room rates achieved.

For the three months ended September 30, 2015, Hotel GOP improved $8.1 million, or 16.8%, as compared to revenue increases of 12.2%. The addition of the Hyatt Regency Vancouver and Hotel Saskatchewan acquired since December 2014 contributed $6.8 million to GOP in the third quarter of 2015. Same-hotel GOP growth for the third quarter of $3.0 million or 6.5% was offset by reduced contribution to Hotel GOP from the hotels sold totalling $1.7 million.

For the nine months ended September 30, 2015, Hotel GOP improved $17.0 million, or 16.7%, as compared to revenue increase of 4.1%. The addition of Hyatt Regency Vancouver and Hotel Saskatchewan acquired since December 2014 contributed $13.7 million to GOP in the first nine months of 2015. Same-hotel GOP growth for the first nine months, of $8.9 million or 9.3% was offset by reduced contribution to Hotel GOP from the hotels sold totalling $5.7 million.

HOTEL GOP MARGINS

Hotel GOP margins for the third quarter of 2015 improved 130 basis points to 34.0%, largely benefiting from the addition of the recently acquired Hyatt Regency Vancouver, the divestiture of low cash flow yielding hotels and benefits from capital improvements. Same-hotel GOP margin for the third quarter improved 90 basis points to 33.8% driven by topline improvements following recent renovations.

Hotel GOP margins for the first nine months of 2015 improved 300 basis points to 27.8% compared to the same period in 2014, largely benefiting from the addition of the addition of the Hyatt Regency Vancouver and higher overall portfolio quality as a result of recent capital improvements. Same-hotel GOP margin for the first nine months of 2015, improved 160 basis points to 27.6% compared to the same period in the prior year. The Ontario hotels contributed same-hotel GOP growth benefitting from renovations completed at a number of hotels, particularly the Comfort Inns.

			Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Number of Hotels	Number of Rooms	**Hotel GOP**	Variance to Prior Year Comparative Period $	%	**Hotel GOP**	Variance to Prior Year Comparative Period $	%
Core Portfolio:								
Ontario	48	5,620	**$ 18,062**	$ 2,168	13.6%	**$ 39,472**	$ 5,067	14.7%
Quebec	22	2,488	**8,907**	814	10.1%	**16,737**	1,917	12.9%
Atlantic	16	1,785	**9,059**	504	5.9%	**15,521**	1,385	9.8%
Western	16	2,670	**12,486**	(729)	(5.5%)	**30,817**	(192)	(0.6%)
Total Core Portfolio	102	12,563	**$ 48,514**	$ 2,757	6.0%	**$ 102,547**	$ 8,177	8.7%
Non-Core Portfolio	5	653	**1,243**	278	28.8%	**1,925**	745	63.1%
Same-Hotel Portfolio	107	13,216	**$ 49,757**	$ 3,035	6.5%	**$ 104,472**	$ 8,922	9.3%
Acquisitions	2	868	**6,774**	6,774	nm	**13,740**	13,740	nm
Total Current Portfolio	109	14,084	**$ 56,531**	$ 9,809	21.0%	**$ 118,212**	$ 22,662	23.7%
2015 dispositions	2	296	**17**	(349)	nm	**56**	(756)	nm
2014 dispositions	19	2,383	**29**	(1,323)	nm	**28**	(4,940)	nm
			$ 56,577	$ 8,137	16.8%	**$ 118,296**	$ 16,966	16.7%

"nm" – not meaningful

The following table summarizes hotel gross operating profits across our Core Portfolio and serves to highlight the profitability impact while renovations are underway, as well as the growth achieved-to-date following the completion of renovations. 58 Comfort Inn hotels have been renovated since 2013 (31 in 2013; 27 in 2014). In aggregate, the renovated Comfort Inn portfolio experienced Hotel GOP growth of 12.0% for the third quarter and 23.0% for the first nine months of 2015 reflecting the significant operating leverage of strong revenue growth. This growth rate exceeds results achieved in our remaining portfolio, highlighting the return opportunities provided by internal investments within the existing portfolio.

Hotel GOP

			Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
				Variance to Prior Year Comparative Period			Variance to Prior Year Comparative Period	
	Number of Hotels	Number of Rooms	**Hotel GOP**	$	%	**Hotel GOP**	$	%
Core Comfort Inn Portfolio:								
Renovated in 2013[1]	31	2,502	**$ 9,699**	$ 673	7.5%	**$ 20,042**	$ 2,736	15.8%
Q1 2014[1] renovations	4	295	**1,602**	89	5.9%	**3,069**	685	28.7%
Q2 2014[1] renovations	11	686	**2,669**	291	12.2%	**5,404**	1,731	47.1%
Q3 2014[1] renovations	1	146	**334**	225	206.4%	**581**	264	83.3%
Q4 2014[1] renovations	11	842	**2,794**	552	24.6%	**5,219**	995	23.6%
Renovated in 2014	27	1,969	**7,399**	1,157	18.5%	**14,273**	3,675	34.7%
Renovated Core Comfort Portfolio	58	4,471	**17,098**	1,830	12.0%	**34,315**	6,411	23.0%
Full service Core hotels under renovations:								
2014 renovations[1]	3	747	**3,112**	1,049	50.8%	**6,368**	2,305	56.7%
2014 and 2015 renovations[1]	2	728	**5,913**	(898)	(13.2%)	**13,433**	(1,147)	(7.9%)
2015 renovations[1]	1	220	**288**	(97)	(25.2%)	**301**	(669)	(69.0%)
Other Core hotels	38	6,397	**22,103**	873	4.1%	**48,130**	1,277	2.7%
Total Core Portfolio[2]	102	12,563	**$ 48,514**	$ 2,757	6.0%	**$ 102,547**	$ 8,177	8.7%

(1) Based on the period in which substantial completion of renovations were completed.
(2) Excludes two hotels acquired during the year and five non-core hotels which have been identified for divestiture.

Other Expenses and (Income), Net

	2015	2014	Variance %	**2015**	2014	Variance %
Corporate and administrative[1]	**$ 2,827**	$ 2,037	38.8%	**$ 8,719**	$ 9,115	(4.3%)
Interest expense						
Mortgages and other debt	**12,872**	11,855	8.6%	**37,969**	34,452	10.2%
Convertible debentures	**3,935**	4,542	(13.4%)	**12,223**	16,716	(26.9%)
Joint venture income[2]	**(2,154)**	(1,687)	27.7%	**(4,076)**	(3,455)	18.0%
Loss from investment in associate[3]	**517**	–	nm	**1,064**	–	nm
Other expense and (income), net	**1,827**	(12,398)	nm	**(31)**	(16,854)	nm
Writedown (reversal of writedown) of hotel and other real estate properties, net	**741**	4,955	nm	**1,693**	4,464	nm
Depreciation and amortization	**22,251**	20,804	7.0%	**65,534**	60,259	8.8%
Unrealized (gain) loss on liabilities presented at fair value	**(463)**	1,782	nm	**(5,701)**	9,903	nm
Other expenses	**$ 42,353**	$ 31,890	32.8%	**$ 117,394**	$ 114,600	2.4%

(1) Prior nine-month period included $3.6 million in non-recurring costs relating to a settlement.
(2) Joint venture income includes income from the REIT's 50% interest in Choice Hotels Canada Inc. and 33.3% interest in the Courtyard Marriott in Toronto.
(3) Loss from investment in associate relates to the REIT's 20% interest in the Fairmont Royal York.
"nm" – not meaningful

Other expenses during the three months ended September 30, 2015 increased $10.5 million or 32.8% and $2.8 million or 2.4% for the nine months ended September 30, 2015.

Corporate and Administrative

Corporate and administrative costs were higher in the third quarter reflecting the addition of the full time executive function at the REIT, as well as a non-cash charge relating to the unit based inducement compensation awarded to the newly appointed Chief Executive Officer in the first quarter of 2015 (refer to *Unit Information*). Corporate and administrative expenses also reflect incremental costs associated with the internalization of InnVest's asset management platform in late 2014. Effective December 1, 2014, external asset management fees, previously included in 'Hotel Operating expenses', were eliminated and resources are now allocated to corporate and administrative expenses. In the third quarter of the prior year, InnVest paid $0.3 million in external asset management fees. Corporate and administrative costs for the first nine months of 2015 include the incremental costs associated with the internalization of InnVest's asset management platform and CEO. The prior period expenses include $3.6 million in non-recurring settlement costs. Hotel operating expenses in the first nine months of the prior year include $1.1 million in external asset management fees.

Interest Expense

InnVest has benefitted from a reduction in its debt and weighted average cost of debt since the beginning of 2014. In the third quarter of 2015, InnVest incurred debt extinguishment costs of $1.8 million related to mortgage debt repayment. Interest expenses during the three and nine months ended September 30, 2015 include the new mortgage associated with the Hyatt Regency acquisition in December 2014 and the funding of the KingSett loan in April 2014 (refer to *Related Party Transactions*). Convertible debenture interest savings reflect the redemption of InnVest's $70 million Series C debentures in early June 2014, the purchase for cancellation of $28.8 million of its Series G debentures on July 31, 2014, and the early redemption of the Series D Debentures on March 3, 2015 (refer to *Unit Information*).

Joint Venture Income

Joint venture income reflects InnVest's 50% interest in the net earnings of Choice Canada and the recent acquisition of 33.3% of the Courtyard Marriott in Toronto. InnVest's joint venture income generated $2.2 million and $4.1 million in the third quarter and first nine months of 2015 respectively, (2014 – $1.7 million and $3.5 million).

Loss from Investment in Associate

During the three and nine months ended September 30, 2015, InnVest recognized a non-cash loss of $0.5 million and $1.1 million, respectively from its 20% proportionate share of net earnings (after interest and depreciation) from its recently acquired ownership interest in the Royal York Hotel. InnVest exercises significant influence over its investment and accounts for its investment using the equity method.

Other Expenses and (Income), Net

Other expenses and (income), net of $2.0 million for the third quarter of 2015, reflects a $1.1 million contingency provision and $0.9 million in acquisition costs for the Hotel Saskatchewan. For the nine months ended September 30, 2015, other income of $0.1 million includes the aforementioned contingency provision and acquisition costs offset by a non-recurring termination receipt of $1.0 million, from the sale of three hotels jointly licensed between InnVest and Choice Canada and refunds received from the Quebec Occupational Health and Safety Commission, relating to sold hotels. Other expenses and (income) for the nine months ended September 30, 2015, also includes a gain of $0.2 million relating to the early redemption of the Series D Debentures. Other expenses and (income) in the prior year periods, for the three and nine months ended September 30, 2014, comprise primarily of non-cash gains on the early settlement and amendments to the Series G debentures and gains on sale of assets.

Writedown (Reversal of Writedown) of Hotel and Other Real Estate Properties, Net

The results for the third quarter and first nine months in 2015 include a $0.7 million and $1.7 million non-cash impairment charge relating primarily to two hotels, shown in "Writedown (reversal of writedown) of hotel and other real estate properties, net", above.

Unrealized (Gain) Loss on Liabilities Presented at Fair Value

InnVest accounts for various unit-based instruments as financial liabilities. These instruments are re-measured at their fair value at each reporting period resulting in non-cash gains or losses based on the volatility of InnVest's unit price over the periods presented and their impact on convertible debenture holders' conversion option feature. For the three and nine months ended September 30, 2015, InnVest recognized a fair value gain of $0.5 million and $5.7 million, respectively (2014 – loss of $1.8 million and loss of $9.9 million).

Income Taxes

InnVest did not incur income taxes during the three and nine months ended September 30, 2015 and 2014.

Net Income (Loss) and Comprehensive Income (Loss)

For the three months ended September 30, 2015, InnVest earned net income of $14.3 million ($0.109 per unit diluted) compared to net income of $16.5 million for the same period in the prior year ($0.161 per unit diluted). While hotel GOP for the third quarter of 2015 improved $8.3 million or 17.1%, prior year net income included $11.8 million in gains on the redemption and amendment of convertible debentures. For the nine months ended September 30, 2015, InnVest realized net income of $0.8 million ($0.006 per unit diluted) compared to a net loss of $13.5 million ($0.143 per unit diluted) for the same period in the prior year. Refer to FFO for a comparison of profitability excluding non-recurring costs and non-cash items. Per unit amounts in 2015 were impacted by the 21% increase in the weighted average number of units outstanding for the third quarter and 18% for the year to date, related to the November 2014 and July 2015 equity offerings.

Funds from Operations (FFO)

For the three months ended September 30, 2015, InnVest generated FFO of $39.4 million ($0.275 per unit diluted) compared to FFO of $31.7 million ($0.278 per unit diluted) for the same period in 2014. The $7.7 million improvement primarily reflects higher Hotel GOP which was offset by $1.8 million of debt extinguishment costs in the third quarter of 2015. For the nine months ended September 30, 2015, InnVest generated FFO of $65.4 million ($0.511 per unit diluted) compared to $48.1 million ($0.467 per unit diluted) for the same period in 2014. Per unit amounts in 2015 were impacted by the 21% increase in the weighted average number of units outstanding for the third quarter and 18% for the year to date related to the November 2014 and July 2015 equity offerings and the fact that the proceeds from the July 2015 equity offering were not fully invested during the period. Refer to *Non-IFRS Financial Measures and Additional IFRS Financial Measures* for a reconciliation of net income (loss) and comprehensive income (loss) to FFO.

Adjusted Funds from Operations (AFFO)

For the three months ended September 30, 2015, InnVest generated AFFO of $35.7 million ($0.247 per unit diluted) compared to AFFO of $27.3 million for the same period in 2014 ($0.239 per unit diluted). The $8.4 million improvement reflects the higher FFO generated. For the nine months ended September 30, 2015, InnVest generated AFFO of $55.5 million ($0.430 per unit diluted) compared to $36.1 million ($0.358 per unit diluted) in the same period of the prior year. Per unit amounts in 2015 were impacted by the 21% increase in the weighted average number of units outstanding for the third quarter and 18% for the year to date related to the November 2014 and July 2015 equity offering, and the fact that the proceeds from the July 2015 equity offering were not fully invested during the period. Refer to *Non-IFRS Financial Measures and Additional IFRS Financial Measures* for a reconciliation of FFO to AFFO.

For the nine months ended September 30, 2015 AFFO per unit diluted improved by $0.072 or 20.1%, whereas FFO per unit diluted improved by $0.044 or 9.4%. The larger improvement in AFFO versus FFO is primarily the result of:

1. A $3.5 million increase in the non-cash portion of mortgage interest expense, which is deducted from FFO but not AFFO. The increase is the result of amortizing costs associated with the early re-financing of the Hyatt Regency Vancouver bridge loan ($764), exit fees associated with the repayment and re-financing of mortgage debt in the third quarter ($1.8 million), the increase and extension of the operating, acquisition and capital expenditure facility ($563) and other re-financing activities completed in the period.
2. FFO increased $7.4 million or 15.4% from the net of acquisition and disposition activities. The FFO contributions from hotel acquisitions in the period were $11.3 million compared to the decrease in FFO from the hotels sold in 2014 and 2015 of $3.9 million, while their related reserves for FF&E and capital expenditures ($2.0 million dispositions – $1.5 million) generated a larger relative net increase in AFFO of $7.0 million of 19.4%.

Distributions declared for the third quarter of 2015 totalled $13.3 million, or $0.0999 per unit (2014 – $9.5 million or $0.0999 per unit). Distributions declared for the first nine months of 2015 totalled $37.4 million, or $0.2998 per unit (2014 – $28.3 million or $0.2997 per unit). The increase in total distributions paid for both the third quarter and year to date, reflects the incremental increase in the number of units outstanding following the issuance of units in November 2014 and July 2015 to partially fund the acquisition of two hotels, investment in a joint venture and investment in associate, the DRIP as well as the conversion of Series D Debentures in the first quarter of 2015. Refer to *Unit Information*.

CHANGES IN FINANCIAL CONDITION

Operating Activities

For the nine months ended September 30, 2015, cash generated by operating activities was $55.5 million, a $14.4 million increase as compared to the same period in 2014, largely reflecting the period over period improvement in operating results and contributions from the performance of the asset acquisitions.

