INNVEST

INNVEST REAL ESTATE INVESTMENT TRUST | QUARTERLY REPORT 2013

Q3 2013

An in-depth look at InnVest's financial results for the three and nine months ended September 30, 2013.

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Letter to Unitholders

We continue to make progress against our strategic plan to improve our portfolio quality and strengthen our balance sheet. We have been active on our capital investment program including significant renovations underway at two important full-service hotels during the quarter as well as the ongoing revitalization program for our Comfort Inn portfolio. In addition, we have generated over $93 million in gross sale proceeds at attractive capitalization rates, representing more than 50% of our stated two-year divestiture objective.

Excluding renovation activity during the quarter, our portfolio realized improvements across all profitability measures. Looking ahead, fundamentals for our portfolio remain positive, driven by an improving industry outlook, upside from capital investments and our ability to accretively redeploy capital from asset sales to higher return alternatives.

Third Quarter Highlights

- Revenue per available room ("RevPAR") on a same-hotel basis was relatively unchanged to the prior year. Excluding hotels impacted by renovations during the quarter, RevPAR growth would have exceeded 2%;
- The lost contribution from asset divestitures contributed to an overall total revenue decline of $12.2 million. Excluding asset sales, total revenues were relatively unchanged;
- Gross operating profit ("GOP") declined $2.6 million, or 5.1%, during the quarter;
- Realized an adjusted net income of $31.5 million compared to $30.5 million in the prior year (excludes non-cash items such as unrealized losses on liabilities presented at fair value, deferred income taxes, gain on asset sales, net writedown of hotel properties, and depreciation and amortization). This compares to a presented net income of $13.9 million compared to a loss of $221.5 million in the prior year;
- Funds from operations and distributable income each improved to $31.5 million and $26.5 million, respectively;
- Completed the sale of four non-core assets during the third quarter. Year-to-date, InnVest has completed the sale of six properties for aggregate gross proceeds of $93.1 million;
- Invested $41.2 million in the capital program through the first nine months of the year with additional commitments of $18.2 million as at September 30, 2013. Significant renovations in process during the third quarter of 2013 included guestroom, lobby and meeting space renovations at the Delta Winnipeg and Sheraton Calgary Suites Eau Claire. Year-to-date, 24 Comfort Inn hotels have been renovated as part of InnVest's revitalization program for the brand; and
- On October 9, 2013, InnVest announced the refinancing of $251.8 million of 2014 mortgage maturities, lowering InnVest's average interest costs and significantly extending its term to maturity.

The hospitality industry is highly correlated to the economy and as such, the uncertain global and domestic economic conditions continue to impact the Canadian lodging industry. InnVest's broad, diversified portfolio remains a key advantage in the current environment.

While industry growth has been more modest than expected, Canadian lodging industry fundamentals remain favourable, with improving demand expectations through the coming year and a low supply outlook.

Through the end of 2014, InnVest expects to divest of low-yielding assets and reinvest proceeds generated to undertake an extensive capital program to enhance its product offering at a number of select hotels. These targeted investments are expected to improve the portfolio's competitive positioning and operating performance through increased occupancies and rates.

InnVest's strategy to reduce debt, reposition its portfolio and invest in core assets is expected to enhance the stability and growth of the portfolio's long-term cash flows.

Anthony Messina
President and Chief Executive Officer
November 6, 2013

Management's Discussion and Analysis

INTRODUCTION

InnVest Real Estate Investment Trust ("InnVest") is an unincorporated open-ended real estate investment trust which owns a portfolio of hotels across Canada. The unaudited condensed consolidated financial statements ("Interim Financial Statements") and financial data included in this management's discussion and analysis ("MD&A") reflect the consolidated financial results of InnVest. This MD&A is dated November 6, 2013.

The following MD&A is intended to assist readers in understanding InnVest, its history, business environment, strategies, performance and risk factors and includes a discussion of the results of operations and financial condition of InnVest for the three and nine months ended September 30, 2013, with a comparison to the results of operations and financial condition for the prior periods. The MD&A should be read in conjunction with the Interim Financial Statements of InnVest and the notes thereto as at September 30, 2013, December 31, 2012 and January 1, 2012 and for the three and nine months ended September 30, 2013 and 2012.

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

Certain measures in this MD&A do not have any standardized meaning as prescribed by International Financial Reporting Standards ("IFRS") and therefore are considered non-IFRS measures. Please refer to *Non-IFRS Financial Measures and Additional IFRS Financial Measures* on page 15 for a discussion of those measures used by InnVest, including a reconciliation to IFRS financial measures.

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

FORWARD-LOOKING STATEMENTS

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

These forward-looking statements are not guarantees of future events or performance and, by their nature, are based on InnVest's estimates and assumptions, which are subject to risks and uncertainties, including those described under "Risks and uncertainties" in this MD&A. 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 REIT as a REIT for Canadian federal income tax purposes in any year; changes in business strategies; general global economic and business conditions; medical concerns relating to travel and/or specific destinations; general global credit market conditions; the effects of competition and pricing pressures; industry overcapacity; shifts in market demands; changes in laws and regulations, including environmental and regulatory laws; potential increases in maintenance and operating costs; uncertainties of litigation; labour disputes; timing of completion of capital or maintenance projects; currency and interest rate fluctuations; various events which could disrupt operations; and technological changes.

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

BUSINESS OVERVIEW

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

Hotel Real Estate Owner

As at September 30, 2013, InnVest's portfolio comprised 131 hotel properties (16,579 rooms) operated under internationally recognized franchise brands. The hotel portfolio is evenly divided between full-service and limited-service hotels based on number of rooms. Full-service hotels however, generate higher revenues per room given higher ADRs charged and greater ancillary services sold. As a result, full-service hotels in the portfolio accounted for approximately 65% of hotel revenues during the nine months ended September 30, 2013 (2012 – 66%). Year-to-date, approximately 80% of hotel revenues (2012 – 80%) were generated from room revenues with the remainder being generated from food and beverage sales and other services including meeting space rental, parking, retail operations and telephone use.

InnVest's hotels are operated by four hotel management companies which earn base and incentive fees related to the revenues and profitability of each hotel. Westmont Hospitality Canada Limited ("Westmont"), a division of one of the largest privately held managers of hotels in the world, manages the majority of InnVest's hotels (118 hotels). InnVest also partners with other third-party managers including Delta Hotels (8 hotels), Fairmont Hotels (3 hotels) and Hilton Hotels (2 hotels), each an experienced hotel manager with recognized brands.

The hotels' primary operating costs include wages, food costs, utilities, management fees and sales and marketing expenses. Other property level expenses include property taxes, ground rent for leasehold interests and property insurance. Many of these other property level expenses are relatively fixed and do not necessarily change in accordance with revenue levels.

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

InnVest's total asset carrying value was $1,340.0 million at September 30, 2013, down $73.0 million, as compared to $1,413.0 million at December 31, 2012. Hotel and other real estate properties comprise over 90% of InnVest's total assets. During the nine months ended September 30, 2013, InnVest completed the sale of five hotels (1,190 rooms) and one office and retail complex for aggregate gross proceeds of $93.1 million. These sales contributed to a reduction in total assets of $67.6 million as compared to December 31, 2012 and resulted in aggregate gain on sales of $8.7 million and the reversal of previous impairments of $3.5 million.

At September 30, 2013, ten hotels were classified as held for sale (1,057 rooms). InnVest has entered into separate purchase and sale agreements for six limited-service hotels for aggregate gross proceeds of approximately $33.5 million.

As of September 30, 2013	Ontario		Quebec		Atlantic		Western		Total		
	No. of Hotels	No. of Guest Rooms	No. of Hotels	No. of Guest Rooms	No. of Hotels	No. of Guest Rooms	No. of Hotels	No. of Guest Rooms	No. of Hotels	No. of Guest Rooms	% of Total Guest Rooms
Comfort Inn	30	2,409	21	1,661	15	1,118	8	662	74	5,850	35.3%
Delta Hotel	1	220	2	337	4	1,017	2	689	9	2,263	13.7%
Holiday Inn, Holiday Inn Express	13	2,180	1	176	1	196	1	151	16	2,703	16.3%
Quality Hotel, Quality Suites	4	687	5	689	1	159	1	126	11	1,661	10.0%
Travelodge	3	368	–	–	–	–	2	422	5	790	4.8%
Hilton Hotel	–	–	1	571	1	197	–	–	2	768	4.6%
Fairmont Hotels & Resorts	–	–	–	–	–	–	2	604	2	604	3.6%
Radisson Hotel/Suites	2	388	–	–	–	–	–	–	2	388	2.3%
Staybridge Suites	3	342	–	–	–	–	–	–	3	342	2.1%
Sheraton Suites	–	–	–	–	–	–	1	323	1	323	2.0%
Best Western	1	130	–	–	–	–	–	–	1	130	0.8%
Hilton Garden Inn	1	120	–	–	–	–	–	–	1	120	0.7%
Hilton Homewood Suites	1	83	–	–	–	–	–	–	1	83	0.5%
Independent	3	554	–	–	–	–	–	–	3	554	3.3%
Total	62	7,481	30	3,434	22	2,687	17	2,977	131	16,579	100.0%

Office, Retail and Retirement Home Business

At September 30, 2013, InnVest owns one retail complex as well as a retirement home. These real estate interests are adjacent to an owned hotel and were acquired as part of the hotel's acquisition. This business segment contributed $1.6 million in revenues during the nine months ended September 30, 2013 (2012 – $2.5 million). In late May 2013, InnVest sold one office and retail complex in Sherbrooke, Quebec. Historically, this asset contributed over 60% of this business segment's annual revenues and the vast majority of its gross operating profit.

Franchise Business

InnVest owns 50% of Choice Hotels Canada Inc. ("CHC"), which has franchise agreements with over 300 locations in Canada. The remaining 50% interest is owned by Choice Hotels International Inc. ("Choice International"), one of the largest hotel franchise

companies in the world. In addition to strong international brand recognition, Choice International has a centralized reservation system, sales and marketing programs and proprietary property management systems.

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

Effective January 1, 2013, InnVest's joint venture investment in CHC has been accounted for under the equity method in accordance with changes in IFRS (including retroactive restatement for the comparative period). Previously, InnVest's investment in CHC was proportionately consolidated.

BUSINESS STRATEGY

In early 2013, InnVest announced a comprehensive strategic plan based on four key initiatives with a goal to strengthen InnVest's core operations, improve its balance sheet and increase its long-term profitability.

