



INNVEST REAL ESTATE INVESTMENT TRUST

ANNUAL INFORMATION FORM

March 13, 2015

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Capitalized terms that are not otherwise defined in this Annual Information Form have the respective meanings set out in Appendix A – Glossary of Terms.

INFORMATION ABOUT THIS ANNUAL INFORMATION FORM

InnVest Real Estate Investment Trust (“**InnVest**” or the “**REIT**”) is an unincorporated open-ended trust which is focused on the ownership and acquisition of hotel properties. InnVest also indirectly holds a 50% interest in Choice Canada, one of the largest franchisors of hotels in Canada, as measured by hotels under franchise.

Forward-Looking Statements

Certain statements contained in this Annual Information Form constitute forward-looking statements within the meaning of applicable securities laws. These statements include, but are not limited to, statements made concerning InnVest’s investment approach, 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 certain factors, assumptions and analyses made by InnVest in light of information currently available to management, management’s experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances, including those factors set out below.

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 “Risk Factors” in this Annual Information Form and those detailed in InnVest’s filings with applicable securities regulators, including InnVest’s annual and interim financial statements and the notes thereto. 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 and maintain adequate liquidity; risks that deposits to vendors related to contemplated acquisitions by InnVest may not be refunded should InnVest fail to complete such purchases; extent of realized benefits from the internalization of asset management functions; ability to refinance debt maturities as planned; ability to achieve lower debt leverage target; 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; failure to effectively understand and respond to changing guest demands and/or failure to meet guest needs; failure to effectively manage relationships with hotel brands including failure to comply with the appropriate standards and contractual requirements; failure to effectively manage relationships with operators including operator managed employee satisfaction, morale, and effectiveness; medical or terrorist concerns relating to travel and/or specific destinations; 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; failure to leverage technological innovation to achieve or sustain financial

and operational efficiency, competitive advantage, and deliver better quality services to guests; 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; uncertainties of litigation; labour disputes; various events which could disrupt operations; reliance on information systems and associated security risks; and technological changes including impact of direct internet reservation systems and potential impact of new disruptive hospitality offerings in the market.

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 Annual Information Form are made as of the date of this Annual Information Form.

INVEST DOES NOT UNDERTAKE ANY OBLIGATION TO UPDATE OR RELEASE ANY REVISIONS TO THESE FORWARD-LOOKING STATEMENTS TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE HEREOF OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS, EXCEPT AS REQUIRED BY LAW.

Non-IFRS and Additional IFRS Financial Measures

In this Annual Information Form and in certain documents incorporated by reference herein, there are references to non-IFRS (as defined below) financial measures, including “funds from operations”, “adjusted funds from operations” and “capitalization rate” that InnVest uses to evaluate its operating performance and measure its ability to earn and distribute cash returns to Unitholders. Because non-IFRS measures do not have a standardized meaning as prescribed by International Financial Reporting Standards (“IFRS”) and may differ from those used by other issuers, securities regulations require that non-IFRS measures be clearly defined and qualified, reconciled with their nearest IFRS measure and given no more prominence than the closest IFRS measure. This Annual Information Form and certain documents incorporated by reference herein also contains additional IFRS measures, including “gross operating profit” and “net operating income”, that InnVest believes helps management, lenders and investors evaluate InnVest’s core business’ ongoing profitability. Such information is presented below and in the sections dealing with these financial measures in the documents incorporated by reference herein.

“Funds from operations” is a common measure of performance in the real estate investment trust industry. InnVest calculates funds from operations by using net income and adjusting for: (i) depreciation, amortization and accretion, excluding amortization of deferred financing costs; (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 expenses 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.

“Adjusted funds from operations” or “AFFO” (previously referred to as “distributable income”) is used by InnVest as a measure of normalized cash flow in order to assess its ability to fund distributions for current or potential investors. InnVest calculates AFFO based on FFO adjusted for (i) non-cash deferred financing charges; (ii) the reserve for replacement of furniture, fixtures and equipment and capital improvements; and (iii) any other adjustment determined by the trustees (the “Trustees”) in their discretion.

“Capitalization rate” means a rate of return on a property based on the expected income that the property will generate. Capitalization rate is calculated by dividing the net operating income produced by the property by the total purchase price of the property.

“Gross operating profit” means revenues less hotel and other real estate properties expenses and reflects results of operations from InnVest’s two lines of business: hotel ownership and other real estate assets.

“Net operating income” means the gross operating profit less an annual capital reserve for the replacement of furniture, fixtures and equipment (as may be stipulated in individual hotel management agreements).

Date of Annual Information Form

This Annual Information Form is dated March 13, 2015. Except where otherwise indicated, the information contained in this Annual Information Form is stated as at December 31, 2014 and all dollar amounts are expressed in Canadian dollars.

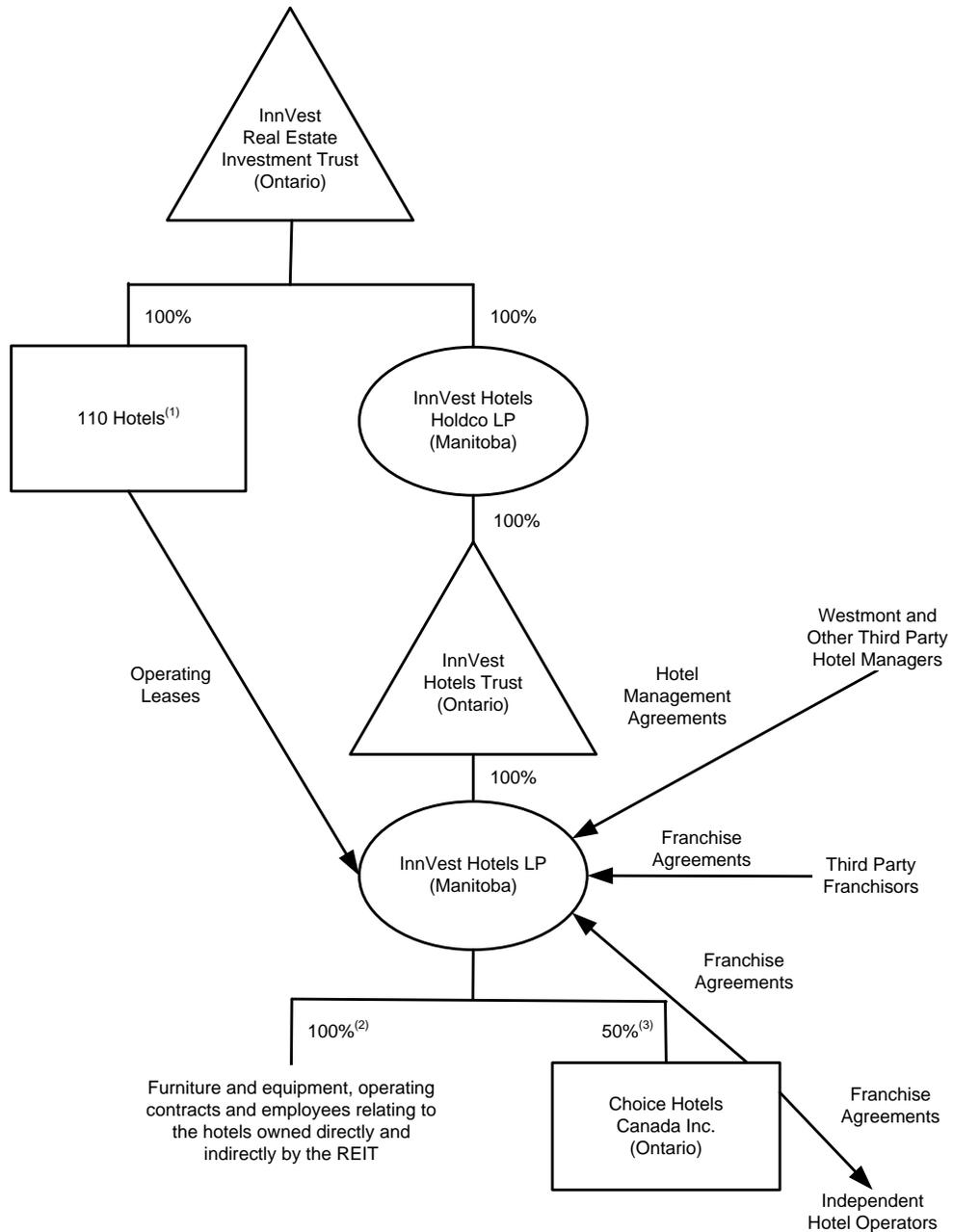
INNVEST REAL ESTATE INVESTMENT TRUST

InnVest is an unincorporated open-ended trust governed by an amended and restated declaration of trust dated as of July 1, 2012, as amended on August 7, 2013 (the “**Declaration of Trust**”), and the laws of the Province of Ontario. InnVest is focused on the ownership and acquisition of hotel properties. InnVest also indirectly holds a 50% interest in Choice Canada, one of the largest franchisors of hotels in Canada, as measured by hotels under franchise.

The head office and the registered office of InnVest are currently located at 7th Floor, 5090 Explorer Drive, Mississauga, Ontario, L4W 4T9. Effective May 2015, the head office and registered office of InnVest will be located at 200 Bay Street, Suite 3205, Toronto Ontario M5J 2J2. InnVest is a “mutual fund trust” as defined by the Tax Act, but it is not a “mutual fund” as defined by applicable securities legislation.

InnVest currently holds, directly, indirectly or through a partnership, 110 Canadian hotel properties, one of Canada’s largest hotel portfolios as measured both by number of hotels and by number of guest rooms. InnVest’s hotels are operated under 15 internationally recognized brands. Sixty-eight of the 110 hotels in the Portfolio are operated under franchise agreements with Choice Canada and 41 of the remaining 42 hotels are operated under management or franchise agreements with other managers or franchisors.

The following diagram illustrates the primary structural and contractual relationships between InnVest and its principal subsidiaries and certain third parties as of March 13, 2015:



Notes:

- (1) Includes one hotel owned through a 20% partnership interest, one hotel owned by a subsidiary corporation of the REIT, with the balance of hotels owned directly by the REIT or through its subsidiary limited partnerships.
- (2) Assets held directly by InnVest Hotels LP or through its subsidiary limited partnerships.
- (3) Shares held through a wholly-owned corporate subsidiary of InnVest Hotels LP.

GENERAL DEVELOPMENT OF THE BUSINESS

Three-Year History

The following describes major events that have influenced the general development of the business of InnVest over the last three completed fiscal years.

2012 Events

- On July 3, 2012, InnVest completed a reorganization to unwind its Stapled Unit structure (the “**2012 Reorganization**”) in response to the Minister of Finance’s July 20, 2011 announcement which, among other things, changed the Canadian federal income tax treatment of issuers of “stapled securities”. The 2012 Reorganization was approved by the Unitholders at a special meeting on February 23, 2012 and resulted in, among other things:
 - the occurrence of an “event of uncoupling” and the amendment and restatement of the Declaration of Trust to, among other things, remove the “stapling” provisions that had been contained in the Declaration of Trust;
 - the transfer of substantially all of the assets and liabilities of InnVest Operations Trust (“**IOT**”) to the REIT and the cancellation of the non-voting trust units of IOT (the “**IOT Non-Voting Units**”) originally distributed under a December 31, 2010 reorganization (the “**2010 Reorganization**”) which took place to qualify the REIT as a “real estate investment trust” (a “**Qualifying REIT**”) for Canadian income tax purposes, so that (a) IOT became a wholly-owned subsidiary of the REIT with nominal remaining assets, and (b) Unitholders held one REIT Unit immediately following the 2012 Reorganization for each Stapled Unit held immediately prior to the 2012 Reorganization. The REIT Units were posted for trading on the TSX in substitution for the “Stapled Units”, each having consisted of one REIT Unit and one IOT Non-Voting Unit;
 - the 6.00% Series B Debentures, 5.85% Series C Debentures, 6.75% Series D Debentures and 6.00% Series E Debentures becoming convertible only into REIT Units, rather than Stapled Units, in accordance with the terms of the 2002 Indenture;
 - the 5.75% convertible unsecured subordinated debentures, Series F, of IOT (the “**Series F IOT Debentures**”) being consolidated into the 5.75% convertible unsecured subordinated debentures, Series F, of the REIT (the “**Series F REIT Debentures**”), so that only the Series F REIT Debentures were outstanding, but with their aggregate principal amount immediately following the 2012 Reorganization equal to the aggregate principal amount of the 5.75% stapled convertible unsecured subordinated debentures, Series F, due March 30, 2018 (the “**5.75% Series F Stapled Debentures**”) immediately prior to the 2012 Reorganization, and with such consolidated debentures (the “**5.75% Series F Debentures**”) being convertible only into REIT Units. The 5.75% Series F Debentures were listed and posted for trading on the TSX in substitution for the 5.75% Series F Stapled Debentures; and
 - the adoption by the REIT of a fourth amended and restated unitholder rights plan solely to accommodate the unwinding of the Stapled Unit structure.

Based on the structure of the REIT and its subsidiaries following the 2012 Reorganization, the REIT was not a Qualifying REIT under the then-current provisions of the Tax Act. Accordingly, InnVest recorded a provision for current income taxes and a deferred tax liability in the third quarter of 2012, which was subsequently reversed in the fourth quarter of 2012 (See “2013 Events”).

2013 Events

- On January 29, 2013, InnVest announced the adoption of a strategic plan designed to strengthen InnVest's core operations, improve its balance sheet and increase long-term profitability (the "**Strategic Plan**"). The Strategic Plan comprised the following four initiatives: (i) a divestiture program to reposition InnVest's Portfolio, including the planned sale of 24 non-core properties over two years for gross sale proceeds of approximately \$185.0 million and net proceeds after debt repayment and selling costs of approximately \$60.0 million, (ii) implementing a focused capital program, in which InnVest intended to invest approximately \$130.0 million over two years in certain of its Hotel Properties; (iii) strengthening InnVest's balance sheet; and (iv) improving operations.
- In accordance with the Strategic Plan, during the year ended December 31, 2013, InnVest completed the sale of eight non-core properties generating gross sale proceeds of approximately \$113.1 million and net proceeds after debt repayment and selling costs of approximately \$28.4 million. The REIT also invested \$60.2 million in certain of its properties in 2013 in accordance with its capital program.
- On January 29, 2013, InnVest also announced that based on the substantive enactment for accounting purposes of Bill C-48, which contained favourable amendments to the tests for qualification as a Qualifying REIT for Canadian income tax purposes, and InnVest's valuation and measurement of its different categories of assets and revenues as required under revised tests, InnVest believes that it qualified as a Qualifying REIT for such purposes during 2012. As a result, InnVest reversed its previously accrued current income tax provision (effective the fourth quarter of 2012) and substantially eliminated its deferred tax liability. In order to qualify for treatment as a Qualifying REIT for Canadian income tax purposes in any taxation year, InnVest must satisfy the Qualifying REIT tests referred to above throughout or for the whole of the year. Qualifying also depends on there being no adverse amendments to the Tax Act. Accordingly, there is a risk that InnVest will not be a Qualifying REIT for one or more of its 2015 or subsequent taxation years (and qualification for 2012, 2013 and 2014 also could be challenged).
- On February 27, 2013, InnVest completed a bought deal public offering for \$115.0 million aggregate principal amount of 5.75% convertible unsecured subordinated debentures, Series G, due March 31, 2019 (the "**5.75% Series G Debentures**", certain terms of which were amended in 2014 – See "2014 Events"). The net proceeds from the offering were used primarily to redeem \$75.0 million of the 6.00% Series B Debentures and for general working capital purposes, including its capital improvement program as contemplated in the Strategic Plan.
- On December 31, 2013, the REIT completed the early surrender of its leasehold interest in a hotel located in Ottawa. The REIT recognized a provision of approximately \$6.5 million during its fourth quarter of 2013, representing an early termination fee payable to the landlord as well as employee severance obligations related to the closure of the hotel.

2014 Events

- On February 4, 2014, the REIT received from Orange Capital, LLC ("**Orange Capital**"), a holder of more than 5.0% of the outstanding REIT Units at such time, a requisition for a special meeting of Unitholders. The stated purpose of the special meeting was to consider (i) increasing the number of Trustees of the REIT from seven to nine, and (ii) the removal of the five current Independent Trustees and their replacement by seven individuals nominated by Orange Capital.
- On February 7, 2014, the Board of Trustees of the REIT announced the formation of a special committee (the "**Special Committee**") to supervise the REIT's response to the special meeting requisition received from Orange Capital. The Special Committee was comprised of all five of the then-current Independent Trustees.

- On March 13, 2014, the REIT announced that it had reached a settlement (the “**Settlement**”) between InnVest and Orange Capital, with the support of the Westmont Group. KingSett Capital (“**KingSett**”), a leading Canadian private equity real estate investor and a pre-existing 7.1% owner of REIT Units, played a key role in facilitating the Settlement outcome and agreed to become a strategic capital partner of the REIT. The Settlement was unanimously supported by the Special Committee. As part of the Settlement, Orange Capital agreed to withdraw its request for a special meeting of Unitholders, which had been scheduled for May 27, 2014. Highlights of the Settlement included:
 - the Board of Trustees of the REIT was increased to nine members from seven; four of the existing independent trustees resigned and six new independent trustees were appointed to the Board of Trustees of the REIT;
 - a committee made up of independent trustees commenced a search for a permanent full-time Chief Executive Officer to be employed by the REIT;
 - the REIT entered into the third amended and restated master hotel management agreement on April 21, 2014 (the “**Master Hotel Management Agreement**”) with the Manager on terms consistent with hospitality industry practice to allow for greater flexibility with respect to portfolio management and incentive compensation (See section on “Master Hotel Management Agreement”);
 - the Board of Trustees of the REIT developed a new strategic growth plan, including accelerating the REIT’s existing program for the orderly sale of non-core assets, with the proceeds used to bolster the balance sheet and position InnVest for growth; and
 - asset management of the REIT was internalized effective November 30, 2014 at no cost to the REIT.

The Special Committee was dissolved following approval of the Settlement.

- In accordance with the terms of the Settlement, during the second quarter of 2014, the Chief Financial Officer role became fully dedicated to the affairs of the REIT.
- On April 22, 2014, the REIT announced the appointment of Edward Pitoniak to the role of Managing Director. His interim role involved providing direct oversight of the REIT’s business while the Board of Trustees of the REIT undertook a search for a permanent full-time Chief Executive Officer to be employed by the REIT. Mr. Pitoniak remained a member of the Board of Trustees of the REIT.
- On April 24, 2014, InnVest closed a credit agreement with KingSett Real Estate Growth LP No. 5 (“**KingSett LP No. 5**”), a fund managed by KingSett Capital, for a \$50 million subordinated term loan facility (the “**Term Loan**”). Proceeds were used for general corporate purposes and the repayment of convertible debentures, including the 5.85% Series C Debentures due August 1, 2014. KingSett LP No. 5 also provided the REIT with an option to draw an additional \$50 million subordinated non-revolving stand-by liquidity facility (the “**Liquidity Facility**”) for general corporate purposes which subsequently expired in December 2014.
- On June 3, 2014, \$70 million 5.85% Series C Debentures with a maturity date of August 1, 2014 were redeemed and cancelled. InnVest paid the holders of the redeemed debentures a redemption price equal to \$1,019.55 for each \$1,000 principal amount of debentures, being equal to the aggregate of: (i) \$1,000; and (ii) all accrued and unpaid interest thereon to, but excluding, the redemption date of June 3, 2014.
- On July 25, 2014, holders of the REIT’s 5.75% Series G Debentures due March 31, 2019 approved an extraordinary resolution at a special meeting authorizing InnVest and the trustee of the 5.75% Series G Debentures to enter into a supplemental indenture to: (i) increase the rate of coupon interest payable

per annum from 5.75% to 6.25% effective as of September 30, 2014; and (ii) increase the conversion price for each REIT unit to be issued upon conversion from \$5.80 to \$7.50 per REIT unit (hereinafter, the “**6.25% Series G Debentures**”).

- On July 31, 2014, InnVest announced the results of its substantial issuer bid to purchase for cancellation \$28,750,000 aggregate principal amount of its outstanding 6.25% Series G Debentures at a purchase price of \$1,080 per \$1,000 aggregate principal amount of the 6.25% Series G Debentures, plus accrued and unpaid interest. The aggregate principal amount of the 6.25% Series G Debentures deposited under the issuer bid exceeded the maximum aggregate principal amount of the issuer bid and, as such, a pro rata factor was applied such that debentureholders who deposited under the bid had approximately 48% of such debentures deposited purchased by the REIT.
- In accordance with the Strategic Plan, during the financial year ended December 31, 2014, InnVest sold 19 non-core assets for gross proceeds of \$126.4 million and net proceeds after debt repayment and selling costs of \$100.7 million. Seven additional non-core Hotel Properties are being considered for sale with expected proceeds of over \$40 million and net proceeds after debt repayment and selling costs of approximately \$15 million. One of these hotels was sold in early 2015 and one other is currently under a purchase and sale agreement for aggregate gross proceeds of over \$13 million. Additional details are described in the 2014 MD&A.
- On October 28, 2014, the REIT announced that it had entered into an agreement to acquire a 20% interest in the 1,363-room Fairmont Royal York in Toronto (the “**Royal York Hotel**”) through an arrangement with KingSett LP No. 5 and Ivanhoé Cambridge where Ivanhoé Cambridge would retain a 20% interest in the property (the “**Partnership**”). The completion of the transaction was announced on February 2, 2015. The Partnership acquired the Royal York Hotel for an aggregate price of \$186.5 million and financed the acquisition with an approximate \$100 million, 3-year, 3.8% floating rate mortgage. InnVest’s 20% share in the Partnership was acquired for approximately \$37.3 million and its proportionate share of the acquisition equity was funded with available cash. KingSett LP No. 5, with its 60% interest in the Partnership, is the managing partner of the Partnership and InnVest is the hotel asset manager and will oversee the property’s hospitality operations, working with Fairmont Hotels and Resorts, the operator of the Royal York Hotel.
- On November 26, 2014, the REIT announced the closing of its public offering of 12,050,000 REIT Units, on a bought deal basis, at a price of \$5.25 per REIT Unit for aggregate gross proceeds of \$63,262,500 (the “**Public Offering**”). Funds managed by Kingsett, Orange Capital and Westmont Hospitality Group, Inc. (“**Westmont**”), three of InnVest’s largest Unitholders, together with certain trustees and officers of the REIT also purchased an aggregate of approximately \$47 million in REIT Units by way of a concurrent private placement at the same price per REIT Unit as those sold under the Public Offering (the “**Concurrent Private Placement**”). The net proceeds from the Public Offering and Concurrent Private Placement were used to fund the previously announced acquisition of the Hyatt Regency Vancouver (the “**Hyatt Regency**”), for capital expenditures, debt repayment and potential future acquisitions, including the previously announced participation in the acquisition of the Royal York Hotel.
- On December 1, 2014, the REIT announced the appointment of Edward Pitoniak as Acting President and Chief Executive Officer, while the Board of Trustees of the REIT continued its search for a permanent full-time CEO. Mr. Pitoniak remained a member of the Board of Trustees of the REIT. Mr. Pitoniak succeeded Anthony Messina who served as President and Chief Executive Officer per a two-year agreement that concluded on November 30, 2014.
- On December 8, 2014, the REIT completed its previously announced acquisition of the 644-room Hyatt Regency from an affiliate of Hyatt Hotels Corporation for \$140 million. Hyatt Hotels Corporation continues to provide management services to the hotel under a new long-term management contract. InnVest funded the acquisition with a new \$70 million, 3.8% floating rate mortgage (three-year term plus two one-year options) and cash on hand following its recently completed Public Offering and Concurrent Private Placement.