Financing Activities

For the nine months ended September 30, 2015, financing activities included regular payment of annual mortgage principal amortization as well as the conversion and redemption and cancellation of the Series D Debentures. Financing activities for first nine months of 2015 also include cash proceeds related to drawing down on a new operating line, refinancing of the Hyatt Regency Vancouver, the Fairmont Palliser Calgary, the Fairmont Macdonald Edmonton, the Delta Beausejour Moncton, the Delta Prince Edward Island along with four hotels branded with InterContinental Hotel Group, as well net proceeds of $46.4 million related to the July equity issue. Financing activities for the same period in 2014, included the receipt of cash proceeds related to the refinancing of the Sheraton Eau Claire, Calgary, a bridge loan and a new subordinate term loan, some of which were used to fund the early redemption of convertible debentures and repay certain mortgages.

Cash distributions to unitholders in the first nine months of 2015 totaled $32.7 million as compared to $26.0 million for the same period in 2014. The increase reflects the higher number of outstanding units compared to the same period in the prior year.

Investing Activities

In the third quarter investing activities include $44.9 million related to the acquisition of the Hotel Saskatchewan and $35.1 million for a 33.3% interest in the Courtyard Marriot in Toronto.

Investing activities for the first nine months of 2015 include an investment of $20.5 million related to the acquisition of a 20% interest in the Royal York Hotel which was funded with available cash on hand. In the third quarter, an additional $0.9 million was contributed to the partnership for renovations.

To drive continuing strong operating performance and maintain the competitiveness of our hotels, InnVest allocates 4% to 5% of hotel revenues ("FF&E Reserve"). This FF&E reserve is a source of funding to maintain the physical quality and competitiveness of the portfolio. Capital expenditures during the nine months ended September 30, 2015 totalled $28.6 million (2014 – $57.8 million) compared to the FF&E Reserve of $18.1 million (2014 – $17.2 million). Incremental capital above the FF&E Reserve was funded through cash generated from asset sales and cash on hand.

Capital investments completed in the first nine months of 2015 include the final phase of room renovations at Calgary's Fairmont Palliser and the Sheraton Suites Eau Claire. In addition, the first phase of the room renovations at the Delta London Armouries were completed in August, the lobby renovations at Moncton's Delta Beausejour completed in the second quarter and the meeting level renovations finished in September. The prior period included significant activity related to the Comfort Inn portfolio revitalization.

Investing activities reflect distributions of $4.7 million received from InnVest's investment in Choice Canada (2014 – $3.6 million).

Investing activities also include net proceeds of $7.0 million from the sale of two properties during the first nine months of 2015 (16 properties were sold in the same period of 2014 for gross proceeds of $89.5 million).

QUARTERLY RESULTS

Seasonality

InnVest's operations are seasonal and as such its results are not consistent throughout the year. Revenue earned from hotel operations fluctuates throughout the year, with the third quarter being the highest due to the increased level of leisure travel in the summer months and the first quarter being the lowest because leisure travel tends to be lower due to weather related issues.

The results from operations vary materially from quarter to quarter given the seasonal nature of the revenue stream and the fact that certain costs such as property taxes, insurance, interest, and depreciation and amortization are virtually fixed. InnVest's objective is to complete as much of renovation activity as reasonably possible in the first and fourth quarter when business displacement is minimized.

Quarter Ended (Unaudited)

	Q3 2015	**Q2 2015**	**Q1 2015**	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013
Revenues	**$ 166,557**	**$ 148,698**	**$ 110,798**	$ 126,439	$ 148,434	$ 146,231	$ 114,431	$ 140,667
Gross operating profit	**56,654**	**46,146**	**15,346**	27,766	48,398	39,004	13,653	29,751
Net income (loss)	**14,301**	**9,684**	**(23,233)**	(1,182)	16,508	4,818	(34,871)	(47,741)
FFO	**39,378**	**29,433**	**(3,404)**	10,359	31,720	20,765	(4,582)	12,432
AFFO	**35,746**	**24,910**	**(5,200)**	8,205	27,319	16,450	(7,623)	8,133
Distributions declared	**13,261**	**12,219**	**11,932**	10,910	9,481	9,453	9,378	9,373
Per unit – diluted:								
Net income (loss)	**$ 0.109**	**$ 0.079**	**$ (0.196)**	$ (0.011)	$ 0.161	$ 0.051	$ (0.372)	$ (0.509)
FFO	**0.275**	**0.224**	**(0.029)**	0.100	0.278	0.190	(0.049)	0.127
AFFO	**0.247**	**0.189**	**(0.044)**	0.079	0.239	0.151	(0.081)	0.086
Trust units outstanding	**133,049,525**	**122,466,130**	**122,203,362**	116,280,294	94,992,322	94,713,251	93,909,613	93,830,897
Weighted average trust units outstanding	**130,954,208**	**122,265,716**	**118,646,773**	103,154,099	94,863,069	94,433,893	93,858,254	93,812,648
Total assets	**$ 1,333,835**	**$ 1,287,657**	**$ 1,284,327**	$ 1,329,285	$ 1,186,098	$ 1,227,354	$ 1,271,608	$ 1,280,541
Total long-term debt	**794,177**	**793,260**	**790,446**	782,951	709,493	714,154	688,038	674,088

ASSET PROFILE

InnVest's total asset carrying value was $1,333.8 million at September 30, 2015, up $4.6 million, as compared to $1,329.3 million at December 31, 2014. The following table summarizes some of the key balance sheet movements against 2014 year end results.

	September 30, 2015	December 31, 2014	
Current assets			
Cash	**$ 10,119**	$ 56,404	Utilized cash to fund the recent hotel acquisitions, capital expenditures and unit distributions.
Accounts receivable	**23,238**	22,175	Reflects increased business activity from seasonality.
Prepaid expenses and other assets	**10,503**	7,734	Higher balance reflects the timing of property tax payments and balances related to the recently acquired Hotel Saskatchewan.
Finance lease receivable	**–**	2,078	Lease receivable fully collected in the third quarter.
Assets held for sale	**15,666**	14,924	Two hotels classified as held for sale at the end of September 30, 2015. Two hotels classified as held for sale at December 31, 2014 were sold in the first quarter of 2015.
	59,526	103,315	
Non-current assets			
Restricted cash	**3,214**	2,236	
Investment in joint ventures	**36,192**	1,179	Reflects the acquisition of the 33.3% interest in the Courtyard Marriott in Toronto in the third quarter.
Investment in associate	**19,395**	–	Represents 20% interest in the Royal York Hotel.
Hotel properties	**1,206,175**	1,210,143	See description below.
Other real estate properties	**–**	1,918	Reclassified to "Asset held of sale".
Intangible assets	**9,333**	10,494	
Total assets	**$ 1,333,835**	$ 1,329,285	

Hotel properties comprise over 90% of InnVest's total assets. Activity during the nine months ended September 30, 2015 included the acquisition of the Hotel Saskatchewan and related renovations totalling $45.0, further capital additions of $28.6 million which was more than offset by depreciation of $65.5 million.

LIQUIDITY AND CAPITAL RESOURCES

InnVest has several sources of liquidity including the following:

CASH GENERATED FROM HOTEL OPERATIONS

InnVest's operations are seasonal with the third quarter being the highest earnings period and the first quarter typically being the weakest earnings period given the different levels of business and leisure travel during these quarters. Over the annual period, InnVest anticipates generating GOP sufficient to fund distributions to unitholders, capital expenditures, corporate and administrative expenses and debt service requirements.

CREDIT FACILITIES

InnVest has various credit facilities including a new revolving operating line of up to $100.0 million secured by 24 hotels. Gross availability under this facility was increased to approximately $81 million with the addition of four hotels as security in July 2015 and was further increased to the maximum of $100 million in August 2015 when nine more hotels were added. Refer to *Debt Strategy* for a detailed description of each of these credit facilities. The operating line can be used to finance temporary deficits in cash resulting from business seasonality and working capital fluctuations, to issue letters of credit, to provide short-term financing in the event of the acquisition of a new hotel, to provide additional short-term liquidity pending the sale of assets and/or permanent financing, and to fund a portion of capital expenditures in accordance with mortgage terms. At September 30, 2015 the cash amount advanced was $35.8 million, with a further amount allocated for outstanding letters of credit of $8.6 million leaving net availability of $55.6 million.

As part of certain mortgage agreements, InnVest had access to a capital expenditure loan facility for up to $30.0 million to fund 65% of capital expenditures incurred at certain of its hotels. Following the repayment of a portion of these mortgages during the third quarter the loan facility was reduced to $20.0 million. At September 30, 2015, InnVest had remaining capacity on this facility of $3.7 million (December 31, 2014 – $8.4 million).

ISSUING ADDITIONAL DEBT

InnVest has the ability to raise funds by mortgaging its properties or by issuing either unsecured debt or unsecured convertible debt securities. InnVest typically uses long-term debt financing to refinance existing debt or to finance an acquisition. The ability to secure debt financing on reasonable terms is ultimately dependent on market conditions and the lender's determination of InnVest's creditworthiness. At September 30, 2015, substantially all of InnVest's hotel assets have been pledged as security under debt agreements.

ISSUING ADDITIONAL EQUITY SECURITIES

InnVest's listing on the Toronto Stock Exchange gives it the ability to access, subject to market conditions, additional equity through the issuance of units or equity-linked instruments. On July 2, 2015, InnVest filed a base shelf prospectus, which is valid for a 25-month period, during which time InnVest may offer trust units, debt securities, warrants and subscription receipts, or any combination thereof, having an aggregate offering price of up to $500 million. On July 15, 2015, InnVest issued by way of a successful bought-deal equity offering 9,660,000 units under the base shelf prospectus (including 1,260,000 units issued on July 22, 2015, pursuant to the full exercise of the underwriters' over-allotment option), at a price of $5.00 per unit for aggregate gross proceeds of $48.3 million. The use of proceeds from the equity issue was primarily for the participation in the acquisition of the Courtyard by Marriott Toronto, which is consistent with the disclosure included in the July 15, 2015 prospectus supplement.

At September 30, 2015, InnVest had total current liquidity of $69.5 million (total potential liquidity of $72.7 million).

	September 30, 2015
Cash	**$ 10,119**
Revolving credit facility availability	**55,636**
Capital expenditure loan facility availability	**3,721**
Total current liquidity	**$ 69,476**
Additional liquidity contingent on capital expenditures incurred:	
Restricted cash	**3,214**
Total potential liquidity	**$ 72,690**

InnVest's credit and liquidity facilities, cash on hand and expected cash flow from operations, and the potential to sell assets or access debt and equity markets are expected to allow InnVest to meet all of its financial commitments. There can be no assurance that capital market conditions will enable possible debt or equity issuance, if or when desirable, or on terms and at costs advantageous to InnVest. If necessary, near-term disruptions to operating earnings and cash flow could be addressed through reductions in discretionary capital allocation decisions such as capital investments above the FF&E Reserve and/or distributions.

Cash on Hand

At September 30, 2015, InnVest had cash totalling $13.3 million, of which $3.2 million is restricted to undertake capital refurbishments in accordance with certain mortgage and franchise agreements.

Capital expenditures during the nine months ended September 30, 2015 totalled $28.6 million (2014 – $57.8 million) compared to the allocated FF&E Reserve of $18.1 million (2014 – $17.2 million). Incremental capital expenditures above the allocated FF&E Reserve were funded through cash generated from asset sales and cash on hand. The following chart shows the funding of capital expenditures and changes in the FF&E Reserve restricted cash balance since December 31, 2015.

Opening balance, January 1, 2015	$	2,236
FF&E Reserve additions		18,069
Cash used for FF&E capital additions in excess of the reserve		9,366
Funded through capital loan facility (added to mortgage debt)		2,192
Capital expenditures		(28,649)
Closing balance, September 30, 2015	$	3,214

Debt Strategy

InnVest's debt strategy involves the use of various forms of debt including conventional property-specific secured mortgages, unsecured convertible debentures, secured floating interest rate bank financing and subordinated term loans. Management intends to continue to reduce its reliance on dilutive unsecured convertible debentures. Management's objectives are to maximize its liquidity sources and flexibility while maintaining access to low cost debt and a staggered debt maturity schedule to manage interest rate and refinancing risk.

CREDIT FACILITY

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

In the second quarter, InnVest successfully refinanced its two revolving credit facilities into one revolving credit facility with two major Canadian financial institutions, which as of September 30, 2015 had a borrowing capacity of $100.0 million ($55.6 million, net of amount drawn and letters of credit outstanding) and is secured by 24 properties. In July 2015, InnVest added an additional 4 properties to this revolving credit facility which increased the borrowing capacity to $81.1 million. InnVest added an additional 9 properties to the revolving credit facility in August 2015 in order to increase the borrowing capacity up to $100.0 million. Interest rates are based on either (i) Canadian prime rate plus 1.75%, and (ii) the Canadian Bankers' Acceptance rate plus 2.75%.The new two-year facility extends the term to June 2017. Refer to *Risks and Uncertainties*.

Letters of credit totalling $8.6 million were issued and are outstanding pursuant to the credit facility (December 31, 2014 – $8.2 million).

MORTGAGES, SUBORDINATED TERM LOANS AND CONVERTIBLE DEBENTURES

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

	September 30, 2015	December 31, 2014
Mortgages and subordinated term loans		
Mortgages and subordinated term loans payable	$ 770,391	$ 799,363
Weighted average term to maturity	5.0 years	2.8 years
Weighted average interest rate	5.0%	5.5%
Percentage of mortgages and subordinated term loan at floating interest rate debt	11.2%	21.0%
Convertible debentures		
Convertible debentures outstanding	$ 211,220	$ 247,608
Weighted average term to maturity	2.7 years	3.2 years
Weighted average interest rate	6.0%	6.1%

In early 2015, the REIT elected not to exercise a one year option to extend mortgage debt of approximately $153.9 million. As a result, InnVest had approximately $216 million of mortgages (excluding $8.3 million offset by a lease receivable) with a weighted average interest rate of 5.2% maturing in 2015. Approximately $153.9 million of this current debt was with one lender of which $80 million was successfully refinanced in July 2015. Another approximately $15 million of mortgages on three hotels maturing in the third quarter of 2015 were repaid with the hotels added as additional security to the REIT's operating line facility increasing its availability by a similar amount. A further nine hotels with existing mortgage debt of $21 million were added to this line in August 2015 increasing the availability under this facility to $100 million. Remaining 2015 maturities of approximately $96 million on seven hotels were refinanced in the third quarter under three mortgage agreement with three different lenders which further reduced InnVest's weighted average interest rate to 5.1% and extended the average term to maturity to 5.0 years. There are no further mortgage debt maturities in 2015. In December 2016, approximately $47 million of debt that bears interest at 5.8% and represents 5.8% of the total outstanding mortgage and other debt, matures on two hotel properties. Based on recent negotiations with lenders and its knowledge and experience refinancing mortgages and accessing the public markets, management expects to address its 2016 debt maturities in the normal course of business.

In September 2015, refinanced maturing mortgages of $29.4 million secured by the Delta Beausejour Moncton and the Delta Prince Edward Island Charlottetown bearing interest rate of 5.3% with a new 5-year $35.4 million mortgage at a fixed interest rate of 3.65% with a Canadian financial institution.

In September 2015, refinanced maturing mortgages of $35 million secured by the Fairmont Macdonald Edmonton, Alberta bearing interest rate of 5.3% with a new 5-year $40 million mortgage at a fixed interest rate of 3.5% with a Canadian financial institution.

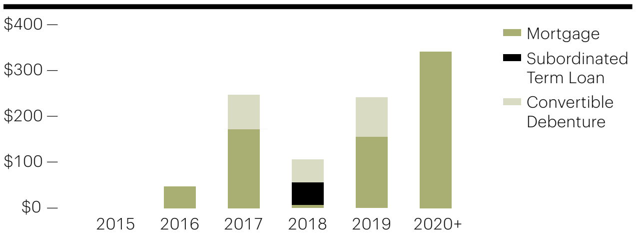
In August 2015, refinanced maturing mortgages of $26 million secured by the four hotels bearing interest rate of 5.2% with a new 7-year $36 million mortgage at a fixed interest rate of 3.95% with a Canadian financial institution.

In July 2015, InnVest completed the refinancing of the Fairmont Palliser for $82.5 million at a fixed interest rate of 4.0% for a 10-year term. In connection with this mortgage, the REIT entered into a forward interest rate agreement to fix the interest rate.

In April 2015, the REIT completed the refinancing of the Hyatt Regency Vancouver for $80 million at a fixed interest rate of 3.75% for a 10-year term. This refinancing replaced a $70 million three year floating rate mortgage completed as part of the hotel's acquisition. Incremental proceeds from the refinancing are expected to be used to fund capital investments, to repay debt and for general corporate purposes.