Strategic Initiative	Objective	Achievement to Date
Portfolio repositioning program	Improve the overall quality and diversification of the portfolio by divesting of low-yielding non-core hotels and selectively growing the portfolio in stable markets with long-term growth potential. Planned sale of 24 non-core assets through the end of 2014 generating gross proceeds of $185 million and net proceeds after debt repayment and selling costs of about $60 million. Pending further progress in executing its strategic initiatives, InnVest does not currently expect to be active in growing the portfolio in the near-term, although such transactions, by their nature, are opportunistic.	To date in 2013, InnVest has closed on the sale of six non-core assets for gross proceeds of $93.1 million (net proceeds of approximately $18.1 million) and has entered into separate agreements to sell six additional non-core properties. InnVest has engaged brokers to assist in the sale of its non-core assets. Currently, 11 additional hotels are actively being marketed.
Capital investment program	Execute a two-year (2013-2014) capital program to invest approximately $130 million in the core hotel portfolio ($65 million per year); $80 million above the estimated reserve over this two-year period. This incremental funding is expected through non-core asset sales and incremental debt proceeds. The capital program is aimed at renovating and repositioning over 60 Comfort Inn hotels, targeting profit-improving projects to reposition select hotels as well as fortifying hotel competitive positions in key markets.	InnVest raised capital market proceeds during the first quarter of 2013 to help fund its capital investment targets. A programmatic renovation schedule has been developed to maximize value achieved. $41.2 million has been invested year-to-date in 2013 with an additional $18.2 million committed at the end of the quarter. Significant projects underway during the year include renovations at the Delta Winnipeg and Sheraton Calgary Suites Eau Claire. Year-to-date, 24 Comfort Inn hotels have been renovated as part of InnVest's revitalization program for the brand. By the end of 2013, InnVest expects to have completed 30 Comfort Inn renovations with the balance planned for 2014.
Strengthen the balance sheet	Reduce leverage below 60% by 2015 through asset sales and regular principal amortization to ensure InnVest has the necessary liquidity to withstand market cycles. At September 30, 2013, InnVest's leverage was 64.0%. Following its capital investment program, InnVest anticipates to be building cash reserves, positioning it to further reduce indebtedness or to deploy its capital in select investments to grow the portfolio.	In early October 2013, InnVest announced the refinancing of $251.8 million of 2014 mortgage debt maturities. Incremental proceeds of $36.4 million will be used to partially repay remaining 2014 mortgage maturities. These refinancing transactions result in a lower average interest rate and significantly extend InnVest's debt maturity schedule. During the first quarter of 2013, InnVest raised $115 million of convertible debentures with proceeds primarily used to redeem InnVest's $75 million Series B. Incremental proceeds will be used to fund InnVest's capital investment program.
Improve operations	Leverage a renovated product to shift business to higher rated segments and capture greater market share amidst positive industry trends. Continually strive to improve InnVest's operating efficiency by taking advantage of its size and implementing industry best practices to maximize cash flows.	Investing in targeted return on investment projects to maximize long-term earnings. During the first quarter of 2013, InnVest also implemented operational enhancements to leverage InnVest's scale by consolidating certain hotel operation functions in select cities where it has multiple hotels.

OUTLOOK

The hospitality industry is highly correlated to the economy and as such, the uncertain global and domestic economic conditions continue to impact the Canadian lodging industry. InnVest's broad, diversified portfolio remains a key advantage in the current environment.

While industry growth has been more modest than expected, Canadian lodging industry fundamentals remain favourable, with improving demand expectations through the coming year and a low supply outlook.

Through the end of 2014, InnVest expects to divest of low-yielding assets and reinvest proceeds generated to undertake an extensive capital program to enhance its product offering at a number of select hotels. These targeted investments are expected to improve the portfolio's competitive positioning and operating performance through increased occupancies and rates.

InnVest's strategy to reduce debt, reposition its portfolio and invest in core assets is expected to enhance the stability and growth of the portfolio's long-term cash flows.

THIRD QUARTER HIGHLIGHTS

- Revenue per available room ("RevPAR") on a same-hotel basis was relatively unchanged to the prior year. Excluding hotels impacted by renovations during the quarter, RevPAR growth would have exceeded 2%;
- The lost contribution from asset divestitures contributed to an overall total revenue decline of $12.2 million. Excluding asset sales, total revenues were relatively unchanged;
- Gross operating profit ("GOP") declined $2.6 million, or 5.1%, during the quarter;
- Realized an adjusted net income of $31.5 million compared to $30.5 million in the prior year (excludes non-cash items such as unrealized losses on liabilities presented at fair value, deferred income taxes, gain on asset sales, net writedown of hotel properties, and depreciation and amortization). This compares to a presented net income of $13.9 million compared to a loss of $221.5 million in the prior year;
- Funds from operations and distributable income each improved to $31.5 million and $26.5 million, respectively;
- Completed the sale of four non-core assets during the third quarter. Year-to-date, InnVest has completed the sale of six properties for aggregate gross proceeds of $93.1 million;
- Invested $41.2 million in the capital program through the first nine months of the year with additional commitments of $18.2 million as at September 30, 2013. Significant renovations in process during the third quarter of 2013 included guestroom, lobby and meeting space renovations at the Delta Winnipeg and Sheraton Calgary Suites Eau Claire. Year-to-date, 24 Comfort Inn hotels have been renovated as part of InnVest's revitalization program for the brand; and
- On October 9, 2013, InnVest announced the refinancing of $251.8 million of 2014 mortgage maturities, lowering InnVest's average interest costs and significantly extending its term to maturity.

2013 OPERATING RESULTS REVIEW

The following discussion summarizes InnVest's performance for the three and nine months ended September 30, 2013 as compared to 2012.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	2012	Variance	**2013**	2012	Variance
Revenues	**$ 161,133**	$ 173,371	(7.1%)	**$ 446,231**	$ 464,330	(3.9%)
Gross operating profit(1)	**47,537**	50,104	(5.1%)	**104,387**	108,796	(4.1%)
Net income (loss) and total comprehensive income (loss)	**13,946**	(221,472)	nm	**(7,215)**	(249,654)	nm
Funds from operations(1)	**31,504**	30,911	1.9%	**51,370**	51,951	(1.1%)
Distributable income(1)	**26,482**	25,287	4.7%	**38,012**	37,993	1.7%
Distributions declared	**9,368**	9,345	0.2%	**28,092**	28,034	0.2%
Per unit diluted:						
Net income (loss) and comprehensive income (loss)	**$ 0.139**	$ (2.368)	nm	**$ (0.077)**	(2.669)	nm
Funds from operations	**0.270**	0.293	(7.8%)	**0.499**	0.531	(6.0%)
Distributable income(2)	**0.226**	0.239	(5.4%)	**0.377**	0.390	(3.3%)

"nm" – not meaningful

(1) Refer to *Non-IFRS Financial Measures and Additional IFRS Financial Measures* on page 15.

(2) Distributable income per unit is calculated on a basis consistent with that used by InnVest for calculating net income per unit.

Revenues

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	2012	Variance	**2013**	2012	Variance
Hotel	**$ 160,912**	$ 172,578	(6.8%)	**$ 444,610**	$ 461,859	(3.7%)
Other real estate properties	**221**	793	(72.1%)	**1,621**	2,471	(34.4%)
Revenues	**$ 161,133**	$ 173.371	(7.1%)	**$ 446,231**	$ 464,330	(3.9%)

Hotel revenues during the three and nine months ended September 30, 2013 each declined driven by asset sales completed since 2012. Generating over 99% of total revenues, InnVest's principal business is the ownership of hotel real estate (see detailed discussion below). Revenues from other real estate properties declined year-over-year owing primarily to the sale of one office and retail complex in late May 2013.

HOTEL REVENUES

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	2012	Variance	**2013**	2012	Variance
Room	**$ 132,934**	$ 141,703	(6.2%)	**$ 353,883**	$ 368,023	(3.8%)
Non-room	**27,978**	30,875	(9.4%)	**90,727**	93,836	(3.3%)
Hotel revenues	**$ 160,912**	$ 172,578	(6.8%)	**$ 444,610**	$ 461,859	(3.7%)

Hotel revenues consist primarily of revenue generated from room occupancy. Non-room revenues include food and beverage services and other miscellaneous revenue streams associated with hotel operations such as meeting space rentals, parking, retail operations and telephone use. The hospitality industry is highly correlated to the economy given its impact on discretionary travel demand, including demand from corporate and leisure customers.

For the three and nine months ended September 30, 2013, hotel revenues decreased $11.7 million (6.8%) and $17.2 million (3.7%), respectively. Hotel property sales over the periods presented contributed $10.5 million and $16.2 million of the declines. Since 2012, twelve hotels (2,036 rooms) have been sold (seven in 2012 and five in 2013).

Third quarter revenues achieved were also impacted by disruption caused by renovations at select hotels including the Delta Winnipeg, Sheraton Calgary Suites Eau Claire and a number of Comfort Inn hotels. Year-to-date revenues also reflect the closure of InnVest's two full-service hotels in downtown Calgary due to the floods in late June (estimated $2.0 million hotel revenue loss in Q2). InnVest expects to recover lost earnings at its two Calgary hotels through a business interruption claim. No insurance proceeds related to these claims have been recognized to-date in 2013.

Same-hotel RevPAR during the three and nine months ended September 30, 2013 were relatively flat to prior periods owing primarily to renovation activity across the portfolio and disruptions due to floods in Calgary during the second quarter. Excluding hotels impacted by renovations during the quarter, third quarter same-hotel RevPAR growth would have exceeded 2%.

	Three Months Ended September 30, 2013	Variance to 2012	Nine Months Ended September 30, 2013	Variance to 2012
Occupancy				
Ontario	**70.8%**	0.2 pts	**63.2%**	0.8 pts
Quebec	**72.8%**	1.0 pts	**63.9%**	(0.6 pts)
Atlantic	**74.6%**	(3.0 pts)	**60.6%**	(2.2 pts)
Western	**69.1%**	(2.8 pts)	**66.9%**	(0.6 pts)
Total	**71.5%**	(0.7 pts)	**63.6%**	(0.2 pts)
ADR				
Ontario	**$ 108.59**	(0.3%)	**$ 107.87**	(0.9%)
Quebec	**$ 117.29**	0.6%	**$ 113.20**	1.0%
Atlantic	**$ 125.36**	1.9%	**$ 118.51**	1.1%
Western	**$ 165.33**	3.1%	**$ 160.99**	2.4%
Total	**$ 123.23**	0.8%	**$ 120.78**	0.5%
RevPAR				
Ontario	**$ 76.90**	(0.1%)	**$ 68.17**	0.3%
Quebec	**$ 85.43**	2.1%	**$ 72.36**	0.1%
Atlantic	**$ 93.56**	(2.0%)	**$ 71.80**	(2.4%)
Western	**$ 114.22**	(0.9%)	**$ 107.78**	1.5%
Total	**$ 88.16**	(0.2%)	**$ 76.81**	0.1%

Note: Gross hotel revenues on a same-hotel basis, excludes hotels which were sold and one hotel which was closed for an extended period in the second and third quarters of 2012.

Room Revenues

Room revenues for the three months ended September 30, 2013 declined $8.8 million or 6.2%. Reduced revenues following asset sales ($8.8 million) offset stable results across InnVest's remaining portfolio, notwithstanding notable renovations underway.

Room revenues for the nine months ended September 30, 2013, decreased $14.1 million, or 3.8%, owing to reduced contribution from asset divestitures. Room revenue achieved in the year-to-date period was also impacted by disruption caused by the temporary closure of two full-service hotels in downtown Calgary due to the floods in late June.

Room revenues for the three and nine months ended September 30, 2013 are net of $2.5 million and $6.7 million (2012 – $2.5 million and $7.1 million) of costs associated with third-party loyalty programs.

		Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
Room Revenue variance to 2012	Number of Hotel Rooms	$	%	$	%
Base Portfolio					
Ontario	7,337	$ 3	–	$ (8)	–
Quebec	3,434	565	2.2%	(115)	(0.2%)
Atlantic	2,687	(429)	(1.9%)	(1,404)	(2.7%)
Western	2,977	(456)	(1.5%)	896	1.1%
Total Base Portfolio	16,435	$ (317)	(0.2%)	$ (630)	(0.2%)
Dispositions and hotel closure	2,180	(8,452)	nm	(13,510)	nm
Total Portfolio	18,615	$ (8,769)	(6.2%)	$ (14,140)	(3.8%)

"nm" – not meaningful

Base Portfolio analysis for the three months ended September 30, 2013

- Room revenues were flat across the Ontario region with growth in most markets offset by renovation activity at a number of Comfort Inn hotels.
- The Quebec region saw room revenue improve 2.2% led by performance in Quebec City and Sherbrooke (Canada Summer Games).
- Room revenue in the Atlantic region decreased 1.9% driven by reduced occupancy. Strength in PEI and Newfoundland were offset by declines in Halifax (lower group base) as well as renovation activity at a number of Comfort Inn hotels.
- Room revenue declined 1.5% in the Western region driven primarily by renovation activity at the Delta Winnipeg and Sheraton Suites Calgary Eau Claire.