- On December 17, 2014, InnVest announced that the Board of Trustees of the REIT had appointed Andrew (“Drew”) C. Coles as President and Chief Executive Officer of InnVest, effective late-January 2015.

2015 Events

- On January 26, 2015, Drew C. Coles assumed the office of President and Chief Executive Officer of InnVest. Mr. Coles succeeded Edward Pitoniak, who served as InnVest’s Acting President and Chief Executive Officer since December 1, 2014, and Managing Director since April 2014. Mr. Pitoniak remains as Managing Director during a transition period and as a member of the Board of Trustees of the REIT.
- On March 3, 2015, InnVest redeemed and cancelled the 6.75% Series D Debentures not previously converted to REIT Units for a redemption price equal to approximately \$1,028.47 for each \$1,000 principal amount of debentures, being equal to the aggregate of (i) \$1,000, and (ii) all accrued and unpaid interest thereon to, but excluding, the redemption date.

DESCRIPTION OF THE BUSINESS

Canadian Hotel Market Overview

The Canadian lodging industry consists of both private and public entities, which operate in an extremely diversified market under a variety of brand names. The lodging industry has several key participants:

- Owners – these participants (which include InnVest) own hotel properties and enter into agreements with third party managers (such as Westmont, Hilton, Fairmont, Delta or Hyatt) to manage the hotels. The branding of the hotels may be under the manager’s own brand or under a franchise agreement. Alternatively, the properties may be operated as an independent hotel (unaffiliated with any brand).
- Owners/Managers – these participants own hotels and operate their properties with their own management team. The branding of the hotels may be under the owner/manager’s own brand or under a franchise agreement. Alternatively, the properties may be operated as an independent hotel (unaffiliated with any brand).
- Managers – these participants (which include Westmont, Hilton, Fairmont, Delta or Hyatt) operate hotels on behalf of owners under their own brands or under a franchise agreement.
- Franchisors – these participants (which include, among others, Choice Canada and its Comfort Inn and Quality brands) own a brand and strive to grow their revenues by expanding the number of hotels in their franchise system. Franchisors provide their branded hotels with quality standards, brand recognition, marketing support and centralized reservation systems.

According to the Hotel Association of Canada, the Canadian hotel industry includes over 8,000 hotel properties totalling over 440,000 guest rooms and generating 2013 annual revenues of \$16.7 billion. The Canadian hotel industry includes various levels of service offerings and price points. The properties range from small, independently owned and operated hotels and motels to large, full service branded hotels. Limited service hotel properties, which are properties that generally provide only limited food and beverage or other ancillary services, generate substantially all revenues from guest room rentals and tend to target more price sensitive segments of the market. A typical limited service property does not offer recreation facilities, large meeting spaces or extensive food and beverage facilities. These hotels are typically located in close proximity to major thoroughfares and to restaurants or other service providers. Other market sectors include various types of full-service hotels which can be categorized as: mid-scale hotels, which generally target the traveller seeking some ancillary services such as a restaurant, recreation facilities or meeting space; and upscale hotels, which target the traveller seeking a higher-end hotel with a full range of services available and include luxury hotels, which target the traveller demanding an upscale hotel or resort. Within these varied levels of service, hotel

ownership is significantly fragmented, with the majority of Canadian hotels, resorts and motels being family owned and operated.

InnVest's Assets

Hotel Portfolio

InnVest owns one of Canada's largest hotel portfolios, as measured both by number of hotels and by number of guest rooms. The Portfolio ranges from limited service to full service hotels and operates under 15 internationally recognized brands. As at March 13, 2015, the Portfolio comprises 110 Hotel Properties (15,447 guest rooms) which are geographically diversified across all provinces and most major urban areas. The Portfolio is further diversified by brand and customer thereby broadening InnVest's market reach and mitigating risk. For the year ended December 31, 2014, approximately 78% (2013 – 78%) of InnVest's consolidated hotel revenues were generated from room revenues. The balance of InnVest's consolidated hotel revenues were derived from ancillary services including food and beverage, parking and rental income.

Many of the Hotel Properties in the Portfolio are clustered in urban areas, thereby providing economies of scale and market intelligence not otherwise available to single asset owners in specific urban areas. The hotels are strategically located near major thoroughfares in urban and suburban areas, typically near demand generators such as office centres, government and manufacturing facilities, universities, airports and tourist attractions. The hotels have a diverse customer base, including business and leisure travellers, groups, organizations and corporate clients.

InnVest's hotels are managed by five hotel management companies. Refer to "Management Structure – Master Hotel Management Agreement" and "Management Structure – Other Management Agreements". A listing of each of the hotels in the Portfolio can be found in InnVest's 2014 annual report dated March 11, 2015 (the "Annual Report") which is available on SEDAR at www.sedar.com.

The following table highlights the Portfolio's brand diversity as at March 13, 2015. Each brand brings name recognition, central reservation systems, marketing and customer loyalty programs and quality standards. Choice Canada brands, including Comfort Inn®, Quality Hotel®, Quality Suites®, and Quality Inn®, make up over 35% of the Portfolio's guest rooms.

| BRAND | No. of Hotels | No. of Guest Rooms | % of Guest Rooms |
|--|--------------------------|-------------------------------|-----------------------------|
| Comfort Inn | 60 | 4,591 | 29.7% |
| Holiday Inn | 12 | 2,093 | 13.6% |
| Fairmont Hotels & Resorts ⁽¹⁾ | 3 | 1,967 | 12.8% |
| Delta Hotels | 6 | 1,471 | 9.5% |
| Quality Hotel/Suites | 8 | 1,194 | 7.7% |
| Travelodge | 5 | 790 | 5.1% |
| Hilton Hotel | 2 | 768 | 5.0% |
| Hyatt | 1 | 644 | 4.2% |
| Holiday Inn Express | 3 | 452 | 2.9% |
| Radisson Hotel/Suites | 2 | 388 | 2.5% |
| Staybridge Suites | 3 | 342 | 2.2% |
| Sheraton | 1 | 323 | 2.1% |
| Best Western | 1 | 130 | 0.9% |
| Hilton Garden Inn | 1 | 120 | 0.8% |
| Hilton Homewood Suites | 1 | 83 | 0.5% |
| Independent | 1 | 83 | 0.5% |
| | 110 | 15,439 | 100.0% |

(1) Includes one 20% partnership interest.

Choice Canada Franchising Business

Upon completion of InnVest's initial public offering on July 26, 2002, in addition to its initial portfolio of 114 hotels, InnVest acquired a 50% indirect interest in Choice Canada. The remaining 50% of Choice Canada is indirectly owned by Choice International, one of the largest hotel franchise companies in the world, with more than 6,300 hotels, representing more than 500,000 rooms in the United States and more than 35 other countries and territories. Choice International's franchised hotels operate under the Comfort Inn®, Comfort Suites®, Quality®, Sleep Inn®, Clarion®, Cambria Suites®, MainStay Suites®, Suburban Extended Stay®, EconoLodge®, Rodeway Inn®, MainStay Suites® brands and under its affiliation program Ascend Collection™. In addition to strong international brand recognition, Choice International has a centralized reservation system, sales and marketing programs and proprietary property management systems. Choice Canada branded hotels are inspected regularly to ensure quality and consistency of service. For 2014, the joint venture in Choice Canada contributed approximately \$5.0 million (2013 - \$4.4 million) in gross operating profit to InnVest.

Choice Canada, the Canadian master franchisor of the Choice brands, enjoys a prominent position in the Canadian hospitality market. With over 300 hotel properties, Choice Canada is one of the largest franchisors of hotels in Canada.

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

With an increasing number of hotels being franchised under Choice flags, management of InnVest believes that the income stream from InnVest's 50% indirect interest in Choice Canada is a stable source of cash flow. During 2014, Choice Canada signed new agreements for 21 hotels (2013 - 14 hotels) under Choice flags in Canada. Additionally, through its ownership interest in Choice Canada, a subsidiary of the Operator participates in the approval of any new Choice branded hotels in Canada and in the removal of any defaulting franchisees.

Employees

As at December 31, 2014 and as at the date of this AIF, InnVest and the Operator or its subsidiaries employ approximately 6,000 full-time and part-time employees, some of whom are unionized. See "Risk Factors – Potential Labour Disruptions" for more information.

Competition

The lodging industry is highly competitive. InnVest's hotels compete against limited and full-service hotels in their local markets. Competitive factors in the lodging industry include room rates, quality of accommodations, name recognition, service levels and convenience of location. Demographic, geographic or other changes in the markets in which hotels owned and operated by InnVest are located may affect the operations of these hotels. InnVest's hotels are managed by experienced hotel management companies with extensive Canadian and international industry experience. See "Risk Factors – Competition" for more information.

Environmental Compliance

As part of InnVest's acquisition process, Phase I environmental site assessments are typically obtained. Similarly, new financing or future financing requirements may also require environmental site assessments.

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

InnVest does not carry environmental insurance.

Seasonality

The Canadian hotel industry is seasonal in nature. Due to the seasonal nature of operations, financial results vary throughout the year. Revenues are typically higher in the second and third quarters as compared to the first and fourth quarters due to leisure travel trends. The seasonal revenue patterns are in contrast to fixed costs such as property taxes, insurance, interest, depreciation and amortization, and corporate and administrative expenses, which are not significantly impacted by seasonal or short-term variations.

Investment Approach

InnVest's long-term objectives are to: (i) generate stable and growing cash distributions from the Hotel Properties; (ii) enhance the value of its assets and maximize the long-term value of the Hotel Properties through active management, including select capital investments; and (iii) expand its asset base and increase its AFFO per REIT Unit through an accretive acquisition program.

Growth Strategies

InnVest believes that certain characteristics of the Canadian industry, including improving hotel lodging fundamentals due to increasing demand for hotel lodging accommodations combined with modest supply of new hotel properties, the attractive relative valuation of hotel properties to replacement costs and the availability of acquisition opportunities, provide for attractive investment opportunities. InnVest also believes that given its relative size in the market, access to capital and quality portfolio, InnVest is well-positioned to participate in the projected growth of the Canadian lodging industry.

InnVest, through its internal management team and external hotel management arrangements, has adopted the following growth strategies to increase cash flow.

Organic Growth

InnVest strives to increase its cash available for distributions through proactive management of its Hotel Properties, with a focus on maximizing the operating results of such properties and, where appropriate, through targeted investments in its properties.

Acquisition Growth

Through the experience and relationships of its management team, InnVest will seek to identify potential property and portfolio acquisitions using investment criteria that focus on the quality of the properties, the strength of the underlying operations, market demographics, contract terms (if applicable), security of cash flows, potential for capital appreciation and potential for increasing value through improved property, revenue

and yield management. When targeting acquisitions, InnVest will focus on primary and secondary Canadian markets with multiple demand generators.

During 2014, the REIT announced that it had entered into an agreement to acquire a 20% interest in the Royal York Hotel in Toronto and completed the acquisition of the Hyatt Regency in Vancouver.

DESCRIPTION OF REIT UNITS AND DECLARATION OF TRUST

REIT Units

An unlimited number of REIT Units may be issued pursuant to the Declaration of Trust. Each REIT Unit represents an equal undivided beneficial interest in any distributions from the REIT, whether of net income, net realized capital gains or other amounts, and in the net assets of the REIT in the event of the termination or winding-up of the REIT. All REIT Units are of the same class with equal rights and privileges. Each whole REIT Unit entitles the holder thereof to one vote at all meetings of Unitholders. The Manager and Westmont, which owns in the aggregate more than 5% of the outstanding REIT Units, are currently each entitled to appoint one Trustee. See “Management Structure – Trustees and Officers”.

Book-Based System

The REIT Units are represented in the form of fully registered global unit certificates held by, or on behalf of, CDS Clearing and Depository Services Inc. (“**CDS**”) as custodian of the global certificates (for its participants) and registered in the name of CDS or its nominee.

Pursuant to the Declaration of Trust, except as described below, no purchaser of a REIT Unit is entitled to a certificate or other instrument from InnVest or CDS evidencing the purchaser’s ownership of the REIT Unit. Instead, REIT Units are represented only in book-entry form. Beneficial interests in REIT Units represented by the global certificates, constituting ownership of the REIT Units, are represented through book-entry accounts of institutions acting on behalf of beneficial owners, as direct and indirect participants of CDS. CDS is responsible for establishing and maintaining book-entry accounts for its participants having interests in REIT Units represented by the global certificates.

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

Issuance of Units

The Declaration of Trust provides that, subject to certain restrictions (including those described under “– Limitation on Non-Resident Ownership”), REIT Units or rights to acquire REIT Units may be issued at times, to the persons, for the consideration and on the terms and conditions that the Trustees determine. Unitholders do not have any pre-emptive rights whereby additional REIT Units proposed to be issued are first offered to existing Unitholders. New REIT Units may be issued for cash through public offerings, through rights offerings to existing Unitholders (i.e., in which Unitholders receive rights to subscribe for new REIT Units in proportion to their existing holdings of REIT Units, which rights may be exercised or sold to other investors), through private placements (i.e., offerings to specific investors which are not made generally available to the public or existing Unitholders), or through the DRIP (described below under “– Distribution Reinvestment Plan”). In certain instances, the REIT may also issue new REIT Units as consideration for the acquisition of new properties or assets. The price or the value of the consideration for which REIT Units may be issued will be determined by the Trustees. Issued and outstanding REIT Units may be subdivided or consolidated from time to time by the

Trustees without Unitholder approval. No certificates for fractional REIT Units will be issued and fractional REIT Units will not entitle the holders thereof to vote.

Limitation on Non-Resident Ownership

At no time may more than 49% of the REIT Units (on either a basic or fully-diluted basis) be held for the benefit of non-residents of Canada (within the meaning of the Tax Act) or partnerships, any number of which is a non-resident of Canada ("**Non-Resident Beneficiaries**"). The Trustees may require declarations as to the jurisdictions in which beneficial owners of REIT Units are resident or declarations as to whether such REIT Units are held for the benefit of Non-Resident Beneficiaries.

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

Purchases of Units

Pursuant to the Declaration of Trust, the REIT may from time to time purchase REIT Units in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. If such purchases constitute an "issuer bid" under Canadian provincial securities legislation, they will be conducted in accordance with the applicable requirements thereof.

Redemption Rights

Pursuant to the Declaration of Trust, REIT Units are redeemable at any time on demand by the holders thereof. A Unitholder not otherwise holding a fully registered certificate for REIT Units who wishes to exercise the redemption right is required to obtain a redemption notice form from his or her investment dealer who will be required to deliver the completed redemption notice form to the REIT through CDS. Upon receipt of the redemption notice by the REIT, all rights to and under the REIT Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per REIT Unit (the "**Redemption Price**") equal to the lesser of:

- (a) 95% of the "market price" of a REIT Unit on the principal market on which the REIT Units are quoted for trading during the 10-trading day period commencing immediately after the date on which the REIT Units were tendered to the REIT for redemption (the "**Redemption Date**"); and
- (b) the "closing market price" of a REIT Unit on the principal market on which the REIT Units are quoted for trading on the Redemption Date.

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

If a Unitholder is not entitled to receive cash upon the redemption of REIT Units as a result of the foregoing limitations, then the REIT Units tendered for redemption shall, subject to obtaining all applicable regulatory approvals, be redeemed by way of a distribution *in specie* of notes issued by a subsidiary of the REIT having a fair market value, as determined by the Trustees, equal to the aggregate Redemption Price of such REIT Units. Where the REIT delivers notes on the redemption of REIT Units, the REIT may allocate to the holder thereof any capital gain or income realized by the REIT on or in connection with such delivery.

It is anticipated that the redemption rights described above will not be the primary mechanism for Unitholders to dispose of their REIT Units. REIT Units are primarily traded on the open market, including the TSX.

Distribution Reinvestment Plan

InnVest has historically permitted Unitholders to reinvest cash distributions in REIT Units through its distribution reinvestment plan (the “**DRIP**”). Pursuant to the DRIP, Unitholders resident in Canada and holding a minimum of 500 REIT Units may elect to have all their distributions of income of the REIT automatically reinvested in additional REIT Units. Effective September 2014, InnVest amended its DRIP to provide it discretion to purchase REIT Units on the open market or issue REIT Units from treasury. Unitholders participating in the DRIP will have their distributions of income of the REIT reinvested at a price per REIT Unit equal to: (i) in the case of REIT Units issued from treasury, the volume-weighted average trading price of the Units on the TSX for the five trading days ending on the second trading day immediately preceding the distribution date; or (ii) in the case of REIT Units purchased on the open market, the average of the actual price paid (excluding brokerage commissions, fees and all transaction costs) per REIT Unit by Computershare, as agent under the DRIP (the “**Plan Agent**”), during the five business days following the relevant distribution date. If InnVest elects to issue REIT Units from treasury, Unitholders who have elected to participate in the DRIP will receive a 3% bonus in REIT Units in addition to any REIT Units issued to them under the DRIP.

No fractional REIT Units will be issued or purchased under the DRIP. A cash adjustment based on the purchase price of the REIT Units purchased by the Plan Agent will be paid, in lieu of any fractional REIT Units otherwise issuable under the DRIP, within 10 days after the distribution date. No brokerage commissions are payable in connection with the purchase of REIT Units under the DRIP and all administrative costs are borne by InnVest.

As referenced above under “– Book-Based System”, CDS is the only registered Unitholder. As such, beneficial Unitholders (i.e., individuals or entities who hold REIT Units through a broker or other intermediary participating in the CDS system) will only be entitled to enrol in the DRIP through a CDS participant (i.e., their broker or investment advisor). Statements detailing the number of additional REIT Units acquired through the DRIP will only be provided to beneficial Unitholders through CDS participants.

Proceeds from the issuance of additional REIT Units pursuant to the DRIP will be added to the working capital of the REIT.

Additional information on the DRIP can be found at www.investreit.com.

Unitholder Rights Plan

In order to ensure, to the extent possible, that Unitholders are treated fairly in connection with any take-over bid made for the REIT Units and to ensure that the Trustees are provided with sufficient time to evaluate unsolicited take-over bids and to explore and develop alternatives to maximize Unitholder value, the Trustees determined on October 8, 2008 that it was advisable and in the best interests of the REIT to implement a unitholder rights plan (the "**Original Rights Plan**"). Unless it was amended, the Original Rights Plan would have expired on April 8, 2009; however, the Trustees determined that it was in the best interests of Unitholders and InnVest that the Original Rights Plan be amended and restated in order to ensure that the benefits provided to Unitholders pursuant to the plan continue to accrue to Unitholders.

The Original Rights Plan has been amended and restated four times. On June 5, 2013, Unitholders approved (i) the extension of the fourth amended and restated unitholder rights plan (as amended, the "**Rights Plan**"), which was adopted by the REIT on July 1, 2012, until June 5, 2016 unless earlier terminated in accordance with its terms, and (ii) minor amendments to certain defined terms in the Rights Plan. Copies of the Rights Plan and the amending agreement dated June 5, 2013 are available at www.sedar.com.

InnVest did not adopt either the Original Rights Plan or any amendment thereto in response to any specific take-over proposal, nor has it been made aware of any such proposal. The Rights Plan is designed to ensure the fair treatment of Unitholders in connection with any take-over bid and to ensure that the Trustees are provided with sufficient time to evaluate unsolicited take-over bids and to explore and develop alternatives to maximize Unitholder value. The Rights Plan is similar to rights plans adopted by many other Canadian public issuers. Until the occurrence of certain specific events, the rights issued pursuant to the plan will trade with the REIT Units and be represented by the global certificates representing such units. The rights become exercisable only when a person, including any party related to it or certain persons acting jointly with it, acquires or announces its intention to acquire 20% or more of the outstanding REIT Units without complying with the "Permitted Bid" provisions of the Rights Plan. Should a non-Permitted Bid be launched, each right would entitle each holder of REIT Units (other than the acquiring person and persons related to it or acting jointly with it) to purchase additional REIT Units at a significant discount to the market price at the time. Under the Rights Plan, a Permitted Bid is a bid made to all Unitholders on identical terms and conditions that is open for at least 60 days. If at the end of 60 days at least 50% of the outstanding REIT Units, other than those owned by the offeror and certain related parties, have been tendered and not withdrawn, the offeror may take up and pay for the tendered REIT Units but must extend the bid for a further 10 days to allow all other Unitholders the opportunity to tender.

The Rights Plan is not intended to and will not prevent a take-over of InnVest. The Rights Plan does not reduce the duty of the Trustees to act honestly and in good faith and in the best interests of InnVest, and to consider on that basis any offer made for the REIT Units, nor does the Rights Plan alter the proxy mechanisms to change the Trustees, create dilution on the initial issue of the rights or change the way in which REIT Units trade.

Corporate Governance Provisions of the Declaration of Trust

Although the Declaration of Trust confers upon a Unitholder many of the protections, rights and remedies that an investor would have as a shareholder of a corporation governed by the *Canada Business Corporations Act* (the "**CBCA**"), certain differences do exist as described below.

The Declaration of Trust includes provisions intended to limit the liability of Unitholders for liabilities and other obligations of the REIT. No statutory provisions historically confirmed the limited liability status of Unitholders in a manner comparable to shareholders of a CBCA corporation until the *Trust Beneficiaries' Liability Act, 2004* (Ontario) was enacted in December 2004. That Act provides that Unitholders are not liable, as beneficiaries of a trust, for any act, default, obligation or liability of the REIT or the Trustees, arising after its

enactment. That Act has not yet been judicially considered and it is possible that reliance on the Act by a Unitholder could be successfully challenged on jurisdictional or other grounds.

Many of the provisions of the CBCA respecting the governance and management of a corporation have been incorporated in the Declaration of Trust. For example, Unitholders are entitled to exercise voting rights in respect of their holdings of REIT Units in a manner comparable to shareholders of a CBCA corporation and to elect Trustees and auditors; however, pursuant to the Declaration of Trust, Westmont has the right to appoint one Trustee and, pursuant to the Master Hotel Management Agreement and the Declaration of Trust, the Manager also has the right to appoint one Trustee. See “Management Structure – Trustees and Officers”. The Trustees appointed by each of Westmont and the Manager cannot be removed, other than by the party which appointed them. In addition, Unitholders are not entitled to call for the amendment of the provision of the Declaration of Trust pursuant to which the Manager and Westmont are entitled to appoint Trustees.

The Declaration of Trust also includes provisions modeled after comparable provisions of the CBCA dealing with the calling and holding of meetings of Unitholders and Trustees, the quorum for and procedures at such meetings and the right of Unitholders to participate in the decision-making process where certain fundamental actions are proposed to be undertaken. The matters in respect of which approval by Unitholders is required under the Declaration of Trust, and in particular the requirement that certain “fundamental changes” be approved by “special resolution” (both as defined in the CBCA) are generally less extensive than the rights conferred on the shareholders of a CBCA corporation. These approval rights are supplemented by provisions of applicable securities laws that are generally applicable to issuers (whether corporations, trusts or other entities) that are “reporting issuers” or the equivalent or are listed on the TSX. The Declaration of Trust includes provisions concerning trustee independence, the composition of board committees, including the audit and risk committee, and conflicts of interest, as described under “Management Structure – Conflict of Interest Provisions”, which are based on provisions of the CBCA and are supplemented by applicable securities laws.