In January 2015, InnVest called its $36.4 million Series D Debentures for early redemption on March 3, 2015 (Refer to *Unit Information*). At September 30, 2015, InnVest has three series of fixed-rate convertible debentures totalling $211.2 million (December 31, 2014 – $247.6 million). InnVest has made significant progress in reducing its convertible debt including reducing approximately $135 million of convertible debentures since the beginning of 2014.

The following chart highlights InnVest's mortgage, subordinated term loans and convertible debentures maturity schedule at September 30, 2015.



Leverage

InnVest is not permitted to exceed certain financial leverage amounts under the terms of its Declaration of Trust. InnVest is permitted to incur indebtedness up to a level of 60% of gross asset value (75% including convertible debentures). The financial ratio is computed as of the last day of each financial year excluding any indebtedness under any operating line, non-interest bearing indebtedness, and trade accounts payable and for greater certainty, deferred income tax liability. Management's policy is not to exceed this leverage limit at any time during the year. Separately, InnVest is further limited by its credit facility covenant, which limits aggregate indebtedness (including convertible debentures) to a level up to 65% of gross asset value as at the end of every quarter.

Consistent with its strategic objective to decrease its debt leverage, during the nine months ended September 30, 2015, InnVest reduced its leverage ratio 390 basis points to 58.1% (December 31, 2014 – 62.0%) and improved by 770 basis points as compared to 65.8% at September 30, 2014. InnVest's leverage excluding convertible debentures was 46.0% (December 31, 2014 – 47.4%).

Total assets per Consolidated Balance Sheet	**$ 1,333,835**	
Accumulated depreciation and amortization	**417,727**	
Gross Asset Value	**$ 1,751,562**	
Book value of mortgages and other indebtedness[(1)]	**$ 806,191**	46.0%
Convertible debentures[(2)]	**211,220**	12.1%
Total debt	**$ 1,017,411**	58.1%

(1) Gross of financing issuance costs.
(2) Adjusted to face value.

InnVest's financial strategy includes maintaining a strong balance sheet with appropriate leverage and staggered debt maturities in order to minimize InnVest's cost of capital and provide adequate financial flexibility to withstand market cycles. InnVest has a target to maintain its debt leverage (total debt to gross asset value) below 60% and to reduce reliance on dilutive convertible debt. Significant progress has been made with respect to these objectives. Notwithstanding, there is no assurance that InnVest will achieve and maintain its targeted leverage reduction in a set timeframe.

Contractual Obligations Repayment Summary

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

The following table summarizes InnVest's contractual obligations as at September 30, 2015. In addition to the table below, InnVest, through its partial ownership of the Royal York Partnership has minimum capital commitments to fund capital expenditures and working capital needs of the hotel over an unspecified period of time.

	Remainder of 2015	2016	2017	2018	2019	2020 and Thereafter	Contractual Cash Flows[(1)]
Accounts payable and accrued liabilities	$ 57,692	$ –	$ –	$ –	$ –	$ –	$ 57,692
Mortgage and subordinated term loan payable	–	–	–	–	–	–	–
– principal[(2)]	3,945	62,368	177,493	67,082	149,267	310,236	770,391
– interest[(3)]	9,693	38,437	29,210	21,669	15,099	46,522	160,630
Operating line – principal	–	–	35,800	–	–	–	35,800
Operating line – interest	199	1,593	797	–	–	–	2,589
Convertible debentures	–	–	–	–	–	–	–
– principal	–	–	74,995	49,975	86,250	–	211,220
– interest	–	12,764	12,764	6,827	2,695	–	35,050
Long-term leases	460	1,839	1,839	1,843	1,817	71,309	79,107
Capital commitments	11,691	–	–	–	–	–	11,691
Total	$ 83,680	$ 117,001	$ 332,898	$ 147,396	$ 255,128	$ 428,067	$1,364,170

(1) Contractual cash flows include principal and interest payments.
(2) Mortgage principal includes regular amortization and repayments at maturity.
(3) Interest for floating rate debt is based on interest rates prevailing at September 30, 2015.

As at September 30, 2015, InnVest has leasehold interests in seven of its hotels. The leaseholds require minimum annual average lease payments and expire between 2018 and 2088. At September 30, 2015, the average term of InnVest's leaseholds exceeded 35 years.

Contingent Obligations

InnVest and its operating subsidiaries are contingently liable with respect to litigation and claims that arise from time to time in the normal course of business. In the normal course of business, InnVest receives default notices relating to the maintenance of brand standards at certain hotels. InnVest typically disputes such notices and negotiates a resolution with its franchisors or management companies.

At the end of the third quarter, the REIT had contingent liabilities recorded of $1.1 million.. Because most contingencies are resolved over long periods of time, liabilities may change in the future due to new developments (including litigation developments, the discovery of new facts, changes in legislation and outcomes of similar cases), changes in assumptions or changes in the REIT's litigation strategy.

DISTRIBUTIONS TO UNITHOLDERS

For the nine months ended September 30, 2015, distributions totalling $37.4 million were declared ($0.2997 per unit), consisting of cash distributions paid of $33.3 million and non-cash distributions of $4.2 million provided under the distribution reinvestment plan ("DRIP"). While the per unit level of distribution was unchanged, total distributions paid increased by $9.1 million ($7.2 million in cash distributions and $1.9 under the DRIP) compared to the same period in the prior year reflecting the issuance of additional units over the year from the DRIP as well as the equity and private placement offerings in November 2014 and July 2015 (refer to *Unit Information*). The non-cash distributions have the effect of increasing the number of units outstanding, which will cause cash distributions to increase over time assuming stable per unit distribution levels.

Liquidity to fund distributions is generated from cash flow from operations, cash on hand, capacity under available credit facilities and by the ability to finance certain under-leveraged assets. First and fourth quarter distributions are typically partially funded through cash on hand and/or the temporary use of InnVest's revolving credit facility given the seasonality of revenues in contrast to costs which are fixed throughout the year. For the nine months ended September 30, 2015, InnVest's cash from operations exceeded distributions paid by 22.8 million for the period.

Distributions in excess of cash flow from operations represent a return of capital, rather than a return on capital, since they represent cash payments in excess of cash generated by InnVest's continuing operations during the period. In the first and fourth quarters primarily, InnVest has elected to provide distributions partly representing a return of capital in order to maintain the stability of current distribution levels. Management believes that the current per unit level of distributions is sustainable, given that the trailing twelve month cash flow from operations is sufficient to cover distributions with an existing AFFO payout ratio of 75.9%.

Due to the seasonality of InnVest's revenues, management believes a trailing twelve month AFFO is a more appropriate measure of its ability to sustain its unit distributions. For the twelve months ended September 30, 2015, InnVest's payout ratio was 75.9% of AFFO, down from 88.4% at December 31, 2014 and 85.0% at September 30, 2014. The higher AFFO achieved was offset by the 21% increase in the weighted average number of units outstanding for the third quarter and 18% for the year to date as a result of our July 2015 and November 2014 equity offerings.

	Twelve months ended September 30,					Years ended December 31,
	2015	2014	2013	2012	2011	2010
AFFO	**$ 63,661**	$ 44,351	$ 46,185	$ 44,619	$ 46,440	$ 41,776
Distributions	**48,322**	39,222	37,465	37,383	44,896	44,384
AFFO in excess of (less than) distributions	**15,339**	5,129	8,720	7,236	1,544	(2,608)
Non-cash distributions made through the DRIP	**5,103**	3,224	500	143	309	1,688
AFFO in excess of (less than) cash distributions	**$ 20,442**	$ 8,353	$ 9,220	$ 7,379	$ 1,853	$ (920)
AFFO Payout ratios:						
Total distributions	**75.9%**	88.4%	81.1%	83.8%	96.7%	106.2%
Cash distributions (excluding DRIP)	**67.9%**	81.2%	80.0%	83.5%	96.0%	102.2%

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

To drive continuing strong operating performance and maintain the competitiveness of our hotels, InnVest deducts a reserve for capital expenditures based on 4% to 5% of hotel revenues (the "FF&E Reserve"). Whether funds are specifically set aside or not, the FF&E Reserve is used in determining the level of distributions paid to unitholders and, as such, is considered a source of funding to maintain the quality of the portfolio. Actual capital spent is expected to be significantly in excess of this FF&E Reserve, as demonstrated in the nine months ended September 30, 2015. Management attempts to complete its capital expenditures during its lowest occupancy periods in order to minimize business disruption. This typically results in over-investments as compared to the FF&E Reserve in the first quarter. Annual capital is expected to exceed the FF&E Reserve for the full year 2015 based on the extensive renovation program anticipated during the year. Refer to *Our Strategy*.

When assessing future distribution levels, management and the Board believe in maintaining a stable and conservative distribution level to minimize risk. Assuming improving cash flow from operations, this would result in a declining payout ratio over time.

UNIT INFORMATION

Since January 1, 2015, InnVest issued units as follows:

Units outstanding, January 1, 2015	116,280,294
Distribution reinvestment plan	813,959
Conversion of Convertible Debentures	5,742,735
Executive and Trustee compensation plan	189,668
Equity issue	9,660,000
Conversion of Exchangeable Units	362,869
Units outstanding, September 30, 2015	133,049,525
Issued subsequent to the quarter	
Distribution reinvestment plan	228,275
Units outstanding, November 11, 2015	133,277,800

The following table summarizes the number of units issuable based on the convertible debentures outstanding at September 30, 2015.

Convertible Debentures	Maturity Date	Conversion Strike Price	Balance Outstanding	Units to Be Issued Upon Conversion
Series E	September 30, 2017	$ 8.00	$ 74,995	9,374,375
Series F	March 30, 2018	$ 9.45	$ 49,975	5,288,359
Series G	March 31, 2019	$ 7.50	$ 86,250	11,500,000

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

Exchangeable Units

As part of an acquisition made in 2005, InnVest granted 362,869 exchangeable units ("Exchangeable units") to an entity in which a trustee has a partial ownership interest. The Exchangeable units received a monthly cash payment equal to the value of the cash distributions that would have been paid on the InnVest units if they had been issued on the date of grant. The Exchangeable units were exchangeable into InnVest units with three business days of prior written notice to InnVest or on August 2, 2015. In the third quarter of 2015, these Exchangeable units were converted into InnVest units.

Redemptions

On March 3, 2015, InnVest completed the early redemption of its Series D Debentures (due March 31, 2016) and, Series D Debentures totalling $32.7 million were converted into 5,739,465 units. Also, related to the early redemption of Series D debentures, InnVest redeemed and cancelled $3.6 million of remaining Series D Debentures. During the first nine months of the year, Series F 5.75% Debentures totalling $25 were converted into 2,645 units and Series E 6.00% Debentures totalling $5 were converted into 625 units.

Distribution Reinvestment Plan ("DRIP")

InnVest has a DRIP whereby eligible Canadian unitholders may elect to have their distributions of income from InnVest automatically reinvested in additional units of InnVest. Effective September 2014, InnVest amended its DRIP to provide it discretion to purchase units on the open market or to be issued from treasury. If InnVest elects to issue units from treasury, unitholders who have elected to participate in the DRIP will receive 3% bonus units in addition to any units issued to them under the DRIP.

Executive and Trustee Compensation Programs

InnVest's executive compensation program provides for the grant of restricted units to certain senior employees. Units granted vest not more than four years from the effective date of grant. At September 30, 2015, there were 99,970 unvested executive units granted under the plan (December 31, 2014 – 58,794). Given his short-term compensation agreement, units issued to InnVest's former President and CEO vested immediately upon grant, rather than vesting over the three- and four- year periods. In January 2015, 44,000 units were granted to the former President and CEO (2014 – 40,000).

The senior executives participate in an incentive plan that involves the grant of InnVest units which vest over time. Upon vesting, the payment will be satisfied through the issuance of units. Unvested units are presented at their fair value. Upon issuance of units (following the satisfaction of all vesting conditions), the liability is reclassified to Unitholders' equity' at the then-current fair value based on the market price of the REIT's units. Units granted to executives entitle the holder to also accumulate units equal to the monthly cash distributions, assuming the reinvestment of the distribution into units.

On December 17, 2014, InnVest announced the appointment of a new President and CEO. As part of his inducement, the President and CEO was awarded an equity grant effective on his start date, January 26, 2015, of 400,000 units vesting at a rate of 80,000 units ("tranche") over a four-year period with the first tranche vesting upon his start date and each subsequent tranche vesting on each subsequent anniversary thereafter. In January 2015, 80,000 units were awarded to the President and CEO.

In September 2014, InnVest's Board approved an increase of the number of units in reserve for Board compensation reserve to 1% of InnVest's outstanding units from time to time in connection with proposed changes to the Trustee compensation structure. The listing of additional units relating to this change was approved by the Toronto Stock Exchange ("TSX") in October 2014, and the unitholders at the annual general meeting on June 16, 2015. At September 30, 2015, 218,662 units were granted to Trustees under the new compensation structure which was approved at the annual general meeting. InnVest's redesigned compensation structure enhances unit-compensation, including significantly higher minimum ownership requirements, further aligning our Board's interest with those of our unitholders.

RELATED PARTY TRANSACTIONS

In accordance with InnVest's corporate governance practices, all related party agreements are approved by the independent trustees.

Westmont Hospitality Canada Limited

InnVest has a Management Agreement for hotel management and accounting services and an Administrative Services Agreement (the "Agreements") with Westmont Hospitality Canada Limited ("Westmont").

One trustee of InnVest has a direct or indirect controlling interest in Westmont and as such has a material interest in the Agreements. Westmont is considered a related party to InnVest as a result of its ability to exercise significant influence through the Agreements. At September 30, 2015, Westmont managed 97 of InnVest's hotels. The Agreements are on terms consistent with those that prevail in arm's length transactions.

For hotels that it manages, Westmont provides customary hotel management services, including preparation of annual operating and capital budgets and marketing plans, accounting and financial reporting, supervision of sales and marketing, human resource management, purchasing, management and supervision of construction and technical services, information technology, supervision of property repairs and maintenance, supervision of compliance with material contracts relating to the hotel properties, leasing, yield management and quality control.

Westmont's management fees are 2.95% of hotel revenues with an incentive fee structure that will allow Westmont to earn up to 3.80% of gross hotel revenue each year. The hotel management agreement expires in April 2024.

In accordance with the management agreement, in addition to the base management fee and incentive fee, Westmont is entitled to the following fees in respect of hotels that it manages (i) purchasing fees based on 5% of the cost of certain goods and supplies; (ii) construction fees based on 5% of the cost of construction and capital expenditures; and (iii) per guest room fees for accounting services in respect of the hotel businesses. For assets sold which are managed by Westmont, InnVest pays a termination fee equal to the management fees paid based on the trailing 12 months revenues.

For certain hotels owned by InnVest and not managed by Westmont, Westmont was entitled to an asset management fee based on a fixed percentage of the purchase price of the hotel or a fixed percentage of gross operating profit, after the reserve for replacement of furniture, fixtures and equipment and capital improvements, subject to an annual minimum fee. This asset management agreement terminated on November 30, 2014.

Total management and other fees paid to Westmont during the nine months ended September 30, 2015 were $11.0 million, (2014 – $14.9 million). Total fees paid year-to-date in 2015 reflect the elimination of the asset management fee and reduced project management fees based on lower capital expenditures incurred. These fees represent approximately 64% (2014 – 65%) of total hotel management and other fees paid by InnVest to the five hotel management companies with which it partners.

KingSett Capital

On April 24, 2014, InnVest completed a credit agreement with KingSett Real Estate Growth LP No.5 ("KingSett LP No. 5) (a fund managed by KingSett) (the "Credit Agreement") for a $50.0 million subordinated term loan facility (the "Term Loan"). The Term Loan is outstanding for a four-year term, bears regular interest payments of 8.75% per annum (the "Term Interest Payments") and is supported by a general security agreement. A trustee of the REIT has an indirect controlling interest in KingSett. At September 30, 2015, KingSett owned 18.2% of InnVest units.

In the first year that the Term Loan was outstanding, a portion of the Term Interest Payments due in that year, equal to 3% per annum, was payable in units at the option of KingSett. During the three subsequent years, the same portion of the Term Interest Payments will be payable in units if mutually agreed by KingSett and InnVest. Any units will be issued at a price equal to the five-day volume-weighted average price of the units on the TSX prior to the date of each issuance. Since its inception, InnVest issued 146,950 units in satisfaction of the Term Interest Payments. No units were issued during the nine months ended September 30, 2015.