Base Portfolio analysis for the nine months ended September 30, 2013

- The Ontario region saw flat year-over-year room revenue with strength in the Greater Toronto Area offset by softness in the Ottawa region (primarily in Q1).
- The Quebec region saw stable year-over-year room revenue across the region.
- Room revenue in the Atlantic region decreased 2.7% driven by reduced occupancy.
- ADR gains in the Western region contributed to a 1.1% improvement in room revenue, notwithstanding renovation activity during the third quarter and the impact of floods in Calgary during the second quarter.

Non-Room Revenues

The sale of food and beverage represents over 80% of the non-room revenue earned over the periods presented. Non-room revenues for the three and nine months ended September 30, 2013 decreased $2.9 million (9.4%) and $3.1 million (3.3%), respectively. The divestiture of hotels contributed the majority of these declines. Lower catering activity contributed the remainder, notably in the two full-service hotels under renovation.

Hotel and other Real Estate Properties Expense

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	2012	Variance	**2013**	2012	Variance
Hotel	**$ 113,374**	$ 122,727	(7.6%)	**$ 340,617**	$ 353,863	(3.7%)
Other real estate properties	**222**	540	(58.9%)	**1,227**	1,671	(26.6%)
Hotel and other real estate properties	**$ 113,596**	$ 123,267	(7.8%)	**$ 341,844**	$ 355,534	(3.9%)

InnVest continually focuses on managing all costs to maximize overall profitability without impacting the service levels offered to its guests. Management's focus is on limiting incremental costs associated with improved occupancy and/or adjusting costs in periods of declining occupancy in order to enable margin expansion. Many property level expenses, including property taxes, rent and insurance are relatively fixed and do not necessarily change in accordance with overall demand levels.

During the first quarter of 2013, InnVest implemented operational enhancements to leverage InnVest's scale by consolidating certain hotel operation functions in select cities where it has multiple hotels. As a result, first quarter expenses included a restructuring charge of $1.3 million. Management expects to fully recover these costs through expense savings by the end of the year.

Hotel and other real estate properties expenses during the three and nine months ended September 30, 2013 decreased $9.7 million (7.8%) and $13.7 million (3.9%), respectively. Excluding asset sales, hotel and other real estate properties expenses increased less than 1%.

Consistent with changes in revenues, other real estate properties saw reduced operating expenses largely reflecting the sale of one office and retail complex during the second quarter of 2013.

Gross Operating Profit

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	2012	Variance	**2013**	2012	Variance
Hotel	**$ 47,538**	$ 49,851	(4.6%)	**$ 103,993**	$ 107,996	(3.7%)
Other real estate properties	**(1)**	253	nm	**394**	800	nm
Gross operating profit	**$ 47,537**	$ 50,104	(5.1%)	**$ 104,387**	$ 108,796	(4.1%)

"nm" – not meaningful

Gross operating profit ("GOP") for the three and nine months ended September 30, 2013 declined $2.6 million (5.1%) and $4.4 million (4.1%), respectively, primarily resulting from the decrease in gross operating profit from hotel operations ("Hotel GOP"). Gross operating profit from other real estate properties reflects the sale of one property during the second quarter of 2013.

Hotel GOP

The hotel industry has a high level of fixed costs with incremental revenue gains requiring marginal increases in costs. As a result, revenue growth achieved beyond inflation can contribute to substantial operating leverage for the portfolio. Notably, while occupancy growth contributes to improved profitability, more profit is achieved through increases in ADR. Conversely, in periods of marginal (below inflation) or declining revenues, decreases to expenses are limited, resulting in reduced profitability.

For the three months and nine months ended September 30, 2013, Hotel GOP declined $2.3 million (4.6%) and $4.0 million (3.7%) respectively. The sale of low-yielding assets contributed approximately $0.8 million and $0.2 million of the declines, respectively. These were somewhat offset by the full period inclusion of one hotel that had been closed for an extended period during the prior period. Same-hotel Hotel GOP margins declined 1.0% to 29.3% for the three months ended September 30, 2013 and declined 1.0% to 23.8% for the year-to-date period reflecting the impact of flat same-hotel RevPAR achieved, notwithstanding limited growth in operating expenses.

		Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
Hotel GOP variance to 2012	Number of Hotel Rooms	$	%	$	%
Base Portfolio					
Ontario	7,337	$ (309)	(1.9%)	$ (1,690)	(4.7%)
Quebec	3,434	166	1.8%	(1,187)	(6.1%)
Atlantic	2,687	(229)	(2.5%)	(16)	(0.1%)
Western	2,977	(1,603)	(11.8%)	(1,720)	(4.9%)
Total Base Portfolio	16,435	$ (1,975)	(4.1%)	$ (4,613)	(4.4%)
Dispositions and hotel closure	2,180	(338)	nm	610	nm
Total Portfolio	18,615	$ (2,313)	(4.6%)	$ (4,003)	(3.7%)

"nm" – not meaningful

Other Expenses

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Variance	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	Variance
Corporate and administrative	**$ 1,140**	$ 1,445	(21.1%)	**$ 3,824**	$ 4,741	(19.3%)
Interest expense:						
Mortgages and other debt	**10,960**	12,816	(14.5%)	**34,178**	38,180	(10.5%)
Convertible debentures	**6,296**	5,637	11.7%	**19,142**	16,848	13.6%
Joint venture income	**(1,501)**	(1,395)	7.6%	**(3,112)**	(2,879)	8.1%
Other income	**(1,428)**	476	nm	**(9,608)**	(878)	nm
(Reversal of) writedown of hotel properties, net	**(999)**	29,081	nm	**2,386**	28,967	nm
Depreciation and amortization	**20,137**	23,796	(15.4%)	**61,309**	71,589	(14.4%)
Unrealized (gain) loss on liabilities presented at fair value	**(992)**	2,364	nm	**3,827**	14,187	nm
Other expenses	**$ 33,613**	$ 74,220	(54.7%)	**$ 111,946**	$ 170,755	(34.4%)

"nm" – not meaningful

Other expenses during the three and nine months ended September 30, 2013 decreased $40.6 million and $58.8 million primarily reflecting a $29.1 million non-cash impairment provision recognized in the prior period relating to two assets. Other declines include non-cash adjustments relating to fair value measurement of liabilities and reduced depreciation and amortization following the full depreciation of chattel components relating to a large acquisition in late 2007.

InnVest is required to account for various unit-based instruments as financial liabilities. These instruments are remeasured at their fair value at each reporting period resulting in non-cash items based upon the price, and volatility, of InnVest's units at each reporting date. The unrealized non-cash gains or losses are recognized in the condensed interim consolidated statements of net income (loss) and total comprehensive income (loss). For the three months ended September 30, 2013, InnVest recognized a fair value gain of $1.0 million (2012 – loss of $2.4 million) compared to a fair value loss over the nine month period ended September 30, 2013 of $3.8 million (2012 – $14.2 million). These variances primarily result from the volatility of InnVest's unit price over the periods presented and their impact on convertible debenture holder's conversion option feature.

Lower corporate and administrative expenses for the nine months ended September 30, 2013 primarily reflects higher prior period professional costs related to the corporate reorganization completed in July 2012.

Mortgage interest expense declined based on lower outstanding mortgage indebtedness owing to the repayment of $61.7 million of mortgage debt following asset sales as well as regular principal repayments. Interest expense related to InnVest's convertible debentures reflect the issuance of $115.0 million of Series G 5.75% Debentures on February 27, 2013 and the early redemption of its $75.0 million 6.0% Series B Debentures on April 1, 2013.

Joint venture income improved for the three and nine months ended September 30, 2013 and reflects InnVest's 50% interest in the net profits of CHC. For the three months ended September 30, 2013, InnVest's proportionate share of CHC generated revenues of $4.4 million and operating expenses of $2.9 million (2012 – $4.0 million and $2.6 million). For the nine months ended September 30, 2013, InnVest's proportionate share of CHC generated revenues of $10.1 million and operating expenses of $7.0 million (2012 – $9.2 million and $6.3 million) See *Critical Accounting Policies and Estimates* for a discussion on the changes in the accounting treatment for InnVest's interest in CHC.

Other income during the periods presented largely reflect gains on three asset sales including a gain of $6.9 million realized on the sale of one office and retail property during the second quarter of 2013.

Other expenses during the nine months ended September 30, 2013 include the $3.5 million reversal of prior impairments and a second quarter non-cash impairment charge of $5.9 million relating to six properties (triggered by a structural building allowance relating to one asset and adjustments to sale proceed expectations). While management does not expect its divestiture program to result in an overall loss on sale, accounting rules require management to recognize impairment charges on assets based on their estimated recoverable amount, unlike gains, which can only be recognized upon sale.

Income Taxes

For the three and nine months ended September 30, 2013, InnVest generated modest deferred income tax recoveries.

The prior periods reflect the impact of enacted tax legislation applicable to specified flow-through entities which had become applicable to InnVest following its corporate reorganization in July 2012. These provisions were reversed in the fourth quarter of 2012 following the substantive enactment of legislation impacting real estate investment trusts.

For 2013, management estimates that approximately 30% of distributions will not be taxable to unitholders (2012 – 40%). This estimate may change materially based on InnVest's asset disposition activity during the year.

Net Income (Loss)

For the three months ended September 30, 2013, InnVest realized a net income of $13.9 million ($0.139 per unit diluted) compared to a loss of $221.5 million in the prior period ($2.368 per unit diluted). For the nine months ended September 30, 2013, InnVest realized a net loss of $7.2 million ($0.077 per unit diluted) compared to a loss of $249.7 million in the prior period ($2.669 loss per unit diluted).

Excluding non-cash items (unrealized losses on liabilities presented at fair value, deferred income taxes, gain on asset sales, net writedown of hotel properties and depreciation and amortization) InnVest realized an adjusted net income of $31.5 million (2012 – $30.5 million) and $51.3 million (2012 – $50.9 million) for the three and nine months ended September 30, 2013. Refer to *Non-IFRS Financial Measures and Additional IFRS Financial Measures* on page 15 for a reconciliation of net income (loss) to adjusted net income.

Funds from Operations (FFO)

For the three months ended September 30, 2013, InnVest generated FFO of $31.5 million ($0.270 per unit diluted) compared to $30.9 million in the prior period ($0.293 per unit diluted). For the nine months ended September 30, 2013, InnVest generated FFO of $51.4 million ($0.499 per unit diluted) compared to $52.0 million in the prior period ($0.531 per unit diluted). The year-over-year variances primarily reflects lower Hotel GOP achieved which was somewhat offset by interest saving over the periods. Refer to *Non-IFRS Financial Measures and Additional IFRS Financial Measures* on page 15 for a reconciliation of net income (loss) to FFO.

Distributable Income

For the three months ended September 30, 2013, InnVest generated distributable income of $26.5 million ($0.226 per unit diluted) compared to $25.3 million in the prior period ($0.239 per unit diluted). For the nine months ended September 30, 2013, InnVest generated distributable income of $38.0 million ($0.377 per unit diluted) compared to $37.4 million in the prior period ($0.390 per unit diluted). The year-over-year improvements primarily reflect interest savings achieved following asset sales which offset lower Hotel GOP generated. Refer to *Non-IFRS Financial Measures and Additional IFRS Financial Measures* on page 15 for a reconciliation of net income (loss) to distributable income.