Unitholders do not have recourse to a dissent right under which shareholders of a CBCA corporation are entitled to receive the fair value of their shares where certain fundamental changes affecting the corporation are undertaken (such as an amalgamation, a continuance under the laws of another jurisdiction, the sale of all or substantially all of its property, a going private transaction or the addition, change or removal of provisions restricting (i) the business or businesses that the corporation can carry on, or (ii) the issue, transfer or ownership of shares). As an alternative, Unitholders seeking to terminate their investment in the REIT are entitled to receive, subject to certain conditions and limitations, a price per REIT Unit determined in accordance with the Declaration of Trust, as described under “— Redemption Rights”.

Unitholders similarly do not have recourse to the statutory oppression remedy that is available to shareholders of a CBCA corporation where the corporation undertakes actions that are oppressive or unfairly prejudicial or disregard the interests of securityholders and certain other parties. Shareholders of a CBCA corporation may also apply to a court to order the liquidation and dissolution of the corporation in those circumstances, whereas Unitholders could rely only on the general provisions of the Declaration of Trust which permit the winding up of the REIT with the approval of two-thirds of the Unitholders. Shareholders of a CBCA corporation may also apply to a court for the appointment of an inspector to investigate the manner in which the business of the corporation and its affiliates is being carried on where there is reason to believe that fraudulent, dishonest or oppressive conduct has occurred. The Declaration of Trust does not contemplate the appointment of an inspector to investigate the management or operation of the REIT or its affiliates. The CBCA also permits shareholders to bring or intervene in derivative actions in the name of the corporation or any of its subsidiaries, with the leave of a court. The Declaration of Trust does not include a comparable right of the Unitholders to commence or participate in legal proceedings with respect to the REIT.

Meetings of Unitholders

The Declaration of Trust provides that meetings of Unitholders must be called and held for the appointment or removal of Trustees (except for the appointees of the Manager and Westmont), the appointment or removal of the auditors of the REIT, the approval of amendments to the Declaration of Trust, except as described below under “— Amendments to the Declaration of Trust”, the sale of the assets of the REIT as an

entirety or substantially as an entirety (other than as part of an internal reorganization) and the liquidation or dissolution of the REIT. A resolution appointing or removing a Trustee (except for a nominee of the Manager or Westmont) or the auditors of the REIT must be passed by a simple majority of the votes cast by holders of REIT Units. The balance of the foregoing matters must be passed by a Special Resolution of holders of REIT Units. Meetings of holders of REIT Units will be called and held annually for the election of the Trustees and the appointment of auditors of the REIT.

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

Holders of REIT Units may attend and vote at all meetings of the holders of REIT Units either in person or by proxy and a proxyholder need not be a holder of REIT Units. Two persons present in person or represented by proxy and representing in the aggregate at least 25% of the votes attaching to all outstanding REIT Units shall constitute a quorum for the transaction of business at all such meetings. If no quorum is present at any such meeting when called, the meeting will be terminated if called on the requisition of holders of REIT Units and otherwise will be adjourned for not less than 10 days, and at the adjourned meeting, the holders of REIT Units then present in person or represented by proxy will form the necessary quorum.

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

Amendments to the Declaration of Trust

The Declaration of Trust may be amended or altered from time to time by Special Resolution of the holders of REIT Units. In addition, the Trustees may, without unitholder approval, make certain amendments to the Declaration of Trust from time to time including amendments:

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

Term and Sale of Substantially All Assets

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

Take-over Bids

The Declaration of Trust contains provisions to the effect that if a take-over bid (as defined in the *Securities Act* (Ontario) (the “**Securities Act**”)) is made for the REIT Units and not less than 90% of the REIT Units (other than REIT Units held at the date of the take-over bid by or on behalf of the “offeror” or “associates” or “affiliates” of the offeror, as such terms are defined in the *Securities Act*) are taken up and paid for by the offeror, the offeror will be entitled to acquire the REIT Units held by Unitholders who did not accept the offer on the terms offered by the offeror or at the fair value of such holders’ REIT Units determined in accordance with the procedures set out in the Declaration of Trust.

Information and Reports

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

Prior to each meeting of Unitholders, the Trustees will provide the Unitholders eligible to vote at such meeting all such information as is required by applicable law to be provided to such holders.

DESCRIPTION OF CONVERTIBLE DEBENTURES

Subject to debt limitations and other restrictions outlined in the Declaration of Trust, the REIT may issue an unlimited number of convertible debentures pursuant to the 2002 Indenture, the 2011 Indenture and the 2013 Indenture. At December 31, 2014, the REIT has two series of convertible debentures outstanding under the 2002 Indenture (the “**6.75% Series D Debentures**”, and the “**6.00% Series E Debentures**”), one series of convertible debentures outstanding under the 2011 Indenture (the “**5.75% Series F Debentures**”) and one series of convertible debentures under the 2013 Indenture (the “**6.25% Series G Debentures**”). The convertible debentures issued under the 2002 Indenture, the 2011 Indenture and the 2013 Indenture are collectively referred to as the “Debentures”.

The following table summarizes the key features of the Debentures outstanding as at December 31, 2014.

| Series | Maturity Date | Conversion Price | Principal Amount Outstanding | REIT Units Issuable on Conversion |
|-------------------------------|--------------------|------------------|------------------------------|-----------------------------------|
| 6.75% Series D ⁽¹⁾ | March 31, 2016 | \$5.70 | \$36,358,000 | 6,378,596 |
| 6.00% Series E | September 30, 2017 | \$8.00 | \$75,000,000 | 9,375,000 |
| 5.75% Series F | March 30, 2018 | \$9.45 | \$50,000,000 | 5,291,005 |
| 6.25% Series G | March 31, 2019 | \$7.50 | \$86,250,000 | 11,500,000 |

Note:

(1) On March 3, 2015, InnVest redeemed and cancelled the 6.75% Series D Debentures not previously converted to REIT Units, for a redemption price equal to approximately \$1,028.47 for each \$1,000 principal amount of debentures, being equal to the aggregate of (i) \$1,000, and (ii) all accrued and unpaid interest thereon to, but excluding, the redemption date.

Prior to September 30, 2015, the 6.00% Series E Debentures are redeemable, in whole or from time to time in part, at the option of the REIT, provided that the volume-weighted average trading price of the REIT Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date on which the

notice of redemption is given exceeds 125% of the conversion price of the 6.00% Series E Debentures. On or after September 30, 2015, the 6.00% Series E Debentures will be redeemable, in whole or from time to time in part, at the option of the REIT.

Prior to March 31, 2016, the 5.75% Series F Debentures are redeemable, in whole or from time to time in part, at the option of the REIT, provided that the volume weighted average trading price of the REIT Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of redemption is given is not less than 125% of the conversion price of the 5.75% Series F Debentures. On or after March 31, 2016, the 5.75% Series F Debentures will be redeemable, in whole or from time to time in part, at the option of the REIT.

The 6.25% Series G Debentures are not redeemable on or prior to March 31, 2016, except in the event of the satisfaction of certain conditions after the occurrence of a "Change in Control" (as defined in the 2013 Indenture). On or after April 1, 2016 and prior to March 31, 2018, the 6.25% Series G Debentures will be redeemable, in whole or from time to time in part, at the option of the REIT, provided that the volume weighted average trading price of the REIT Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of redemption is given is not less than 125% of the conversion price of the 6.25% Series G Debentures. On or after April 1, 2018, the 6.25% Series G Debentures will be redeemable, in whole or from time to time in part, at the option of the REIT.

The Debentures rank *pari passu* with each other and are subordinated in right of payment to all other existing and future indebtedness of the REIT other than indebtedness expressed to be *pari passu* with or subordinate in right of payment to the Debentures.

For each series of Debentures, the REIT may elect, from time to time, to satisfy its obligation to pay interest by delivering REIT Units. Also, for each series of Debentures, the REIT may, at its option, on not more than 60 days' and not less than 30 days' prior notice and subject to applicable regulatory approval, elect to satisfy its obligation to repay all or any portion of the principal amount of the Debentures that are to be redeemed or that are to mature, by delivering REIT Units. The number of REIT 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 REIT Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date fixed for redemption or maturity, as the case may be.

INVESTMENT GUIDELINES AND OPERATING POLICIES

Investment Guidelines

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

- (a) the REIT will invest, directly or indirectly (including through corporations, limited partnerships, general partnerships (if permitted by changes in tax laws) or trusts), in interests in real property on which hotels are situated and the hotel business conducted thereon, primarily in Canada, and in entities whose activities consist primarily of franchising hotels;
- (b) notwithstanding any other provisions of the Declaration of Trust, the REIT shall not make any investment, take any action or omit to take any action that would result in: (i) the REIT not qualifying as a "unit trust" and a "mutual fund trust" for the purposes of the Tax Act; or (ii) the REIT Units being disqualified for investment by Exempt Plans;
- (c) the REIT may invest in a joint venture arrangement with one or more third parties only if the assets owned by the joint venture and the activities of the joint venture otherwise comply with the investment guidelines and operating policies of the REIT, and:

- (i) the joint venture arrangement is one pursuant to which the REIT holds an interest in real property jointly or in common with others (“**joint venturers**”) either directly or through the ownership of securities of a corporation or other entity (a “**joint venture entity**”) as co-owner;
- (ii) the REIT’s interest in the joint venture arrangement is not subject to any restriction on transfer other than a right of first offer, if any, in favour of the joint venturers;
- (iii) the REIT has a right of first offer to buy the interests of the other joint venturers;
- (iv) the joint venture arrangement provides an appropriate buy-sell mechanism to enable a joint venturer to purchase the other joint venturer’s interests or to sell its interest;
- (v) the joint venture arrangement provides that the liability of the REIT to third parties is several and not joint and several, provided however that, subject to any remedies that each joint venturer may have against the other joint venturers, a joint venturer may be required to give up its interest in any particular property owned by the joint venture entity as a result of another joint venturer’s failure to honour its proportionate share of the obligations relating to such property; and
- (vi) the joint venture arrangement permits, but does not require, the REIT or its subsidiary or designee to participate fully in the management thereof;

provided, however, that the direct or indirect interest of the REIT in Choice Canada shall be specifically excluded from these requirements;

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

- (ii) the amount of the mortgage loan is not in excess of 75% of the market value of the property securing the mortgage and the mortgage has at least a 1.2 times debt service coverage level, which is obtained by dividing operating income for the particular property by the total principal and interest payments under all mortgages on such property;
 - (iii) the mortgage is a first mortgage registered on title to the real property which is security therefore; and
 - (iv) the aggregate value of the REIT's investments in these mortgages, after giving effect to the proposed investment, will not exceed 20% of Adjusted Unitholders' Equity (as defined in the Declaration of Trust) calculated at the time of such investment;
- (h) notwithstanding paragraph (g), the REIT may invest in mortgages if one of its intentions is to use the acquisition of the mortgages as a potential method of acquiring control of a real property or a portfolio of real properties and the real property or properties would otherwise meet the investment guidelines of the REIT and provided the aggregate value of the REIT's investments in these mortgages (including mortgage loans referred to in paragraph (i)), after giving effect to the proposed investment, will not exceed 20% of Adjusted Unitholders' Equity calculated at the time of such investment;
- (i) notwithstanding paragraph (g), the REIT may also invest in mortgages where:
- (i) the mortgage is a "vendor take back" mortgage granted to the REIT in connection with the sale by it of existing real property and as a means of financing the purchaser's acquisition of such property from the REIT;
 - (ii) the mortgage is interest bearing;
 - (iii) the mortgage is registered on title to the real property which is security therefore;
 - (iv) the mortgage has a maturity not exceeding five years;
 - (v) the amount of the mortgage loan is not in excess of 75% of the selling price of the property securing the mortgage; and
 - (vi) the aggregate value of these mortgages (including mortgages and mortgage bonds in which the REIT is permitted to invest by virtue of paragraphs (g) and (h)), after giving effect to the proposed investment, will not exceed 20% of the Adjusted Unitholders' Equity calculated at the time of such investment;
- (j) all of the REIT's hotel and other real property investments shall be owned and operated by, or leased to, qualified operators (the Operator and its subsidiaries being qualified operators); and
- (k) the REIT may invest an aggregate amount (which, in the case of an amount invested to acquire real property, shall be the purchase price less the amount of any indebtedness assumed or incurred by the REIT and secured by a mortgage on such property) of up to 15% of Adjusted Unitholders' Equity in investments or transactions which do not comply with paragraphs (a), (c), (d), (f), (g), (h) or (i) above.

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

Operating Policies

Pursuant to the Declaration of Trust, the Trustees are required to conduct the operations and affairs of the REIT in accordance with the following policies and shall not permit any subsidiary of the REIT to conduct its operations and affairs other than in accordance with the following policies:

- (a) the REIT and its subsidiaries shall not purchase, sell, market or trade in currency or interest rate futures contracts other than for hedging purposes where, for the purposes hereof, the term “hedging” shall have the meaning ascribed thereto by National Instrument 81-102 — *Investment Funds* adopted by the Canadian Securities Administrators, as amended from time to time;
- (b) (i) any written instrument creating an obligation which is, or includes the granting by the REIT of, a mortgage; and (ii) to the extent the Trustees determine to be practicable and consistent with their fiduciary duty to act in the best interests of the Unitholders, any written instrument which is, in the judgment of the Trustees, a material obligation, shall in each case contain a provision or be subject to an acknowledgement to the effect that the obligation being created is not personally binding upon, and that resort shall not be had to, nor shall recourse or satisfaction be sought from, the private property of any of the Trustees, Unitholders, annuitants under a plan of which a Unitholder acts as a trustee or carrier, or officers, employees or agents of the REIT, but that only property of the REIT or a specific portion thereof shall be bound; provided that the REIT is not required, but shall use reasonable efforts, to comply with this requirement in respect of obligations assumed by the REIT upon the acquisition of any real property;
- (c) the REIT shall not lease or sublease to any person (except a wholly owned subsidiary), any real property, premises or space where that person and its affiliates would, after the contemplated lease or sublease, be leasing or subleasing real property, premises or space having a fair market value net of encumbrances in excess of 5% of Adjusted Unitholders’ Equity;
- (d) except for renovation or expansion of existing facilities and the development of new facilities as permitted under paragraph (f) of “– Investment Guidelines” above, the REIT shall not engage in construction or development of real property except as necessary to maintain its real property in good repair or to enhance the income producing ability of properties in which the REIT has an interest;
- (e) title to each real property shall be held by and registered in the REIT’s name, the Trustees or in the name of a corporation or other entity directly or indirectly wholly-owned by the REIT or jointly owned by the REIT with joint venturers;
- (f) the REIT shall not incur or assume any indebtedness under a mortgage or other security where (i) in the case of an individual property, the amount borrowed exceeds 75% of the market value of such individual property, or (ii) in the case of more than one property or a pool or portfolio of properties, the amount borrowed exceeds 75% of the market value of such properties on an aggregate basis, in either case, calculated at the time of assuming such indebtedness;
- (g) the REIT shall not incur or assume any indebtedness (other than temporary indebtedness, if any, due to vendors of the initial Portfolio in connection with the initial acquisition transaction, non-interest bearing indebtedness and trade accounts payable) if, after giving effect to the incurrence or assumption of such indebtedness, the Financial Leverage Ratio would exceed 60% (75% including any convertible debentures of the REIT);
- (h) the REIT shall not directly or indirectly guarantee any indebtedness or liabilities of any kind of a third party except indebtedness assumed or incurred under a mortgage by a corporation or other entity wholly-owned by the REIT or jointly by the REIT with joint venturers and operated solely for the purpose of holding a particular property or properties where such mortgage, if granted by the REIT directly, would not cause the REIT to otherwise contravene the restrictions

set out under “Investment Guidelines and Operating Policies”, and, where such mortgage is granted by a joint venture entity, subject to a joint venturer being required to give up its interest in a property owned by the joint venture entity as a result of another joint venturer’s failure to honour its proportionate share of the obligations relating to such property, the REIT’s liability is limited strictly to the proportion of the mortgage loan equal to the REIT’s proportionate ownership interest in the joint venture entity;

- (i) the REIT shall obtain an independent valuation of each property that it intends to acquire from or sell to a Related Party;
- (j) the REIT shall obtain and maintain at all times insurance coverage in respect of potential liabilities of the REIT and the accidental loss of value of the assets of the REIT from risks, in amounts, with such insurers, and on such terms as the Trustees consider appropriate, taking into account all relevant factors including the practices of owners of comparable properties;
- (k) the REIT shall obtain or cause a subsidiary to obtain such physical and environmental reports as the Trustees consider advisable for each future hotel property to be acquired by it; and
- (l) the REIT shall not issue additional REIT Units unless the Trustees consider such issuances not to be dilutive to ensuing annual distributions of AFFO (previously referred to as distributable income) to existing Unitholders.

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

DISTRIBUTION POLICY

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

General

The REIT may distribute such percentage of its estimated AFFO for the month then ended as the Trustees determine in their discretion. To the extent possible, distributions will be paid in equal monthly cash distributions to Unitholders, on or about the 15th day of each month (with the January 15th distribution being payable as of the preceding December 31st record date). In addition, the Trustees may at any time declare an extraordinary distribution of cash, units or other property of the REIT.

Distributions to Unitholders are approved on a monthly basis by the Trustees. In exercising their discretion to approve the level of distributions, the Trustees utilize internal forecasts prepared by management and other financial information to determine if sufficient annual cash flow will be available to fund distributions. In order to provide stable monthly distributions, seasonal cash flow variations are not considered in establishing the monthly distribution level. Trustees consider the REIT’s liquidity and alternative cash uses in assessing distributions. Cash flow projections are subject to continual change due to the nature of the Canadian hotel industry, which is difficult to predict even in the short-term. This difficulty is due to the following factors:

- (a) the exposure of the Canadian hotel industry to the overall cyclical effects of the Canadian business environment;
- (b) the seasonal nature of InnVest’s business;

- (c) InnVest's geographical diversity, as its hotels are located in numerous regions throughout Canada, with each region having its own unique characteristics;
- (d) changing customer attitudes to brands of hotels in the Portfolio;
- (e) changes in customer segmentation due to changing social, economic and political conditions; and
- (f) other macroeconomic, social and geopolitical factors (including changes in Canadian federal and provincial tax regimes) which are beyond the control of InnVest.

All of these factors can have a material effect on InnVest's revenue and cost structure. Examples include the outbreak of SARS in 2003 and the economic recession in 2009 followed by a slow industry recovery, each of which had a material negative impact on the Canadian hotel industry, as well as the implementation of the SIFT Legislation and proposed changes to the income tax rules affecting issuers of stapled securities. As a result of InnVest's exposure to numerous factors which are beyond its control, it is difficult for management to make predictions concerning distribution levels for future quarters and, as a result, management asserts that it would not be prudent to provide investors or potential investors with forward-looking information regarding distribution levels.

Adjusted funds from operations is determined after deduction of a reserve for replacement of furniture, fixtures and equipment and capital improvements. In assessing the operating performance of its hotel properties, InnVest deducts 4% to 5% of revenues at each hotel for replacement of its furniture, fixtures and equipment and capital improvements ("**FF&E reserve**"). Whether funds are specifically set aside or not, this FF&E reserve is a source of funding to maintain the quality of the Portfolio.

Distributions may be adjusted for amounts paid in prior periods if the actual AFFO for the prior periods is greater than or less than the Trustees' estimates for the prior periods. The distributions for any month will be payable to the Unitholders of record at the close of business on the last business day of the month. Distributions of AFFO are made in cash. InnVest has historically permitted Unitholders to reinvest distributions in REIT Units through the DRIP, which is described under "Description of REIT Units and Declaration of Trust – Distribution Reinvestment Plan

In June 2010, the distribution policy of the REIT was amended (with Unitholder approval at the annual and special meeting of the REIT held on June 16, 2010) to remove the obligations of the REIT to distribute (i) a minimum percentage of AFFO each month and (ii) any excess income (including taxable capital gains, if any) for the year over distributions otherwise made for that year. These amendments were made to ensure the REIT Units would be treated as equity, rather than a liability of the REIT, under IFRS and not to effect a change in the REIT's distribution practices.

The Portfolio is subject to variations in revenues, with revenues during the second and third calendar quarters being generally higher than those in the first and fourth quarters. As a result, if necessary, InnVest may be required to draw down on its operating loan facility during the first and fourth quarters in order to augment otherwise lower cash distributions to a point where cash distributions are as even as possible throughout the calendar year.

InnVest has adjusted its monthly distributions on three occasions. In November 2008, the monthly distribution was reduced from \$0.09375 per REIT Unit (\$1.125 annually) to \$0.0625 per REIT Unit (\$0.75 annually). In September 2009, the monthly distribution was reduced to \$0.0417 per REIT Unit (\$0.50 annually). In November 2011, the monthly distribution was reduced to \$0.0333 per REIT Unit (\$0.40 annually). Each reduction in the monthly distribution level was unanimously approved by the Trustees after careful consideration of relevant factors, including the economic and other external conditions facing InnVest, its operating performance and its liquidity and capital requirements at the relevant time.

The table below summarizes distributions paid to Unitholders over the past three years.

| For the year ended December 31, | Total Distributions Declared (\$ in millions) | Distributions Declared per Unit |
|---------------------------------|---|------------------------------------|
| 2012 | \$37.4 | \$0.3996 |
| 2013 | \$37.5 | \$0.3996 |
| 2014 | \$39.2 | \$0.3996 |

Computation of AFFO for Distribution Purposes

AFFO is defined as net income as set out in the REIT's consolidated financial statements determined in accordance with IFRS, subject to certain adjustments set out in the Declaration of Trust including the addition of depreciation and amortization, amortization of fair value debt adjustment and deferred income tax expense, excluding any gains or losses on the disposition of real property, and deferred income tax recovery and deducting the amount calculated for the reserve for replacement of furniture, fixtures and equipment and capital improvements, the interest on convertible debentures that is not included in the computation of net income. AFFO so calculated may reflect any other adjustments determined by the Trustees in their discretion and may be estimated whenever the actual amount has not been fully determined. Such estimates will be adjusted as of the subsequent distribution date when the amount of AFFO has been finally determined.

Tax Deferral on Distributions

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

The table below summarizes the non-taxable portion of distributions made to Unitholders over the past three years.

| For the year ended December 31, | Non-taxable portion of Distributions |
|---------------------------------|---|
| 2012 | 40.0% |
| 2013 | 28.0% |
| 2014 | 8.0% |

For distributions paid in 2014, 8.0% will not be taxable to Canadian resident Unitholders through non-taxable portion of capital gains.