On February 2, 2015, InnVest acquired a 20% interest in the Royal York Hotel through an arrangement with KingSett LP No. 5, and Ivanhoé Cambridge (collectively, the "Partnership"). KingSett LP No. 5, with its 60% interest, is the managing partner of the Partnership. InnVest is the hotel asset manager and oversees the property's hospitality operations. Ivanhoé Cambridge retained a 20% interest in the property. As part of the Partnership, no fees will be paid between InnVest and KingSett LP No. 5 for the services provided by each.

In August 2015, InnVest acquired a 33.3% interest in the Courtyard Marriott in Toronto for a net purchase price of $33 million, while KingSett LP No. 5 acquired the remaining 66.7% interest. InnVest is also the hotel asset manager for the property and earns a management fee for this service, which is recorded in "Other Expenses and (Income)".

Investment in CHC

InnVest holds a 50% interest in CHC, a separate legal entity. InnVest's investment in CHC is classified as a joint venture. InnVest accounts for its investment in CHC using the equity method. The transfer of unrestricted funds from CHC is approved by the joint venture partners. Related party transactions occur between InnVest and CHC. These related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to between the related parties. As at September 30, 2015, the related party balances with CHC are included in accounts payable, in the amount of $0.2 million (December 31, 2014 – accounts receivable – $53).

InnVest's Choice branded hotels pay franchise fees to CHC based upon a master franchise agreement. These fees are recorded by CHC as franchise revenue. The REIT eliminates its 50% share of franchise revenue arising from payments made by InnVest's Choice-branded hotels to CHC against 'Operating expenses' as opposed to 'Joint venture income'. For the nine-month period ended September 30, 2015, this amounted to $323 (2014 – $318).

NON-IFRS FINANCIAL MEASURES AND ADDITIONAL IFRS FINANCIAL MEASURES

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

Additional IFRS Financial Measures

GROSS OPERATING PROFIT

GOP is defined as revenues less hotel and other real estate properties expenses. GOP reflects results of operations from InnVest's two lines of business: hotel ownership and other real estate assets. For the nine months ended September 30, 2015 and 2014, InnVest's hotel ownership operations accounted for all of its GOP.

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

GOP is an additional IFRS financial measure derived from the consolidated financial statements but does not have a standardized meaning prescribed by IFRS. Therefore it is unlikely to be comparable to similar measures presented by other issuers.

GOP has been calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	**2015**	2014
Revenues	**$ 166,557**	$ 148,434	**$ 426,053**	$ 409,096
Hotel and other real estate properties				
Operating expenses	**94,931**	85,040	**266,440**	261,905
Property taxes, rent and insurance	**9,022**	8,967	**27,240**	29,818
Management fees	**5,950**	6,029	**14,227**	16,318
	$ 109,903	$ 100,036	**307,907**	308,041
Gross operating profit	**$ 56,654**	$ 48,398	**118,146**	101,055
Gross operating profit margin	**34.0%**	32.6%	**27.7%**	24.7%

Non-IFRS Financial Measures

FUNDS FROM OPERATIONS ("FFO")

FFO is a common measure of performance in the real estate investment trust industry. FFO is one measure used by industry analysts and investors in the determination of InnVest's valuation, its ability to fund distributions and investors' investment return requirements. As a result, InnVest believes that FFO is a useful supplemental measure of its operating performance for investors.

FFO assumes that the value of real estate investments does not necessarily decrease on a systematic basis over time, an assumption inherent in our application of IFRS (given the depreciation charge), and it adjusts for items included in net income that do not necessarily provide the best indicator of operating performance, such as gains or losses on the sale of assets, provisions for impairment (and impairment reversals) of assets as well as changes in the fair value of certain equity-based financial instruments classified as financial liabilities.

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

InnVest presents FFO in accordance with Real Property Association of Canada's ("REALpac") White Paper on Funds From Operations revised in April 2014 except that InnVest excludes unusual items which are not in the normal course of business and are not expected to reoccur. InnVest's method of calculating FFO may be different from that of other organizations.

InnVest calculates FFO by using net income or loss and adjusting for:

i) Depreciation, amortization and accretion, excluding amortization of deferred financing costs (including related costs included in equity accounted entities);
ii) Deferred income tax expense or recovery;
iii) Any gains or losses on the disposition of assets or the settlement of liabilities;
iv) Non-cash writedown of assets held for sale as well as the impairment provision (and impairment reversals) on assets;
v) Non-cash effect of certain equity-based financial instruments classified as financial liabilities under IFRS (includes distributions included in corporate and administrative expense and changes to fair value each reporting period);
vi) Transaction costs expensed as a result of the purchase of a property being accounted for as a business combination; and
vii) Non-recurring costs that may impact cash flow. Items are considered non-recurring when a similar loss or gain is not reasonably likely to occur within the next two years and has not occurred during the prior two years.

A reconciliation of IFRS net income (loss) and comprehensive income (loss) to FFO is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	**2015**	2014
Net income (loss) and comprehensive income (loss)	**$ 14,301**	$ 16,508	**$ 752**	$ (13,545)
Add (deduct)				
Non-cash items:				
Depreciation and amortization[(1)]	**22,933**	20,804	**67,132**	60,259
Unrealized changes in the fair value of financial liabilities (including fair value changes in unit-based compensation)	**(585)**	1,782	**(6,079)**	9,903
Writedown (reversal of writedown) of hotel properties, net	**741**	4,955	**1,693**	4,464
Distributions included in expenses	**12**	36	**84**	109
Loss (gain) on sale on assets, net		(555)	**45**	(4,564)
Gain on early redemption of convertible debentures, net	**–**	(11,810)	**(196)**	(11,628)
Other items:				
Acquisition cost	**884**	–	**884**	–
Non-recurring items:				
Proxy defense and settlement costs	**–**	–	**–**	3,594
Litigation settlement	**42**	–	**42**	(500)
Contingency provision	**1,050**	–	**1,050**	–
Funds from operations (FFO)	**$ 39,378**	$ 31,720	**$ 65,407**	$ 48,092
FFO per unit				
Basic	**$ 0.301**	$ 0.334	**$ 0.527**	$ 0.510
Diluted	**$ 0.275**	$ 0.278	**$ 0.511**	$ 0.467
Weighted average units outstanding				
Basic	**130,954,208**	94,863,069	**124,200,648**	94,388,753
Adjustments to basic average units outstanding				
Assuming converts of Convertible Debentures	**26,162,734**	35,350,635	**27,490,114**	33,720,439
Assuming converts of Exchangeable, Trustees and Executive	**453,132**	414,754	**521,080**	404,787
Diluted weighted average units outstanding	**157,570,074**	130,628,458	**152,211,842**	128,513,979

(1) Includes depreciation and amortization included in 'Loss from investment in associate' and 'Joint venture income'.

ADJUSTED FUNDS FROM OPERATIONS ("AFFO")

InnVest uses AFFO as its measure of normalized cash flow in order to assess its ability to fund distributions for current or potential investors.

AFFO is defined as FFO adjusted for:

i) Non-cash deferred financing charges (including related costs included in equity accounted entities);
ii) The FF&E Reserve; and
iii) Any other adjustment determined by the Board in their discretion.

A reconciliation of FFO to AFFO is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	**2015**	2014
FFO	**$ 39,378**	$ 31,720	**$ 65,407**	$ 48,092
Add (deduct)				
Non-cash portion of mortgage interest expense(1)	**827**	1,010	**2,622**	2,291
Amortization and other costs associated with the early re-financing of mortgage debt	**1,829**	–	**3,156**	–
Non-cash portion of convertible debentures interest and accretion	**744**	884	**2,340**	2,944
FF&E Reserve(2)	**(7,032)**	(6,295)	**(18,069)**	(17,181)
AFFO	**$ 35,746**	$ 27,319	**$ 55,456**	$ 36,146
AFFO per unit				
Basic	**$ 0.273**	$ 0.288	**$ 0.447**	$ 0.383
Diluted	**$ 0.247**	$ 0.239	**$ 0.430**	$ 0.358
Weighted average unit outstanding				
Basic	**130,954,208**	94,863,069	**124,000,648**	94,388,753
Adjustments to basic average unit outstanding				
Assuming converts of Convertible Debentures	**26,162,734**	35,350,635	**27,490,114**	33,720,439
Assuming converts of Exchangeable, Trustees and Executive	**453,132**	414,754	**521,080**	404,787
Diluted	**157,570,074**	130,628,458	**152,011,842**	128,513,979

(1) Includes deferred financing amortization included in 'Loss from investment in associate' and 'Joint venture income'.
(2) Includes proportion of FF&E reserve related to Investment in associate and joint ventures.

AFFO is also used by management and the Board to determine the level of distributions to unitholders and also serves as an important measure for investors in their evaluation of the performance of management.

In addition, when evaluating acquisition opportunities, the AFFO to be generated by the asset is reviewed by management to determine whether a proposed acquisition is expected to generate an increase in AFFO per unit. Therefore, AFFO is an important measure for management as a guideline through which operating and financial decisions are made and is an integral part of the investment decision for investors and potential investors. There is no standard industry-defined measure of AFFO. InnVest's method of calculating AFFO may be different from that of other organizations.

The reconciliation of cash from operating activities to AFFO is as follows:

	Nine Months Ended September 30,	
	2015	2014
Cash flow utilized in operating activities	**$ 55,456**	$ 41,098
Changes in non-cash working capital	**7,269**	159
Joint venture income	**4,561**	3,932
Loss from associate	**(1,064)**	–
Proxy defense and settlement costs	**–**	3,594
Acquisition costs	**884**	–
Change in accrued interest accounts	**4,351**	5,764
Others, net	**2,068**	(1,220)
FF&E Reserve	**(18,069)**	(17,181)
AFFO	**$ 55,456**	$ 36,146

RISKS AND UNCERTAINTIES

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

For a discussion of risk factors that have been identified, readers should refer to the forward-looking statements in this MD&A, InnVest's 2014 Annual Report, InnVest's Annual Information Form dated March 11, 2015, InnVest's Short Form Base Shelf Prospectus filed on July 2, 2015 and InnVests Prospectus Supplement dated July 8, 2015, all of which are available on SEDAR.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

The significant accounting policies used in the preparation of the interim Financial Statements for the three months ended September 30, 2015 are consistent with those reported in the audited consolidated financial statements for the year ended December 31, 2014.

FUTURE ACCOUNTING CHANGES

InnVest has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that, except as noted below in respect of amendments to IAS 1 and the updated effective implementation period for IRFS 15, there have not been any changes to expected future accounting changes than those described in Note 2 to the audited consolidated financial statements at December 31, 2014.

Amendments to IAS 1, Disclosure Initiative

The amendments to IAS 1 aim to improve presentation and disclosure in financial reports by encouraging companies to apply professional judgment in determining what information to disclose in financial statements. IAS 1 is effective for annual periods beginning on or after January 1, 2016, with early application permitted. InnVest is currently evaluating the impact to the consolidated financial statements and plans to adopt this standard on the required effective date.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 specifies how and when revenue should be recognized as well as requiring more informative and relevant disclosures. IFRS 15 supersedes IAS 18, *Revenue Recognition*, IAS 11, *Construction Contracts* and a number of revenue-related interpretations. Application of the standard is mandatory and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 is effective for annual periods on or after January 1, 2018. InnVest is currently evaluating the impact to the consolidated financial statements and plans to adopt this standard on the required effective date.

Amendments to IFRS 9 – Financial Instruments

On July 24, 2014, the IASB issued the final version of IFRS 9, "Financial Instruments" ("IFRS 9"), which replaces IAS 39, "Financial Instruments: Recognition and Measurement". This final version of IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The standard introduces a single, principles-based approach that amends both the categories and associated criteria for the classification and measurement of financial assets, which is driven by the entity's business model for the portfolio in which the assets are held and the contractual cash flows of these financial assets. This new standard supersedes all prior versions of IFRS 9. Amendments to IFRS 9 are effective for annual periods beginning on or after January 1, 2018, with early application permitted. InnVest is currently evaluating the impact to the consolidated financial statements and plans to adopt this standard on the required effective date.

CONTROLS AND PROCEDURES

Management of InnVest is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS. In accordance with National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, the Chief Executive Officer and the Chief Financial Officer have assessed, or caused an assessment to be made under their direct supervision, of the design and operating effectiveness of InnVest's internal controls over financial reporting as at September 30, 2015, and based on that assessment, have concluded that InnVest's internal controls over financial reporting were appropriately designed and were operating effectively.

During the three months ended September 30, 2015, there were no changes in InnVest's internal controls over financial reporting which have significantly affected, or are reasonably likely to significantly affect, InnVest's internal controls over financial reporting.

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

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

InnVest intends to transition to the updated 2013 internal control Integrated Framework published by the Committee of Sponsoring Organizations for the Treadway Commission (COSO 2013) for the annual audit of 2015. InnVest has established an implementation team and initiated an implementation program including the engagement of external resources to assist with the process.

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars) (unaudited)	**September 30, 2015**	December 31, 2014
ASSETS		
Current assets		
Cash	**$ 10,119**	$ 56,404
Accounts receivable	**23,238**	22,175
Prepaid expenses and other assets	**10,503**	7,734
Finance lease receivable	**–**	2,078
Assets held for sale (Note 3)	**15,666**	14,924
	59,526	103,315
Non-current assets		
Restricted cash (Note 4)	**3,214**	2,236
Investment in joint ventures (Note 5)	**36,192**	1,179
Investment in associate (Note 6)	**19,395**	–
Hotel properties (Note 8)	**1,206,175**	1,210,143
Other real estate properties (Note 9)	**–**	1,918
Intangible assets (Note 10)	**9,333**	10,494
Total assets	**$ 1,333,835**	$1,329,285
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**$ 57,692**	$ 67,570
Distributions payable	**4,431**	3,872
Long-term debt (Note 11)	**16,516**	231,731
Other long-term obligations (Note 14)	**204**	190
Liabilities related to assets held for sale (Note 3)	**1,579**	9,144
	80,422	312,507
Non-current liabilities		
Long-term debt (Note 11)	**777,661**	552,520
Convertible debentures (Note 12)	**201,874**	234,981
Provisions (Note 13)	**11,115**	9,359
Other long-term obligations (Note 14)	**4,628**	4,841
Other liabilities (Note 15)	**4,758**	13,086
	1,080,458	1,127,294
UNITHOLDERS' EQUITY	**253,377**	201,991
	$ 1,333,835	$1,329,285

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(in thousands of Canadian dollars, except per unit amounts) (unaudited)	**Three Months Ended September 30, 2015**	Three Months Ended September 30, 2014	**Nine Months Ended September 30, 2015**	Nine Months Ended September 30, 2014
Revenues (Note 25)	**$ 166,557**	$ 148,434	**$ 426,053**	$ 409,096
Hotel and other real estate properties				
Operating expenses (Note 21)	**94,931**	85,040	**266,440**	261,905
Property taxes, rent and insurance	**9,022**	8,967	**27,240**	29,818
Management fees (Note 21)	**5,950**	6,029	**14,227**	16,318
	109,903	100,036	**307,907**	308,041
Gross operating profit	**56,654**	48,398	**118,146**	101,055
Other expenses				
Corporate and administrative (Note 21)	**2,827**	2,037	**8,719**	9,115
Interest expense				
Mortgages and other debt	**12,872**	11,855	**37,969**	34,452
Convertible debentures	**3,935**	4,542	**12,223**	16,716
Joint venture income (Note 5)	**(2,154)**	(1,687)	**(4,076)**	(3,455)
Loss from investment in associate (Note 6)	**517**	–	**1,064**	–
Other expense and (income), net (Note 22)	**1,827**	(12,398)	**(31)**	(16,854)
Writedown (reversal of writedown) of hotel and other real estate properties, net (Note 23)	**741**	4,955	**1,693**	4,464
Depreciation and amortization	**22,251**	20,804	**65,534**	60,259
Unrealized (gain) loss on liabilities presented at fair value (Note 24)	**(463)**	1,782	**(5,701)**	9,903
Net income (loss) and total comprehensive income (loss)	**$ 14,301**	$ 16,508	**$ 752**	$ (13,545)
Net income (loss) per unit (Note 19)				
Basic	**$ 0.109**	$ 0.174	**$ 0.006**	$ (0.143)
Diluted	**$ 0.109**	$ 0.161	**$ 0.006**	$ (0.143)

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY (DEFICIT)