Distributions declared for the nine months ended September 30, 2013 totalled $28.1 million, or $0.2997 per unit (2012 – $28.0 million or $0.2997 per unit).

CHANGES IN FINANCIAL CONDITION

Operating Activities

For the nine months ended September 30, 2013, cash generated by operating activities totalled $51.8 million, up modestly from the prior period of $49.0 million.

Financing Activities

The $76.6 million repayment of long-term debt reflects mortgage repayments following six asset sales during the year ($61.7 million) as well as the regular payment of annual mortgage principal amortization. Incremental long-term debt of $4.7 million primarily reflects funds advanced through the use of InnVest's capital line availability during the year.

Financing activities reflect net proceeds of $110.0 million from convertible debentures issued in February 2013 (gross proceeds of $115.0 million). Proceeds were primarily raised to fund the early redemption of InnVest's Series B 6.00% convertible debentures on April 1, 2013. Proceeds were also used to repay $15.1 million previously drawn on the line of credit and to finance capital expenditures incurred in excess of the FF&E Reserve.

Cash distributions during the nine months ended September 30, 2013 totalled $27.7 million compared to $28.0 million in the prior period.

Investing Activities

Each year, InnVest allocates between 3% and 5% of total hotel revenues at each hotel to replace furniture, fixtures and equipment and to fund capital improvements (the "FF&E Reserve"). Capital expenditures during the nine months ended September 30, 2013 totalled $41.2 million (2012 – $28.8 million) compared to the allocated FF&E Reserve of $18.6 million (2012 – $19.4 million). Capital investments undertaken in 2013 reflect the rollout of InnVest's Comfort Inn revitalization program as well as the start of renovations at select full-service hotels including the Delta Winnipeg (lobby, meeting space and guestrooms) as well as the Sheraton Suites Calgary Eau Claire (lobby, meeting space and guestrooms). At September 30, 2013, InnVest has additional committed capital of $18.2 million.

Investing activities reflect the year-to-date distributions of $3.3 million received from InnVest's investment in CHC (2012 – $2.9 million).

Investing activities also include gross proceeds of $93.1 million ($79.8 million net of costs) from the sale of two properties during the year.

QUARTERLY RESULTS

Seasonality

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

	Quarter Ended (unaudited) (2012 restated)							
	September 30 2013	June 13 2013	March 31 2013	Dec 31 2012	Sept 30 2012	June 30 2012	March 31 2012	Dec 31 2011
Revenues	**$ 161,133**	$ 161,276	$ 123,822	$ 148,499	$ 173,371	$ 161,149	$ 129,810	$ 147,138
Gross operating profit	**47,537**	43,429	13,421	28,793	50,104	41,527	17,165	27,760
Net income (loss)	**13,946**	20,505	(41,666)	147,491	(221,472)	1,989	(30,171)	(4,324)
FFO	**31,504**	25,097	(5,209)	11,762	30,911	23,170	(2,130)	10,101
Distributable income (loss)	**26,482**	20,174	(8,622)	7,226	25,287	17,981	(5,875)	5,547
Distributions declared	**9,368**	9,364	9,360	9,349	9,345	9,345	9,344	10,130
Per unit – diluted:								
Net income (loss)	**$ 0.139**	$ 0.189	$ (0.445)	$ 1.227	$ (2.368)	$ 0.021	$ (0.323)	$ (0.046)
FFO	**0.270**	0.223	(0.056)	0.125	0.293	0.228	(0.023)	0.108
Distributable income (loss)	**0.226**	0.180	(0.092)	0.077	0.239	0.178	(0.063)	0.059
Trust units outstanding	**93,788,684**	93,745,281	93,702,704	93,583,904	93,557,172	93,538,022	93,538,022	93,538,022
Weighted average trust units outstanding	**93,720,441**	93,726,338	93,663,167	93,549,109	93,547,482	93,538,022	93,538,022	93,538,022
Total assets	**$ 1,339,982**	$1,387,235	$1,468,212	$1,412,981	$1,478,062	$1,540,997	$1,563,692	$1,564,111
Total long-term debt	**680,851**	690,792	714,399	730,618	777,072	806,171	818,866	804,569

LIQUIDITY AND CAPITAL RESOURCES

InnVest has several sources of liquidity including the following:

CASH GENERATED FROM HOTEL OPERATIONS

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

LINE OF CREDIT

At September 30, InnVest has a line of credit with a major banking institution up to a maximum of $40.0 million. The line of credit is used to finance temporary shortfalls in cash resulting from business seasonality and working capital fluctuations. The credit facility may also be used to provide short-term financing in the event of the acquisition of a new hotel. At September 30, 2013, no amount was drawn on the line of credit (December 31, 2012 – $15.1 million).

ISSUING ADDITIONAL DEBT

InnVest also has the ability to raise funds by mortgaging its properties or by issuing either debt or convertible debt securities. InnVest typically uses long-term debt financing to refinance existing debt or to finance an acquisition. The ability to secure debt financing on reasonable terms is ultimately dependent on market conditions and the lender's determination of InnVest's creditworthiness. At September 30, 2013, substantially all of InnVest's assets have been pledged as security under debt agreements.

ISSUING ADDITIONAL EQUITY SECURITIES

InnVest's listing on the Toronto Stock Exchange gives it the ability to access, subject to market conditions, additional equity through the issuance of additional units or other equity instruments. During the first quarter of 2013, InnVest issued $115.0 million of Series G 5.75% Debentures and called its $75.0 million 6.0% Series B Debentures for early redemption on April 1, 2013.

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

Cash on Hand

At September 30, 2013, InnVest has cash totalling $29.1 million, of which $7.5 million is restricted to undertake capital refurbishments in accordance with certain mortgage and franchise agreements.

Each year, InnVest allocates an FF&E Reserve totalling between 3% and 5% of total hotel revenue. Capital expenditures during the nine months ended September 30, 2013 totalled $41.2 million (2012 – $28.8 million) compared to the allocated FF&E Reserve of $18.6 million (2012 – $19.4 million). Incremental capital above the allocated FF&E Reserve during the nine months ended September 30, 2013 was funded with cash on hand and funds advanced through the use of InnVest's capital line availability. At September 30, 2013, future capital commitments approximate $18.2 million.

The following chart shows the changes in the restricted FF&E Reserve cash balance for the nine months ended September 30, 2013 and 2012.

	2013	2012
Opening balance, January 1	**$ 8,739**	$ 6,031
FF&E Reserve	**18,640**	19,366
Transferred from operating cash	**17,117**	7,540
Funded through capital loan facility	**4,273**	3,619
Capital expenditures	**(41,227)**	(28,848)
Closing balance, September 30	**$ 7,542**	$ 7,708

Debt Strategy

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

CREDIT FACILITY AND BRIDGE LOAN

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

InnVest has an operating line of credit of up to $40.0 million with a major banking institution which matures August 31, 2014. The operating line is secured by 13 properties. The amount of the operating line is subject to a mortgageability test which is based on the operating results of the secured properties. Interest rates are based on the lesser of (i) Canadian prime rate plus 2.0% and (ii) the Canadian Bankers' Acceptance rate plus 3.0%. Based on the operating results of the secured properties for the four quarters ended September 30, 2013, InnVest qualifies for $36.7 million availability under the line of credit. At September 30, 2013, no amount was drawn on the credit facility (December 31, 2011 – $15.1 million). Letters of credit totalling $2.5 million (December 31, 2012 – $2.5 million) were pledged against the facility.

At September 30, 2013, InnVest has a $3.0 million (December 31, 2012 – $3.5 million) bridge loan secured by one hotel. The bridge loan matures March 1, 2014 and bears interest at the Canadian Bankers' Acceptance rate plus 3.5%.

MORTGAGES PAYABLE AND CONVERTIBLE DEBENTURES

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

At September 30, 2013, InnVest has mortgages payable of $706.7 million (December 31, 2012 – $778.0 million) with a weighted average term of 2.3 years (December 31, 2012 – 3.0 years) and a weighted average interest rate of 5.8% (December 31, 2012 – 5.6%). These mortgages include $22.1 million presented as current liabilities related to assets held for sale (December 31, 2012 – $57.6 million). Year-to-date in 2013, six properties were sold contributing to mortgage repayments of approximately $61.7 million of floating rate mortgage. Approximately 3.2% of InnVest's mortgage debt is at floating rate at September 30, 2013.

On October 9, 2013, InnVest completed the refinancing of a $183.8 million mortgage for a 67-month term through May 2019, with two additional one-year renewal options through May 2021. The mortgage, secured by 42 properties, will carry its existing weighted average interest rate of 6.0% through May 2014 (the original maturity date) and approximately 5.1% thereafter. Subsequent to the end of the quarter, management also entered into a separate agreement to refinance the Sheraton Eau Claire, Calgary for $68.0 million at a fixed interest rate of 5.33% for a 10-year term. Incremental proceeds of $36.4 million from the refinancing will be used to partially repay a $45.4 million mortgage maturity in April 2014 (secured by 10 properties, two of which are classified as held for sale). The Sheraton Eau Claire refinancing is expected to close in early January 2014. Proforma these refinancing transactions, InnVest will have a weighted average mortgage interest rate of approximately 5.4% and a weighted average term of 4.5 years.

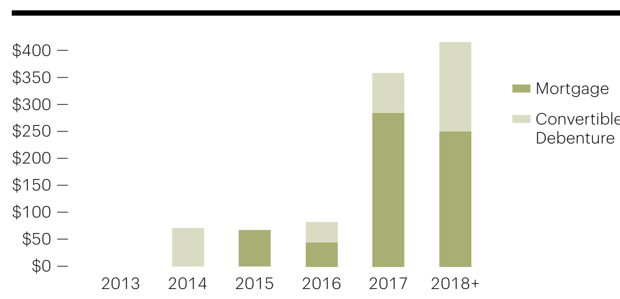
In conjunction with its October 2013 refinancing, InnVest has access to a loan facility, granted in conjunction with property mortgages, for up to $30.0 million to fund 65% of capital expenditures incurred at certain of its hotels. This capital expenditure loan facility replaces InnVest's previous $25.0 million facility which had a remaining capacity of $12.9 million at September 30, 2013 (December 31, 2012 – $16.3 million).

At September 30, 2013, InnVest has approximately $122.2 million of mortgages secured by conduit financing maturing in 2014 and 2015.

At September 30, 2013, InnVest had five series of fixed-rate convertible debentures totalling $346.4 million (December 31, 2012 – $306.3 million). During the first quarter of 2013, InnVest issued $115.0 million of Series G 5.75% Debentures and called its $75.0 million 6.0% Series B Debentures for early redemption on April 1, 2013. Outstanding convertible debentures mature between August 2014 and March 2019.

Following refinancing transactions announced in early October 2013, InnVest does not have significant debt maturities until August 2014. Based on recent negotiations with lenders and its knowledge and experience refinancing mortgages and accessing the public markets, management expects to address its debt maturities in the normal course of business. Modest contraction of interest rate spreads have helped to offset increases in bond yields since the end of 2012, allowing for borrowing rates for the industry to remain attractive.

The following chart highlights InnVest's mortgage (excluding those held for sale) and convertible debenture maturity schedule at September 30, 2013, proforma the subsequent refinancings of InnVest's 2014 mortgages.



Leverage

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

At September 30, 2013, InnVest's leverage excluding and including convertible debentures was 43.0% (December 31, 2012 – 46.3%) and 64.0% (December 31, 2012 – 64.5%), respectively.