SELECTED FINANCIAL INFORMATION

The following table sets out selected financial information as at, and for the years ended, December 31, 2014 and 2013 and should be read in conjunction with the consolidated financial statements of the REIT.

| | As at December 31, 2014 | As at December 31, 2013 |
|--|---|---|
| Balance Sheet Data | | |
| (in thousands) | | |
| Total Assets..... | \$1,329,285 | \$1,280,541 |
| Total Long-term Debt (includes current portion of long-term debt and long-term debt related to assets held for sale less issuance costs)..... | \$801,363 | \$708,416 |
| | Year Ended December 31, 2014 | Year Ended December 31, 2013 |
| Revenue and Earnings Data | | |
| (in thousands, except per unit amounts) | | |
| Revenues | \$535,535 | \$586,898 |
| Gross operating profit..... | \$128,821 | \$134,138 |
| Net loss | (\$14,727) | (\$54,956) |
| Net loss per unit - diluted | (\$0.152) | (\$0.586) |
| Other Data | | |
| Same-hotel Average Daily Rate (“ADR”) | \$125.45 | \$122.96 |
| Same-hotel Occupancy | 63.8% | 62.6% |
| Same-hotel Revenue per Available Room (“RevPAR”) | \$79.99 | \$77.02 |
| FFO per unit diluted | \$0.574 | \$0.624 |
| AFFO per unit diluted | \$0.441 | \$0.462 |
| Distributions per unit | \$0.3996 | \$0.3996 |

MATERIAL DEBT OBLIGATIONS

At December 31, 2014, InnVest had long-term debt payable in the aggregate amount of \$801.4 million (includes current portion of long-term debt and long-term debt related to assets held for sale less issuance costs) with a weighted average term of 2.8 years and a weighted average interest rate of 5.5% (ranging from 3.8% to 8.75%). Approximately 21.0% of InnVest’s mortgage debt is at floating interest rates. InnVest expects to address its debt maturities in the normal course of business.

At December 31, 2014, InnVest also had \$247.6 million of unsecured subordinated fixed-rate convertible debentures, issued in four series, which mature between March 2016 and March 2019. On March 3, 2015, the 6.75% Series D Debentures not previously converted to REIT Units were redeemed and cancelled. Pro forma this event, InnVest has \$211.3 million of convertible debentures outstanding which mature between September 2017 and March 2019.

InnVest’s debt obligations do not provide for any contractual limitations on cash distributions to its Unitholders. See “Description of Convertible Debentures”.

MARKET FOR SECURITIES

The REIT Units are listed and posted for trading on the TSX under the symbol “INN.UN”. The following table sets out the monthly reported high and low trading prices and trading volumes of the REIT Units for the year ended December 31, 2014:

| TSX Trading Summary of REIT Units | | | |
|--|-------------|-------------|---------------|
| Month | High | Low | Volume |
| | (\$) | (\$) | (#) |
| January | 5.15 | 4.62 | 4,613,364 |
| February | 5.38 | 4.88 | 3,818,716 |
| March | 5.35 | 5.06 | 2,653,008 |
| April | 5.35 | 5.11 | 1,998,814 |
| May | 5.30 | 5.00 | 1,519,615 |
| June | 5.33 | 4.97 | 1,815,796 |
| July | 5.79 | 5.20 | 1,614,694 |
| August | 5.84 | 5.44 | 1,324,374 |
| September | 5.89 | 5.11 | 1,881,170 |
| October | 5.46 | 4.58 | 1,329,355 |
| November | 5.59 | 5.01 | 3,155,863 |
| December | 6.12 | 5.27 | 4,912,025 |

The 6.00% Series E Debentures, 5.75% Series F Debentures and 6.25% Series G Debentures are listed and posted for trading on the TSX under the symbols “INN.DB.D”, “INN.DB.E”, “INN.DB.F” and “INN.DB.G”, respectively.

The following tables set forth the monthly reported high and low daily trading prices and the aggregate volume of the 6.75% Series D Debentures, 6.00% Series E Debentures, 5.75% Series F Debentures and 6.25% Series G Debentures on the TSX for the year ended December 31, 2014. The outstanding 5.85% Series C Debentures were redeemed in June 2014 and all of the remaining 6.75% Series D Debentures were redeemed in March 2015.

| Month | Trading of 6.75% Series D | | | Trading of 6.00% Series E | | |
|----------------|--|------------|---------------|--|------------|---------------|
| | Convertible Debentures (INN.DB.D) | | | Convertible Debentures (INN.DB.E) | | |
| | High | Low | Volume | High | Low | Volume |
| | (\$) | (\$) | (#) | (\$) | (\$) | (#) |
| January..... | 104.00 | 102.00 | 54,000 | 102.00 | 98.62 | 260,000 |
| February..... | 105.00 | 104.00 | 5,000 | 100.95 | 99.10 | 569,000 |
| March..... | 104.50 | 103.30 | 134,000 | 102.00 | 100.25 | 540,000 |
| April..... | 104.25 | 104.00 | 94,500 | 102.00 | 100.50 | 274,000 |
| May..... | 0.00 | 0.00 | - | 102.00 | 101.00 | 134,000 |
| June..... | 104.00 | 102.50 | 11,000 | 102.00 | 101.00 | 132,000 |
| July..... | 105.00 | 102.75 | 68,000 | 103.50 | 101.50 | 499,000 |
| August..... | 105.00 | 105.00 | 14,000 | 103.56 | 101.25 | 307,000 |
| September..... | 105.07 | 104.50 | 108,000 | 102.05 | 101.70 | 415,000 |
| October..... | 104.00 | 100.75 | 149,000 | 102.98 | 100.00 | 726,000 |
| November..... | 105.00 | 100.80 | 121,000 | 101.50 | 100.75 | 370,000 |
| December..... | 104.00 | 102.00 | 281,000 | 101.50 | 100.00 | 513,000 |

| Month | Trading of 5.75% Series F Convertible Debentures (INN.DB.F) | | | Trading of 6.25% Series G Convertible Debentures (INN.DB.G) | | |
|----------------|--|--------|-----------|--|--------|-----------|
| | High | Low | Volume | High | Low | Volume |
| | (\$) | (\$) | (#) | (\$) | (\$) | (#) |
| January..... | 97.00 | 92.00 | 693,000 | 99.00 | 90.77 | 882,000 |
| February..... | 99.00 | 97.00 | 632,000 | 101.75 | 99.00 | 3,539,600 |
| March..... | 100.00 | 99.00 | 566,000 | 103.00 | 99.50 | 3,910,000 |
| April..... | 103.01 | 99.50 | 1,653,000 | 104.34 | 101.50 | 1,726,500 |
| May..... | 101.00 | 100.00 | 884,000 | 104.00 | 101.01 | 1,177,500 |
| June..... | 102.00 | 100.50 | 255,000 | 103.50 | 100.50 | 8,066,000 |
| July..... | 102.60 | 100.25 | 2,082,000 | 105.00 | 102.00 | 1,263,500 |
| August..... | 101.00 | 100.10 | 446,000 | 103.24 | 101.00 | 5,233,000 |
| September..... | 100.95 | 100.16 | 396,000 | 103.73 | 102.30 | 2,850,100 |
| October..... | 101.25 | 100.16 | 323,000 | 103.35 | 102.60 | 1,314,000 |
| November..... | 101.65 | 100.16 | 318,000 | 103.12 | 101.75 | 423,000 |
| December..... | 101.65 | 100.00 | 761,000 | 103.90 | 102.50 | 581,000 |

REGISTRAR AND TRANSFER AGENT

InnVest's registrar and transfer agent for the REIT Units and the Debentures is Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, North Tower, Toronto, Ontario M5J 2Y1.

MATERIAL CONTRACTS

The following table sets out the particulars of every contract, other than a contract entered into in the ordinary course of business, that is material to InnVest and that was entered into within the most recently completed financial year, or before the most recently completed financial year but is still in effect.

| Material Contract | Description of Particulars |
|---|--|
| Third Amended and Restated Master Hotel Management Agreement dated April 21, 2014 between the Operator, InnVest Management Inc., Westmont Hospitality Canada Limited and the REIT | See "Interest of Management and Others in Material Transactions – Master Hotel Management Agreement with the Manager" |
| Fourth Amended and Restated Declaration of Trust dated as of July 1, 2012, as amended by a deed of amendment dated August 7, 2013, governing the business and affairs of the REIT | See "Description of REIT Units and Declaration of Trust" |
| Trust indenture dated February 27, 2013 between the REIT, as issuer, and Computershare, as debenture trustee, as supplemented by the first supplemental indenture dated July 25, 2014 between the REIT and Computershare (collectively, the "2013 Indenture") | The 2013 Indenture provides for the issuance of an unlimited number of debentures and specifically authorizes the issuance of up to an aggregate principal amount of \$115,000,000. The initial 5.75% Series G Debentures shall bear interest: (i) for the period from and including February 27, 2013 to but excluding September 30, 2014, at the rate of 5.75% per annum, and (ii) for the period from and including September 30, 2014 to but excluding March 31, 2019, at a rate of 6.25%. A description of the terms of the 2013 Indenture is set out at "Description of the Debentures" in the REIT's short form prospectus dated February 20, 2013 and the First Supplemental Indenture dated July 25, 2014, each of which is incorporated herein by reference. |

| Material Contract | Description of Particulars |
|---|---|
| <p>Trust indenture dated March 15, 2011 between the REIT, as issuer, IOT, as guarantor, and Computershare, as debenture trustee, as supplemented by the first supplemental indenture dated July 3, 2012 between the REIT and Computershare (collectively, the “2011 Indenture”)</p> | <p>The 2011 REIT Indenture provides for the issuance of an unlimited number of debentures of the REIT and specifically authorizes the issuance of up to an aggregate principal amount of \$50,000,000 of 5.75% Series F Debentures. A description of the terms of the REIT Indenture is set out at “Description of the Debentures” in InnVest’s short form prospectus dated March 8, 2011, “Reorganization – Description of the Reorganization – 2011 REIT Indenture and 2011 IOT Indenture” in the REIT’s management information circular dated December 31, 2011, each of which is incorporated herein by reference.</p> |
| <p>Trust Indenture dated July 26, 2002 between the REIT and Computershare, as supplemented by the first supplemental indenture dated April 2, 2004 between the REIT and Computershare (as amended on September 2, 2005), the second supplemental indenture dated May 16, 2006 between the REIT and Computershare, the fourth supplemental indenture dated December 30, 2009 between the REIT and Computershare and the fifth supplemental indenture dated August 13, 2010 between the REIT and Computershare, the sixth supplemental indenture dated December 31, 2010 between the REIT, IOT and Computershare, and the seventh supplemental indenture dated July 3, 2012 between the REIT, IOT and Computershare (collectively, the “2002 Indenture”)</p> | <p>The 2002 Indenture provides for the issuance of an unlimited number of debentures of the REIT, and specifically authorizes the issuance of an aggregate principal amount of \$75,000,000 of 9.75% convertible debentures (which have since been redeemed), an aggregate principal amount of \$57,500,000 of the 6.25% Series A Debentures (which have since been redeemed), an aggregate principal amount of \$75,000,000 of the 6.00% Series B Debentures (which have since been redeemed), an aggregate principal amount of \$70,000,000 of the 5.85% Series C Debentures (which have since been redeemed), an aggregate principal amount of \$50,000,000 of the 6.75% Series D Debentures (which have since been redeemed) and an aggregate principal amount of \$75,000,000 of the 6.00% Series E Debentures. A description of the terms of the 2002 Indenture is set out at “Vendor Convertible Debentures” in the REIT’s prospectus dated July 18, 2002, “Description of the Series A Debentures” in the REIT’s short form prospectus dated March 23, 2004, “Description of the Debentures” in the REIT’s short form prospectus dated May 9, 2006, “Description of the Debentures” in the REIT’s short form prospectus dated July 26, 2007, “Description of the Debentures” in the REIT’s short form prospectus dated December 18, 2009, “Description of the Debentures” in the REIT’s short form prospectus dated August 6, 2010, “Plan of Arrangement – Reorganization – Debenture Indenture” in the REIT’s management information circular dated May 13, 2010 and “Reorganization – Description of the Reorganization – 2002 Indenture” in the REIT’s management information circular dated December 31, 2011, each of which is incorporated herein by reference.</p> |
| <p>Fourth Amended and Restated Unitholder Rights Plan dated July 1, 2012, as amended by an amending agreement dated June 5, 2013, between Computershare and the REIT</p> | <p>See “Description of REIT Units and Declaration of Trust – Unitholder Rights Plan”</p> |

MANAGEMENT STRUCTURE

Trustees and Officers

The name, province or state and country of residence, office held with InnVest and current principal occupation of each trustee and officer of InnVest are as follows:

| Name and Residence | Office with InnVest | Date First Appointed as Trustee | Principal Occupation |
|--|---|---------------------------------|--|
| Majid Mangalji ⁽¹⁾ Wimbledon, England | Trustee, Chair of the Board of Trustees | June 5, 2002 | Founder and President, Westmont Group |
| Edward W. Boomer ⁽²⁾⁽⁴⁾⁽⁵⁾ Ontario, Canada | Trustee | June 5, 2013 | Corporate Director |
| Heather-Anne Irwin ⁽²⁾⁽⁵⁾ Ontario, Canada | Trustee | March 12, 2014 | Adjunct Professor of Finance Rotman School of Management, University of Toronto |
| Daniel Lewis ⁽²⁾⁽³⁾ New York, United States | Trustee | March 13, 2014 | Co-Founder and Managing Partner Orange Capital, LLC |
| Jon E. Love ⁽²⁾⁽³⁾ Ontario, Canada | Trustee | March 12, 2014 | Managing Partner KingSett Capital |
| Fereed Mangalji ⁽¹⁾ Singapore, Singapore | Trustee | April 18, 2006 | Principal and Executive Director, Westmont Group |
| Robert McFarlane ⁽²⁾⁽⁴⁾ British Columbia, Canada | Trustee | March 12, 2014 | Corporate Director |
| Edward Pitoniak ⁽³⁾ Rhode Island, United States | Trustee | March 13, 2014 | Corporate Director |
| Robert Wolf ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾ Ontario, Canada | Trustee | March 12, 2014 | Corporate Director |
| Andrew C. Coles ⁽⁶⁾ Ontario, Canada | President and Chief Executive Officer | N/A | President and Chief Executive Officer, InnVest |
| George M. Kosziwka Ontario, Canada | Chief Financial Officer and Corporate Secretary | N/A | Chief Financial Officer and Corporate Secretary, InnVest |
| Chantal Nappert Ontario, Canada | Vice President Finance and Investor Relations | N/A | Vice President Finance and Investor Relations, InnVest |

| Name and Residence | Office with InnVest | Date First Appointed as Trustee | Principal Occupation |
|---------------------------------|--|---------------------------------|--|
| Brad Pollock Ontario, Canada | Vice President Taxation and Treasury | N/A | Vice President Taxation and Treasury, InnVest |

Notes:

- (1) Westmont Group Nominee
- (2) Independent Trustee of the REIT
- (3) Member of the Investment Committee of the REIT
- (4) Member of the Audit and Risk Committee of the REIT
- (5) Member of the Compensation and Corporate Governance Committee of the REIT
- (6) Anthony Messina served as President and Chief Executive Officer per a two-year agreement that concluded on November 30, 2014. On December 1, 2014, the REIT appointed Edward Pitoniak as Acting President and Chief Executive Officer. Mr. Pitoniak remained Managing Director and a member of the Board of Trustees of the REIT. On December 17, 2014, Andrew C. Coles was appointed President and Chief Executive Officer of the REIT, effective January 26, 2015. Mr. Coles succeeded Edward Pitoniak as President and CEO. Mr. Pitoniak remains as Managing Director of the REIT during a transition period and as a member of the Board of Trustees of the REIT.

Mr. Boomer was last appointed by the Unitholders on June 5, 2013. Each of the remaining Independent Trustees was appointed by the Board of Trustees of the REIT on March 12, 2014 or March 13, 2014 in connection with the Settlement. All Independent Trustees will continue to serve until the next annual meeting of the REIT, or until his or her successor is elected or appointed.

Messrs. Frank Anderson, Laurence Geller, Morton Gross and Fernand Perreault, each of whom had been an Independent Trustee, resigned from the Board of Trustees of the REIT on March 12, 2014 in connection with the Settlement.

Pursuant to the Declaration of Trust, Westmont has the right to appoint one Trustee, since it owns, in the aggregate, at least 5% of the outstanding REIT Units. The Manager also has the right to appoint one Trustee, provided that the Master Hotel Management Agreement remains in effect and that the appointment would not result in a majority of the Trustees not being Independent Trustees. The Trustees appointed by Westmont and the Manager serve for an indefinite term unless removed by Westmont or the Manager, as the case may be, or Westmont or the Manager, as the case may be, ceases to have appointment rights. The remaining Trustees are to be elected by a plurality of the votes cast at the next annual meeting. The Westmont Group is entitled to vote its REIT Units for the election of the remaining Trustees.

As at March 13, 2015, as a group, the Trustees and officers of the REIT beneficially own, directly or indirectly, or exercise control or direction over, a total of 41,213,277 REIT Units, which represents 33.7% of the outstanding REIT Units.

Trustee and Officer Biographies

Biographies of the Trustees and officers of the REIT, including the nature and extent of the experience of the Trustees and officers of the REIT in the real estate industry, their current principal occupations and their principal occupations during the five preceding years, are as follows:

Majid Mangalji is Founder and President of the Westmont Group, which started its hospitality business over 35 years ago. Mr. Mangalji has been involved in all aspects of the development of the Westmont Group. During this period, it has grown from a single hotel to become one of the largest private hotel owner/operators in the world with a significant presence in North America, Europe, and Asia. As the head of this global hotel group, Mr. Mangalji has developed extensive knowledge of international hospitality markets, investing and operating in these markets and has created strong relationships with major international hotel brands, leading financial institutions, and investment funds. Mr. Mangalji sits on the boards of the principal hospitality companies in which the Westmont Group invests. He is the Chairman of the REIT and has a seat on the board of IREFAC (Industry Real Estate Financing Advisory Council). Mr. Mangalji holds a business degree with a double major in accounting and marketing from the University of Bradford, England.

Edward W. Boomer served as President of Partners Real Estate Investment Trust from August 2013 to November 2013 and its Chief Investment Officer from March 2013 to November 2013. Mr. Boomer has over 20 years of experience in commercial real estate including as the Founder and President of Reference Realty Inc. Prior to establishing Reference Realty Inc. in 2010, Mr. Boomer held leadership positions including as Managing Director, Canadian Operations for Kimco Realty Corp. and Vice-President & Territory Risk Manager for GE Real Estate and currently sits on the Board of Directors, Audit Committee and is the Chairman of the Compensation and Corporate Governance Committee of Timbercreek Senior Mortgage Investment Corporation. Mr. Boomer holds a LLB from Queen's University and a Bachelor of Arts (Economics) from Glendon College. Mr. Boomer has been a Member of the Law Society of Upper Canada since 1991.

Heather-Anne Irwin is an Adjunct Professor of Finance at the Rotman School of Management at the University of Toronto. She is in her 12th year as a professor specializing in corporate finance and M&A and has received two MBA Professor of the Year awards and one Master of Finance Professor of the Year award. Ms. Irwin previously worked at TD Securities Inc. within the Equity Capital Markets group as a Director and Vice President from 1996 to 2002. Her extensive capital markets experience also includes several years spent at Nesbitt Burns (Investment Banking) and Citibank Canada (Fixed Income). Ms. Irwin's board experience includes directorships on several non-profit organizations, including, Women in Capital Markets (Director, Founding President), Canadian Securities Institute Research Foundation (Executive Director & Secretary) and Centre for Addiction and Mental Health Foundation (former Director). She received her MBA from the Schulich School of Business, York University in 1986 and an Hon BSc in Engineering from Queen's University in 1983.

Daniel Lewis is co-founder and Managing Partner of Orange Capital, LLC, a New York based investment fund. Mr. Lewis has nearly 20 years of investment experience in shareholder activist campaigns, event-driven equities, and distressed debt investments worldwide. From 1996-2004, Mr. Lewis was employed by Citigroup and its predecessor companies. He is a former Director of Citigroup Global Special Situations Group. He serves on the Board of Say Yes to Education, a non-profit committed to increasing the high school and college graduation rates of inner-city youth. Mr. Lewis holds a B.S. from Cornell University.

Jon E. Love is the founder and Managing Partner of KingSett Capital, Canada's leading private equity real estate investment business co-investing with institutional and high net worth clients. Founded in 2002, KingSett has successfully raised \$4.5 billion of equity for its Growth Strategy, Income Strategy and High Yield Mortgage Funds and completed over \$16 billion of acquisitions, dispositions and mortgage lending. KingSett currently has over \$5 billion of assets under management. Mr. Love was formerly President and Chief Executive Officer of Oxford Properties Group from 1992 until November 2001, when Oxford was sold to OMERS in a \$4 billion privatization. Mr. Love serves on the Board of Directors of the Canadian Council of Chief Executives, the Chief Executives Organization, is a member of YPO (Alumni), WPO and is on the Management Committee of the Toronto Club and the Building Committee of Toronto's University Health Network. Mr. Love graduated with an HBA in 1976 from the Ivey School of Business, where he serves on the Executive Committee of its Advisory Board, and has chaired the New Building Task Force.

Fereed Mangalji is a Principal and Executive Director of Westmont Group, and has been with the company for almost 20 years. Mr. Mangalji oversees all facets of the company with a primary focus on the company's US and Canadian portfolios including overseeing all of Westmont Group's substantial investment projects and asset management group. During his tenure, Mr. Mangalji has been one of the key players in the dramatic growth of Westmont Group from a hotel operator/owner into one of the world's largest global hotel real estate investment companies. Mr. Mangalji has extensive familiarity and experience in both the real estate and hospitality industries and has a strong background in complex deal structuring, public to private acquisitions, mezzanine debt acquisitions, operational repositioning and asset work-outs. Mr. Mangalji holds a degree from Harvard University. Prior to joining the Westmont Group team, Mr. Mangalji worked with Bankers Trust in New York where he worked in the real estate group. Mr. Mangalji is also a member of the Young Presidents Organization.

Robert McFarlane served as EVP and CFO of TELUS Corporation from 2000-2012. He led a national team of over 800 professionals with responsibility for conventional finance functions, corporate strategy, M&A, ventures investment, risk management and regulatory and governmental affairs. In 2007, Mr. McFarlane was

named Canada's Top CFO and in 2011 was recognized by Queen's University with the Kathleen Beaumont Hill Award for his outstanding contribution to Queen's and Canada. Prior to TELUS Corporation, Mr. McFarlane was CFO of startup national wireless carrier Clearnet. He successfully led eleven financings, raising over \$3.3B until Clearnet's \$7.7B sale to TELUS Corporation in 2000. Mr. McFarlane is Deputy Chair of the Board and Chair of the Audit and Risk Committee of RSA Canada, a member of the Board of Directors and member of the Audit and Risk Committee of HSBC Bank of Canada, Chair of the National Advisory Board of The Salvation Army, Director and member of the Finance Committee of Vancouver College and member of the Board of Trustees of Queen's University.

Edward Pitoniak served as President, CEO, and Board Trustee of Canadian Hotel Income Properties REIT ("**CHIP REIT**"), a leading hotel owner listed on the Toronto Stock Exchange from 2004 to 2007. During Mr. Pitoniak's tenure as CEO, the company generated total returns for its investors of 103%, the best performance of any hotel REIT in Canada. CHIP REIT, with 36 properties across Canada, was named Canada's Hotel Company of the Year for 2006. In 2007 Mr. Pitoniak led CHIP REIT through a sale to the British Columbia Investment Management Corporation ("**bciMC**") in a going-private transaction worth \$1.2 billion. In 2008, Mr. Pitoniak served as President & CEO of the newly-formed bciMC Hospitality Group where he oversaw Delta Hotels & Resorts and Silverbirch Hotels & Resorts (formerly CHIP REIT). Mr. Pitoniak currently serves as Board Director and Chair of the Nominating & Governance Committee of Ritchie Brothers Auctioneers (NYSE/TSX: RBA), the world's leading auctioneers of industrial equipment, as well as serving on the Board and Chair of the Investment Committee of Regal Lifestyle Communities (TSX:RLC).