(in thousands of Canadian dollars) (unaudited)	Deficit	Units in $	Total
Balance December 31, 2013	$ (502,923)	$ 644,380	$ 141,457
CHANGES DURING THE PERIOD			
Net loss and total comprehensive loss	(13,545)	–	(13,545)
Distributions to unitholders	(28,312)	–	(28,312)
Distribution reinvestment plan units issued (Note 18)	–	2,274	2,274
Vested executive compensation (Note 18)	–	210	210
Trustee compensation (Note 18)	–	83	83
Issue of new units, net	–	3,533	3,533
Balance September 30, 2014	$ (544,780)	$ 650,480	$ 105,700
Balance December 31, 2014	**$ (556,872)**	**$ 758,863**	**$ 201,991**
CHANGES DURING THE PERIOD			
Net income and total comprehensive income	**752**	**–**	**752**
Distributions to unitholders	**(37,412)**	**–**	**(37,412)**
Distribution reinvestment plan units issued (Note 18)	**–**	**4,153**	**4,153**
Vested executive compensation (Note 18))	**–**	**1,188**	**1,188**
Issue of new units, net (Note 18)	**–**	**82,705**	**82,705**
Balance September 30, 2015	**$ (593,532)**	**$ 846,909**	**$ 253,377**

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars) (unaudited)	**Nine Months Ended September 30, 2015**	Nine Months Ended September 30, 2014
OPERATING ACTIVITIES		
Net income (loss) and total comprehensive income (loss)	**$ 752**	$ (13,545)
Add (deduct) items not affecting cash		
Depreciation and amortization	**65,534**	60,259
Loss (gain) on sale of assets, net (Note 22)	**45**	(4,564)
Gain on redemption and amendment of convertible debentures (Note 22)	**(196)**	(11,628)
Writedown (reversal of writedown) of hotel and other real estate properties, net (Note 23)	**1,693**	4,464
Unrealized (gain) loss on liabilities presented at fair value (Note 24)	**(5,701)**	9,903
Interest on mortgages and other debt	**37,969**	34,452
Convertible debentures interest and accretion	**12,223**	16,716
Interest expense paid	**(48,335)**	(51,161)
Non-cash executive and trustee compensation	**1,188**	293
Share of net loss from associate (Note 6)	**1,064**	–
Share of net earnings from joint ventures (Note 5)	**(4,561)**	(3,932)
Contingency provision (Note 13)	**1,050**	–
Changes in non-cash working capital (Note 20)	**(7,269)**	(159)
Cash generated from operating activities	**55,456**	41,098
FINANCING ACTIVITIES		
Proceeds from bank indebtedness	**–**	32,300
Repayment of long-term debt	**(308,419)**	(107,236)
Proceeds from long-term debt, net of issuance costs	**305,720**	125,390
Redemption and cancellation of convertible debentures	**(3,643)**	(102,547)
Distributions to unitholders	**(32,700)**	(26,000)
Issue of new units, net of issuance costs	**46,385**	3,533
Cash generated from (utilized in) financing activities	**7,343**	(74,560)
INVESTING ACTIVITIES		
Capital expenditures (Note 25)	**(28,649)**	(57,800)
Acquisition (Note 7)	**(44,862)**	–
Finance lease receivable	**10,270**	–
Investment in associate (Note 6)	**(20,459)**	–
Additions to intangible assets	**–**	(129)
Investment in joint ventures (Note 5)	**(35,121)**	–
Dividends received from investment in joint ventures (Note 5)	**4,669**	3,562
Proceeds from sale of assets	**6,959**	89,475
Payment of costs associated with sale of assets	**(914)**	(4,376)
(Increase) decrease in restricted cash	**(978)**	4,501
Cash (utilized in) generated from investing activities	**(109,085)**	35,233
(Decrease) increase in cash during the period	**(46,285)**	1,771
Cash, beginning of the period	**56,404**	20,261
Cash, end of the period	**$ 10,119**	$ 22,032

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2015 (all Canadian dollar amounts are in thousands, except unit and per unit amounts) (unaudited)

1. BASIS OF PRESENTATION

InnVest Real Estate Investment Trust ("InnVest" or the "REIT") is an unincorporated open-ended real estate investment trust governed by the laws of Ontario. The REIT began operations on July 26, 2002. As at September 30, 2015, the REIT owned 109 Canadian hotels and interest in partnerships which holds interest in two hotels, each operated under international brands.

The REIT leases its hotels to InnVest Hotels Trust ("IHT"), an indirectly-owned unit trust. IHT indirectly holds all of the hotel operating assets, earns revenues from hotel customers and pays rent to the REIT. IHT also indirectly holds a 50% interest in Choice Hotels Canada Inc. ("CHC"). At September 30, 2015, InnVest wholly-owns an indirect interest in the entities that carry on the business of operating hotels.

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

Units of InnVest trade on the Toronto Stock Exchange (the "TSX") under the symbol INN.UN.

InnVest's registered office is at 200 Bay Street, Royal Bank Plaza, South Tower, Suite 3205, Toronto, M5J 2J1.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed. The interim financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2014, except as noted below. These financial statements should be read in conjunction with InnVest's consolidated financial statements for the year ended December 31, 2014.

b) Investment in Associate

InnVest exercises significant influence in a partnership and accounts for its investment using the equity method. Under the equity method, its investment in the partnership is carried on the balance sheet at cost plus post acquisition changes in InnVest's share of the net assets of the partnership, less distributions received. The REIT's income statement reflects the share of the results of the operations of its investment in associate.

c) Estimates

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the REIT's accounting policies. The critical accounting estimates and judgments have been set out in Note 2 of InnVest's consolidated financial statements for the year ended December 31, 2014.

d) Future Accounting Changes

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the IASB issued its new revenue standard, IFRS 15, "Revenue from Contracts with Customers". IFRS 15 specifies how and when revenue should be recognized as well as requiring more informative and relevant disclosures. IFRS 15 supersedes IAS 18, "Revenue Recognition", IAS 11, "Construction Contracts" and a number of revenue-related interpretations. Application of the standard is mandatory and it applies to nearly all contracts with customers with the exception of leases, financial instruments and insurance contracts. IFRS 15 is effective for annual periods on or after January 1, 2018. InnVest is currently evaluating the impact to the consolidated financial statements and plans to adopt this standard on the required effective date.

AMENDMENTS TO IAS 1 – PRESENTATION OF FINANCIAL STATEMENTS

The amendments to IAS 1 relate to (i) materiality; (ii) order of notes; (iii) subtotals; (iv) accounting policies; and (v) disaggregation, and are designed to improve presentation and disclosure in financial reports by encouraging companies to apply professional judgment in determining what information to disclose in financial statements. Amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2016, with early application permitted. InnVest is currently evaluating the impact to the consolidated financial statements and plans to adopt this standard on the required effective date.

AMENDMENTS TO IFRS 9 – FINANCIAL INSTRUMENTS

On July 24, 2014, the IASB issued the final version of IFRS 9, "Financial Instruments" ("IFRS 9"), which replaces IAS 39, "Financial Instruments: Recognition and Measurement". This final version of IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The standard introduces a single, principles-based approach that amends both the categories and associated criteria for the classification and measurement of financial assets, which is driven by the entity's business model for the portfolio in which the assets are held and the contractual cash flows of these financial assets. This new standard supersedes all prior versions of IFRS 9. Amendments to IFRS 9 are effective for annual periods beginning on or after January 1, 2018, with early application permitted. InnVest is currently evaluating the impact to the consolidated financial statements and plans to adopt this standard on the required effective date.

3. ASSETS HELD FOR SALE

Assets held for sale at September 30, 2015, include two hotels and other real estate properties. All assets and liabilities relating to these hotel properties, and other real estate properties, have been classified to current assets and current liabilities and are outlined in the table below:

	September 30, 2015	December 31, 2014
Assets		
Accounts receivable	**$ 1,087**	$ 355
Prepaid expenses and other assets	**392**	138
Hotel properties, net of accumulated amortization (Note 8)	**12,454**	14,431
Other real estate properties, net of accumulated amortization (Note 9)	**1,733**	–
Total assets	**$ 15,666**	$ 14,924
Liabilities		
Accounts payable and accrued liabilities	**$ 1,579**	$ 591
Long-term debt (Note 11)	**–**	8,553
Total liabilities	**$ 1,579**	$ 9,144

Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Once they have been classified as held for sale, depreciation ceases. The sale of these properties, which have been approved by the Board of Trustees, are highly probable and are expected to close within a year of their held for sale classification.

Sale of Assets

During the nine months ended September 30, 2015, InnVest sold two hotels for aggregate net proceeds after closing costs of $14,386. InnVest entered into a lease and sale agreement with the purchaser of one of the hotels which resulted in a finance lease receivable of $8,341, resulting in net cash proceeds on sale of hotel properties of $6,045. InnVest recorded a corresponding loss on sale of $45 which was included in 'Other expense and (income), net' (Note 22) in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss). On July 2, 2015, the finance lease receivable of $8,341 was fully collected (refer to Note 11).

4. RESTRICTED CASH

The restricted cash of $3,214 (December 31, 2014 – $2,236) is held by InnVest to undertake capital refurbishments in accordance with certain mortgage and franchise agreements.

5. INVESTMENT IN JOINT VENTURES

The REIT has investments in two joint arrangements that are joint ventures as a result of shared control. One joint venture owns a hotel and the other owns 50% interest in CHC.

Details of the REIT's investments in these joint ventures, which have been accounted for following the equity method, are as follows:

		Proportion of Ownership Interest	
Name of Entity	Name of Property/Activity	30-Sep-15	31-Dec-14
CYM Partnership LP	Courtyard by Marriott Toronto	33.3%	n\a
Choice Hotels Canada Inc	Franchise owner	50%	50%

The following table summarizes the aggregate movement of InnVest's investment in joint ventures:

	Nine Months Ended September 30, 2015			Year Ended December 31, 2014		
	Total	**CHC**	**CYM Partnership**	Total	CHC	CYM Partnership
Opening balance, January 1	**1,179**	**1,179**	**–**	1,202	1,202	–
Acquisition of InnVest's share of CYM Partnership	**35,121**	**–**	**35,121**	–	–	–
InnVest's share of net income for the period	**4,561**	**4,107**	**454**	4,998	4,998	–
Distributions received	**(4,669)**	**(4,669)**	**–**	(5,021)	(5,021)	–
Closing balance at the end of the period	**36,192**	**617**	**35,575**	1,179	1,179	–

Acquisition of Interest in Courtyard by Marriott Toronto

On August 26, 2015, InnVest acquired a 33.3% interest in the Courtyard by Marriott Toronto a select-service, hotel located in downtown Toronto, Ontario (the "Courtyard Toronto") in an arrangement with KingSett Real Estate Growth LP No. 5, an affiliate of KingSett Capital ("KingSett") with KingSett acquiring the remaining 66.7% interest in the hotel (collectively, the "CYM Partnership"). CYM Partnership's office is located at 66 Wellington Street West, Toronto, Ontario.

CYM Partnership acquired the Courtyard Toronto for an aggregate price of $99,000 plus payment for capital expenditure of $912 before closing costs and working capital adjustments. The CYM Partnership funded the acquisition of Courtyard Toronto with capital from the partners of $100,255. InnVest's share of the equity contribution was $33,636. InnVest incurred transaction costs of $1,485 with the acquisition for a total net investment of $35,121. The joint arrangement with KingSett was determined to be a joint venture and as such accounted for using the equity method of accounting for investments. The hotel is encumbered by mortgage debt of approximately $54,000 which is the sole responsibility of Kingsett. Kingsett has provided InnVest with an indemnity for the full amount of the debt.

A subsidiary of the REIT entered into an asset management agreement with the partnership for oversight of the hotel manager of the Courtyard Toronto hotel. InnVest charges the partnership an asset management fee which is included in 'Other income and expense, net' in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss).

The partnership has a commitment to complete certain capital expenditures under the licence and royalty agreement with Marriott Hotels Ltd.

Opening balance at acquisition, August 26, 2015	**$ 35,121**
Add:	
InnVest's 33.3% share of the CYM Partnership's net income from August 26, 2015 to September 30, 2015	**454**
Closing balance, September 30, 2015	**$ 35,575**

Presented below are the amounts included in the financial statements of the CYM Partnership (adjusted where the accounting policies between CYM Partnership and the REIT differ):

The fair values of the assets and liabilities acquired by the CYM Partnership are provisional due to the complexities of the valuation process. As a result further adjustments to the purchase price allocation may be required.

	September 30, 2015	August 26, 2015
Hotel property	**$ 99,727**	$ 99,912
Current assets	**5,817**	1,294
Total assets	**105,544**	101,206
Current liabilities	**(3,274)**	(297)
Net assets	**$ 102,270**	$ 100,909
InnVest 33.3% share of net assets	**$ 34,090**	$ 33,636
Acquisition costs	**1,485**	1,485
Investment in joint venture	**35,575**	35,121

Summarized Income Statement

		From August 26, 2015 to September 30, 2015
Revenues	$	4,045
Operating expenses		(2,484)
		1,561
Depreciation and amortization		(186)
Net income		1,375
InnVest 33.3% share of net income	$	454

Investment in CHC

InnVest holds a 50% interest in CHC, a separate legal entity. CHC's registered office is at 5090 Explorer Drive, Suite 500, Mississauga, Ontario L4W 4T9. InnVest's investment in CHC is classified as a joint venture. InnVest accounts for its investment in CHC using the equity method.

Related party transactions occur between InnVest and CHC. These related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to between the related parties. As at September 30, 2015, the related party balances with CHC are included in accounts payable, in the amount of $240 (December 31, 2014 – accounts receivable – $53).

InnVest's Choice branded hotels pay franchise fees to CHC in accordance with a master franchise agreement. These fees are recorded by CHC as franchise revenue. The REIT eliminates its 50% share of franchise revenue arising from payments made by InnVest's Choice-branded hotels to CHC against 'Operating expenses' as opposed to 'Joint venture income'. For the nine-month period ended September 30, 2015, this amounted to $485 (2014 – $318).

6. INVESTMENT IN ASSOCIATE

On February 2, 2015, InnVest acquired a 20% interest in the Fairmont Royal York Hotel in Toronto, Ontario (the "Royal York Hotel") in an arrangement with KingSett for an aggregate 80% interest in the Royal York Hotel, whereby Ivanhoé Cambridge retained a 20% interest in the hotel (collectively, the "Royal York Partnership").

The Royal York Partnership acquired the Royal York Hotel for an aggregate price of $186,500 before closing costs and working capital adjustments. InnVest incurred transaction costs of $1,218 on the acquisition for a total net investment of $18,759. InnVest exercises significant influence over its investment in the Royal York Partnership and accounts for its investment using the equity method.

The acquisition of Royal York Hotel was financed with equity from partners and a 3 year floating rate mortgage loan in the amount of $ 98,600 that bears interest at the Bankers' Acceptance rate plus 2.85%. InnVest's share of the equity contribution and mortgage loan was $17,541 and $19,720, respectively. Each Partner is severally liable for its percentage share of the mortgage loan. Subsequent to acquisition, additional funds were borrowed by the partnership to fund capital expenditure projects totaling $11,900 as at September 30, 2015.

Under the Royal York Partnership, each partner has minimum capital commitments to fund capital expenditures and working capital needs for the Royal York Hotel over a specified period of time. As at September 30, 2015, InnVest's remaining capital commitment approximated $14,800.

Opening balance at acquisition, February 2, 2015	$	18,759
Add:		
InnVest's 20% share of the Partnership's net loss from February 2, 2015 to September 30, 2015		(1,064)
Additional investment in associate		1,700
Closing balance, September 30, 2015	$	19,395

Presented below are the amounts included in the financial statements of the Royal York Partnership (adjusted where the accounting policies between the Royal York Partnership and the REIT differ):

The fair values of the assets and liabilities acquired by the Royal York Partnership are provisional due to the complexities of the valuation process. As a result further adjustments may be required to the allocation of assets and liabilities.

	September 30, 2015	February 2, 2015
Hotel property	**$ 203,164**	$ 186,500
Current assets	**6,687**	9,449
Total assets	**209,851**	195,949
Non-current liabilities	**$ 109,355**	$ 97,562
Current liabilities	**9,612**	10,683
Total liabilities	**118,967**	108,245
Net assets	**$ 90,884**	$ 87,704
InnVest's 20% share of net assets	**18,177**	17,541
Acquisition costs	**1,218**	1,218
Investment in associate	**$ 19,395**	$ 18,759

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Revenues	**$ 25,630**	**$ 71,972**
Hotel property expenses	**(23,956)**	**(66,514)**
Gross operating income	**1,674**	**5,458**
Other expenses		
Depreciation and amortization	**(3,093)**	**(7,674)**
Interest expense	**(1,168)**	**(3,104)**
Net loss	**(2,587)**	**(5,320)**
InnVest's 20% share of net loss	**$ (517)**	**$ (1,064)**

7. BUSINESS COMBINATION

On September 1, 2015, InnVest acquired a 100% interest in the Hotel Saskatchewan in Regina, Saskatchewan ("Hotel Saskatchewan"). Hotel Saskatchewan is a full-service hotel located in downtown Regina. The net purchase price before closing costs and working capital adjustments was $38,000 plus payment for capital expenditures of $7,012, for total price before working capital and closing costs of $45,012. The acquisition was funded with a combination of cash on hand and a draw on the REIT's operating line.