Total assets per Consolidated Balance Sheet	$ 1,339,982	
Accumulated depreciation and amortization	310,319	
Gross Asset Value	$ 1,650,301	
Book value of mortgages and bridge loan[1]	$ 709,748	43.0%
Convertible debentures[2]	346,358	21.0%
Total debt	$ 1,056,106	64.0%

(1) Mortgages payable are gross of financing issuance costs and include $22.1 million in mortgages related to assets held for sale.
(2) Adjusted to face value.

Contractual Obligations Repayment Summary

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

The following table summarizes InnVest's contractual obligations as at September 30, 2013.

	Remainder of 2013	2014	2015	2016	2017	2018 and Thereafter	Contractual Cash flows[1]
Accounts payable and other liabilities	$ 77,266	$ –	$ –	$ –	$ –	$ –	$ 77,266
Liabilities related to assets held for sale	26,808	–	–	–	–	–	26,808
Mortgage payable – principal[2]	4,205	255,881	77,083	55,029	287,087	5,364	684,649
Mortgage payable – interest[3]	10,210	29,932	22,566	19,860	5,745	72	88,385
Bridge loan – principal	500	2,500	–	–	–	–	3,000
Bridge loan – interest	37	22	–	–	–	–	59
Convertible debentures – principal	–	70,000	–	36,358	75,000	165,000	346,358
Convertible debentures – interest	2,047	20,537	16,442	15,215	13,988	11,356	79,585
Long–term land leases	1,225	4,899	4,140	3,896	2,246	77,083	93,489
Capital commitments	18,238	–	–	–	–	–	18,238
Total	$ 140,536	$ 383,771	$ 120,231	$ 130,358	$ 384,066	$258,875	$1,417,837

(1) Contractual cash flows include principal and interest payments and include extension options available to InnVest.
(2) Principal includes regular amortization and balance due at maturity (excluding amounts related to assets held for sale). Maturity schedule includes extension options available to InnVest.
(3) Interest amounts for floating rate debt is based on interest rates prevailing at September 30, 2013.

As at September 30, 2013, InnVest has leasehold interests in 11 of its hotels. The leaseholds require minimum annual average lease payments and expire between 2016 and 2088.

Contingent Obligations

InnVest and its operating subsidiaries are contingently liable with respect to litigation and claims that arise from time to time in the normal course of business. An application has been filed in 2011 against InnVest by a landlord relating to one leased hotel. The claim seeks $20.0 million in damages for various alleged breaches of the lease. InnVest is contesting this claim and believes it has strong defences to the claim, including a potential counter-claim against a prior tenant. The proceeding is at its early stages. Management is in discussions with the landlord relating to various matters concerning this hotel. At this time, the amount of contingent cash outflow, if any, related to this claim is uncertain.

DISTRIBUTIONS TO UNITHOLDERS

For the nine months ended September 30, 2013, distributions totalling $28.1 million were declared ($0.2997 per unit), relatively unchanged from the prior period of $28.0 million ($0.2997 per unit).

For the twelve months ended September 30, 2013, InnVest's payout ratio was 83.0% (82.0% on a cash basis excluding the non-cash distributions made through the DRIP), relatively unchanged from the year ended December 31, 2012.

	Twelve Months Ended September 30				Years Ended December 31,
	2013	2012	2011	2010	2009
					As reported pursuant to Canadian GAAP
Distributable income	**$ 45,133**	$ 44,514	$ 46,440	$ 41,776	$ 51,524
Distributions	**37,441**	37,383	44,896	44,384	51,297
Distributable income in excess of (less than) distributions	**7,692**	7,131	1,544	(2,608)	227
Non-cash distributions made through the DRIP	**449**	143	309	1,688	2,756
Distributable income in excess of (less than) cash distributions	**$ 8,141**	$ 7,274	$ 1,853	$ (920)	$ 2,983
Payout ratios:					
Total distributions	**83.0%**	84.0%	96.7%	106.2%	99.6%
Cash distributions (excluding DRIP)	**82.0%**	83.7%	96.0%	102.2%	94.2%

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

Distributions to unitholders are approved by InnVest's Board of Trustees. Each month, InnVest may distribute such percentage of its estimated distributable income as the Trustees determine in their discretion. In exercising their discretion to approve the level of distributions, the Trustees use forecasts prepared by management and other financial information to determine if sufficient cash flow will be available to fund distributions. Such financial information is subject to change due to the nature of the Canadian hotel industry which can be difficult to predict, even in the short-run. Refer to *Risks and Uncertainties* on page 18.

UNIT INFORMATION

Since January 1, 2012, InnVest issued units as follows:

Units outstanding, January 1, 2012	93,538,022
Dividend reinvestment plan	30,467
Trustee compensation plan	15,415
Units outstanding, December 31, 2012	93,583,904
Executive compensation plan	94,500
Dividend reinvestment plan	82,901
Trustee compensation plan	27,379
Units outstanding, September 30, 2013	93,788,684
Issued subsequent to the quarter	
Dividend reinvestment plan	11,557
Trustee compensation plan	9,564
Units outstanding, November 6, 2013	93,809,805

Units Issuable on Conversion of Convertible Debentures

On February 27, 2013, InnVest closed a bought deal of $115.0 million, 5.75% convertible unsecured subordinated debentures ("Series G – 5.75% Debentures") due March 30, 2019 and subsequently called its $75.0 million 6.0% Series B Debentures (due May 2013) for early redemption on April 1, 2013. The Series G – 5.75% Debentures have a strike price of $5.80 and are convertible into 19,827,586 units upon conversion.

The following table summarizes the number of units issuable based on the convertible debentures outstanding at September 30, 2013.

Convertible Debentures	Maturity Date	Conversion Strike Price	Balance Outstanding	Units to be Issued Upon Conversion
Series C – 5.85%	August 1, 2014	$ 14.70	$ 70,000	4,761,904
Series D – 6.75%	March 31, 2016	$ 5.70	$ 36,358	6,378,596
Series E – 6.00%	September 30, 2017	$ 8.00	$ 75,000	9,375,000
Series F – 5.75%	March 30, 2018	$ 9.45	$ 50,000	5,291,005
Series G – 5.75%	March 30, 2019	$ 5.80	$ 115,000	19,827,586

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

Dividend Reinvestment Plan ("DRIP")

InnVest has a DRIP whereby eligible Canadian unitholders may elect to have their distributions of income from InnVest automatically reinvested in additional units of InnVest.

Executive and Trustee Compensation Programs

InnVest's executive compensation program provides for the grant of restricted units to certain senior employees. Units granted vest equally on the third and fourth anniversary of the effective date of grant. At September 30, 2013, there were 26,591 unvested executive units granted under the plan (December 31, 2012 – 100,790). In January 2013, 86,500 units vested and were issued from treasury. In May 2013, 8,000 units were issued (with immediate vesting) from treasury.

Each quarter, 50% of InnVest Trustees' annual retainer compensation is payable in units (based on the then-current market price).

NON-IFRS FINANCIAL MEASURES AND ADDITIONAL IFRS FINANCIAL MEASURES

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

Additional IFRS Financial Measures

GROSS OPERATING PROFIT ("GOP")

GOP is defined as revenues less hotel and other real estate properties. GOP reflects results of operations from InnVest's two business segments: hotel ownership and other real estate assets. For the nine months ended September 30, 2013 and 2012, InnVest's hotel ownership operations accounted for over 99% of its total GOP.

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

GOP has been calculated as follows:

	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Revenues	**$ 161,133**	$ 173,371	**$ 446,231**	$ 464,330
Hotel and Other real estate properties				
Operating expenses	**95,949**	103,536	**288,118**	298,346
Property taxes, rent and insurance	**11,511**	12,881	**36,515**	38,943
Management fees	**6,136**	6,850	**17,211**	18,245
	113,596	123,267	**341,844**	355,534
Gross operating profit	**$ 47,537**	$ 50,104	**$ 104,387**	$ 108,796

ADJUSTED NET INCOME

Adjusted net income excludes non-cash items including unrealized losses on liabilities presented at fair value, deferred income taxes, gain on asset sales, net writedown of hotel properties and depreciation and amortization. Management believes adjusted net income to be a meaningful indicator of its operating performance as it eliminates non-cash and/or non-recurring non-cash items impacting year-over-year performance.

Adjusted net income has been calculated as follows:

	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Net income (loss)	**$ 13,946**	$ (221,472)	**$ (7,215)**	$ (249,654)
Add/(deduct):				
Depreciation and amortization	**20,137**	23,796	**61,309**	71,589
Deferred income tax (recovery) expense	**(22)**	195,864	**(344)**	186,203
Unrealized changes in the fair value of financial liabilities	**(992)**	2,364	**3,827**	14,187
(Gain) loss on sale of assets	**(602)**	890	**(8,702)**	(430)
(Reversal of) writedown of hotel properties, net	**(999)**	29,081	**2,386**	28,967
Adjusted net income	**$ 31,468**	$ 30,523	**$ 51,261**	$ 50,862

Non-IFRS Financial Measures

FUNDS FROM OPERATIONS ("FFO")

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

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

InnVest presents FFO in accordance with Real Property Association of Canada's ("REALpac") White Paper on Funds From Operations revised in November 2012 except that InnVest excludes unusual items which are not in the normal course of business and are not expected to reoccur. InnVest's method of calculating FFO may be different from that of other organizations.

InnVest calculates FFO by using net income (loss) 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;
iv) Non-cash writedown of assets held for sale as well as the impairment provision (and impairment reversals) on assets;
v) Non-cash effect of certain equity-based financial instruments classified as financial liabilities under IFRS (includes distributions included in corporate and administrative expense and changes to fair value each reporting period); and
vi) Non-recurring costs that may impact cash flow.

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

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Net income (loss)	**$ 13,946**	$ (221,472)	**$ (7,215)**	$ (249,654)
Add/(deduct):				
Depreciation and amortization	**20,137**	23,796	**61,309**	71,589
Deferred income tax (recovery) expense	**(22)**	195,864	**(344)**	186,203
Unrealized changes in the fair value of financial liabilities	**(992)**	2,364	**3,827**	14,187
Distributions included in corporate and administrative expense	**36**	36	**109**	109
(Gain) loss on sale of assets	**(602)**	890	**(8,702)**	(430)
(Reversal of) writedown of hotel properties, net	**(999)**	29,081	**2,386**	28,967
SIFT transition expenses	**–**	352	**–**	980
FFO	**$ 31,504**	$ 30,911	**$ 51,370**	$ 51,951
FFO per unit:				
Basic	**$ 0.336**	$ 0.330	**$ 0.548**	$ 0.555
Diluted	**$ 0.270**	$ 0.293	**$ 0.499**	$ 0.531
Weighted average units outstanding:				
Basic	**93,770,602**	93,538,022	**93,720,441**	93,540,926
Diluted	**139,791,865**	124,821,220	**130,452,802**	114,585,528

Distributable Income

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

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

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

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Net income (loss)	**$ 13,946**	$ (221,472)	**$ (7,215)**	$ (249,654)
Add/(deduct):				
Depreciation and amortization	**20,137**	23,796	**61,309**	71,589
Deferred income tax (recovery) expense	**(22)**	195,864	**(344)**	186,203
Unrealized changes in the fair value of financial liabilities	**(992)**	2,364	**3,827**	14,187
Distributions included in corporate and administrative expense	**36**	36	**109**	109
(Gain) loss on sale of assets	**(602)**	890	**(8,702)**	(430)
(Reversal of) writedown of hotel properties, net	**(999)**	29,081	**2,386**	28,967
SIFT transition expenses	**–**	352	**–**	980
Non-cash portion of mortgage interest expenses	**553**	571	**1,606**	1,765
Non-cash portion of convertible debenture interest and accretion	**1,166**	1,032	**3,676**	3,043
FF&E reserve	**(6,741)**	(7,227)	**(18,640)**	(19,366)
Distributable income	**$ 26,482**	$ 25,287	**$ 38,012**	$ 37,393
Distributable income per unit:				
Basic	**$ 0.282**	$ 0.270	**$ 0.406**	$ 0.400
Diluted	**$ 0.226**	$ 0.239	**$ 0.377**	$ 0.390
Weighted average units outstanding:				
Basic	**93,770,602**	93,538,022	**93,720,441**	93,540,926
Diluted	**139,791,865**	124,821,220	**125,161,797**	109,294,523

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

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

RELATED PARTY TRANSACTIONS

In accordance with our corporate governance practices, all related party transactions are approved by the independent trustees.