Robert Wolf served as CFO of RioCan Real Estate Investment Trust, Canada's largest public REIT, from inception in 1994 until 2008. Mr. Wolf serves as a trustee of Retrocom REIT (TSX: RMM.UN) (Chair of the Audit Committee, Vice-Chair of the Investment Committee) and also as lead trustee and Chair of the Audit Committee of WPT Industrial REIT (TSX: WIR.UN). Since March 2013, Mr. Wolf has served on the Board of Crosswinds Holdings Inc. (TSX: CWI), a publicly traded Canadian merchant bank and alternative asset manager with a primary focus on the insurance industry. In addition, Mr. Wolf, through RTW Capital Corporation, has been making active investments in and providing financial advisory services to small and medium sized businesses. Mr. Wolf obtained his Chartered Accountancy designation in 1984 and received a Masters of Business Administration from the Schulich School of Business at York University and a Bachelor of Commerce from McGill University.

Andrew ("Drew") C. Coles was named President and Chief Executive Officer of InnVest effective January 2015. He has held senior management positions in the Canadian hospitality industry. Mr. Coles previously served as Vice President, Hotels at Oxford Properties Group ("**Oxford**"). Mr. Coles was Oxford's senior leader responsible for the investment performance of its luxury hotel portfolio. In this capacity, he was responsible for optimizing the portfolio's asset mix including leading capital investments, acquisitions and dispositions in concert with Oxford's real estate strategy. Under his leadership, the Oxford hotel portfolio experienced exceptional investment performance, income growth and capital reinvestment. In previous roles Mr. Coles worked with Delta Hotels and the bciMC, Fairmont Raffles Hotels International, General Electric Capital and Choice Hotels International. He holds an Honors MBA from Webster University (St. Louis, Missouri), a BA Economics from Acadia University and serves as an active Board Member of the Tourism Industry Association of Canada.

George M. Kosziwka was named Chief Financial Officer of InnVest in December 2012, having previously served as Vice President Finance since InnVest's inception in 2002. Mr. Kosziwka has substantial hospitality real estate experience having worked over 25 years in the industry. Prior to joining InnVest he held senior finance executive positions for predecessors of the REIT, including UniHost Corporation and Journey's End Corporation. Mr. Kosziwka is also currently a director of Choice Canada. Mr. Kosziwka holds an Honours Bachelor of Mathematics from the University of Waterloo and is a Chartered Professional Accountant, Chartered Accountant.

Chantal Nappert was named Vice President Finance and Investor Relations of InnVest in June 2013. Ms. Nappert has almost 15 years of hotel real estate experience through both public and private ownership structures. As Vice President of Finance and Investor Relations, her responsibilities include communications, reporting and investment strategy. Prior to joining InnVest, Ms. Nappert served in various finance positions with

Legacy Hotels REIT, Cadbridge Investors LP and Fairmont Hotels Inc. Ms. Nappert is a Chartered Professional Accountant, Chartered Accountant and holds a Bachelor of Commerce degree from the University of Ottawa.

Brad Pollock was named Vice President Taxation and Treasury of InnVest in January 2013. Previously, Mr. Pollock shared his time as Vice President Taxation of InnVest and private equity hotel funds with such partners as Goldman Sachs, Ivanhoé Cambridge, The Baupost Group and Kimco Realty. He has had experience with corporate reorganizations, mergers and acquisitions, cross-border transactions and financing. Mr. Pollock is a Chartered Professional Accountant, Chartered Accountant and holds a Bachelor of Mathematics from the University of Western Ontario.

Corporate Cease Trade Orders or Bankruptcies

Mr. Robert McFarlane was a director of Ascalade Communications Inc. (“**Ascalade**”) until his resignation in February 2008. In March 2008, Ascalade filed for bankruptcy protection under the Companies’ Creditors Arrangement Act (CCAA). On December 3, 2009 payment of 100% of all proven creditors’ claims were made by the monitor and, in January 2010, the remaining proceeds from the realized assets of Ascalade were distributed to shareholders of record as of December 8, 2009.

Conflict of Interest Restrictions and Provisions

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

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

Independent Trustee Matters

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

- (a) to make a material change to the Master Hotel Management Agreement or administrative services agreements (described below), change the fees payable to the Manager, renew the Master Hotel Management Agreement or the administrative services agreements at the end of

- their respective terms or appoint a substitute for the Manager after the end of the term of the Master Hotel Management Agreement;
- (b) to enter into any agreement or transaction in which any Related Party has a material interest or make a material change to any such agreement or transaction;
 - (c) relating to a claim by or against any Related Party;
 - (d) relating to a claim in which the interests of a person referred to in paragraph (c) above differ from the interests of the REIT;
 - (e) to increase the number of Trustees by no more than one-third in accordance with the Declaration of Trust and to appoint Trustees to fill the vacancies so created;
 - (f) to recommend to the Unitholders that the number of Trustees be increased, where a vote of Unitholders thereon is required, and to nominate individuals as Trustees to fill the vacancies so created;
 - (g) to acquire any real or other property in which a Related Party has an interest or to sell any interest in any real or other property to a Related Party;
 - (h) to make any changes in compensation of an employee who is also an employee of a Related Party;
 - (i) to grant options to purchase REIT Units under any option plan approved by the Trustees or to award any right to acquire or other right or interest in REIT Units or securities convertible into or exchangeable for REIT Units under any plan approved by the Trustees; and
 - (j) to approve or enforce any agreement entered into by the REIT with a Trustee who is not an Independent Trustee or an associate thereof, with a Related Party, or with the Manager or any successor as hotel manager under the Master Hotel Management Agreement.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Each of Majid Mangalji and Fereed Mangalji is an officer of the Westmont Group, as described above at “Management Structure – Trustees and Officers.” Affiliates of InnVest have entered into the Master Hotel Management Agreement with the Manager, a member of the Westmont Group, providing for the management of certain of the Hotel Businesses. See “– Master Hotel Management Agreement with the Manager”, below. The REIT, the Operator and the Manager are also parties to certain arrangements for the provision of certain administrative services by the Manager. See “– Other Management Agreements”. As a result of their involvement with the Westmont Group, each of Fereed Mangalji and Majid Mangalji may have, and as a result of its being an affiliate of the Manager, Westmont has, an indirect interest in each of the foregoing agreements.

Jon E. Love is the Managing Partner of KingSett Capital, as described above at “Management Structure – Trustees and Officers” and therefore has an indirect controlling interest in KingSett LP No. 5. An affiliate of KingSett has entered into certain agreements with InnVest or its affiliates providing for credit facilities, and in respect of the Royal York Hotel Partnership. See “– KingSett Capital Term Loan” and “- Royal York Hotel Partnership”, below. As a result, Jon E. Love may have an indirect interest in each of the foregoing agreements.

On November 26, 2014, funds managed by Kingset, Orange Capital and Westmont, three of InnVest’s largest Unitholders, together with certain trustees and officers of the REIT purchased an aggregate of approximately \$47 million in REIT Units by way of the Concurrent Private Placement at the same price per REIT Unit as those sold under the Public Offering. As a result, each of Fereed Mangalji, Majid Mangalji, Jon E. Love and Daniel Lewis (Managing Partner of Orange Capital) had an indirect interest in the Private Placement.

Master Hotel Management Agreement with the Manager

The Operator and certain of its subsidiaries are party to the Master Hotel Management Agreement with the Manager, under which the Manager is responsible for the management of all but 12 of the Hotel Businesses in the Portfolio. The Manager provides customary hotel management services in respect of such hotels, 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 certain of the Hotel Properties, leasing, yield management and quality control. The obligations of the Operator and its subsidiaries are guaranteed by the REIT.

Term

The Master Hotel Management Agreement has been effective since July 26, 2002 and had an initial term of 10 years, subject to two successive five-year renewal terms with the consent of the Manager and approval by the Operator. In 2008, InnVest exercised the first five-year extension term on the Master Hotel Management Agreement with Westmont Group, extending the expiration date to July 25, 2017. The Master Hotel Management Agreement was amended and restated on December 31, 2010 and July 1, 2012 to accommodate the implementation and subsequent unwinding of the Stapled Unit structure and to reflect changes to the Portfolio since the REIT's initial public offering.

The Master Hotel Management Agreement was further amended and restated on April 21, 2014 in accordance with the terms of the Settlement, and its term was extended until April 21, 2024. The term of the Master Hotel Management Agreement may be extended with the mutual consent of the Operator and the Manager upon the expiry of the current term. The key terms of the Master Hotel Management Agreement are set out below.

Appointment of Manager

The Manager currently manages 97 Hotel Businesses in the Portfolio. The Manager does not have the exclusive right to manage InnVest's acquired hotels. The Operator may consider appointing the Manager to manage any hotels acquired directly or indirectly by the REIT ("**Additional Hotels**") on a case-by-case basis.

Fees and Expenses

The Master Hotel Management Agreement provides for the payment of an annual base management fee to the Manager during the term of the agreement in an amount equal to 2.95% of gross revenues for each Hotel Business managed by the Manager, calculated and payable monthly. In addition, the Manager is entitled to an annual incentive fee that allows the Manager to earn an aggregate base and incentive fee of up to 3.80% of gross revenues for each Hotel Business managed by the Manager.

Westmont is entitled to an annual base incentive fee equal to 0.425% of gross revenues, calculated and payable monthly, to be adjusted at the end of the year as follows:

- For each percentage point (1.0%) that the year-over-year net operating cash flow of the Hotel Businesses managed by the Manager increases, the base incentive fee will be increased by 2.8333 basis points, to a maximum incentive fee of 0.85%;
- For each percentage point (1.0%) that the year-over-year net operating cash flow of the Hotel Businesses managed by the Manager decreases, the base incentive fee will be reduced by 2.8333 basis points, to a minimum incentive fee of 0%;

- Where there is less than one percentage point change (1.0%) in the year-over-year net operating cash flow of the Hotel Businesses managed by the Manager, the incentive fee will remain unchanged at 0.425%; and
- Hotel Businesses that are sold or acquired during the year and Hotel Businesses that are subject to a disruption event (including being under significant renovation), earn the base incentive fee of 0.425% in the year.

In addition to the base management fee and incentive fee, the Manager is entitled to: (i) reasonable fees based on a percentage of the cost of purchasing certain goods and supplies for the Hotel Businesses for which it is the Manager and of certain construction costs and certain capital expenditures in respect of same, and (ii) fees for accounting services provided in respect of Hotel Businesses for which it is the Manager, in either case, only in the event that the Manager be appointed to undertake or supervise such activities. The Manager is also entitled to be reimbursed for all reasonable out-of-pocket costs and expenses (other than general and administrative expenses or overhead costs except as otherwise provided in the administrative services agreements discussed below under “– Other Agreements with the Manager”) incurred by the Manager in the performance of its duties under the Agreement, provided that such costs have been identified in a budget approved by the Operator or otherwise are approved in writing by the Operator prior to being incurred by the Manager.

Termination Rights and Payments

The Operator has the right to terminate the Master Hotel Management Agreement if, in two consecutive years: (i) certain performance tests relating to the achievement of 80% of the annual budgeted net operating cash flow for the Hotel Businesses managed by the Manager are not met, and (ii) a market test relating to the achievement of 90% of the average achieved RevPAR relative to a competitive set of limited service hotels is not satisfied. The termination right will not be triggered if the failure to achieve the performance test is a result of force majeure or specified acts or defaults by the Operator. If the Operator terminates the Master Hotel Management Agreement pursuant to this termination right, no compensation is payable to the Manager other than accrued management fees and reimbursable expenses.

If control of InnVest passes to a person of ill-repute or a competitor of the Manager, the Manager is entitled to terminate the Master Hotel Management Agreement in respect of all, and not less than all, of the Hotel Businesses managed by the Manager on six months' prior written notice to the Operator and to receive accrued management fees and reimbursable expenses through the effective date of termination.

The Master Hotel Management Agreement may be terminated by the Manager for any reason in its sole discretion in respect of all and not less than all of the Hotel Businesses managed by the Manager on 12 months' prior written notice to the Operator. If the Manager terminates the Master Hotel Management Agreement pursuant to this termination right, no compensation is payable to the Manager other than accrued management fees and reimbursable expenses.

The Master Hotel Management Agreement may be terminated by the Operator or the REIT for any reason other than as previously stated, in its sole discretion, with respect to any or all of the Hotel Businesses managed by the Manager on 60 days' prior written notice to the Manager. In connection with such event, the Operator shall pay the Manager three times the sum of all management fees earned or payable (as such fees are defined in the Master Hotel Management Agreement) in respect of the Hotel Businesses no longer covered by the Master Hotel Management Agreement due to such termination during the 12-month period immediately preceding the month in which the termination occurs (subject to adjustment in certain circumstances).

In addition, the Operator and the Manager each have termination rights after customary events of default, including bankruptcy or insolvency proceedings or similar events, subject to customary notice and cure rights.

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

Assignment and Change of Control of the Manager

Any sale or assignment of the Master Hotel Management Agreement by the Manager or change of control of the Manager is subject to the approval of the Operator, which approval shall not be unreasonably withheld if the person acquiring the agreement or control of the Manager is a hotel management company having comparable experience and operating and service standards equal to or better than those of the Manager and if all consents, approvals or waivers required under applicable franchise agreements, mortgages, agreements with Choice Canada and Choice International and land leases which contain restrictions relating to a sale or assignment of the Master Hotel Management Agreement or a change of control of the Manager have been obtained without material adverse consequence or material cost to InnVest.

Internalization of Hotel Management and Other Matters

In the event that the Operator determines, in its sole and absolute discretion, that it would be in the best interests of the REIT to internalize the management of the Hotel Businesses, and if the Manager, in its sole and absolute discretion, consents to such internalization of the management of the Hotel Businesses, the Manager shall be entitled to a one-time payment equal to the sum of the base management fee and incentive fee payable during the 12 months preceding such internalization. Any proposed internalization of the management of the Hotel Businesses on the basis of payment to the Manager of a fee in excess of the payment noted above is subject to the approval of not less than 66 2/3% of the votes cast by holders of REIT Units (excluding REIT Units beneficially owned by or on behalf of the Westmont Group) at a meeting called for such purpose.

The table below summarizes the consideration paid to the Manager for services rendered over the past two years.

| | 2014 | 2013 |
|---|---------------|---------------|
| (\$ in millions) | | |
| Management fees | \$10.8 | \$11.6 |
| Asset management fees | 1.4 | 1.8 |
| Accounting services | 2.1 | 2.3 |
| Administrative services | 0.4 | 0.3 |
| Project management and general contracting services | 3.5 | 2.8 |
| Termination fees | 1.1 | 0.5 |
| Total | <u>\$19.3</u> | <u>\$19.3</u> |

KingSett Capital Term Loan

The \$50.0 million Term Loan is outstanding for a four-year term, supported by a general security agreement and bears regular interest payments of 8.75% per annum (the “**Term Interest Payments**”). KingSett

also provided an option to draw an additional \$50.0 million Liquidity Facility. The Liquidity Facility was undrawn and expired in December 2014. The Term Loan and Liquidity Facility were subject to an up-front fee of \$3.0 million (the “**Up-Front Fee**”). In connection with the Term Loan, InnVest issued 573,361 units in satisfaction of the Up-Front Fee in April 2014. In addition, in the first year that the Term Loan is outstanding, a portion of the Term Interest Payments due in that year equal to 3% per annum will be 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. In 2014, InnVest issued 98,418 units in satisfaction of the Term Interest Payments.

Royal York Hotel Partnership

On February 2, 2015, InnVest announced that it had acquired a 20% interest in the Royal York Hotel through the Partnership with KingSett LP No. 5 and Ivanhoé Cambridge. KingSett LP No. 5, with its 60% interest, is the managing partner of the Partnership. InnVest is the hotel asset manager and will oversee 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 under the Partnership agreement.

Other Management Agreements

Hilton Worldwide (“**Hilton**”) manages two Hilton hotel properties for InnVest. The agreements provide for the payment of an annual management fee to Hilton in an amount equal to 3% of gross revenues during the term of the agreements. The agreements mature on December 31, 2026. For the year ended December 31, 2014, total management fees paid to Hilton were \$1.3 million (2013 - \$1.2 million).

Delta Hotels Limited (“**Delta**”) currently manages five Delta hotel properties for InnVest. The hotel management agreements provide for the payment of an annual management fee to Delta in an amount of 3% of total revenues from the hotel. Subject to the satisfaction of certain conditions, InnVest is entitled to adjusted management fees through 2027 (ranging from 0.5% to 3.5%) on three of these hotel properties following license renewals which included capital expenditure commitments. Delta can qualify for an incentive management fee of 0.5% of total revenues from the hotel if the hotel’s annual gross operating profit is greater than the budgeted gross operating profit, for the two hotels purchased by the REIT in 2006. The incentive management fees for the other four hotels are calculated based on net operating income from hotel operations plus amortization less the capital replacement reserve, in excess of a threshold. The agreements mature from December 31, 2015 to December 31, 2047. For the year ended December 31, 2014, total management fees paid to Delta were \$2.6 million (2013 - \$3.6 million).

At December 31, 2014, Fairmont Hotels Inc. (“**Fairmont**”) managed three hotel properties for InnVest. The Royal York Partnership is also managed by Fairmont, which closed February 2, 2015. The hotel management agreements provide for the payment of a base management fee and an incentive management fee to Fairmont. The base management fee is equal to 3% of total hotel revenues. The incentive management fees are calculated based on net operating income from hotel operations plus amortization less the capital replacement reserve, in excess of a threshold. The agreements mature from December 31, 2023 to December 31, 2047. For the year ended December 31, 2014, total management fees paid to Fairmont for these hotels were \$5.2 million (2013 - \$5.3 million).

An affiliate of Hyatt Hotels Corporation (“**Hyatt Affiliate**”) manages one hotel property for InnVest. The hotel management agreement provides for the payment of a base management fee and an incentive management fee to the Hyatt Affiliate. The base management fee is equal to 3% of total hotel revenues. The incentive management fees are calculated based on net operating income from hotel operations plus amortization less the capital replacement reserve, in excess of a threshold. The agreement expires December 31, 2034. For the year ended December 31, 2014, total management fees paid to the Hyatt Affiliate were nominal give that the Hyatt Regency was acquired on December 8, 2014.

Other Agreements with the Manager

Pursuant to the amended and restated administrative services agreements dated as of July 1, 2012, the Manager provides to the REIT and the Operator certain administrative and support services, including the provision of: (i) office space and office equipment; (ii) communications and computer systems; and (iii) such administrative and secretarial support services as reasonably required from time to time to support the ongoing administration and operation of the REIT and the Operator. Such services will be provided on a cost recovery basis pursuant to a budget to be agreed and approved annually by 66 2/3% of the Independent Trustees. The aggregate fee paid to the Manager for the provision of the services under the administrative services agreements for the year ended December 31, 2014 was \$361,000 (2013 - \$340,000). This amount is included in the total amount paid under the Master Hotel Management Agreement as noted under the caption “— Master Hotel Management Agreement with the Manager”. InnVest expects these administrative and support services to end in 2015 as it internalizes all such services.

For certain hotels owned by InnVest and not managed by the Manager, the Manager was previously entitled to an asset management fee based on a fixed percentage of the purchase price of the hotel or a fixed percentage of hotel operating income, subject to an annual minimum fee, pursuant to an asset supervisory agreement between the Manager, the Operator and a subsidiary of the Operator. In connection with the Settlement, the asset supervisory agreement was terminated effective November 30, 2014 without termination costs, and the asset management function performed by the Manager on behalf of InnVest was internalized as of and from December 1, 2014 and no asset management fees will be payable to the Manager effective as of such date. For the year ended December 31, 2014, total asset management fees paid were \$1.4 million (2013 - \$1.8 million). This amount is included in the total amount paid under the Master Hotel Management Agreement as noted under the caption “— Master Hotel Management Agreement with the Manager”.

AUDIT AND RISK COMMITTEE

On November 4, 2014, the Board of Trustees of the REIT renamed the “Audit Committee” to the “Audit and Risk Committee”, and adopted a revised charter in connection thereto, in accordance with corporate governance best practices. The audit and risk committee of the REIT consists of Robert McFarlane (Chairman), Edward W. Boomer and Robert Wolf, each of whom is an independent trustee who is financially literate in accordance with National Instrument 52-110 – *Audit Committees* (“NI 52-110”) adopted by the Canadian Securities Administrators. The following table describes the education and experience of each audit and risk committee member that is relevant to the performance of his responsibilities as an audit and risk committee member.

| Name of Audit and Risk Committee Member | Relevant Education and Experience |
|---|--|
| Robert McFarlane | <ul style="list-style-type: none">• Former EVP and CFO of TELUS Corporation (2000-2012)• Former CFO of startup national wireless carrier Clearnet (1994-2000)• Former Director and Chair of Audit Committee of Ascalade Communications Inc. (2005-2008)• Member of the Board of Directors and Audit and Risk Committee of HSBC Bank of Canada• Deputy Chair of the Board and Chair of the Audit and Risk Committee of RSA Canada (2005-present)• Bachelor of Commerce (Honours) from Queen’s University• MBA from the Ivey Business School, Western University |

| Name of Audit and Risk Committee Member | Relevant Education and Experience |
|---|--|
| Edward W. Boomer | <ul style="list-style-type: none"> • Former President (August to November 2013) and Chief Investment Officer (March 2013 to November 2013) of Partners Real Estate Investment Trust and has over 20 years of experience in commercial real estate • Held leadership positions including as Managing Director, Canadian Operations for Kimco Realty Corp and Vice-President & Territory Risk Manager for GE Real Estate • Undergraduate degree in Economics • Member of the Law Society of Upper Canada since 1991 • Member of the Board, Audit Committee and is the Chairman of the Compensation and Corporate Governance Committee of Timbercreek Senior Mortgage Investment Corporation |
| Robert Wolf | <ul style="list-style-type: none"> • Former CFO of RioCan Real Estate Investment Trust, Canada's largest public REIT, from inception in 1994 until 2008 • Member of the Board, Chair of the Audit Committee and Vice-Chair of the Investment Committee) of Retrocom REIT • Serves as lead trustee and Chair of Audit Committee of WPT Industrial REIT • Chartered Professional Accountant designation • MBA from the Schulich School of Business, York University • Bachelor of Commerce from McGill University |

The Audit and Risk Committee charter of the REIT is attached to this Annual Information Form as Appendix B. The REIT's policies and procedures for the engagement of the external auditor for non-audit services are set forth in section 8.2 of the REIT's audit and risk committee charter.

Fees Paid to Auditors

The table below summarizes the fees paid by the REIT and its subsidiaries to Deloitte LLP during 2014 and 2013.

| | 2014 | 2013 |
|-----------------------------------|--------------------|------------------|
| Audit Fees ⁽¹⁾ | \$899,000 | \$828,000 |
| Audit-Related Fees ⁽²⁾ | 60,000 | 35,000 |
| Tax Fees | - | - |
| All Other Fees ⁽³⁾ | 47,500 | - |
| | \$1,006,500 | \$863,000 |

Notes:

- (1) Audit services related to the REIT's audited annual financial statements, quarterly reviews of the financial statements and MD&A, services related to the application of new and revised accounting standards as well as pension plan audits. In each year, fees also included services relating to the review of the public offerings including translation services.
- (2) Audit-related services comprises fees related to property-specific audits each year. In 2014, audit-related fees also included services relating to the acquisition of one hotel property during the year.
- (3) Other fees related to an enterprise risk management engagement completed in 2014.