The results of operations of the hotel since the date of acquisition have been included in the condensed interim consolidated statement of net income (loss) and comprehensive income (loss). Hotel Saskatchewan contributed revenue of $1,031 and net income of $98 from the date of acquisition. If the Hotel Saskatchewan had been consolidated from January 1, 2015, the condensed interim consolidated statement of net income (loss) would have included revenue of $8,988 and a net loss of $2,547.

InnVest incurred acquisition related costs of $884, which have been expensed in 'Other expense and (income), net' in the consolidated statements of net income (loss) and comprehensive income (loss). The transaction was accounted for as a business combination under IFRS 3.

InnVest has a commitment to complete certain capital expenditure under the licence and royalty agreement.

The following table summarizes the allocation of the purchase price to the fair value to each major asset acquired and liabilities assumed as at the acquisition date. The allocation of purchase price is provisional due to the complexity of the valuation process. As a result, further adjustments may be made to the allocation of value between each of the assets and liabilities acquired.

Land and building (Note 8)	$ 35,219
Building finishes (Note 8)	3,206
Electrical and mechanical (Note 8)	2,959
Furniture, fixtures and equipment (Note 8)	3,628
Identifiable assets acquired	45,012
Working capital (net)	(150)
Net assets acquired and cash consideration paid	$ 44,862

8. HOTEL PROPERTIES

	Land, Building and Leaseholds	Building Finishes	Electrical and Mechanical	Furniture, Fixtures and Equipment	Total
Cost					
Opening balance at January 1, 2015	$ 882,725	$ 348,027	$ 206,711	$ 113,159	$ 1,550,622
Derecognition of assets	–	–	–	(7,287)	(7,287)
Acquisition (Note 7)	35,219	3,206	2,959	3,628	45,012
Additions	3,504	13,889	2,551	8,630	28,574
Fair value of decommissioning and restoration provision (Note 13)	706	–	–	–	706
Reclass to assets held for sale (Note 3)	(8,768)	(6,465)	(2,235)	(1,516)	(18,984)
Write-down of asset to recoverable amount (Note 23)	(1,085)	(313)	(96)	(25)	(1,519)
Balance at September 30, 2015	912,301	358,344	209,890	116,589	1,597,124
Accumulated depreciation					
Opening balance at January 1, 2015	83,060	171,048	31,339	55,032	340,479
Derecognition of assets	–	–	–	(7,287)	(7,287)
Depreciation	14,099	33,305	5,153	11,730	64,287
Reclass to assets held for sale (Note 3)	(1,690)	(3,039)	(580)	(1,221)	(6,530)
Balance at September 30, 2015	95,469	201,314	35,912	58,254	390,949
Carrying value, September 30, 2015	**$ 816,832**	**$ 157,030**	**$ 173,978**	**$ 58,335**	**$ 1,206,175**

	Land, Building and Leaseholds	Building Finishes	Electrical and Mechanical	Furniture, Fixtures and Equipment	Total
Cost					
Opening balance at January 1, 2014	$ 831,647	$ 295,421	$ 202,140	$ 99,940	$ 1,429,148
Derecognition of assets	–	–	–	(6,840)	(6,840)
Acquisition	99,654	21,758	9,860	7,728	139,000
Additions	4,408	48,298	5,497	18,695	76,898
Fair value of decommissioning and restoration provision (Note 13)	2,313	–	–	–	2,313
Write-down of asset to recoverable amount	(4,158)	(1,060)	(1,754)	(278)	(7,250)
Reclass from assets held for sale	10,491	6,697	8,880	2,180	28,248
Reclass to assets held for sale	(61,630)	(23,087)	(17,912)	(8,266)	(110,895)
Balance at December 31, 2014	882,725	348,027	206,711	113,159	1,550,622
Accumulated depreciation					
Opening balance at January 1, 2014	74,256	140,824	26,863	51,702	293,645
Derecognition of assets	–	–	–	(6,840)	(6,840)
Depreciation	17,856	40,562	6,956	13,934	79,308
Reclass from assets held for sale	1,342	3,431	1,099	1,213	7,085
Reclass to assets held for sale	(10,394)	(13,769)	(3,579)	(4,977)	(32,719)
Balance at December 31, 2014	83,060	171,048	31,339	55,032	340,479
Carrying value, December 31, 2014	**$ 799,665**	**$ 176,979**	**$ 175,372**	**$ 58,127**	**$ 1,210,143**

The depreciation expense has been included in the line item 'Depreciation and amortization' in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss).

The land amount included in land, building and leaseholds is $164,804 at September 30, 2015 (December 31, 2014 – $160,902). During the nine months ended September 30, 2015, land totalling $4,700 was acquired (Note 7). This amount is not depreciated. Hotel properties at September 30, 2015 include $2,833 relating to leased assets (December 31, 2014 – $3,145).

Impairment Review During the Period

Each reporting period, InnVest performs a review for indicators of impairment in respect of its hotel properties. If an impairment indicator is identified, InnVest determines the recoverable amount of the individual hotel property as the higher of value-in-use and fair value less costs to sell. Value-in-use is based on a discounted cash flow approach whereas fair value less costs to sell is determined giving consideration to comparable sales transactions and price per room metrics. During the nine months ended September 30, 2015, InnVest's review led to the recognition of an impairment loss of $1,519 relating to three hotels (2014 – $5,250 relating to four hotels). The impairment loss has been included in 'Writedown (reversal of writedown) of hotel and other real estate properties, net' (Note 23) in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss). The recoverable amount was based on the fair value less costs to sell.

9. OTHER REAL ESTATE PROPERTIES

Other real estate properties include a retail property and a retirement residence. During the third quarter, these properties were reclassed to assets held for sale (Note 3). The land amount included in land and building is $nil at September 30, 2015 (December 31, 2014 – $121). This amount is not depreciated.

As described in Note 8, a similar impairment review was performed on other real estate properties. During the nine months ended September 30, 2015, InnVest's review led to the recognition of an impairment loss of $174 (2014 – $nil). The impairment loss has been included in 'Writedown (reversal of writedown) of hotel and other real estate properties, net' (Note 23) in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss). The recoverable amount was based on the fair value less costs to sell.

	Land and Building	Furniture, Fixtures and Equipment	Total
Cost			
Opening balance at January 1, 2015	$ 2,529	$ 77	$ 2,606
Additions	63	12	75
Derecognition of assets	–	(5)	(5)
Writedown of assets to recoverable amount	(170)	(4)	(174)
Reclass to assets held for sale (Note 3)	(2,422)	(80)	(2,502)
Balance at September 30, 2015	–	–	–
Accumulated depreciation			
Opening balance at January 1, 2015	641	47	688
Depreciation	79	7	86
Derecognition of assets	–	(5)	(5)
Reclass to assets held for sale (Note 3)	(720)	(49)	(769)
Balance at September 30, 2015	–	–	–
Carrying value, September 30, 2015	**$ –**	**$ –**	**$ –**

	Land and Building	Furniture, Fixtures and Equipment	Total
Cost			
Opening balance at January 1, 2014	$ 2,497	$ 77	$ 2,574
Additions	32	–	32
Balance at December 31, 2014	2,529	77	2,606
Accumulated depreciation			
Opening balance at January 1, 2014	573	37	610
Depreciation	68	10	78
Balance at December 31, 2014	641	47	688
Carrying value, December 31, 2014	**$ 1,888**	**$ 30**	**$ 1,918**

The depreciation expense has been included in the line item 'Depreciation and amortization' in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss).

10. INTANGIBLE ASSETS

	Licence Contracts	Franchise Rights	Total
Cost			
Opening balance at January 1, 2015	$ 26,320	$ 2,492	$ 28,812
Additions	–	–	–
Balance at September 30, 2015	26,320	2,492	28,812
Accumulated amortization			
Opening balance at January 1, 2015	16,363	1,955	18,318
Amortization	988	173	1,161
Balance at September 30, 2015	17,351	2,128	19,479
Carrying value, September 30, 2015	**$ 8,969**	**$ 364**	**$ 9,333**

	Licence Contracts	Franchise Rights	Total
Cost			
Opening balance at January 1, 2014	$ 26,320	$ 2,320	$ 28,640
Reclass to assets held for sale	–	(212)	(212)
Reclass from assets held for sale	–	255	255
Additions	–	129	129
Balance at December 31, 2014	26,320	2,492	28,812
Accumulated amortization			
Opening balance at January 1, 2014	15,047	1,516	16,563
Reclass to assets held for sale	–	(199)	(199)
Reclass from assets held for sale	–	191	191
Amortization	1,316	447	1,763
Balance at December 31, 2014	16,363	1,955	18,318
Carrying value, December 31, 2014	**$ 9,957**	**$ 537**	**$ 10,494**

The amortization expense has been included in the line item 'Depreciation and amortization' in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss).

11. LONG-TERM DEBT

	September 30, 2015	December 31, 2014
Mortgages payable	**$ 720,391**	$ 749,363
Subordinated term loan	**50,000**	50,000
Operating line	**35,800**	–
Bridge loan	**–**	2,000
	806,191	801,363
Reclass to liabilities related to assets held for sale (Note 3)	**–**	(8,553)
	806,191	792,810
Less debt issuance costs	**(12,014)**	(8,559)
Total long-term debt	**794,177**	784,251
Less current portion	**(16,516)**	(231,731)
Net long-term debt – non-current	**$ 777,661**	$ 552,520

Substantially all of InnVest's assets have been pledged as security under debt agreements. At September 30, 2015, long-term debt had a weighted average interest rate of 5.0% (December 31, 2014 – 5.5%) and a weighted average effective interest rate of 5.5% (December 31, 2014 – 5.9%). The long-term debt is repayable in average monthly payments of principal and interest totalling $4,749 (December 31, 2014 – $5,098) and matures at various dates from December 1, 2016 to August 1, 2025.

Mortgages Payable

InnVest has access to a loan facility to fund 65% of capital expenditures incurred at certain of its hotels. With the refinancing of one pool of mortgages the maximum borrowing capacity was reduced from $30,000 to $20,000 during the quarter. During the third quarter, InnVest drew $2,192 on the loan facility for capital expenditure on certain hotels. At September 30, 2015, InnVest had remaining capacity on the facility of $3,721 (December 31, 2014 – $8,386).

On April 13, 2015, InnVest refinanced the Hyatt Regency Vancouver hotel for a new 10-year $80,000 mortgage at a fixed interest rate of 3.75%. This financing replaced the $70,000, 3-year floating rate mortgage incurred as part of the acquisition of the property.

On July 2, 2015, InnVest repaid maturing mortgage loans totaling $50,740 that were secured by seven hotel properties bearing a weighted average interest rate of 5.2%. Three of the hotel properties were added to the pool of assets securing the operating line. One hotel property was previously sold and its mortgage loan repaid from proceeds of a finance lease receivable collected (refer to note 3). Later in the quarter, the REIT obtained a new mortgage loan of $36,000 secured by the remaining four hotels bearing an interest rate of 3.95%. On July 24, 2015, InnVest refinanced a maturing mortgage loan of $650 secured by one Comfort Inn hotel bearing an interest rate of 5.87% with a new 10-year $1,150 mortgage at a fixed interest rate of 3.96%.

During the third quarter, mortgage loans totalling $152,444 bearing a weighted average interest rate of 5.2% were refinanced with new mortgage loans totalling $157,900 bearing a weighted average interest rate of 3.7%. The new mortgage loans were secured by four properties. In connection with one of the loans, the REIT entered into a forward interest rate agreement to fix the interest rate at 4% for a 10-year term. Upon finalization of the financing agreement, the hedge was unwound at a cost of $1,351 which will be amortized to interest expense over the term of the loan and will be offset by the lower contracted interest rate of 3.8%.

In addition to the above, the REIT repaid mortgage loans of $18,848 which bore an interest rate of 5.5%.

Subordinated Term Loan

InnVest has a credit agreement with an affiliate of KingSett (the "Credit Agreement") for a $50,000 subordinated term loan facility (the "Term Loan"). The Term Loan is outstanding for a four-year term ending April 2018, bears interest at 8.75% per annum and is secured by a general security agreement.

In connection with the Term Loan, a portion of the interest payments can be paid in units if mutually agreed upon by KingSett and InnVest. During the nine months ended September 30, 2015, no units were issued in satisfaction of the interest payments.

Bridge Loan

During the nine months ended September 30, 2015, the bridge loan of $2,000 with an expiry date of February 29, 2016 was repaid in full and cancelled. As at December 31, 2014, the bridge loan amount was $2,000.

Operating Line

On June 5, 2015, the existing operating credit line of up to $40,000 with an expiry date of August 31, 2016 was repaid in full and cancelled.

On June 5, 2015, InnVest obtained a new operating, acquisition and capital expenditure line ("Operating Line") of up to $100,000 with two Canadian chartered banks which expires on June 5, 2017. The Operating Line is secured by 24 hotel properties. The amount of the Operating Line is subject to a mortgageability test which is based on the lesser of 50% of the appraised value and the operating results of the secured properties, calculated for the immediately preceding four quarters. The Operating Line bears interest at either the Canadian bank prime rate plus 1.75% or the Canadian Bankers' Acceptance rate plus 2.75%.

As at September 30, 2015, the amount outstanding on the Operating Line was $35,800 (December 31, 2014 – $nil) and had a remaining capacity of $55,636. An amount of $8,564 was reserved for letters of credit (refer to Note 18).

Scheduled repayments of long-term debt are as follows:

	Regular Amortization	Due on Maturity	Total
Remainder of 2015	$ 3,945	$ –	$ 3,945
2016	16,873	45,495	62,368
2017	13,984	199,309	213,293
2018	11,825	55,257	67,082
2019	9,595	139,672	149,267
2020 and thereafter	31,916	278,320	310,236
	$ 88,138	**$ 718,053**	**$ 806,191**

The estimated fair value of InnVest's long-term debt at September 30, 2015 was approximately $819,168 (December 31, 2014 – $817,791). This estimate was determined by discounting expected cash flows at interest rates that reflect current market conditions for debt with similar terms, maturities and credit risk.

Long-term debt includes $122,156 (December 31, 2014 – $170,013) which is subject to floating interest rates. Annual interest expense will increase by $1,221 for every 1% increase in the base Bankers' Acceptance rate.

Interest expense on long-term debt and convertible debentures are considered operating items in the condensed interim consolidated statements of cash flows.

12. CONVERTIBLE DEBENTURES

The convertible debentures outstanding are as follows:

Debenture	Face Amount	Maturity Date	Coupon Interest Rate	Interest Rate Including Issuance Costs	Effective Interest Rate(1)	Conversion Strike Price	**Outstanding Principal September 30, 2015**	Outstanding Principal December 31, 2014
Series D	50,000	March 31,2016	6.75%	7.64%	9.41%	$ 5.70	**–**	36,358
Series E	75,000	September 30, 2017	6.00%	6.79%	7.75%	$ 8.00	**74,995**	75,000
Series F	50,000	March 30, 2018	5.75%	6.57%	7.40%	$ 9.45	**49,975**	50,000
Series G	86,250	March 31, 2019	6.25%	6.25%	8.25%	$ 7.50	**86,250**	86,250
Total convertible debentures							**$ 211,220**	$ 247,608

(1) Includes issuance costs and conversion option allocation.

The net proceeds received from the issuance of each convertible debenture have been split between a financial liability element and the conversion option component, representing the value attributable to the option to convert the financial liability into units of InnVest. InnVest has separated the conversion option component for each of its series of convertible debentures and measures such component at fair value at each reporting date. The conversion option feature of the convertible debentures is recorded as a liability under 'Other liabilities' in the condensed interim consolidated balance sheets and is measured at fair value (see Note 15).

	September 30, 2015	December 31, 2014
Convertible debentures	**$ 211,220**	$ 247,608
Financing costs and accretion, net	**2,975**	2,602
Less allocation of conversion option value	**(12,321)**	(15,229)
Convertible debentures	**$ 201,874**	$ 234,981

The fair value of InnVest's convertible debentures, estimated based on the market price for each series of convertible debentures as at September 30, 2015, is $214,007 (December 31, 2014 – $253,667).