On July 26, 2002, InnVest entered into a management agreement for hotel management and accounting services and an administrative services agreement (the "Agreements") with Westmont. Westmont is controlled by a minority unitholder of InnVest. The current term of the Agreements expires July 25, 2017 and includes an additional renewal term for a five-year extension, subject to the consent of Westmont and approval by InnVest. The Agreements are subject to non-compete arrangements for limited-service hotels in Canada. The Agreements provide for the payment of an annual management fee to Westmont equal to 3.375% of gross hotel revenue during the term of the Agreements, including renewal periods. In addition, Westmont may receive an annual incentive fee if InnVest achieves distributable income in excess of $1.25 per unit. To date, no management incentive fees have been paid under the Agreements. For assets sold which are managed by Westmont, InnVest pays a termination fee equal to the hotel management fees paid based on trailing 12 months revenues.

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

Also, for certain hotels owned by InnVest and not managed by Westmont, Westmont is entitled to an asset management fee based on a fixed percentage of the purchase price of the hotel or a fixed percentage of Hotel GOP, subject to an annual minimum fee. This asset management agreement expires in May 2015.

Total management and other fees paid to Westmont for the nine months ended September 30, 2013 were $14.5 million (2012 – $13.9 million). These fees represent approximately 66% (2012 – 65%) of total hotel management and other fees paid by InnVest to the four hotel management companies with which it partners over the periods presented.

RISKS AND UNCERTAINTIES

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

There have been no changes to InnVest's assessment of its risk factors since December 31, 2012. For a discussion of risk factors that have been identified, readers should refer to InnVest's 2012 Annual Report and InnVest's latest Annual Information Form, both of which are available on SEDAR.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

InnVest's MD&A for the year ended December 31, 2012 contains a discussion of InnVest's significant accounting policies most affected by estimates and judgment used in the preparation of its financial statements, being its accounting policies relating to the valuation of its hotel properties in assessing impairment, the fair value of other financial assets and liabilities, the componentization and expected useful life of hotel properties, and the valuation of defined benefit pension plans and other employee benefits.

Management has determined that at September 30, 2013, there is no change to its assessment of its significant accounting policies most affected by estimates and judgments as detailed in the MD&A for the year ended December 31, 2012.

Other than as noted below, the significant accounting policies used in the preparation of the Interim Financial Statements for the three and nine months ended September 30, 2013 are consistent with those reported in the audited consolidated financial statements for the year ended December 31, 2012.

Effective January 1, 2013, InnVest implemented accounting policy changes relating to IFRS 11 – *Interests in Joint Ventures* and amendments to IAS 19 – *Employee Benefits* with retrospective restatement as at the start of the comparative period presented, being January 1, 2012. While the adoption of these changes did not have an impact on InnVest's cash flows, it did impact the presentation of certain line items on its balance sheets and statements of income (loss).

IFRS 11, Joint Arrangements

IFRS 11 superseded IAS 31, *Interests in Joint Ventures*. The new standard eliminates the option to proportionately consolidate interests in certain types of joint ventures. The standard classifies joint arrangements into two types: (1) joint operations; and (2) joint

ventures. For joint operations, the standard requires InnVest to recognize and measure the assets and liabilities (and related revenues and expenses) in relation to its interest in the arrangement in accordance with the relevant IFRSs. For joint ventures, the standard requires InnVest to recognize an investment and to account for that investment using the equity method. IFRS 11 affected the accounting of InnVest's interest in CHC which was previously proportionately consolidated.

The impact of IFRS 11 on the January 1, 2012 (opening balance sheet) resulted in a decrease in assets and liabilities of $5.9 million and $4.7 million, respectively, which was replaced with a balance sheet presentation of an 'Investment in joint venture' of $1.2 million. For the nine months ended September 30, 2012, IFRS 11 resulted in a reduction of GOP of $2.9 million, replaced by increased 'Joint venture income' of $2.9 million in the consolidated statement of loss for the period. For the year ended December 31, 2012, IFRS 11 resulted in a reduction of GOP of $4.1 million, replaced by increased 'Joint venture income' of $4.1 million.

Amendments to IAS 19 – Employee Benefits

The amendments required the recognition of changes in the defined benefit obligation and plan assets when those changes occur, eliminating the corridor approach and accelerating the recognition of past service costs. In addition, IAS 19 requires enhanced annual disclosures relating to employee benefits.

IAS 19 resulted in the immediate recognition of unamortized actuarial losses at January 1, 2012 (opening balance sheet) which resulted in an increase in liabilities of $1.2 million with a corresponding adjustment through retained equity at January 1, 2012. For the nine months ended September 30, 2012 and the year ended December 31, 2012, the adoption of IAS 19 resulted in insignificant changes to the consolidated statements of loss.

IMPACT OF ACCOUNTING CHANGES ON STATEMENT OF FINANCIAL POSITION

The following tables quantify the significant restatements following the adoption of IFRS 11 and amendments to IAS 19 as at January 1, 2012 and December 31, 2012.

January 1, 2012		IFRS 11 – De-recognition of CHC Proportionate Consolidation	IFRS 11 – Recognition of Initial CHC Investment	IAS 19 – Elimination of Unamortized Actuarial Loss	Restated
ASSETS					
Current assets					
Cash	$ 7,639	$ (3,913)	$ –	$ –	$ 3,726
Accounts receivable	31,744	(1,888)	–	–	29,856
Prepaid expenses and other assets	8,801	(50)	–	–	8,751
	48,184	(5,851)	–	–	42,333
Non–current assets					
Joint venture investment	–	–	1,225	–	1,225
Other non–current assets	1,515,927	(82)	–	–	1,515,845
Total assets	$ 1,564,111	$ (5,933)	$ 1,225	$ –	$ 1,559,403
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	$ 78,083	$ (4,708)	$ –	$ –	$ 73,375
Other current liabilities	208,225	–	–	–	208,225
	286,308	(4,708)	–	–	281,600
Non–current liabilities	948,381	–	–	1,167	949,548
Total liabilities	1,234,689	(4,708)	–	1,167	1,231,148
UNITHOLDERS' EQUITY	329,422	(1,225)	1,225	(1,167)	328,255
Total liabilities and unitholders' equity	$ 1,564,111	$ (5,933)	$ 1,225	$ –	$ 1,559,403

December 31, 2012		Opening Balance Sheet Adjustments	IFRS 11 – De-recognition of CHC Proportionate Consolidation	IFRS 11 – Equity Accounting	IAS 19 – Elimination of Corridor Approach	Restated
ASSETS						
Current assets						
Cash	$ 10,926	$ –	$ (4,460)	$ –	$ –	$ 6,466
Accounts receivable	24,182	–	(1,729)	–	–	22,453
Prepaid expenses and other assets	8,000	–	(46)	–	–	7,954
Assets held for sale	74,100	–	–	–	–	74,100
	117,208	–	(6,235)	–	–	110,973
Non-current assets						
Joint venture investment	–	1,225	–	40	–	1,265
Other non-current assets	1,300,811	–	(68)	–	–	1,300,743
Total assets	$ 1,418,019	$ 1,225	$ (6,303)	$ 40	$ –	$ 1,412,981
LIABILITIES						
Current liabilities						
Accounts payable and accrued liabilities	$ 68,910	$ –	$ (4,776)	$ (262)	$ –	$ 63,872
Other current liabilities	163,333	–	–	–	–	163,333
	232,243	–	(4,776)	(262)	–	227,205
Non-current liabilities	949,024	1,167	–	–	(105)	950,086
Total liabilities	1,181,267	1,167	(4,776)	(262)	(105)	1,177,291
UNITHOLDERS' EQUITY	236,752	58	(1,527)	302	105	235,690
Total liabilities and unitholders' equity	$ 1,418,019	$ 1,225	$ (6,303)	$ 40	$ –	$ 1,412,981

IMPACT OF ACCOUNTING CHANGES ON RESULTS OF OPERATIONS

The following table quantifies the significant restatements following the adoption of IFRS 11 and amendments to IAS 19 for the nine months ended September 30, 2012 and for the year ended December 31, 2012.

Nine Months Ended September 30, 2012		IFRS 11 – De-recognition of CHC Proportionate Consolidation	IAS 19 – Elimination of Corridor Approach	Restated
Revenues	$ 473,508	$ (9,178)	$ –	$ 464,330
Operating expenses	361,911	(6,299)	(78)	355,534
Gross operating profit	111,597	(2,879)	78	108,796
Other expenses	(173,634)	–	–	(173,634)
Joint venture income	–	2,879	–	2,879
Loss before income tax recovery	(62,037)	–	78	(61,959)
Income tax expense	187,695	–	–	187,695
Net loss and comprehensive loss	$ (249,732)	$ –	$ 78	$ (249,654)

Year Ended December 31, 2012		IFRS 11 – De-recognition of CHC Proportionate Consolidation	IAS 19 – Elimination of Corridor Approach	Restated
Revenues	$ 625,231	$ (12,402)	$ –	$ 612,829
Operating expenses	483,629	(8,284)	(105)	475,240
Gross operating profit	141,602	(4,118)	105	137,589
Other expenses	223,030	–	–	223,030
Joint venture income	–	(4,118)	–	(4,118)
Loss before income tax recovery	(81,428)	–	105	(81,323)
Income tax expense	20,840	–	–	20,840
Net loss and comprehensive loss	$ (102,268)	$ –	$ 105	$ (102,163)

FUTURE ACCOUNTING CHANGES

InnVest has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on its consolidated financial statements and note disclosures. Early adoption of IAS 32 and IFRS 9 is permitted, subject to certain conditions. While InnVest is continuing to evaluate the impact of these standards, InnVest does not believe these standards will result in a material impact on the consolidated financial statements.

IAS 32 – Financial Instruments: Presentation

Amendments to IAS 32 provide additional guidance on the presentation of offsetting financial assets and financial liabilities. The amendments present application guidance on the legal right to offset financial assets and liabilities and management's intent to settle on a net basis. The amendments require retrospective application. The standard is effective for annual periods beginning on or after January 1, 2014.

IFRS 9, Financial Instruments

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

IFRS 9 as issued reflects the International Accounting Standards Board's ("IASB") work to date on the replacement of IAS 39, and applies to the classification and measurement of financial assets and financial liabilities as defined in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of its financial assets. The standard is effective for annual periods beginning on or after January 1, 2015.

CONTROLS AND PROCEDURES

Management of InnVest is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS. In accordance with National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, the Chief Executive Officer and the Chief Financial Officer have assessed, or caused an assessment to be made under their direct supervision, of the design and operating effectiveness of InnVest's internal controls over financial reporting as at September 30, 2013, and based on that assessment have concluded that InnVest's internal controls over financial reporting were appropriately designed and were operating effectively.