RISK FACTORS

Investing in REIT Units involves a high degree of risk. In addition to the other information contained in this AIF, you should carefully consider the following risk factors before purchasing REIT Units. The occurrence of any of the following risks could materially and adversely affect InnVest's investments, prospects, cash flows, results of operations or financial condition and InnVest's ability to make cash distributions to Unitholders. In that event, the value of the REIT Units could decline and investors may lose all or part of their investment. Although InnVest believes that the risk factors described below are the most material risks that InnVest faces, they are not the only ones. Additional risk factors not presently known to InnVest or that InnVest currently believe are immaterial could also materially and adversely affect InnVest's investments, prospects, cash flows, results of operations or financial condition and InnVest's ability to make cash distributions to Unitholders and negatively affect the value of the REIT Units.

Real Estate Risks

Real Estate Investment Risks

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

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

In January 2013, InnVest announced an intention, as part of its Strategic Plan, to divest its low-yielding non-core hotels and selectively invest in stable markets with long-term growth potential. Under the direction of the Board of Trustees of the REIT, a review of the entire Portfolio was completed to help determine the optimal future strategy for InnVest. Additional hotels were identified as sale candidates. Although InnVest has exceeded its original divestiture objectives, there can be no assurance that InnVest will be able to dispose of remaining identified properties for the aggregate proceeds or within the timeframes contemplated, or that InnVest will generate an adequate return on investment in respect of its capital expenditures.

In addition, increases in the cost to InnVest of acquiring hotel properties may materially adversely affect the ability of InnVest to acquire such properties on favourable terms, and may otherwise have a material adverse effect on InnVest's business, cash flows, financial condition and results of operations and ability to make distributions to Unitholders.

Fixed Costs and Increased Expenses

The failure to maintain stable or increasing average room rates combined with acceptable occupancy levels would likely have a material adverse effect on InnVest's business, cash flows, financial condition and results of operations and ability to make distributions to Unitholders. Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made throughout the period of ownership of real property regardless of whether a property is producing any income. If InnVest is unable to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale. InnVest is also subject to utility and property tax risk relating to increased costs that InnVest may experience as a result of higher resource prices as well as its exposure to significant increases in property taxes. There is a risk that property taxes may be raised as a result of re-valuations of properties and their adherent tax rates. In some instances, enhancements to properties may result in significant increases in property assessments following a re-valuation. Additionally, utility expenses, mainly consisting of natural gas and electricity service charges, have been subject to considerable price fluctuations over the past several years. Any significant increase in these resource costs that InnVest cannot charge back to the guest may have a material adverse effect on InnVest's business, cash flows, financial condition and results of operations and ability to make distributions to Unitholders. The timing and amount of capital expenditures by InnVest will affect the amount of cash available for distributions to Unitholders. Distributions may be reduced, or even eliminated, at times when InnVest deems it necessary to make significant capital or other expenditures.

Borrowing Risks

InnVest is subject to the risks associated with debt financing, including the risks that cash flow from operations will be insufficient to meet required payments of principal and interest, the risk that existing debt will not be able to be refinanced or that the terms of such refinancings will not be as favourable to InnVest. In such circumstances, if InnVest was in need of capital to repay indebtedness in accordance with its terms or otherwise, it could be required to liquidate one or more investments in hotel properties at times which may not permit realization of the maximum return on such investments or could be required to agree to additional financing on unfavourable terms.

In addition, InnVest is subject to the risk that its interest expense may increase on the refinancing of existing indebtedness or on any portion of its indebtedness that bears interest at floating interest rates if interest rates increase, which could have a material adverse effect on the results of operations of InnVest and its ability to make distributions. As at December 31, 2014, 21.0% of InnVest's mortgage and subordinated term debt is at floating interest rates.

InnVest's financing arrangements contain certain covenants, including a covenant that the lender under an existing credit facility shall have the right to approve any change of the hotel manager for the relevant Hotel Properties, covenants restricting transfers of the relevant Hotel Properties, including transfers among InnVest and its affiliates, covenants restricting InnVest's ability to sell the Operator and covenants to provide cash reserves for major capital expenditures from time to time. Future financing agreements may contain similar, or more restrictive, provisions and covenants. If InnVest fails to comply with the restrictions in current or future financing arrangements, its lenders may be able to accelerate related debt as well as any other debt to which a cross default or cross acceleration provision applies. A default could also allow creditors to foreclose, sell or realize on the property securing such debt or exercise other remedies against InnVest. Credit facilities typically require repayment of funds or cash flow sweeps when certain coverage ratios are not met.

InnVest and the Operator have granted security interests over substantially all of their assets to secure indebtedness owing under mortgages and credit facilities. If InnVest is not able to meet its debt service obligations, it risks the loss of some or all of its assets to foreclosure or sale.

While management expects to address maturities in the normal course of business, there can be no assurance that InnVest will be able to complete additional mortgage financings or borrow additional funds on terms acceptable to it, or at all. If InnVest were unable to refinance maturing mortgage debt, it would be required to curtail its capital investment activities, which could have a material adverse effect on its results of operations and financial condition. Were this to occur, the amount of monthly cash distributions could be negatively affected. InnVest may not be able to achieve its lower debt leverage target.

The following table summarizes InnVest's indebtedness at December 31, 2014:

| | As at December 31, 2014 (\$ in millions) | Financial Leverage Ratio |
|---------------------------------------|--|--------------------------------|
| Indebtedness excluding the Debentures | \$801.4 | 47.4% |
| Indebtedness including the Debentures | \$1,049.0 | 62.0% |

Availability of Additional Capital

InnVest utilizes cash flow from operations and credit facilities to support operating requirements, to fund capital expenditures, to make acquisitions and to pay distributions to Unitholders. There can be no assurance that InnVest will have access to sufficient capital or access to capital on terms favourable to InnVest for future property acquisitions, financing or refinancing of properties, funding operating expenses or other purposes. In addition, InnVest may be unable to access capital or refinance existing obligations, given interest rate volatility, to satisfy cash flow obligations in a timely and cost-effective manner.

In assessing the operating performance of its hotels, InnVest deducts a 4% to 5% FF&E reserve. Whether funds are specifically set aside or not, this FF&E reserve is a source of funding to maintain the quality of the Portfolio. For the year ended December 31, 2014, InnVest invested \$76.9 million in capital expenditures within the Portfolio. This compares to InnVest's FF&E reserve of \$22.6 million for the year. Capital investments undertaken in 2014 reflect the completion of InnVest's Comfort Inn revitalization program, which included the substantial renovation of 58 Comfort Inn hotels over the last two years. Other significant projects underway in 2014 included guest room upgrades at the Delta Prince Edward, the Delta Winnipeg, the Fairmont Palliser in Calgary, and the Sheraton Suites Calgary Eau Claire. Investments also included the repositioning of one previously unbranded hotel to a Holiday Inn.

Where the cost of capital improvements exceeds the FF&E reserve, or the cost of certain capital improvements reduces the reserve to significantly lower levels, InnVest will be required to fund these activities principally by issuing additional equity or incurring additional indebtedness. Access to capital markets for additional equity financings and the availability of additional borrowing will depend on prevailing market conditions and the acceptability of the terms offered. The Declaration of Trust prohibits the REIT from incurring or assuming any indebtedness if it would result in the Financial Leverage Ratio exceeding 60% (75% including convertible debentures).

In 2014, InnVest raised over \$110.0 million of equity in the public market, finalized new financings of \$228.0 million and completed the sale of 19 hotel properties for aggregate gross proceeds of \$126.4 million.

There can be no assurance that InnVest will be able to complete additional equity financings or borrow additional funds on terms acceptable to it, or at all. If InnVest were unable to secure additional funding for acquisitions or capital improvements, it would be required to curtail these activities, which could have a material adverse effect on its results of operations and financial condition. Were this to occur, the amount of monthly cash distributions could be negatively affected.

Joint Ventures and other Arrangements

InnVest participates in a partnership in respect of its 20% ownership interest in the Royal York Hotel and participates in a joint venture in respect of its 50% ownership interest in Choice Canada. Such investments involve risks not present were third parties not involved, including the possibility that the REIT's partners might fail to fund their share of required capital contributions.

Additionally, the REIT's partners might at any time have economic or other business interests or goals which are inconsistent with the REIT's business interests or goals. The REIT does not have sole control of certain major decisions relating to the Royal York Hotel and Choice Canada, including decisions relating to: annual budgets; the sale of the property/business; refinancings; and capital improvements.

In some instances, the joint venture or partnership retains joint approval rights over various material matters such as the budget for the property/business. In addition, the sale or transfer of interests in the joint venture or partnership may be subject to rights of first refusal or first offer or provide for buy-sell or similar arrangements. Such rights may be triggered at a time when InnVest may not want to sell but may be forced to do so because it may not have the financial resources at that time to purchase the other party's interest. Such rights may also inhibit the REIT's ability to sell the REIT's interest in the joint venture or partnership within the REIT's desired time frame or on any other desired basis.

Acquisition Risks

InnVest's business plan includes growth through acquisition of additional hotel properties. There can be no assurance that additional hotel properties will be available to InnVest at prices that will be accretive to InnVest. In addition, competition for assets may result in higher costs to InnVest for such acquisitions. If InnVest is unable to manage its growth effectively, its business, financial condition, operating results and cash available for AFFO could be adversely affected.

In addition to making investments in existing properties and seeking operational efficiencies in the operation of the Portfolio, InnVest may seek to increase cash flow and enhance REIT Unit value by acquiring additional hotel properties that meet its investment criteria and by applying its operating strategy to improve the financial performance of the subsequently acquired hotels. Acquisitions entail risks that investments will fail to perform in accordance with expectations and that judgments with respect to the costs of improvements to bring an acquired property up to appropriate standards will prove inaccurate, as well as general investment risks associated with any new real estate investment. In addition, deposits to vendors related to contemplated acquisitions by InnVest may not be refunded should InnVest fail to complete such purchases. Representations and warranties given by the vendors of hotel properties to the REIT may not adequately inform or protect the REIT against these risks, and any recourse against third parties may be limited. There can be no assurance as to the pace of growth through property acquisitions or that InnVest will be able to acquire assets on an accretive basis.

Integration of Additional Hotel Properties

InnVest intends to acquire additional hotel properties in the future. InnVest cannot assure Unitholders that it will be able to successfully integrate these additional properties into its existing portfolio without operating disruptions or unanticipated costs. As InnVest acquires additional properties, InnVest will be subject to risks associated with managing new properties, including potential mortgage default. In addition, acquisitions may cause disruptions in InnVest's operations and divert management's attention away from day to day operations. Furthermore, InnVest's profitability may suffer because of acquisition related costs or amortization and depreciations costs for acquired assets. InnVest's failure to successfully integrate any future properties into its portfolio could have an adverse effect on InnVest's operating costs and its ability to generate stable positive cash flow from its operations.

Internalization of Asset Management Functions

In connection with the Settlement, the asset supervisory agreement was terminated effective November 30, 2014, and the asset management function performed by the Manager on behalf of InnVest was internalized as of and from December 1, 2014. While InnVest expects that the internalization of the asset management function previously performed by the Manager will benefit the REIT through enhanced business oversight and alignment of interests, this cannot be assured.

Capital Expenditures

The timing and amount of capital expenditures by InnVest directly affect the amount of cash available for AFFO. Furthermore, failure to invest in the Hotel Properties, or possible variances in planned amount and timing on capital expenditures may result in temporary and/or permanent loss or shift in business and earnings at the Hotel Properties.

The REIT's distributions may be dependent upon the ability of the REIT to fund a portion of its capital expenditures and working capital with cash generated from operations. There can be no assurance that sufficient capital will be available on acceptable terms to the REIT for necessary or desirable capital expenditures or that the amount required will be the same as currently estimated. The REIT may be required to reduce, or even eliminate, distributions or sell additional REIT Units in order to accommodate capital investments. While InnVest expects to develop and execute the appropriate capital expenditure plans that balance the needs of the Hotel Properties, guests and Unitholders, this cannot be assured.

Lodging Industry Risks

Hotel Industry Risks

The REIT directly or indirectly owns and (through the Operator) operates hotels. As a result, InnVest is subject to the operating risks inherent in the Canadian hotel industry. These risks include:

- cyclical downturns arising from changes in general and regional economic conditions (including dependence on manufacturing, oil or other resource markets);
- changes in the level of business and commercial travel and tourism;
- increases in the supply of accommodations in local markets which may adversely affect the results of operations;
- competition from other hotels and its potential impact on pricing pressure;
- the recurring need for renovation, refurbishment and improvement of hotel properties;
- changes in wages, prices, energy costs and construction and maintenance costs that may result from inflation, government regulations, changes in interest rates or currency fluctuations;
- seasonal fluctuations in hotel operating income produced throughout the year;
- availability of financing for operating or capital requirements;
- increases in operating costs due to inflation which may not necessarily be offset by increased room rates;
- increases in expenses of travel, particularly automotive travel (which results in reduced overall travel and hotel stays); and
- other factors, including changes in cross-border movement of Americans to Canada, medical concerns related to travelling to Canada, acts of terrorism, natural disasters, extreme weather conditions and labour shortages, work stoppages or disputes.

In addition to the foregoing, there are economic trends and factors that may be beyond InnVest's control which affect its operations and business. Such trends and factors include adverse changes in the conditions in the hotel industry, including those described above, and the conditions in the domestic or global economy generally. Such trends and factors could result in geographical disparities among regions. Although InnVest's performance is affected by the general condition of the economy, not all of its service areas are affected equally. It is not possible for management to accurately predict economic fluctuations and the impact of such fluctuations on InnVest's performance.

Competition

The Canadian hotel industry is highly competitive. Each of the hotels in the Portfolio is located in an area that includes other hotels owned or operated by third parties. InnVest competes locally and regionally with existing hotels and will compete with hotels that may be developed in the future. In addition, new types of entrants in the hospitality market, such as Airbnb, may provide alternative accommodation sources to current customers. Some of the competitors of hotels in the Portfolio may have substantially greater marketing and financial resources than InnVest and, amongst other things, may be better able to improve service and product quality. The number of competitive hotel properties in a particular area could have a material adverse effect on the occupancy rates and ADR of the hotels in the Portfolio.

The Westmont Group continues to own hotels and may, in certain circumstances, acquire additional hotels, including hotels that compete with InnVest properties.

Guest Demands and Satisfaction

The performance of the REIT is partly dependent on the Hotel Business' respective ability to attract guests and ability to understand and respond to changing guest demands and needs. InnVest works closely with the brands associated with the Portfolio to support aggressive sales and marketing initiatives. The association of InnVest's Portfolio with negative publicity could damage InnVest's reputation, adversely affect InnVest's ability to attract guests, and divert management's attention from day-to-day operations. Significant harm to the REIT's reputation can also arise from other sources, including online hotel reviews and social media sources, employee misconduct, unethical behavior, environmental matters, litigation or regulatory outcomes, failing to deliver minimum or required standards of service and quality, compliance failures, unintended disclosure of confidential information and the activities of InnVest's guests and counterparties, including the Operator and Manager. While InnVest expects that it will be able to effectively understand and respond to changing guest demands and needs, this cannot be assured.

Franchised Hotels

With the exception of one independent hotel, each of the hotels in the Portfolio (including the hotels branded under Choice Canada flags) is subject to a franchise agreement, and any hotels InnVest invests in after the date of this Annual Information Form may also be operated under franchise agreements. The continuation of the franchises is subject to specified operating standards and other terms and conditions. Such standards are often subject to change over time, in some cases at the discretion of the franchisor, and may restrict a franchisee's ability to make improvements or modifications to a hotel property without the consent of the franchisor. Franchisors typically periodically inspect licensed properties to confirm adherence to operating standards. The failure of a hotel in the Portfolio to conform to such standards or the failure of InnVest or the Operator to maintain such standards or adhere to such other terms and conditions could result in the loss or cancellation of the franchise agreement and potential liquidated damages. In a large portfolio, it is typical that, each year, several hotels will fail to pass such inspections. From time to time, hotels in the Portfolio have not passed an inspection but have subsequently passed inspections upon correction of noted deficiencies. It is possible that a franchisor could condition the continuation of a franchise agreement on the completion of capital improvements which the Trustees determine are too expensive or otherwise unwarranted in light of general economic conditions or the operating results or prospects of the affected hotel. In that event, the Trustees may elect to allow the franchise agreement to lapse. If a franchise were terminated, InnVest would generally seek to obtain a suitable replacement franchise. However, there can be no assurance that InnVest would be able to

obtain a suitable replacement franchise on acceptable terms, or at all. The loss of a franchise agreement could have a material adverse effect upon the operations or the underlying value of the hotel covered by the franchise because of the loss of associated name recognition, marketing support and centralized reservation systems provided by the franchisor.

Sixty-eight of the hotels in the Portfolio (representing over 35% of total rooms) are operated under Choice Canada franchises. Despite the Operator's 50% indirect ownership of Choice Canada, under Choice Canada's master franchise agreement with Choice International, the Choice branded hotels in the Portfolio are required to operate to standards determined by Choice Canada, and representatives of Choice Canada must approve any hotel to be re-flagged under a Choice flag. InnVest is subject to risks related to the concentration in the Portfolio of hotels operating under the Choice flags, including the risk of a reduction in hotel revenue following any adverse publicity related to the Choice flags, which could have a material adverse effect on InnVest's results of operations and financial condition.

Reliance on Franchisees by Choice Canada

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

Dependence on and Relationship with the Manager

InnVest amended and restated the Master Hotel Management Agreement with the Manager on April 21, 2014. The Manager provides hotel management services to the Operator and its subsidiary partnerships. InnVest is dependent on the Manager with respect to the management and the operation of most of the hotels in the Portfolio. Any failure to effectively manage InnVest's operations or to implement InnVest's strategy could have a material adverse effect on the REIT's operating results. Under the Master Hotel Management Agreement, the Westmont Group may sell the Manager or sell or assign the Master Hotel Management Agreement subject, in each case, to the approval of not less than 66 2/3% of the Independent Trustees, which shall not be unreasonably withheld if the person acquiring the agreement or control of the Manager is a hotel management company having comparable experience and operating and service standards equal to or better than those of the Manager and if all necessary third party consents and other approvals have been obtained without adverse consequence to InnVest. There is no assurance that the strategic relationships between InnVest and the Manager will be maintained in the future. There can be no assurance that if the Manager were to terminate the Master Hotel Management Agreement a suitable replacement would be found.

Dependence on and Relationship with Hotel Managers Generally

The financial performance of InnVest will also depend in part on the performance of Fairmont, Hilton, Delta, Westmont and Hyatt, as hotel managers, with whom InnVest has hotel management agreements with respect to the management of certain Hotel Properties of InnVest. InnVest depends on the hotel managers for all aspects of the day-to-day management of certain Hotel Properties. There is no assurance that the relationships between InnVest and Fairmont, Hilton, Delta, Westmont and Hyatt, as hotel managers, will be maintained in the future. There can be no assurance that a suitable replacement would be found in a timely manner, or at all, if any of the hotel managers ceased providing its services to InnVest.

Potential Labour Disruptions

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

Technological Innovation

The ability to leverage technological innovation allows the REIT to improve operating efficiencies to maximize earnings. The business depends on information technology systems for day-to-day operations, including for each hotels' reservation systems. An inability to operate the REIT's systems or make enhancements to accommodate customer expectations, or a failure to leverage technological innovation to achieve or sustain financial and operational efficiency, competitive advantage, and deliver better quality services to guests could have the potential to have a material adverse effect on the REIT's business, financial condition, results of operations and cash flow.

Unit Ownership Risks

Availability of Cash Flow

Distributions accruing to Unitholders may exceed actual cash available to InnVest from time to time because of items such as principal repayments, capital expenditures, seasonal fluctuations in operating results and redemption of REIT Units, if any. InnVest may be required to borrow funds or reduce distributions in order to accommodate such items. InnVest anticipates temporarily funding such items, if necessary, through its operating and bridge loan facilities, to the extent that they are available.

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

Cash distributions are not guaranteed and may fluctuate with InnVest's performance. InnVest depends on cash flows generated from the Portfolio to make such distributions. There can be no assurance regarding the amount of cash flows generated by the Portfolio. The amount of AFFO will depend upon numerous factors, including the profitability of the Portfolio, fluctuations in working capital, interest rates, capital expenditures, InnVest's status as a Qualifying REIT for Canadian income tax purposes and other factors which may be beyond InnVest's control. If the Trustees determine that it would be in the best interests of the REIT, they may reduce for any period the percentage of AFFO to be distributed to the Unitholders.

In order to ensure that the REIT Units are accounted for as equity under IFRS, the REIT is not obligated by the Declaration of Trust to distribute a minimum percentage of AFFO to Unitholders. While it is the REIT's intention to do so, if the REIT does not distribute in a year an amount at least equal to its net income for income tax purposes, it generally will be subject to tax on the deficiency at the top individual marginal rate.

Unpredictability and Volatility of Unit Price

The REIT Units will not necessarily trade at values determined by reference to the underlying value of InnVest's business. The prices at which the REIT Units will trade cannot be predicted. The market price of the REIT Units could be subject to significant fluctuations in response to variations in quarterly operating results and

other factors. The annual yield on the REIT Units as compared to the annual yield on other financial instruments may also influence the price of REIT Units in the public trading markets.

The global securities market, including the Canadian real estate investment trust market, experienced significant declines during 2008 and early 2009. The REIT Units also experienced significant declines in July 2011 following the announcement of changes to Canadian federal income tax legislation affecting issuers of stapled securities. The securities market may experience further volatility, which may adversely affect the market price of the REIT Units. These declines can be unrelated or disproportionate to the operating performance, underlying asset values or prospects of particular issuers.

Future Sales of Securities

As at March 13, 2015, 122,186,740 REIT Units were outstanding (148,350,099 REIT Units after giving effect to the conversion of all convertible debentures, the vesting of all unvested restricted unit awards granted to the REIT's executive officers and the award of restricted units issued to Trustees). According to public filings, KingSett Capital exercises direction or control over approximately 15.8% of the REIT Units, Beutel Goodman & Company Ltd. exercises direction or control over approximately 12.7% and Orange Capital holds approximately 9.9% of the REIT Units. In addition, the Westmont Group owns 7.6% of the REIT Units. All of the currently outstanding REIT Units are eligible for sale in the public market, subject to any applicable restrictions under securities laws. The Westmont Group, or other large Unitholders, may at any time sell any or all of the REIT Units or other securities of the REIT that they own.

An unlimited number of REIT Units may be issued pursuant to the Declaration of Trust. Subject to the rules of any applicable stock exchange on which the Units are listed and applicable securities laws, InnVest may issue additional REIT Units from time to time for the consideration and on such terms and conditions as are established by the Trustees without any approval of the Unitholders, and the interests of the Unitholders may be diluted thereby. Unitholders have no pre-emptive rights in connection with such further issuances. Sales of a substantial number of REIT Units or other securities of the REIT in the public market could adversely affect the prevailing market price of the REIT Units or other securities of the REIT and could impair InnVest's ability to raise additional capital through an offering of equity securities. If KingSett Capital, Beutel Goodman & Company Ltd., Orange Capital, the Westmont Group or other significant holders of REIT Units sell a large number of REIT Units over a short period of time, or if investors anticipate large sales of trust units over a short period of time, this could materially affect the trading price of InnVest's REIT Units.