Redemption and Conversion of Series D Convertible Debentures

During the first quarter of 2015, Series D convertible debentures with a face value totaling $32,715 were converted into 5,739,465 units of the REIT. On March 3, 2015, the REIT redeemed and cancelled all remaining Series D convertible debentures totaling $3,643. The convertible debentures redeemed resulted in a gain of $196 included in 'Other expenses and (income), net' (Note 22).

The scheduled convertible debentures maturities are as follows:

	Due on Maturity
2015	**$ –**
2016	**–**
2017	**74,995**
2018	**49,975**
2019	**86,250**
	$ 211,220
Financing costs and allocation of conversion option value	**(9,346)**
	$ 201,874

13. PROVISIONS

		September 30, 2015		December 31, 2014
Opening balance, beginning of period	$	**9,359**	$	7,073
Increase (decrease) to 'Hotel properties':				
Other		**–**		(27)
Effect of changes in the discount rate (Note 8)		**706**		2,313
Contingency provision		**1,050**		–
Ending balance, end of period	**$**	**11,115**	$	9,359

The total provision of $11,115 primarily relates to InnVest's decommissioning and restoration obligations.

The provision for decommissioning and restoration relates to the estimated future cost of environmental obligations for certain properties. InnVest intends to settle the obligations at the end of the expected useful life of the hotel properties. At September 30, 2015, the liability has been discounted at a rate of 2.21% based on the Bank of Canada long-term bond yields (December 31, 2014 – 2.33%). Upon the initial recognition of the liability, the decommissioning and restoration obligation was capitalized to buildings and is being amortized over the remaining useful life.

14. OTHER LONG-TERM OBLIGATIONS

		September 30, 2015		December 31, 2014
Finance lease	$	**637**	$	821
Other lease obligations		**247**		262
Employee retiring allowance		**1,271**		1,271
Employee benefit plans		**2,677**		2,677
Total other long-term obligations	$	**4,832**	$	5,031
Less current portion		**(204)**		(190)
Other long-term obligations – non-current	$	**4,628**	$	4,841

InnVest has a finance lease relating to one Ontario hotel with a lease term through 2018. InnVest has the option to purchase the hotel at a discounted amount at the conclusion of the lease. The fair value of the lease liability is approximately equal to its carrying amount.

Defined Benefit Pension Plans and Other Employment Benefits

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

InnVest has defined benefit pension plans which are for specific employees of four hotels and are closed plans.

15. OTHER LIABILITIES

		September 30, 2015		December 31, 2014
Exchangeable units	$	**–**	$	2,170
Convertible debenture holders' conversion option (Note 17)		**1,673**		9,931
Deferred Units		**1,295**		774
Unvested executive compensation		**790**		211
Deferred hotel management incentive		**1,000**		–
Other liabilities	$	**4,758**	$	13,086

Exchangeable Units

As part of an acquisition made in 2005, InnVest granted 362,869 exchangeable units ("Exchangeable units") to an entity in which a trustee has a partial ownership interest (Note 21). On August 4, 2015, 362,869 Exchangeable units were exchanged into InnVest units. Prior to the exchange, the Exchangeable units were presented as liabilities at their fair value. The fair value of the Exchangeable units was based on the market price of InnVest Units. The fair value at the date of exchange was $1,771 (Note 18).

Convertible Debenture Holders' Conversion Option

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

Deferred Unit Plan

InnVest's trustees participate in a compensation plan involving the grant of deferred units. The plan entitles trustees, at their option, to receive up to 100% of their annual retainer in the form of deferred units. InnVest matches, on a one-for-one basis, the number of deferred units elected to be received by the Trustee. Therefore the value of deferred units granted is equal to the trustee's election multiplied by two.

The number of deferred units granted is based on the five-day weighted average price of units on the day preceding the award date. Deferred units granted entitle the holder to also accumulate deferred units equal to the monthly cash distributions, assuming the reinvestment of the distribution into units.

The number of deferred units granted result in the award of units on a one-for-one basis upon the trustee's departure from the Board or a cash payment.

The benefit resulting from the grant of deferred units under this plan is recorded in 'Corporate and administrative expenses' when awarded. Deferred units granted are initially presented in 'Other liabilities' based on the fair value of the units on the date of grant and are subsequently remeasured at each reporting date at their fair value with changes in the carrying amount recognized in 'Corporate and administrative expenses' in the interim condensed consolidated statements of net income (loss) and comprehensive income (loss).

To the extent that units are issued, (following a trustee's departure from the Board), the liability is reclassified to 'Unitholders' equity' at the then current fair value based on the market price of the REIT's units, otherwise payment is made and the liability is extinguished.

Executive Compensation Plan

The senior executives participate in an incentive plan that involves the grant of InnVest units which vest over time. Upon vesting, the payment will be satisfied through the issuance of units. Unvested units are presented at their fair value. Upon issuance of units (following the satisfaction of all vesting conditions), the liability is reclassified to Unitholders' equity' at the then-current fair value based on the market price of the REIT's units. Units granted to executives entitle the holder to also accumulate units equal to the monthly cash distributions, assuming the reinvestment of the distribution into units.

16. CAPITAL MANAGEMENT

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

At September 30, 2015, InnVest's primary contractual obligations consisted of long-term mortgage obligations and convertible debentures. InnVest is not permitted to exceed certain financial leverage amounts under the terms of the DOT. InnVest is permitted to hold indebtedness excluding convertible debentures up to a level of 60% of gross asset value. Further, InnVest is permitted to have indebtedness and convertible debentures up to a level of 75% of gross asset value. Indebtedness is computed as of the last day of each financial period excluding any indebtedness under any operating line, non-interest bearing indebtedness, trade accounts payable and, for greater certainty, deferred income tax liability. InnVest is further limited by an operating line covenant which limits total indebtedness including convertible debentures up to 65% of gross asset value. Management's policy is not to exceed this leverage limit at any time during the year. Under the terms of the DOT, individual property mortgages (or mortgages on a pool of properties) cannot exceed 75% of the fair value of the underlying property.

At September 30, 2015, InnVest's leverage excluding and including convertible debentures was 46.0% and 58.1%, respectively, calculated as follows:

		September 30, 2015		December 31, 2014
Total assets per consolidated balance sheets		**$ 1,333,835**		$ 1,329,285
Accumulated depreciation and amortization		**417,727**		363,923
Gross asset value		**$ 1,751,562**		$ 1,693,208
Book value of mortgages and other debt (Notes 11)[(1)]	**$ 806,191**	**46.0%**	$ 801,363	47.4%
Convertible debentures (Note 12)[(2)]	**211,220**	**12.1%**	247,608	14.6%
Total indebtedness	**$ 1,017,411**	**58.1%**	$ 1,048,971	62.0%

(1) Adjusted to eliminate financing issuance costs.
(2) Adjusted to face value.

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

(a) Direct and indirect investments in real property on which hotels are situated and the hotel business conducted thereon, primarily in Canada, and in entities whose activities consist primarily of franchising hotels;

(b) Temporary investments held in cash, deposits with a Canadian chartered bank or trust company, short-term government debt securities or in money market instruments of, or guaranteed by, a Schedule 1 Canadian bank, short-term commercial paper, notes, bonds of other debt securities of a Canadian entity having a rating of at least R-1 (Mid) by Dominion Bond Rating Service or A-1 (Mid) by Standard & Poor's Corporation maturing prior to one year from the date of issue;

(c) Investments in mortgages or mortgage bonds, where the related security is a first mortgage on income producing real property which otherwise complies with (a) above and is subject to certain leverage limits and debt service coverage. The aggregate value of such investments shall not exceed 20% of unitholders' equity; and

(d) Investments other than those summarized in (a) through (c) are limited to 15% of InnVest's Unitholders' equity plus accumulated depreciation.

InnVest is in compliance with these guidelines.

InnVest maintains an Operating Line with a syndicate of two Canadian chartered banks with the following covenants:

	Threshold	**September 30, 2015**	**Capacity[(1)]**	December 31, 2014
(i) Total indebtedness (including convertible debentures) as a percentage of gross assets	< 65%	**58.1%**	**$ 121,104**	62.0%
(ii) Trailing 12 months consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") to consolidated interest expense[(2)]	> 1.8 x	**2.5 x**	**$ 40,906**	2.0 x
(iii) Trailing 12 months consolidated EBITDA to consolidated debt service[(3)]	> 1.5 x	**1.9 x**	**$ 31,050**	1.6 x
(iv) Unitholders' equity plus accumulated depreciation less 'Intangible assets'	> $300,000	**$ 661,771**	**$ 361,771**	$ 555,421

(1) Reflects additional capacity (for debt, EBITDA or unitholders' equity, as applicable) before exceeding the covenant threshold at September 30, 2015.
(2) Consolidated interest expense excludes the non-cash portion of mortgage interest expense and the non-cash portion of convertible debenture interest and accretion.
(3) Consolidated debt service includes consolidated interest expense plus regular principal payments of $17,910.

17. FINANCIAL INSTRUMENTS

Risk Management

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

INTEREST RATE RISK

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

InnVest's floating rate debt balance is monitored by management to minimize InnVest's exposure to interest rate fluctuations. As at September 30, 2015, InnVest's floating rate debt balance of $122,156 (December 31, 2014 – $170,013), excluding InnVest's share of the mortgage loan related to its investment in associate (Note 6) is approximately 15.2% (December 31, 2014 – 21.2%) of total long-term debt, excluding convertible debentures.

CREDIT RISK

Credit risk relates to the possibility that hotel guests do not pay the amounts owed to InnVest. InnVest mitigates this risk by limiting its exposure to customers allowed to pay by invoice after check out ("direct bill"). InnVest reviews accounts receivable regularly and the allowance for doubtful accounts is adjusted for any balances which are determined by management to be uncollectable. This provision adjustment is recorded in 'Operating expenses' in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss). The following summarizes accounts receivable related balances:

	September 30, 2015	December 31, 2014
Accounts receivable	**$ 23,238**	$ 22,175
Allowance for doubtful accounts	**$ 368**	$ 365
Accounts receivable greater than 90 days not provided	**$ 521**	$ 447
Allowance for doubtful accounts to total receivables	**1.6%**	1.6%

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Bad debt (recovery) expense	**$ (76)**	$ 50

LIQUIDITY RISK

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

The REIT's contractual cash flows for the next five years and thereafter are as follows:

	Remainder of 2015	2016	2017	2018	2019	2020 and Thereafter	Contractual Cash Flows(1)
Accounts payable and accrued liabilities	$ 57,692	$ –	$ –	$ –	$ –	$ –	$ 57,692
Mortgage and subordinated term loan payable							
– principal(2)	3,945	62,368	177,493	67,082	149,267	310,236	770,391
– interest(3)	9,693	38,437	29,210	21,669	15,099	46,522	160,630
Operating line – principal	–	–	35,800	–	–	–	35,800
Operating line – interest	199	1,593	797	–	–	–	2,589
Convertible debentures							
– principal	–	–	74,995	49,975	86,250	–	211,220
– interest	–	12,764	12,764	6,827	2,695	–	35,050
Long-term leases	460	1,839	1,839	1,843	1,817	71,309	79,107
Total	$ 71,989	$ 117,001	$ 332,898	$ 147,396	$ 255,128	$ 428,067	$ 1,352,479

(1) Contractual cash flows include principal and interest payments.
(2) Mortgage principal includes regular amortization and repayments at maturity.
(3) Interest for floating rate debt is based on interest rates prevailing at September 30, 2015.

CONTINGENT OBLIGATIONS

InnVest and its operating subsidiaries are contingently liable with respect to litigation and claims that arise from time to time in the normal course of business (Note 13).

Fair Values

The fair values of InnVest's current financial assets and current financial liabilities approximate their recorded values at September 30, 2015 and December 31, 2014 due to their short-term nature.

The fair value of InnVest's long-term debt is greater than the carrying value by approximately $12,977 at September 30, 2015 (December 31, 2014 – $16,428) due to changes in interest rates since the dates on which the individual mortgages were arranged. The fair value of long-term debt has been estimated based on the current market rates for mortgages with similar terms, credit risks and conditions.

The fair value of InnVest's convertible debentures is greater than the carrying value by approximately $10,460 at September 30, 2015 (December 31, 2014 – $8,755). The fair value of convertible debentures is based on the market price for each series of convertible debentures as at each reporting date.

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

	September 30, 2015			December 31, 2014		
	Level 1	**Level 3**	**Total**	Level 1	Level 3	Total
Financial Liabilities:						
Exchangeable units	**–**	**–**	**–**	2,170	–	2,170
Convertible debenture holders' conversion option	**–**	**1,673**	**1,673**	–	9,931	9,931
Deferred Units	**1,295**		**1,295**	774	–	774
Unvested executive compensation	**790**	**–**	**790**	211	–	211
Total financial liabilities	**$ 2,085**	**$ 1,673**	**$ 3,758**	$ 3,155	$ 9,931	$ 13,086

There were no transfers between Level 1 and Level 2 fair value measurements during the periods presented and no transfer into and out of Level 3. There were no financial instruments measured at Level 2 at any of the dates presented.

The fair market value of convertible debenture holders' conversion options is estimated using a Black-Scholes valuation model. InnVest uses the following methods to determine its underlying assumptions: expected volatilities are based on the historical volatilities of the monthly closing price of InnVest's unit prices; the expected term of the conversion option is based on the remaining term of each series of debentures; the risk-free interest rate is based on the Government of Canada Bond yield with similar life terms to the expected life of the option; and the expected dividend yield is based on the current annual dividend amount divided by InnVest's unit price on the issuance date of the convertible debenture.

The following key assumptions were used in the Black-Scholes valuation model:

	September 30, 2015	December 31, 2014
Expected volatility	**27.0%**	27.0%
Expected distribution yield	**8.0%**	6.7%

The fair market value of convertible debenture holder's conversion options might result in a significantly higher or lower fair value due to a change in the unobservable inputs used.

The following table reconciles movements in convertible debenture holders' conversion option, which are financial instruments classified as Level 3 during the periods presented.

	September 30, 2015	December 31, 2014
Opening balance at January 1	**$ 9,931**	$ 17,227
Fair value (gain) loss included in net income (loss)	**(5,303)**	9,027
Change in fair value of Series G conversion option resulting from redemption and amendment	**–**	(16,323)
Change in fair value of Series D conversion option resulting from redemption and conversions	**(2,955)**	–
Balance at end of the period	**$ 1,673**	$ 9,931

Fair value gains and losses are included in 'Unrealized (gain) loss on liabilities presented at fair value' (see Note 24).

Letters of credit

As at September 30, 2015, InnVest has letters of credit totalling $8,564 (December 31, 2014 – $8,255 which included $6,000 relating to a deposit on the investment in the Royal York Hotel acquisition). The letters of credit outstanding relate to security deposits for various utility companies, liquor licences, additional security for the pension liabilities and for commitments to complete capital expenditures as required under franchise agreements.

18. UNITS OUTSTANDING

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

Units issued and outstanding:

	Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
	Units	**$**	Units	$
Balance, beginning of period	**116,280,294**	**758,863**	93,830,897	644,380
Issuance of units pursuant to public offering	**9,660,000**	**46,385**	–	–
Issuance of units	**5,742,735**	**34,549**	671,779	3,533
Conversion of Exchangeable units (Note 15)	**362,869**	**1,771**	–	–
Units issued under distribution reinvestment plan	**813,959**	**4,153**	427,797	2,274
Units vested under executive and trustee plans	**189,668**	**1,188**	61,849	293
Balance, end of period	**133,049,525**	**846,909**	94,992,322	650,480

Issuance of Units Pursuant to Public Offering

On July 15, 2015, InnVest issued by way of public offering of 9,660,000 units (including 1,260,000 units issued pursuant to the full exercise of the underwriters' over-allotment option), at a price of $5.00 per unit for aggregate gross proceeds of $48,300, net of issuance costs of $1,915.

Issuance of Units

During the nine months ended September 30, 2015, convertible debentures with a face value totalling $32,745 were converted into 5,742,735 units of the REIT.

Conversion of Exchangeable Units

On August 4, 2015, pursuant to a purchase and sale agreement made in 2005, InnVest converted 362,869 Exchangeable units into units of the REIT for no additional consideration. The units were issued to an entity in which a trustee has a partial ownership interest.