During the nine months ended September 30, 2013 there were no changes in InnVest's internal controls over financial reporting which have significantly affected, or are reasonably likely to significantly affect, InnVest's internal controls over financial reporting.

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

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

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars) (unaudited)	**September 30, 2013**	December 31, 2012	January 1, 2012
		(Restated, Note 2)	(Restated, Note 2)
ASSETS			
Current assets			
Cash	**$ 21,551**	$ 6,466	$ 3,726
Accounts receivable	**31,534**	22,453	29,856
Prepaid expenses and other assets	**12,939**	7,954	8,751
Finance lease receivable	**6,425**	–	–
Assets held for sale (Note 3)	**47,401**	74,100	–
	119,850	110,973	42,333
Non-current assets			
Restricted cash (Note 4)	**7,542**	8,739	6,031
Finance lease receivable	**–**	6,463	–
Investment in joint venture (Note 5)	**1,047**	1,265	1,225
Hotel properties (Note 6)	**1,192,579**	1,265,191	1,453,636
Other real estate properties (Note 7)	**6,514**	6,655	18,742
Intangible assets (Note 8)	**12,450**	13,695	15,426
Deferred income tax asset	**–**	–	22,010
Total assets	**$ 1,339,982**	$ 1,412,981	$ 1,559,403
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	**$ 77,266**	$ 63,872	$ 73,375
Distributions payable	**3,122**	3,116	3,115
Long-term debt (Note 9)	**260,201**	19,047	204,963
Convertible debentures (Note 10)	**69,106**	74,496	–
Other long-term obligations (Note 12)	**177**	166	147
Liabilities related to assets held for sale (Note 3)	**26,808**	66,508	–
	436,680	227,205	281,600
Non-current liabilities			
Long-term debt (Note 9)	**420,650**	711,571	599,606
Convertible debentures (Note 10)	**258,726**	218,596	288,867
Provisions (Note 11)	**7,420**	9,349	11,662
Other long-term obligations (Note 12)	**5,207**	5,937	7,040
Other liabilities (Note 13)	**10,034**	2,548	39,118
Deferred income tax liability	**–**	2,085	3,255
	1,138,717	1,177,291	1,231,148
UNITHOLDERS' EQUITY	**201,265**	235,690	328,255
	$ 1,339,982	$ 1,412,981	$ 1,559,403

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

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

(in thousands of Canadian dollars, except per unit amounts) (unaudited)	**Three Months Ended September 30, 2013**	Three Months Ended September 30, 2012	**Nine Months Ended September 30, 2013**	Nine Months Ended September 30, 2012
		(Restated, Note 2)		(Restated, Note 2)
Revenues (Note 23)	**$ 161,133**	$ 173,371	**$ 446,231**	$ 464,330
Hotel and other real estate properties				
Operating expenses (Note 19)	**95,949**	103,536	**288,118**	298,346
Property taxes, rent and insurance	**11,511**	12,881	**36,515**	38,943
Management fees (Note 19)	**6,136**	6,850	**17,211**	18,245
	113,596	123,267	**341,844**	355,534
Gross operating profit	**47,537**	50,104	**104,387**	108,796
Other expenses				
Corporate and administrative (Note 19)	**1,140**	1,445	**3,824**	4,741
Interest expense				
Mortgages and other debt	**10,960**	12,816	**34,178**	38,180
Convertible debentures	**6,296**	5,637	**19,142**	16,848
Joint venture income (Note 5)	**(1,501)**	(1,395)	**(3,112)**	(2,879)
Other income (expense), net (Note 20)	**(1,428)**	476	**(9,608)**	(878)
(Reversal of) writedown of hotel properties, net (Note 21)	**(999)**	29,081	**2,386**	28,967
Depreciation and amortization	**20,137**	23,796	**61,309**	71,589
Unrealized (gain) loss on liabilities presented at fair value (Note 22)	**(992)**	2,364	**3,827**	14,187
Income (loss) before income tax recovery (expense)	**13,924**	(24,116)	**(7,559)**	(61,959)
Income tax recovery (expense)				
Current	**–**	(1,492)	**–**	(1,492)
Deferred	**22**	(195,864)	**344**	(186,203)
	22	(197,356)	**344**	(187,695)
Net income (loss) and total comprehensive income (loss)	**$ 13,946**	$ (221,472)	**$ (7,215)**	$ (249,654)
Net income (loss) per unit (Note 17)				
Basic	**$ 0.149**	$ (2.368)	**$ (0.077)**	$ (2.669)
Diluted	**$ 0.139**	$ (2.368)	**$ (0.077)**	$ (2.669)

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

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

(in thousands of Canadian dollars) (unaudited)	Deficit	Units in $	Total
Balance December 31, 2011	$ (266,917)	$ 596,339	$ 329,422
Remeasurement effects due to the adoption of IAS 19 (Note 2)	(1,167)	–	(1,167)
Balance December 31, 2011 (Restated, Note 2)	(268,084)	596,339	328,255
Changes during the period			
Net loss and total comprehensive loss	(249,654)	–	(249,654)
Distributions to unitholders	(28,034)	–	(28,034)
InnVest Operations Trust (Note 13)	–	46,768	46,768
Distribution reinvestment plan units issued	–	56	56
Trustee compensation	–	32	32
Balance September 30, 2012 (Restated, Note 2)	$ (545,772)	$ 643,195	$ 97,423
Balance December 31, 2012 (Restated, Note 2)	**$ (407,630)**	**$ 643,320**	**$ 235,690**
Changes during the period			
Net loss and total comprehensive loss	**(7,215)**	**–**	**(7,215)**
Distributions to unitholders	**(28,092)**	**–**	**(28,092)**
Distribution reinvestment plan units issued	**–**	**362**	**362**
Vested executive compensation	**–**	**399**	**399**
Trustee compensation	**–**	**121**	**121**
Balance September 30, 2013	**$ (442,937)**	**$ 644,202**	**$ 201,265**

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars) (unaudited)	**Nine Months Ended September 30, 2013**	Nine Months Ended September 30, 2012
OPERATING ACTIVITIES		(Restated, Note 2)
Net loss	**$ (7,215)**	$ (249,654)
Add (deduct) items not affecting cash		
Depreciation and amortization	**61,309**	71,589
Writedown of hotel properties, net (Note 21)	**2,386**	28,967
Unrealized loss on liabilities presented at fair value (Note 22)	**3,827**	14,187
Interest on mortgages and other debt	**34,178**	38,180
Convertible debentures interest and accretion	**19,142**	16,848
Interest expense paid	**(51,981)**	(50,834)
Gain on sale of assets (Note 20)	**(8,702)**	(430)
Deferred income tax (recovery) expense	**(344)**	186,203
Non-cash executive and trustee compensation	**520**	32
Share of net earnings from joint venture income	**(3,112)**	(2,879)
Changes in non-cash working capital (Note 18)	**1,762**	(3,257)
Cash generated from operating activities	**51,770**	48,952
FINANCING ACTIVITIES		
Repayment of long-term debt	**(76,575)**	(47,455)
Proceeds from long-term debt	**4,680**	18,919
Issue of convertible debentures, net of issuance costs	**110,037**	–
Redemption and cancellation of convertible debentures	**(74,980)**	–
Unit distributions	**(27,724)**	(27,979)
Operating loan advances	**–**	16,600
Operating loan repayments	**(15,100)**	–
Cash utilized in financing activities	**(79,662)**	(39,915)
INVESTING ACTIVITIES		
Capital expenditures on hotel properties	**(41,227)**	(28,848)
Change in intangible assets	**(110)**	(172)
Dividends received from joint venture income	**3,330**	2,877
Proceeds from sale of assets	**93,050**	22,500
Payment of costs associated with sale of assets	**(13,263)**	(989)
Proceeds from mortgage receivable	**–**	241
Decrease (increase) in restricted cash	**1,197**	(1,677)
Cash generated from (utilized in) investing activities	**42,977**	(6,068)
Increase in cash during the period	**15,085**	2,969
Cash, beginning of the period	**6,466**	3,726
Cash, end of the period	**$ 21,551**	$ 6,695

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2013 (all Canadian dollar amounts are in thousands, except unit and per unit amounts) (unaudited)

1. BASIS OF PRESENTATION

InnVest Real Estate Investment Trust ("InnVest" or the "REIT") is an unincorporated open-ended real estate investment trust governed by the laws of Ontario. The REIT began operations on July 26, 2002. As at September 30, 2013, the REIT owned 131 Canadian hotels operated under international brands.

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

These condensed interim consolidated financial statements as at and for the three and nine month periods ended September 30, 2013 have been prepared in accordance with IAS 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") (the "interim financial statements"). Accordingly, certain information and disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed. The interim financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2012, except as described below. These interim financial statements should be read in conjunction with InnVest's consolidated financial statements for the year ended December 31, 2012.

b) Estimates

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the REIT's accounting policies. The critical accounting estimates and judgments have been set out in Note 2 of InnVest's consolidated financial statements for the year ended December 31, 2012.

c) Application of New and Revised Accounting Standards

Effective January 1, 2013, InnVest has applied the following new and revised IFRSs in these interim financial statements and has restated the 2012 comparative periods, where applicable.

IFRS 10 – CONSOLIDATED FINANCIAL STATEMENTS

IFRS 10 establishes control as the basis for an investor to consolidate its investees and defines control as an investor's power over an investee with exposure, or rights, to variable returns from the investee and the ability to affect the investor's returns through its power over the investee. InnVest adopted IFRS 10 on January 1, 2013. The adoption of IFRS 10 had no impact on InnVest's interim financial statements.

IFRS 11 – JOINT ARRANGEMENTS

In accordance with IFRS 11, *Joint Arrangements*, joint arrangements are classified into two types: (1) joint operations; and (2) joint ventures. InnVest holds a 50% interest in the ownership of CHC, a separate legal entity. Under this new standard, InnVest's investment in CHC qualifies as a joint venture. As a result, the standard requires InnVest to account for its investment in CHC, retrospectively, using the equity method, compared to its previous accounting policy of proportionate consolidation. In accordance with transition provisions, the 'Investment in joint venture' is deemed to be the net assets of the CHC joint venture, as of January 1, 2012 (Note 5).

IFRS 13 – FAIR VALUE MEASUREMENT

IFRS 13 defines fair value and sets out a single framework for measuring fair value which is applicable to all IFRSs that require or permit fair value measurements or disclosures about fair value measurements. IFRS 13 requires that when using a valuation technique to measure fair value, the use of relevant observable inputs should be maximized while unobservable inputs should be minimized. InnVest has applied IFRS 13 on a prospective basis, commencing January 1, 2013. The adoption of IFRS 13 did not have an impact on InnVest's interim financial statements.

IAS 19 – EMPLOYEE BENEFITS

The amended IAS 19 requires the recognition of changes in the defined benefit obligation and in plan assets when those changes occur, eliminating the corridor approach and accelerating the recognition of past service costs. Adoption of IAS 19 resulted in the immediate recognition of unamortized actuarial losses at January 1, 2012 (Note 12).