Ownership Concentration

As of March 13, 2015, the REIT's executive officers, trustees and holders of ten per cent or more REIT units, beneficially own, directly or indirectly, over 47% of the REIT Units outstanding. As a result, these Unitholders, if acting together, could have significant influence over matters requiring the approval of the Unitholders of the REIT, including the election of the REIT's Board of Trustees and significant transactions. The interests of these unitholders may be different than the interests of other unitholders in respect of these matters. This concentration of ownership may have the effect of delaying or preventing a change in control of the REIT, or discouraging a potential acquirer from attempting to obtain control of the REIT, which in turn could reduce the market price per unit of the REIT Units.

Deterrents to Acquisition of the REIT

In addition to the concentration of ownership of the REIT in a small number of investors, other structural factors may, in effect, act as a deterrent to an acquisition of the REIT. Holders of Debentures may redeem such Debentures at a redemption price of 101% in the event of a change of control of the REIT. Further, the Manager has a right to terminate the Master Hotel Management Agreement in the event of a change of control to a person of ill-repute or a competitor of the Manager, in respect of all, and not less than all, of the hotels managed by the Manager on six months' prior written notice to the Operator and to receive accrued management fees and reimbursable expenses through the effective date of termination. Pursuant to the Declaration of Trust, the

Manager and Westmont are currently each entitled to appoint one Trustee. Additionally, the REIT's insiders' significant effective interest in the REIT may discourage transactions involving a change of control of the REIT, including transactions in which an investor, as a holder of the REIT Units, might otherwise receive a premium for its REIT Units over the then-current market price. In addition, the REIT has implemented a unitholder rights plan (see "Description of REIT Units and Declaration of Trust – Unitholder Rights Plan").

Restrictions on Certain Unitholders and Liquidity of Units

The Declaration of Trust imposes restrictions on non-resident Unitholders, who are prohibited from beneficially owning more than 49% of the REIT Units. This restriction may limit the rights of certain Unitholders, including non-residents of Canada, to acquire REIT Units, to exercise their rights as Unitholders and to initiate and complete take-over bids in respect of REIT Units. In addition, the REIT has implemented a unitholder rights plan (see "Description of REIT Units and Declaration of Trust – Unitholder Rights Plan"). The unitholder rights plan restrictions may deter certain Unitholders from acquiring additional REIT Units in excess of 20% of the outstanding REIT Units. As a result, these restrictions may limit the demand for REIT Units from certain Unitholders and thereby adversely affect the liquidity and market value of the REIT Units held by the public.

Nature of Units

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

Structural Subordination of Units

In the event of a bankruptcy, liquidation or reorganization of the REIT or any of its subsidiaries, holders of certain of their indebtedness and certain trade creditors will generally be entitled to payment of their claims from the assets of the REIT or the applicable subsidiaries before any assets are made available for distribution to the Unitholders. The REIT Units will be effectively subordinated to most of the indebtedness and other liabilities of the REIT and its subsidiaries, valued at approximately \$1.0 billion as at December 31, 2014.

Redemption Right

It is anticipated that the redemption right attached to REIT Units will not be the primary mechanism for Unitholders to liquidate their investments. Cash redemptions are subject to limitations as described under "Description of REIT Units and Declaration of Trust – Redemption Right". Notes which may be distributed *in specie* to Unitholders in connection with a redemption will not be listed on any stock exchange. No established market is expected to develop in such notes and they may be subject to resale restrictions under applicable securities laws.

Possibility of Unitholder Liability

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

On December 16, 2004, the *Trust Beneficiaries' Liability Act, 2004* (Ontario) came into effect. This statute protects annuitants and Unitholders of the REIT, in their capacity as beneficiaries, from liability for any act, default, obligation or liability of the REIT or any of the Trustees arising on or after December 16, 2004. However, because of uncertainties in the law relating to investment trusts prior to December 16, 2004 and given

that this statute has not yet been judicially considered, there is a risk (which is considered by counsel to be remote in the circumstances) that a Unitholder or annuitant could be held personally liable for obligations of the REIT (to the extent that claims are not satisfied by the REIT) in respect of breaches of contracts that the REIT entered into, and for certain liabilities arising other than out of contract including claims in tort, claims for taxes, and possibly certain other statutory liabilities that arose, prior to December 16, 2004. The Trustees have caused the REIT's operations to be conducted in such a way as to minimize any such risk, including by obtaining appropriate insurance and, where feasible, attempting to have every material written contract or commitment of the REIT contain an express disavowal of liability against the Unitholders (which in the opinion of the REIT's counsel will be effective). However, in conducting its affairs, the REIT has acquired real property investments, which may be subject to existing contractual obligations, including under leases. Where possible, the REIT has used reasonable efforts to have any of these obligations modified so as not to be binding on any of the Unitholders or annuitants personally.

Tax Related Risks

Potentially Ceasing to be a Qualifying REIT

The REIT would be subject to Canadian income tax on a similar basis to a Canadian public corporation on its income for a year unless it qualified in that year as a Qualifying REIT for purposes of the Tax Act. The conditions for qualifying as a Qualifying REIT are onerous, and include various numerical tests (including tests entailing valuations or measurement of various asset and revenue streams), which must be satisfied throughout, or for the whole of, the year in question. Therefore, financial results for a year, or developments occurring during the year, that were not anticipated earlier in the year, or challenges by the Canada Revenue Agency (the "CRA") to valuations made by or on behalf of management of InnVest, or to other calculations, that are relevant to being a Qualifying REIT, could result in the REIT not so qualifying for the year. The CRA also could seek to treat rents received by the REIT, or subsidiary limited partnerships of the REIT, from the Operator or subsidiary limited partnerships of the Operator, as payments for the occupation or use of hotel rooms rather than accepting that they qualify as "rent from real or immovable properties". If its asset values and revenues were similar in 2015 (and subsequent years) to what they were in 2014, InnVest anticipates after consultation with legal counsel that it would be a Qualifying REIT for 2015 (and subsequent years).

Furthermore, qualifying as a Qualifying REIT also depends on there being no adverse amendments to the Tax Act. Accordingly, there is a risk that the REIT will not qualify as a Qualifying REIT for one or more of its 2015 or subsequent taxation years (and qualification for 2013 and 2014 also could be challenged). Were this to occur, the amount of monthly cash distributions on the REIT Units (and therefore the aggregate distributions on the REIT Units) would be negatively affected.

Mutual Fund Trust Status of the REIT

Management of InnVest believes that the REIT qualifies as a "mutual fund trust" for purposes of the Tax Act. However, if it was determined that the REIT did not qualify as a mutual fund trust for purposes of the Tax Act, there likely would be material adverse consequences to the REIT and the Unitholders, including the REIT becoming subject to a 36% tax under Part XII.2 of the Tax Act on all or substantially all of its income in any taxation year in which it was determined not to have qualified as a mutual fund trust. As the REIT does not intend to file its trust returns on the basis that it is subject to Part XII.2 tax, there may be no ability of any Unitholders to receive a refund of all or any portion of their pro rata share of any subsequent assessment by the CRA of the REIT for Part XII.2 tax for such taxation year.

General Risk Factors

Potential Conflicts of Interest

The REIT was established to purchase, directly and indirectly, the original portfolio of 114 hotel properties, 76 of which are still owned at December 31, 2014. The Independent Trustees did not receive

independent advice pertaining to the agreements that were entered into by the REIT, the Manager and the REIT's promoters in connection with the purchase of the original portfolio and the REIT's initial public offering.

In addition, InnVest may be subject to various conflicts of interest because of the fact that the Manager and its respective directors, officers and associates, as well as the Trustees, are engaged in a wide range of business activities, including hotel management, acquisition and ownership. Additionally, certain Trustees and officers of the REIT are officers and directors of entities that manage and can provide capital to the REIT, which could give rise to conflicts of interest. InnVest may become involved in transactions which conflict with the interests of the foregoing. The Trustees and officers of the REIT and associates or affiliates of the Manager may from time to time deal with persons, firms, institutions or corporations with which InnVest may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of InnVest. In addition, from time to time, these persons may be competing with InnVest for available investment opportunities. The Declaration of Trust contains provisions to address these potential conflicts of interest. See "Management Structure – Conflict of Interest Restrictions and Provisions" and "Management Structure – Independent Trustee Matters".

Lender Concentration

At December 31, 2014, InnVest has outstanding indebtedness with a variety of lenders including Canadian banks, institutional lenders, life insurance companies, credit unions and commercial mortgage backed securities lenders. At December 31, 2014, almost 65% of InnVest's outstanding indebtedness (excluding convertible debentures) is with one lender. There is a limited pool of lenders able to finance debt of significant size in the Canadian market, particularly for borrowers in the hospitality industry. InnVest is subject to the risk that its lenders, particularly its largest lender, may tighten borrowing conditions and be unable to renew financing on terms acceptable to InnVest, or at all. If InnVest's currently outstanding debt is refinanced on less favourable terms or cannot be refinanced on terms acceptable to InnVest this may negatively impact its AFFO.

Litigation Risks

In the normal course of InnVest's operations, whether directly or indirectly, it may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to personal injuries, property damage, property taxes, land rights, the environment and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined in a manner adverse to InnVest and as a result, could have a material adverse effect on InnVest's assets, liabilities, business, financial condition and results of operations. Even if InnVest prevails in any such legal proceeding, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from InnVest's business operations, which could have a material adverse effect on InnVest's business, cash flows, financial condition and results of operations and ability to make distributions to Unitholders.

Legislative and Regulatory Compliance

There are many laws and governmental rules and regulations that apply to InnVest, including, among others, financial reporting requirements, securities, ethics and privacy laws and regulations. Changes in these laws, rules and regulations, or their interpretation by agencies or the courts, could occur. Non-compliance with applicable laws or rules or regulations, or InnVest's inability to keep up with, or adapt to, an ever changing, complex regulatory environment, could result in civil liability, criminal liability and/or sanctions against the REIT, including fines, injunctive relief, suspension or expulsion from a particular jurisdiction or market or the revocation of licenses, any of which could adversely affect InnVest's financial condition and results of operations.

Environmental Risks

Under various environmental laws and regulations, a current or previous owner or operator of real property may be liable for the costs of remediation of contamination or hazardous or toxic substances on, under

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

Phase I environmental site assessments and, where appropriate, Phase II environmental site assessments were typically completed in respect of each of the Hotel Properties, and may also be completed in connection with financing opportunities. Based on the results of these assessments, InnVest believes that the Hotel Properties are operated in substantial compliance with all material environmental laws and regulations and that the current estimated cost of remediation or capital expenditures with respect to actual or potential environmental conditions will not have a material adverse effect on InnVest's results of operations, business, prospects and financial condition. There can be no assurance that such assessments have identified all material environmental contamination or hazardous or toxic substances or violations of environmental laws or regulations. Further, the costs involved for remediation of the contaminated property can be difficult to estimate and could exceed current estimated amounts.

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

Uninsured and Underinsured Losses

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

Fraud, Illegal Acts, or Inadequate or Failed Internal Processes or Systems

The REIT may suffer a significant loss resulting from fraud, other illegal acts or inadequate or failed internal processes or systems. InnVest operates in different markets and relies on its employees to follow its policies and processes as well as applicable laws in their activities. Risk of illegal acts or failed systems is managed through InnVest's infrastructure, controls (including internal audits), systems, policies and people. Failure to manage these risks can result in direct or indirect financial loss, reputational impact, regulatory censure or failure in the management of other risks such as credit or market risk.

Reliance on Management Personnel

InnVest's management team has a significant role in its success. A lack of human capital strategy to address retention, development of talent and training may impede the REIT's ability to retain personnel or to attract suitable replacements should any members of the management group leave. The loss of services from members of the management group or a limitation in their availability could adversely affect InnVest's operations, reputation, and its financial condition. The departure of a significant number of InnVest's professionals for any reason, or the failure to appoint qualified or effective successors in the event of such departures, could have a material adverse effect on InnVest's ability to achieve its objectives.

Disclosure Controls and Procedures or Internal Control Over Financial Reporting

InnVest's business could be adversely impacted if there are deficiencies in its disclosure controls and procedures or internal control over financial reporting. The design and effectiveness of InnVest's disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. While management continues to review the effectiveness of InnVest's disclosure controls and procedures and internal control over financial reporting, InnVest cannot assure investors that its disclosure controls and procedures and internal control over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, particularly material weaknesses, in internal control over financial reporting which may occur in the future could result in misstatements of InnVest's results of operations, restatements of InnVest's financial statements, a decline in InnVest's Unit price or otherwise materially adversely affect the business of InnVest, its reputation, its results of operations or its financial condition or liquidity.

Consumer Privacy and Data Use and Security

InnVest and its customers are subject to regulations related to privacy and data use and security. Failure to adequately restrict logical or physical access to information (data or programs) could result in the unauthorized knowledge and use of confidential information by others. Information security is essential to maintaining efficient, reliable business processes and to enabling sustained business growth. Technology advancements and the people using these technologies introduce new information security risks. Cyber threats are maturing with time and their sophistication and effectiveness are increasing. Such threats can result from deliberate attacks or unintentional events. These threats can include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data or causing operational disruption.

InnVest uses standard industry practices for network and information technology security, survivability and disaster recovery. InnVest's ongoing success partly depends on protecting the REIT's corporate business-sensitive data, including personal information about the REIT's customers and employees. InnVest treats this information as intellectual property and protects it from unauthorized access and compromise. InnVest relies on its policies and procedures and information technology systems to protect this information.

The result of cyber threats could include, but are not limited to, disrupted operations, misstated financial data, liability for stolen assets or information, increased cyber-security protection costs, and litigation and reputational damage adversely affecting the business and results of operations. InnVest also relies on annual investments in new capabilities, education, continuous improvement and policies established by the REIT's managers and franchise brands to maintain and improve InnVest's security posture. If InnVest fails to secure its data and the privacy of its customer information, the REIT may not be in compliance with regulatory standards and it could result in negative publicity, litigation and damage to the REIT's reputation. Any of these outcomes can cause InnVest to lose customers or public confidence, or experience financial losses.

In mid-2010, new standards relating to credit card payment security were implemented. The Payment Card Industry Data Security Standard ("PCI DSS") is a multifaceted security standard that includes requirements for security management, policies, procedures, network architecture, software design and other critical protective measures. This comprehensive standard is intended to help organizations proactively protect customer payment card account data. All entities that transmit, process or store payment card data must be compliant with PCI DSS.

Regulation of privacy, data use and security may materially increase InnVest's and its customers' costs. Failure to comply with the privacy and data use and security laws, regulations and/or standards, specifically PCI DSS, could result in financial penalties to InnVest as well as the risk of losing its ability to process credit card payments at hotels.

LEGAL PROCEEDINGS

InnVest has not been involved in any legal proceedings since the beginning of its 2014 fiscal year that could have a material effect on InnVest.

INTEREST OF EXPERTS

Deloitte LLP has prepared an auditor's report on the annual financial statements of the REIT for the years ended December 31, 2014 and December 31, 2013. Deloitte LLP has advised that they are independent with respect to the REIT within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

ADDITIONAL INFORMATION

Additional information relating to the REIT may be found on SEDAR at www.sedar.com. Additional information, including trustees' and officers' remuneration and indebtedness, principal holders of the REIT's securities and securities authorized for issuance under equity compensation plans, if applicable, is contained in the REIT's information circular for its most recent annual meeting of Unitholders that involves the election of Trustees.

Additional financial information is provided in the REIT's financial statements and MD&A for its most recently completed financial year which are also available at www.sedar.com and on the REIT's website, www.investreit.com.

APPENDIX A

GLOSSARY OF TERMS

The following terms used in this Annual Information Form have the meanings set out below.

“**Additional Hotels**” means any hotels acquired directly or indirectly by the REIT.

“**Adjusted funds from operations**” or “**AFFO**” means adjusted funds from operations (formerly referred to as distributable income) which is used by InnVest as a measure of normalized cash flow in order to assess its ability to fund distributions for current or potential investors. InnVest calculates adjusted funds from operations based on FFO adjusted for (i) non-cash deferred financing charges; (ii) the reserve for replacement of furniture, fixtures and equipment and capital improvements; and (iii) any other adjustment determined by the Trustees in their discretion.

“**Adjusted Unitholders’ Equity**” has the meaning ascribed thereto under the Declaration of Trust.

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

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

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

“**bcIMC**” means British Columbia Investment Management Corporation.

“**Board of Trustees**” means the board of trustees of the REIT.

“**CBCA**” means the *Canada Business Corporations Act*.

“**CDS**” means CDS Clearing and Depository Services, Inc.

“**Choice Canada**” means Choice Hotels Canada Inc.

“**Choice International**” means Choice Hotels International, Inc.

“**Computershare**” means Computershare Trust Company of Canada.

“**Concurrent Private Placement**” means the private placement of an aggregate of approximately \$47 million in REIT Units to certain of InnVest’s largest Unitholders, trustees and officers, concurrent to the Public Offering which closed on November 26, 2014.

“**CRA**” means Canada Revenue Agency.

“**Debentures**” means debentures of the REIT.

“**Declaration of Trust**” has the meaning ascribed in this AIF in the section entitled: “InnVest Real Estate Investment Trust”.

“**Deloitte LLP**” means Deloitte LLP, the external auditors of the REIT.

“**Delta**” means Delta Hotels Limited.

“**DRIP**” means the REIT’s distribution reinvestment plan.

“Exempt Plans” means trusts governed by registered retirement savings plans, registered retirement income plans, registered disability savings plans, deferred profit sharing plans, registered education savings plans and tax-free savings accounts, each as defined in the Tax Act.

“Existing Management Agreements” means the hotel management agreements existing at the time of the REIT’s initial public offering between a subsidiary of the Operator and certain subsidiaries of the REIT in respect of the day-to-day management of the Hotel Businesses at certain of the Hotel Properties, certain of which management responsibilities were delegated to the Manager pursuant to the Master Hotel Management Agreement.

“Fairmont” means Fairmont Hotels Inc.

“FF&E reserve” means InnVest’s reserve of between 4% and 5% of revenues at each hotel for replacement of its furniture, fixture and equipment and capital improvements.

“Financial Leverage Ratio” means, at any time, the ratio of total consolidated indebtedness of the REIT as of such time and calculated in accordance with IFRS, but excluding indebtedness under any operating line, non-interest bearing indebtedness, trade accounts payable and, for greater certainty, deferred income tax liability to Gross Book Value as of such time.

“Funds from operations” or “FFO” is a common measure of performance in the real estate investment trust industry. InnVest calculates funds from operations by using net income and adjusting for: (i) depreciation, amortization and accretion, excluding amortization of deferred financing costs; (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 expenses 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.

“Gross Book Value” means, at any time, the aggregate book value of the assets of the REIT and its consolidated subsidiaries as of such time, plus the amount of accumulated depreciation and amortization on such assets as of such time, less the amount of deferred income tax liability arising out of the acquisition of the assets directly and indirectly acquired by the REIT as of such time.

“Hilton” means Hilton Worldwide.

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

“Hotel Properties” means, collectively, the real property, buildings, fixtures (including attached equipment) and leasehold interests, if any, in the 110 hotel properties (excluding the Hotel Businesses) in the Portfolio and, where the context requires, includes any additional hotel properties acquired by InnVest.

“Hyatt Affiliate” means an affiliate of Hyatt Hotels Corporation.

“Hyatt Regency” means the Hyatt Regency Vancouver.

“IFRS” International Financial Reporting Standards applicable to reporting issuers in Canada.

“Independent Trustee” means a Trustee who is “unrelated” within the meanings of Sections 1.4 and 1.5 of National Instrument 52-110 – *Audit Committees* adopted by the Canadian Securities Administrators. A person serving as a nominee of the Westmont Group pursuant to a right to appoint such person under the Declaration of Trust is deemed not to be an Independent Trustee.

“InnVest” means InnVest Real Estate Investment Trust.

“IOT” means InnVest Operations Trust.

“IOT Non-Voting Units” means the non-voting trust units of InnVest Operations Trust originally distributed under a December 31, 2010 reorganization which took place to qualify the REIT as a “real estate investment trust” for Canadian income tax purposes.

“joint venture entity” has the meaning ascribed in this AIF in the section entitled: “Investment Guidelines and Operating Policies – Investment Guidelines”.

“joint venturers” has the meaning ascribed in this AIF in the section entitled: “Investment Guidelines and Operating Policies – Investment Guidelines”.

“KingSett” means KingSett Capital.

“KingSett LP No. 5” means KingSett Real Estate Growth LP No. 5, a fund managed by KingSett.

“Liquidity Facility” means the REIT’s option to draw a \$50 million subordinated non-revolving stand-by liquidity facility under a credit agreement with KingSett LP No. 5, which was canceled upon mutual agreement of InnVest and KingSett LP No. 5 in December 2014.

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

“Maple Leaf” means Maple Leaf Investment Holdings, L.P., an affiliate of the Manager.

“Master Hotel Management Agreement” means the third amended and restated master hotel management agreement dated as of April 21, 2014 between the Operator, the Manager and others and includes, except where the context otherwise indicates, management responsibilities under the Existing Management Agreements delegated to the Manager and any other hotel management agreements executed from time to time between InnVest or its subsidiaries and the Manager with respect to certain individual hotels in the Portfolio.

“Non-Resident Beneficiaries” means non-residents of Canada (within the meaning of the Tax Act) or partnerships for whom REIT Units are held.

“Operator” means InnVest Hotels LP, a limited partnership established under the laws of the Province of Manitoba, and includes, unless otherwise indicated or the context otherwise requires, wholly owned subsidiary partnerships of the Operator.

“Orange Capital” means Orange Capital, LLC.

“Original Rights Plan” means the unitholder rights plan implemented by the Trustees on October 8, 2008.

“Oxford” means Oxford Properties Group.

“PCI DSS” means the Payment Card Industry Data Security Standard.

“Plan Agent” means Computershare, as agent under the DRIP.

“Portfolio” means, collectively, the Hotel Properties and the Hotel Businesses.

“Public Offering” means the public offering of 12,050,000 REIT Units on a bought deal basis for aggregate gross proceeds of \$63,262,000, which closed on November 26, 2014.

“Qualifying REIT” means a “real estate investment trust” qualified as such for Canadian income tax purposes.

“Redemption Date” has the meaning ascribed in this AIF in the section entitled: “Description of REIT Units and Declaration of Trust – Redemption Rights”.

“Redemption Price” has the meaning ascribed in this AIF in the section entitled: “Description of REIT Units and Declaration of Trust – Redemption Rights”.

“REIT” means InnVest Real Estate Investment Trust.

“REIT Units” means the trust units of the REIT.

“Related Party” means, with respect to any person, a person who is a “related party”, as that term is defined in Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* adopted by the Ontario Securities Commission and the Autorité des marchés financiers, as amended from time to time (including any successor rule or policy thereto), and, with respect to the REIT, shall (a) include the Westmont Group and its affiliates and associates as long as the Westmont Group continues to have the right pursuant to the Declaration of Trust (which has not been renounced) to appoint one or more nominees to the Board of Trustees of the REIT or to act as hotel manager for the Portfolio, and (b) exclude any wholly-owned subsidiary of the REIT.

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

“Rights Plan” means the fourth amended and restated unitholder rights plan approved by Unitholders on June 5, 2013.

“Royal York Hotel” means the Fairmont Royal York Hotel in Toronto.