Distribution Reinvestment Plan ("DRIP")

InnVest has a DRIP whereby eligible Canadian unitholders may elect to have their monthly distributions automatically reinvested in additional InnVest units. Effective September 2014, InnVest amended its DRIP to provide it discretion to purchase units on the open market or to be issued from treasury. If InnVest elects to issue units from treasury, unitholders who have elected to participate in the DRIP will receive 3% bonus units in addition to any units issued to them under the DRIP.

Units Vested Under Executive and Trustee Plans

Units vested under the executive and trustee unit plans for the nine months ended September 30, 2015 were 189,668 units including 80,000 units vested for the President and CEO in January 2015 (2014 – 54,605).

The President and CEO was awarded an equity grant effective on his start date, January 26, 2015, of 400,000 units of which 80,000 units vested immediately and the remaining 320,000 units will vest at a rate of 80,000 units ('tranche") over a four year period on each subsequent anniversary thereafter.

Trustee Compensation Plan

InnVest has set aside 350,000 units in reserve for the Board of Trustees compensation. The balance in this reserve account at September 30, 2015 is 152,745 units (December 31, 2014 – 152,745 units).

On June 16, 2015, InnVest's unitholders approved an increase of this reserve to 1% of InnVest's outstanding units from time to time in connection with proposed changes to the Board of Trustees compensation structure. At September 30, 2015, 171,662 units were granted to Trustees.

Executive Compensation Plan

The senior executives participate in the executive compensation plan under which InnVest units are granted by the Board of Trustees from time to time. Granted units vest not more than four years from the effective date of grant. InnVest has reserved a maximum of 1,000,000 units for issuance under the plan. The balance in this reserve account at September 30, 2015 is 436,780 units (December 31, 2014 – 584,780 units). A unit granted through the plan entitles the holder to receive, on the vesting date, the then-current fair market value of the unit plus the value of the cash distributions that would have been paid on the unit if it had been issued on the date of grant assuming the reinvestment of the distribution into InnVest units. The payment will be satisfied through the issuance of units.

The benefit resulting from the issuance of units under this plan and any fair value adjustments on the liability are recorded in 'Corporate and administrative' expense in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss).

At September 30, 2015 there were 99,970 unvested executive units granted (December 31, 2014 – 58,794) under the plan. The unvested units are presented as 'Other liabilities'.

The following table summarizes the status of the executive compensation plan at September 30, 2015, excluding granted units which have fully vested and/or were cancelled:

	Unvested (Vested) Executive Units, Net	Unvested (Vested) Units Accumulated from Distributions, Net	Unvested (Vested) Total Units, Net	Fair Value per Unit at Grant Date
2011 – granted	4,000	1,316	5,316	$ 6.80
Vested in 2014	(2,000)	(558)	(2,558)	
Vested in 2015	(2,000)	(758)	(2,758)	
2012 – granted	7,000	1,999	8,999	$ 4.50
Vested in 2015	(3,500)	(882)	(4,382)	
2013 – granted	11,000	2,142	13,142	$ 4.65
2014 – granted	73,172	3,583	76,755	$ 5.30
Vested in 2014	(40,000)	–	(40,000)	
2015 – granted	146,323	1,661	147,984	$ 5.98
Vested in 2015	(102,528)	–	(102,528)	
	91,467	8,503	99,970	

19. PER UNIT INFORMATION

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

	Three Months Ended September 30, 2015		Three Months Ended September 30, 2014	
	Net Income	**Weighted Average Units**	Net Income	Weighted Average Units
Basic	**$ 14,301**	**130,954,208**	$ 16,508	94,863,069
Diluted	**$ 14,301**	**131,407,340**	$ 21,051	130,628,458

	Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
	Net income	**Weighted Average Units**	Net Loss	Weighted Average Units
Basic	**$ 752**	**124,000,648**	$ (13,545)	94,388,753
Diluted	**$ 752**	**124,521,728**	$ (13,545)	94,388,753

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

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	**Nine Months Ended September 30, 2015**	Nine Months Ended September 30, 2014
Convertible debentures	**26,162,734**	–	**27,490,114**	41,697,647

For the nine months ended September 30, 2015, InnVest declared distributions to unitholders totalling $37,412 (2014 – $28,092) at $0.0333 distributions per unit monthly (2014 – $0.0333 per unit monthly). Declared distributions include cash distributions and distributions arising from the DRIP (Note 18). Subsequent to the end of the quarter, InnVest declared $4,438 of distributions to unitholders for the month of October payable on November 13, 2015.

20. CHANGES IN NON-CASH WORKING CAPITAL

Cash (utilized in) generated from	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Accounts receivable	**$ (1,063)**	$ 2,992
Prepaid expenses and other assets	**(2,769)**	3,071
Accounts payable and other liabilities	**(3,437)**	(6,222)
Changes in non-cash working capital	**$ (7,269)**	$ (159)

21. RELATED PARTY DISCLOSURES

Westmont Hospitality Canada Limited

InnVest has a Management Agreement for hotel management and accounting services and an Administrative Services Agreement (the "Agreements") with Westmont Hospitality Canada Limited ("Westmont").

One trustee of InnVest has a direct or indirect controlling interest in Westmont and as such has a material interest in the Agreements. Westmont is considered a related party to InnVest as a result of its ability to exercise significant influence through the Agreements. At September 30, 2015, Westmont managed all but 12 of InnVest's hotels. The Agreements are on terms consistent with those that prevail in arm's length transactions.

Westmont manages the hotel businesses and provides customary hotel management services, including preparation of annual operating and capital budgets and marketing plans, accounting and financial reporting, supervision of sales and marketing, human resource management, purchasing, management and supervision of construction and technical services, information technology, franchise relations and evaluations, supervision of property repairs and maintenance, supervision of compliance with material contracts relating to the hotel properties, leasing, yield management and quality control.

Westmont's management fees are 2.95% with an incentive fee structure that allows Westmont to earn up to 3.80% of gross hotel revenue each year. The Agreements expire in April 2024.

In accordance with the management agreement, in addition to the base management fee and incentive fee, Westmont is entitled to the following fees in respect of hotels that it manages: (i) purchasing fees based on 5% of the cost of certain goods and supplies; (ii) construction fees based on 5% of the cost of construction and capital expenditures; and (iii) per guest room fees for accounting services in respect of the hotel businesses. For assets sold which are managed by Westmont, InnVest pays a termination fee equal to the management fees paid based on the trailing 12 months' revenues.

Previously, for certain hotels owned by InnVest and not managed by Westmont, Westmont was entitled to an asset management fee based on a fixed percentage of the purchase price of the hotel or a fixed percentage of gross operating profit, after the reserve for replacement of furniture, fixtures and equipment and capital improvements, subject to an annual minimum fee. This asset management agreement terminated on November 30, 2014.

During the nine months ended September 30, 2015 and 2014, the fees charged by Westmont pursuant to the Agreements were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	**2015**	2014
Management fees	**$ 3,072**	$ 3,173	**$ 7,867**	$ 8,280
Asset management fees (included in 'Management fees')	**–**	345	**–**	1,143
Accounting services (included in 'Operating expenses')	**467**	526	**1,434**	1,638
Administrative services (included in 'Corporate and administrative')	**43**	96	**271**	266
Project management and general contractor services (capitalized to 'Hotel properties')	**511**	940	**1,368**	2,779
Termination fees	**–**	250	**254**	795
	$ 4,093	$ 5,330	**$ 11,194**	$ 14,901

In addition, InnVest reimburses Westmont for costs of certain employees which are paid by Westmont on account of InnVest. For the nine months ended September 30, 2015, InnVest reimbursed $nil of related costs (2014 – $680). Included in 'Accounts payable and accrued liabilities' are amounts owed to Westmont at September 30, 2015 totalling $1,276 (December 31, 2014 – $1,071).

KingSett Capital ("KingSett")

A trustee of InnVest has a direct or indirect controlling interest in KingSett. KingSett is considered a related party to InnVest as a result of its ability to exercise significant influence over InnVest. In 2014, an affiliate of KingSett provided InnVest with a $50,000 Term Loan. Refer to Note 11 for a description of key terms of this loan. Included in 'Accounts payable and accrued liabilities' are amounts owed to KingSett at September 30, 2015 totalling $360 (December 31, 2014 – $372).

An affiliate of KingSett is the land owner for one leasehold hotel owned by InnVest. The lease expires in 2088. For the nine months ended September 30, 2015, InnVest paid $406 (2014 – $406) in lease payments related to this asset. Included in 'Accounts payable and accrued liabilities' are amounts owed to an affiliate of KingSett at September 30, 2015 totalling $45 (December 31, 2014 – $45).

KingSett with its 60% interest in the Royal York Partnership and 66.7% interest in the CYM Partnership, is the managing partner of both partnerships. InnVest has an Asset Management agreement with the partnerships for oversight of the hotel manager of the Royal York Hotel and Courtyard Toronto. InnVest as the hotel asset manager oversees the property's hospitality operations. No fees will be paid between KingSett and InnVest for services provided by each for the Royal York hotel. Under the Courtyard Toronto asset management agreement, InnVest recorded $15 in asset management fees for the period ended September 30, 2015.

22. OTHER EXPENSE AND (INCOME), NET

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	**2015**	2014
(Gain) loss on sale of assets, net (Note 3)	**$ –**	$ (555)	**$ 45**	$ (4,564)
Contingency provision (Note 13)	**1,050**	–	**1,050**	–
Litigation settlement	**42**	–	**42**	(500)
Acquisition costs (Note 7)	**884**	–	**884**	–
Termination of royalty fee arrangement for joint CHC and InnVest licenced properties	**(103)**	–	**(951)**	–
Gain on early redemption/conversion of convertible debentures, net (Note 12)	**–**	(11,810)	**(196)**	(11,628)
Refunds received related to sold properties	**–**	–	**(806)**	–
Asset management fee (Note 21)	**(15)**	–	**(15)**	–
Interest and other income	**(31)**	(33)	**(84)**	(162)
	$ 1,827	$ (12,398)	**$ (31)**	$ (16,854)

During the nine months ended September 30, 2015, InnVest recorded a net loss of $45 on the sale of two hotels (2014 – gain of $4,564 on the sale of twelve hotels).

23. WRITEDOWN (REVERSAL OF WRITEDOWN) OF HOTEL AND OTHER REAL ESTATE PROPERTIES, NET

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	**2015**	2014
Writedown of hotel properties held for sale (Note 8)	**$ –**	$ –	**$ 778**	$ 2,000
Reversal of previous impairment	**–**	(295)	**–**	(2,786)
Writedown of hotel properties (Note 8)	**741**	5,250	**741**	5,250
Writedown of other real estate properties (Note 9)	**–**	–	**174**	–
	$ 741	$ 4,955	**$ 1,693**	$ 4,464

24. UNREALIZED (GAIN) LOSS ON LIABILITIES PRESENTED AT FAIR VALUE

Fair value (gains) losses recorded are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	**2015**	2014
Exchangeable units	**$ (98)**	$ (3)	**$ (398)**	$ 232
Convertible debenture holders' conversion option	**(365)**	1,785	**(5,303)**	9,671
	$ (463)	$ 1,782	**$ (5,701)**	$ 9,903

25. SEGMENT INFORMATION

The management of InnVest's operations is organized within four Canadian geographical regions: Western, Ontario, Quebec and Atlantic. Unallocated functions include the revenues and costs associated with InnVest's other real estate properties, and costs of central corporate services provided. All key financing, investing and capital allocation decisions are centrally managed.

Revenues

Three Months Ended September 30, 2015	**Western**	**Ontario**	**Quebec**	**Atlantic**	**Total**
Hotel properties	**$ 58,603**	**$ 53,212**	**$ 29,913**	**$ 24,590**	**$ 166,318**
Other real estate properties					**239**
Revenues					**$ 166,557**

Three Months Ended September 30, 2014	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	$ 40,114	$ 55,396	$ 28,800	$ 23,947	$ 148,257
Other real estate properties					177
Revenues					$ 148,434

Nine Months Ended September 30, 2015	**Western**	**Ontario**	**Quebec**	**Atlantic**	**Total**
Hotel properties	**$ 153,416**	**$ 139,905**	**$ 75,523**	**$ 56,579**	**$ 425,423**
Other real estate properties					**630**
Revenues					**$ 426,053**

Nine Months Ended September 30, 2014	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	$ 118,455	$ 150,281	$ 75,411	$ 64,403	$ 408,550
Other real estate properties					546
Revenues					$ 409,096

Gross Operating Profit

Three Months Ended September 30, 2015	**Western**	**Ontario**	**Quebec**	**Atlantic**	**Total**
Hotel properties	**$ 19,260**	**$ 18,107**	**$ 9,455**	**$ 9,754**	**$ 56,576**
Other real estate properties					**78**
Gross operating profit					**56,654**
Other expenses, net					**(42,353)**
Net income					**$ 14,301**

Three Months Ended September 30, 2014	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	$ 13,213	$ 17,296	$ 8,937	$ 8,994	$ 48,440
Other real estate properties					(42)
Gross operating profit					48,398
Other expenses, net					(31,890)
Net income					$ 16,508

Nine Months Ended September 30, 2015	**Western**	**Ontario**	**Quebec**	**Atlantic**	**Total**
Hotel properties	**$ 44,556**	**$ 39,581**	**$ 17,976**	**$ 16,181**	**$ 118,294**
Other real estate properties					**(148)**
Gross operating profit					**118,146**
Other expenses, net					**(117,394)**
Net income					**$ 752**

Nine Months Ended September 30, 2014		Western		Ontario		Quebec		Atlantic		Total
Hotel properties	$	33,036	$	37,557	$	16,360	$	14,377	$	101,330
Other real estate properties										(275)
Gross operating profit										101,055
Other expenses, net										(114,600)
Net loss									$	(13,545)

Hotel properties		**Western**		**Ontario**		**Quebec**		**Atlantic**		**Total**
September 30, 2015	**$**	**539,649**	**$**	**377,701**	**$**	**162,154**	**$**	**126,671**	**$**	**1,206,175**
December 31, 2014	$	508,446	$	386,460	$	178,888	$	136,349	$	1,210,143

Capital expenditures **Nine Months Ended September 30, 2015**		**Western**		**Ontario**		**Quebec**		**Atlantic**		**Total**
Hotel properties	**$**	**10,882**	**$**	**12,150**	**$**	**2,338**	**$**	**3,204**	**$**	**28,574**
Other real estate properties										**75**
									$	**28,649**
Nine Months Ended September 30, 2014	$	21,945	$	16,538	$	11,875	$	7,442	$	57,800

26. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These condensed interim consolidated financial statements were authorized for issue by the Board of Trustees of InnVest on November 11, 2015.


FAIRMONT HOTEL MACDONALD, EDMONTON

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Email: investor@innvestreit.com
Website: www.innvestreit.com

STOCK EXCHANGE LISTING

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

REGISTRAR AND TRANSFER AGENT

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

Computershare Trust
Company of Canada
100 University Avenue, 8th Floor
Toronto, Ontario M5J 2Y1
Phone: 1-800-564-6253
Fax: 1-866-249-7775

AUDITORS

Deloitte LLP
Toronto, Ontario

DISTRIBUTION REINVESTMENT PLAN

Unitholders may acquire units by reinvesting cash distributions without paying brokerage commissions or administrative charges. For general information concerning the Distribution Reinvestment Plan or for a change of address, please contact the transfer agent and registrar.

InnVest REIT holds one of Canada's largest hotel portfolios together with an interest in Choice Hotels Canada Inc., one of the largest franchisors of hotels in Canada. InnVest's portfolio comprises an interest in 111 hotels across Canada representing approximately 15,000 guest rooms operating under 17 internationally recognized brands.

RESERVATIONS

BEST WESTERN
1-800-780-7234

COMFORT INN
1-800-424-6423

DELTA HOTELS
1-888-890-3222

FAIRMONT HOTELS & RESORTS
1-800-257-7544

HILTON GARDEN INN
1-877-782-9444

HILTON HOTELS
1-800-445-8667

HOLIDAY INN
1-888-465-4329

HOLIDAY INN EXPRESS
1-888-465-4329

HOMEWOOD SUITES HOTELS
1-800-225-5466

HYATT REGENCY VANCOUVER
1-888-591-1234

QUALITY HOTEL, QUALITY SUITES
1-800-424-6423

RADISSON
1-888-201-1718

SHERATON HOTELS & RESORTS
1-800-325-3535

STAYBRIDGE SUITES HOTELS
1-877-660-8550

TRAVELODGE
1-800-578-7878

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