“Securities Act” means the *Securities Act* (Ontario).

“Series F IOT Debentures” means the 5.75% convertible unsecured subordinated debentures, Series F, of InnVest Operations Trust.

“Series F REIT Debentures” means the 5.75% convertible unsecured subordinated debentures, Series F, of InnVest.

“Settlement” means the settlement announced March 13, 2014 between the REIT and Orange Capital, with the support of Westmont Group.

“Special Committee” means the special committee of the Board of Trustees formed to supervise the REIT’s response to a special meeting requisition as announced February 7, 2014.

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

“Stapled Unit” means collectively one REIT Unit and one InnVest Operations Trust non-voting unit, which, after the 2010 Reorganization and prior to the 2012 Reorganization, were required to trade together on the TSX.

“Strategic Plan” means InnVest’s strategic plan announced on January 29, 2013, designed to strengthen InnVest’s core operations, improve its balance sheet and increase long-term profitability.

“subsidiary” means, with respect to any person, trust or limited partnership, any other person or limited partnership directly or indirectly controlled by such person.

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

“Term Interest Payments” means the regular interest payments of 8.75% per annum under the Term Loan.

“Term Loan” means a \$50 million subordinated term loan facility under a credit agreement with KingSett LP No. 5, which closed on April 24, 2014.

“Trustees” means the trustees of the REIT from time to time.

“TSX” means the Toronto Stock Exchange.

“Unitholders” means the holders from time to time of REIT Units.

“Up-Front Fee” means an up-front fee of \$3.0 million for the Term Loan and Liquidity Facility.

“Westmont” means Westmont Hospitality Group, Inc.

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

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

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

“2002 Indenture” means collectively, the trust indenture dated July 26, 2002 between the REIT and Computershare, the first supplemental indenture dated April 2, 2004 between the REIT and Computershare (as amended on September 2, 2005), the second supplemental indenture dated May 16, 2006 between the REIT and Computershare, the fourth supplemental indenture dated December 30, 2009 between the REIT and Computershare, the fifth supplemental indenture dated August 13, 2010 between the REIT and Computershare, the sixth supplemental indenture dated December 31, 2010 between the REIT, IOT and Computershare and the seventh supplemental indenture dated July 3, 2012 between the REIT, IOT and Computershare.

“2010 Reorganization” means InnVest’s reorganization which took place to qualify the REIT as a “real estate investment trust” for Canadian income tax purposes on December 31, 2010.

“2011 Indenture” means collectively, the trust indenture dated March 15, 2011 between the REIT, as issuer, IOT, as guarantor, and Computershare, as debenture trustee and the first supplemental indenture dated July 3, 2012 between the REIT and Computershare.

“2012 Reorganization” means InnVest’s reorganization which took place to unwind its Stapled Unit structure on July 3, 2012.

“2013 Indenture” means the trust indenture dated February 27, 2013 between the REIT and Computershare as amended and supplemented by the first supplemental indenture dated July 25, 2014.

“2014 MD&A” means the Management’s Discussion and Analysis dated March 11, 2015.

“6.25% Series A Debentures” means the convertible unsecured subordinated debentures of the REIT due April 15, 2011 with a coupon of 6.25%, which were redeemed in September 2010.

“6.00% Series B Debentures” means the convertible unsecured subordinated debentures of the REIT due May 31, 2013 with a coupon of 6.00%, which were redeemed in April 2013.

“5.85% Series C Debentures” means the extendible convertible unsecured subordinated debentures of the REIT due August 1, 2014 with a coupon of 5.85%, which were redeemed and cancelled in June 2014.

“6.75% Series D Debentures” means the convertible unsecured subordinated debentures of the REIT due March 31, 2016 with a coupon of 6.75%, which were redeemed and cancelled in March 2015.

“6.00% Series E Debentures” means the convertible unsecured subordinated debentures of the REIT due March 31, 2017 with a coupon of 6.00%.

“5.75% Series F Debentures” means the convertible unsecured subordinated debentures of the REIT due March 30, 2018 with a coupon of 5.75%.

“5.75% Series F Stapled Debentures” means the 5.75% stapled convertible unsecured subordinated debentures, Series F, due March 30, 2018.

“5.75% Series G Debentures” means the 5.75% convertible unsecured subordinated debentures due March 31, 2019, prior to the entering into by the REIT and Computershare of a supplemental indenture which amended certain terms of the debentures (hereinafter referred to as the 6.25% Series G Debentures).

“6.25% Series G Debentures” means the convertible unsecured subordinated debentures of the REIT due March 31, 2019 with a coupon of 6.25%.

APPENDIX B

AUDIT AND RISK COMMITTEE MANDATE

1. ESTABLISHMENT OF COMMITTEE

1.1 Establishment of the Audit And Risk Committee Confirmed. The establishment of the audit and risk committee of the board of trustees of InnVest Real Estate Investment Trust ("InnVest") is hereby confirmed with the purpose, constitutions and responsibilities herein set forth.

1.2 Definitions. In this mandate:

- (a) "Audit services" means the professional services rendered by InnVest's external auditor for the audit and review of InnVest's financial statements or services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements;
- (b) "Board" means the board of Trustees of InnVest;
- (c) "Chair" means the chair of the Committee;
- (d) "Committee" means the audit and risk committee of the Board;
- (e) "CPAB" means the Canadian Public Accounting Board;
- (f) "External Auditor" means the person occupying the office of auditor of InnVest in accordance with the declaration of trust of InnVest;
- (g) "GAAP" means Canadian generally accepted accounting principles applicable to publicly accountable enterprises;
- (h) "Internal Auditor" means the person responsible for performing the internal audit function of InnVest;
- (i) "Internal Control over Financial Reporting" means a process designed by, or under the supervision of, InnVest's certifying officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:
 - (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of InnVest;
 - (ii) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of InnVest are being made only in accordance with authorizations of management of InnVest and the Board; and
 - (iii) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of InnVest's assets that could have a material effect on the annual financial statements or interim financial reports;
- (j) "Mandate" means this written mandate of the Committee and any such mandate for the Committee which the Board resolves from time to time shall be the mandate of the Committee;

- (k) “Material Weakness” means a deficiency, or a combination of deficiencies, in Internal Control over Financial Reporting such that there is a reasonable possibility that a material misstatement of InnVest’s annual financial statements or interim financial report will not be prevented or detected on a timely basis;
- (l) “MD&A” means management’s discussion and analysis required to be filed by InnVest concurrent with the filing of the annual financial statements or quarterly financial statements of InnVest;
- (m) “Non-audit services” means services other than audit services; and
- (n) “Trustees” means trustees of InnVest.

2. PURPOSE

The Committee has been delegated the following responsibilities by the Board:

- (a) coordination and oversight of the integrity of InnVest’s accounting and financial reporting process as well as annual and interim financial statements;
- (b) monitoring compliance with legal and regulatory requirements relating to financial reporting and the audit process;
- (c) oversight of the independence and performance of internal and external audit functions;
- (d) oversight of management’s systems of internal controls;
- (e) review of InnVest’s financial information that is publicly disclosed, provided that the annual and interim financial statements and MD&A of InnVest must be approved by the Board before they are publicly filed;
- (f) monitoring of InnVest’s enterprise risk assessment and mitigation process;
- (g) oversight of InnVest’s whistleblower and complaint process and reporting of fraud; and
- (h) approval of any report required to be included in InnVest’s public disclosure documents relating to the Committee.

3. COMMITTEE MEMBERSHIP

- 3.1 Number of Members. The Committee shall consist of not fewer than three Trustees, including the Chair of the Committee.
- 3.2 Independence of Members. Each member of the Committee shall be independent for the purposes of National Instrument 52-110 – *Audit Committees* of the Canadian Securities Administrators.
- 3.3 Financial Literacy.
 - (a) *Requirement.* Each member of the Committee shall be financially literate or must become financially literate within a reasonable period of time after his or her appointment to the Committee.

- (b) *Definition.* “Financially literate” shall mean that the Trustee is able to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to those that can reasonably be expected to be raised by InnVest’s annual and interim financial statements.
- (c) Accounting or Related Financial Experience. One member of the Committee shall at all times have accounting or related financial experience, meaning that such Trustee has, through education and experience:
 - (d) an understanding of financial statements and the accounting principles used by InnVest to prepare its financial statements;
 - (e) the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves;
 - (f) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by InnVest’s financial statements, or experience actively supervising one or more persons engaged in such activities; and
 - (g) an understanding of internal controls and procedures for financial reporting.

3.4 Appointment and Removal of Members.

- (a) *Board Appoints Members.* The members of the Committee shall be appointed by the Board, having considered the recommendation of the compensation and governance committee of the Board. Each member of the Committee shall serve at the pleasure of the Board for such term or terms as the Board may determine or until he or she resigns. A member of the Committee shall resign from the Committee concurrently with or promptly following his or her resignation or removal from the Board.
- (b) *Vacancies.* The Board may appoint a Trustee to fill a vacancy which occurs in the Committee.
- (c) *Removal of a Member.* Any member of the Committee may be removed from the Committee by a resolution of the Board.

4. **COMMITTEE CHAIR**

- 4.1 Board to Appoint Chair. The Board shall appoint the Chair from the members of the Committee (or if it fails to do so, the members of the Committee shall appoint the Chair from among its members). The Chair shall serve at the pleasure of the Board of Trustees for such term or terms as the Board of Trustees may determine or until he or she resigns.

5. **COMMITTEE MEETINGS**

- 5.1 Quorum. A quorum of the Committee shall be a majority of its members and no business shall be transacted by the Committee except at a meeting at which a quorum of the Committee is present.
- 5.2 Secretary. The Chair shall designate from time to time a person who may, but need not, be a member of the Committee, to be Secretary of the Committee.

- 5.3 Time and Place of Meetings. The time and place of the meetings of the Committee and the calling of meetings and the procedure in all things at such meetings shall be determined by the Committee; provided, however, the Committee shall meet at least quarterly.
- 5.4 Right to Vote. Each member of the Committee shall have the right to vote on matters that come before the Committee. All matters that come before the Committee shall be decided based on a majority vote at a meeting of the Committee or by unanimous written resolution of all members of the Committee.
- 5.5 Invitees. The Committee may invite Trustees, officers and employees of InnVest or any other person to attend meetings of the Committee to assist in the discussion and examination of the matters under consideration by the Committee. The External Auditor shall receive notice of each meeting of the Committee and shall be entitled to attend any such meeting at InnVest's expense.
- 5.6 In Camera Meetings. As a regular part of each meeting of the Committee at which the Committee considers its recommendation to the Board with respect to the annual and interim financial statements of InnVest, the Committee shall meet separately with each of:
- (a) management of InnVest;
 - (b) the External Auditor; and
 - (c) the Internal Auditor.

6. AUTHORITY OF THE COMMITTEE

- 6.1 Retaining and Compensating Advisors. The Committee may retain such outside legal, accounting or other advisors as it may consider appropriate and shall not be required to obtain the approval of the Board in order to retain or compensate such advisors.
- 6.2 Funding. The Committee shall have the authority to authorize, in its sole discretion, the payment by InnVest of:
- (a) compensation to the External Auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for InnVest;
 - (b) compensation for any advisors employed by the Committee under Section 6.1 hereof; and
 - (c) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.
- 6.3 Communication. The Committee shall have the authority to communicate:
- (a) directly with the External Auditor and the Internal Auditor; and
 - (b) directly with management of InnVest to obtain information it requires from management in order to perform its duties and to compel management of InnVest to respond to questions of the External Auditor and the Internal Auditor.

7. REMUNERATION OF COMMITTEE MEMBERS

- 7.1 Trustee Fees Only. No member of the Committee may earn fees from InnVest or any of its subsidiaries other than Trustee's fees (which fees may include cash and/or units or options or other in-kind consideration ordinarily available to Trustees, as well as all of the regular benefits that other Trustees receive, including a retainer for serving on the Committee or as Chair of the Committee).
- 7.2 Other Payments. For greater certainty, no member of the Committee shall accept any consulting, advisory or other compensatory fee from InnVest.

8. DUTIES AND RESPONSIBILITIES OF THE COMMITTEE

8.1 Financial and Related Information.

- (a) *Annual Financial Statements.* The Committee shall review and discuss with management of InnVest and the External Auditor, InnVest's annual financial statements and related MD&A and report thereon to the Board before the Board approves those statements and related MD&A.
- (b) *Interim Financial Statements.* The Committee shall review and discuss with management of InnVest and the External Auditor, InnVest's interim financial statements and related MD&A and report thereon to the Board before the Board approves those statements and related MD&A.
- (c) *Oversight of Internal Controls.* The Committee shall oversee management reporting on the internal controls of InnVest, including Internal Control over Financial Reporting.
- (i) *Management Letters.* The Committee shall review and discuss with management of InnVest and the External Auditor the management letters prepared by the External Auditor in conjunction with the annual audit of InnVest.
- (ii) *Control Deficiencies.* The Committee shall review and discuss with management of InnVest, the Internal Auditor and the External Auditor major issues as to the adequacy of the internal controls of InnVest, including Internal Control over Financial Reporting and any special audit steps adopted in light of any significant deficiencies and Material Weaknesses.
- (d) *Accounting and Financial Management.* The Committee shall review and discuss with management of InnVest and the External Auditor:
- (i) major issues regarding accounting principles and financial statement presentation, including any significant changes in InnVest's selection or application of accounting principles as well as accounting policies applied to unusual and non-recurring types of transactions;
- (ii) the evaluation of the adequacy of InnVest's Internal Controls over Financial Reporting and any special audit steps adopted in light of significant deficiencies and Material Weaknesses;
- (iii) the adequacy of staffing and resources of the financial function;
- (iv) management's approach for safeguarding corporate assets, data and information systems;

- (v) analysis prepared by management of InnVest and/or the External Auditor setting forth significant financial reporting issues, judgments, assumptions and estimates made in connection with the preparation of the financial statements, including analysis of the effects of alternatives in applying GAAP and key management estimates, risks and judgements that could materially affect the financial statements and whether they should be disclosed in the MD&A;
 - (vi) any reported unadjusted differences or adjustments made as a result of the external audit;
 - (vii) the effect on the annual and interim financial statements of InnVest of regulatory and accounting initiatives, as well as off-balance sheet transactions, structures, obligations (including contingent obligations) and other relationships of InnVest with unconsolidated entities or other persons that have a material current or future effect on the financial condition, changes in financial condition, results of operations, liquidity, capital resources, capital reserves or significant components of revenues or expenses of InnVest;
 - (viii) the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented; and
 - (ix) any financial information or financial statements in prospectuses and other offering documents of InnVest not previously reviewed by the Committee.
- (e) *Disclosure of Other Financial Information.* The Committee shall review with management of InnVest and the External Auditor, if applicable:
- (i) the types of information to be disclosed and the type of presentation to be made in connection with earnings press releases;
 - (ii) the type of financial information and earnings guidance (if any) provided to analysts and rating agencies; and
 - (iii) press releases of InnVest containing financial information (paying particular attention to any use of “pro forma” or “adjusted” non-GAAP, information) and shall recommend to the Board all earnings press releases before such information is publicly disclosed.
- (f) *Management Certification.* The Committee shall review and confirm the adequacy with management of the certifications of disclosure in annual and interim filings by management of InnVest, as required by applicable securities laws in Canada or otherwise.
- (g) *Related Party Transactions.* The Committee shall review, from a compliance perspective, all transactions of InnVest with Related Parties, as such term is defined in InnVest's declaration of trust, and review the financial statement disclosure for all such transactions.
- (h) *Procedures for Review.* The Committee shall be satisfied that adequate procedures are in place for the review of InnVest's disclosure of financial information extracted or derived from InnVest's annual or interim financial statements (other than financial statements, MD&A and earnings press releases, which are dealt with elsewhere in this Mandate) and shall annually (or more frequently, if determined by the Committee) assess the adequacy of those procedures.

8.2

External Auditor.

- (a) *Accountability of External Auditor.* The Committee shall require the External Auditor to confirm in its engagement letter each year that the External Auditor is accountable to the Board and the Committee as representatives of unitholders of InnVest. The External Auditor shall report directly to the Committee and the Committee shall have direct communication channels with the External Auditor to discuss and review specific issues as appropriate.
- (b) *Authority with Respect to External Auditor.* As a representative of unitholders of InnVest, the Committee shall be directly responsible for recommending to the Board and for ultimate approval of the Unitholders, the appointment, re-appointment or removal of the External Auditor and for the compensation and oversight of the work of the External Auditor (including resolution of disagreements between management and the External Auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for InnVest.
- (c) *Oversight of Audit and Assessment of Auditor Performance.* The Committee shall:
 - (i) oversee the work of the External Auditor and review and approve the annual audit plan of the External Auditor, including scope of the audit to be performed and the degree and co-ordination between the plans of the External Auditor and Internal Auditor;
 - (ii) meet regularly with the External Auditor without management present and ask the External Auditor to report any significant disagreements with management regarding financial reporting, the resolution of such disagreements and any restrictions imposed by management on the scope and extent of the audit examinations conducted by the External Auditor;
 - (iii) review with the External Auditor any problems or difficulties encountered during the interim reviews or annual audit of financial statements and the response thereto by management of InnVest. To the extent possible, the Committee shall resolve any disagreements between management of InnVest and the External Auditor;
 - (iv) annually review the qualifications, expertise and resources and the overall performance and objectivity of the external audit team, taking into account the risks and complexity of InnVest; and
 - (v) annually assess the External Auditor's performance and, if necessary, recommend to the Board the termination of the External Auditor or the rotation of the audit partner in charge. The assessment of the External Auditor should consider whether the External Auditor met the agreed audit plan and why any change came about, as well as the quality of the audit, the robustness and effectiveness of the External Auditor in their handling of key accounting and audit judgments and in their communications with the Committee and feedback on the conduct of the audit from relevant senior management.
- (d) *Competency of External Auditor.* Once each year (and otherwise as the Chair may consider appropriate) the Committee shall review a report by the External Auditor:
 - (i) indicating that it is a member in good standing with the CPAB;
 - (ii) indicating any sanctions or restrictions imposed by the CPAB; and
 - (iii) describing (A) the External Auditor's internal quality control procedures, (B) any material issues raised by the most recent internal quality control review, or by any inquiry or investigation by government or professional authorities, within the preceding 5 years,

respecting one or more independent audits carried out by the firm, and any steps taken to deal with such issues, and (C) all relationships between the External Auditor and InnVest.

- (e) *Independence.* The Committee shall satisfy itself as to the independence of the External Auditor. As part of this process the Committee shall:
- (i) require the External Auditor to submit on an annual basis to the audit committee, a formal written statement delineating all relationships between the External Auditor and InnVest. The Committee is responsible for reviewing any disclosed relationships or services that may impact the objectivity and independence of the External Auditor and for recommending that the Board take appropriate action in response to the External Auditor's statement to satisfy itself of the External Auditor's independence;
 - (ii) in accordance with applicable securities laws, approve any audit, audit related and non-audit services to be provided by the External Auditor to InnVest or any of its subsidiaries prior to the commencement of any work; provided that, where it is proposed that work will be performed by the External Auditor that is not within the audit plan approved by the Committee (including all non-audit work), management may seek the approval of the Chair of the Committee and any such approvals will be reported to the Committee at the next meeting; and
 - (iii) approve any proposal by InnVest to hire employees and former employees of the External Auditor or any former External Auditor.

8.3 Internal Audit.

- (a) The Committee shall appoint the Internal Auditor. If the Internal Auditor is an employee of InnVest then he or she shall report functionally to the Committee and administratively to the Chief Financial Officer. The Committee may alternatively approve an Internal Auditor who is contracted to perform internal audit services to InnVest and/or engage independent third party internal audit services when and at such remuneration as it deems appropriate.
- (b) The Committee shall review the performance of the Internal Auditor on an annual basis (or more frequently, if determined by the Committee) and make recommendations in respect of the appointment, replacement or dismissal of the Internal Auditor.
- (c) The Committee shall review the annual internal audit plan and financial budget and ensure the internal audit function is adequately resourced and has appropriate standing within InnVest.
- (d) The Committee shall review promptly all significant internal audit reports.
- (e) The Committee shall review and monitor management's responsiveness to internal audit reports and action items.
- (f) The Internal Auditor shall have direct access to the Chair of the Committee.
- (g) The Committee shall review and monitor the effectiveness of the internal audit function including the Internal Auditor's reporting relationships, activities, organizational structure and adequacy of resources, its independence from management, its credentials and its working relationship with the External Auditor as well as its application of a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

- (h) The Committee shall have regular meetings with the Internal Auditor, without management present, to understand all of the issues that may have arisen between the Internal Auditor and management and how those issues have been resolved.

8.4 Risk Assessment and Risk Management.

The Committee shall:

- (a) Review reports on InnVest's enterprise risk assessment and updates thereto at least annually;
- (b) Discuss the major financial risk exposures of InnVest and the steps management of InnVest has taken, or is taking, to monitor and control such exposures;
- (c) Except to the extent that responsibility is reserved to the Board or delegated to another Board committee, review management's implementation of risk policies and procedures, and assess the appropriateness and comprehensiveness of those policies and procedures;
- (d) Consider reports on financial risk management including derivative exposure and policies;
- (e) Consider reports on REIT compliance, tax risk management and risk tolerance; and
- (f) Review other risk management matters from time to time as the Committee may consider suitable or the Board may specifically direct.

8.5 Whistleblowing. The Committee shall put in place procedures for:

- (a) the receipt, retention and treatment of complaints received by InnVest regarding accounting, internal accounting controls or auditing matters; and
- (b) the confidential, anonymous submission by employees of InnVest of concerns regarding questionable accounting or auditing matters.
- (c) Periodically reviewing the adequacy of the whistleblowing process and procedures.

8.6 Reporting of Fraud. The CEO or the CFO will report to the Committee, and the Committee will review such reports, on any fraud, whether or not material, that involves management or other employees who have a significant role in InnVest's Internal Controls over Financial Reporting.

9. REPORTING TO THE BOARD

9.1 Regular Reporting. The Chair of the Committee, or his or her designate, shall report to the Board following each meeting of the Committee and at such other times as the Chair may determine to be appropriate.

10. EVALUATION OF COMMITTEE PERFORMANCE AND MANDATE

10.1 Establish Process. The Committee shall follow the process established by the Board's corporate governance committee for assessing the performance and Mandate of the Committee.

10.2 Amendments to Mandate.

- (a) *Review by Audit and Risk Committee.* The Committee shall review the adequacy of the Committee's Mandate and recommend to the Board on an annual basis, any amendments it considers desirable to the Mandate.

- (b) *Review by Board.* The Board will review and reassess the adequacy of the Mandate on an annual basis and at such other times as it considers appropriate.

11. LEGISLATIVE AND REGULATORY CHANGES

11.1 Compliance. It is the Board's intention that the Mandate shall reflect at all times all legislative and regulatory requirements applicable to the Committee as well as any best practice guidelines recommended by regulators or stock exchanges with whom InnVest has a reporting relationship. Accordingly, this Mandate shall be deemed to have been updated to reflect any amendments to such legislative and regulatory requirements and such best practice guidelines and shall be formally amended at least annually to reflect such amendments.

12. OTHER

12.1 The Committee shall:

- (a) If considered necessary, call a meeting of the Board to consider any matter of concern to the Committee;
- (b) The Committee will also have such other duties and responsibilities as are delegated to it and review such other matters as, from time to time, are referred to it by the Board.