A reconciliation of InnVest's 2012 comparative periods as previously reported, to the 2012 restated comparative periods as presented in these interim financial statements which include the application of the new and revised accounting standards above, is as follows:

At January 1, 2012	As Previously Reported	IFRS 11 Adjustments	IAS 19 Adjustments	Restated
Cash	$ 7,639	$ (3,913)	$ –	$ 3,726
Accounts receivable	31,744	(1,888)	–	29,856
Investment in joint venture	–	1,225	–	1,225
Other assets	1,524,728	(132)	–	1,524,596
Total assets	$ 1,564,111	$ (4,708)	$ –	$ 1,559,403
Total liabilities	$ 1,234,689	$ (4,708)	$ 1,167	$ 1,231,148
Unitholders' equity	$ 329,422	$ –	$ (1,167)	$ 328,255

At December 31, 2012	As Previously Reported	IFRS 11 Adjustments	IAS 19 Adjustments	Restated
Cash	$ 10,926	$ (4,460)	$ –	$ 6,466
Accounts receivable	24,182	(1,729)	–	22,453
Investment in joint venture	–	1,265	–	1,265
Other assets	1,382,911	(114)	–	1,382,797
Total assets	$ 1,418,019	$ (5,038)	$ –	$ 1,412,981
Total liabilities	$ 1,181,267	$ (5,038)	$ 1,062	$ 1,177,291
Unitholders' equity	$ 236,752	$ –	$ (1,062)	$ 235,690

For the Three Months Ended September 30, 2012	As Previously Reported	IFRS 11 Adjustments	IAS 19 Adjustments	Restated
Revenues	$ 177,327	$ (3,956)	$ –	$ 173,371
Expenses	125,854	(2,561)	(26)	123,267
Gross operating profit	51,473	(1,395)	26	50,104
Other expenses, net	(75,615)	–	–	(75,615)
Joint venture income	–	1,395	–	1,395
Income tax expense	(197,356)	–	–	(197,356)
Net loss	$ (221,498)	$ –	$ 26	$ (221,472)

For the Nine Months Ended September 30, 2012	As Previously Reported	IFRS 11 Adjustments	IAS 19 Adjustments	Restated
Revenues	$ 473,508	$ (9,178)	$ –	$ 464,330
Expenses	361,911	(6,299)	(78)	355,534
Gross operating profit	111,597	(2,879)	78	108,796
Other expenses, net	(173,634)	–	–	(173,634)
Joint venture income	–	2,879	–	2,879
Income tax expense	(187,695)	–	–	(187,695)
Net loss	$ (249,732)	$ –	$ 78	$ (249,654)

3. ASSETS HELD FOR SALE

Assets held for sale at September 30, 2013 include ten hotel properties, three in each of Ontario and Quebec and four in the Atlantic region (December 31, 2012 included three hotel properties, one in each of Ontario, Quebec and the Western region, and one office and retail complex). All assets and liabilities relating to these hotel properties have been classified to current assets and current liabilities and are outlined in the table below.

	September 30, 2013	December 31, 2012
Assets		
Accounts receivable	**$ 1,522**	$ 2,899
Prepaid expenses and other assets	**355**	514
Hotel properties (net of accumulated depreciation of $13,147) (Note 6)	**45,391**	58,524
Other real estate property (Note 7)	**–**	12,094
Intangible assets (net of accumulated amortization of $216) (Note 8)	**133**	69
Total assets	**47,401**	74,100
Liabilities		
Accounts payable and accrued liabilities	**2,770**	5,200
Decommissioning and restoration obligations (Note 11)	**–**	2,850
Employee retiring allowance (Note 12)	**198**	893
Mortgages payable (Note 9)	**22,099**	57,565
Deferred income tax liability	**1,741**	–
Total liabilities	**$ 26,808**	$ 66,508

Assets held for sale are measured at the lower of their carrying amount and fair value less the estimated costs to sell. Once classified as held for sale, assets are no longer depreciated. The sale of these properties, which have been approved by the Board of Trustees, are highly probable and are expected to close within a year of their classification as held for sale.

At September 30, 2013, the land amount included in hotel properties in the table above, is $5,749 (December 31, 2012 – $7,858). The operations of these hotels are not presented as discontinued operations on the condensed interim consolidated statements of net income (loss) and comprehensive income (loss) as they do not represent a separate geographical area of operations or a separate major line of business.

Sale of Assets

During the nine months ended September 30, 2013, InnVest sold five hotels (two in the Western region, two in Ontario and one in Quebec) and one office and retail complex in Quebec for aggregate net proceeds after closing costs, of $79,787. InnVest repaid $61,728 of mortgages relating to these assets resulting in net cash proceeds of $18,059. InnVest recorded aggregate net gain on sales of $8,702 which is included in 'Other income' (Note 20) in the condensed interim consolidated statement of net income (loss) and comprehensive income (loss).

Impairment Review in the Period

Each reporting period, InnVest carries out a review of the fair value less costs to sell of its assets held for sale. During the nine months ended September 30, 2013, InnVest's review led to the recognition of an impairment loss of $2,550 relating to four Ontario hotels (2012 – $29,703 relating to two Ontario hotels and one Quebec hotel) included in assets held for sale. InnVest also recorded a reversal of a previous impairment of $3,464 relating to one Ontario hotel, one Quebec hotel and one Western region hotel (2012 – $736 relating to one Western region hotel). The impairment loss and reversal of previous impairment have been included in 'Writedown of hotel properties, net' (Note 21) in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss).

4. RESTRICTED CASH

The restricted cash of $7,542 (December 31, 2012 – $8,739) is being held by InnVest to undertake capital refurbishments in accordance with certain mortgage and franchise agreements.

5. INVESTMENT IN JOINT VENTURE

InnVest holds a 50% interest in the ownership of CHC, a separate legal entity. InnVest's investment in CHC is classified as a joint venture under IFRS 11, *Joint Arrangements*. As a result, InnVest accounts for its investment in CHC using the equity method. The Investment in Joint Venture was valued at $1,225 as of January 1, 2012, which represents 50% of the net assets of the joint venture at that date.

The following table summarizes the movement of InnVest's joint venture investment following the implementation of IFRS 11 as it relates to InnVest's presentation of its investment in CHC at January 1, 2012 (implementation date) to September 30, 2013 (Note 2 (c)).

	Investment in Joint Venture
Deemed investment, January 1, 2012	$ 1,225
Add:	
InnVest's 50% share of CHC's net income for the year ended December 31, 2012	4,118
Less:	
Dividends received	(4,078)
Closing balance, December 31, 2012	**$ 1,265**
Add:	
InnVest's 50% share of CHC's net income for the nine months ended September 30, 2013	3,112
Less:	
Dividends received	(3,330)
Closing balance, September 30, 2013	**$ 1,047**

6. HOTEL PROPERTIES

	Land, Building and Leaseholds	Building Finishes	Electrical and Mechanical	Furniture, Fixtures and Equipment	Total
Cost					
Opening balance at January 1, 2013 (Restated, Note 2)	$ 894,454	$ 289,163	$ 223,410	$ 103,299	$ 1,510,326
Derecognition of assets	–	–	–	(10,215)	(10,215)
Additions	2,982	24,064	3,203	10,963	41,212
Fair value of decommissioning and restoration provision (Note 11)	(1,929)	–	–	–	(1,929)
Writedown of asset to recoverable amount (Note 21)	(3,300)	–	–	–	(3,300)
Reclass to assets held for sale (Note 3)	(26,426)	(16,482)	(15,961)	(4,398)	(63,267)
Balance at September 30, 2013	865,781	296,745	210,652	99,649	1,472,827
Accumulated depreciation and amortization					
Opening balance at January 1, 2013 (Restated, Note 2)	56,120	114,342	21,395	53,278	245,135
Derecognition of assets	–	–	–	(10,215)	(10,215)
Depreciation and amortization	13,956	29,362	5,454	11,089	59,861
Reclass to assets held for sale (Note 3)	(2,416)	(7,888)	(1,836)	(2,393)	(14,533)
Balance at September 30, 2013	67,660	135,816	25,013	51,759	280,248
Carrying value, September 30, 2013	**$ 798,121**	**$ 160,929**	**$ 185,639**	**$ 47,890**	**$ 1,192,579**

The land amount included in land, building and leaseholds is $146,162 at September 30, 2013 (December 31, 2012 – $153,560). This amount is not depreciated. Hotel properties at September 30, 2013 include $11,109 relating to leased assets (December 31, 2012 – $11,350).

	Land, Building and Leaseholds	Building Finishes	Electrical and Mechanical	Furniture, Fixtures and Equipment	Total
Cost					
Opening balance at January 1, 2012	$ 987,840	$ 302,221	$ 238,087	$ 146,446	$ 1,674,594
Investment in joint venture adjustment (Note 2)	–	–	–	(239)	(239)
Sale of hotels	(23,172)	(7,429)	(6,227)	(3,148)	(39,976)
Derecognition of assets	–	–	–	(46,946)	(46,946)
Additions	6,731	11,763	5,858	12,318	36,670
Fair value of decommissioning and restoration provision	611	–	–	–	611
Writedown of assets to recoverable amount	(35,299)	(3,830)	(4,074)	–	(43,203)
Reclass to assets held for sale (Note 3)	(42,257)	(13,562)	(10,234)	(5,132)	(71,185)
Balance at December 31, 2012 (Restated, Note 2)	894,454	289,163	223,410	103,299	1,510,326
Accumulated depreciation and amortization					
Opening balance at January 1, 2012	40,552	81,189	15,314	83,821	220,876
Investment in joint venture adjustment (Note 2)	–	–	–	(171)	(171)
Sale of hotels	(1,203)	(2,562)	(477)	(2,316)	(6,558)
Derecognition of assets	–	–	–	(46,946)	(46,946)
Depreciation and amortization	20,278	41,665	7,783	20,869	90,595
Reclass to assets held for sale (Note 3)	(3,507)	(5,950)	(1,225)	(1,979)	(12,661)
Balance at December 31, 2012 (Restated, Note 2)	56,120	114,342	21,395	53,278	245,135
Carrying value, December 31, 2012 (Restated, Note 2)	**$ 838,334**	**$ 174,821**	**$ 202,015**	**$ 50,021**	**$ 1,265,191**
Carrying value, January 1, 2012 (Restated, Note 2)	**$ 947,288**	**$ 221,032**	**$ 222,773**	**$ 62,543**	**$ 1,453,636**

Impairment Review in the Period

Each reporting period, InnVest performs a review for indicators of impairment in respect of its hotel properties. If an impairment indicator is identified, InnVest determines the recoverable amount of the individual hotel property as the higher of value-in-use and fair value less costs to sell. Value-in-use is based on a discounted cash flow approach whereas fair value less costs to sell is determined giving consideration to market capitalization rates and to price per room metrics. The discount rate used in measuring value-in-use is based on market conditions per individual hotel properties and ranged from 9.75% to 10.5% at September 30, 2013

During the nine months ended September 30, 2013, this review led to the recognition of an impairment loss of $3,300 relating to an Ontario hotel and one Quebec hotel (2012 – nil). The impairment loss has been included in 'Writedown of hotel properties, net' in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss) (see Note 21).

7. OTHER REAL ESTATE PROPERTIES

Other real estate properties include a retail property and a retirement residence. The land amount included in land and building is $405 at September 30, 2013 (December 31, 2012 – $405). This amount is not depreciated.

	Land and Building	Furniture, Fixtures and Equipment	Total
Cost			
Opening balance at January 1, 2013	$ 6,981	$ 76	$ 7,057
Additions	15	–	15
Balance at September 30, 2013	6,996	76	7,072
Accumulated depreciation and amortization			
Opening balance at January 1, 2013	376	26	402
Depreciation and amortization	148	8	156
Balance at September 30, 2013	524	34	558
Carrying value, September 30, 2013	**$ 6,472**	**$ 42**	**$ 6,514**

	Land and Building	Furniture, Fixtures and Equipment	Total
Cost			
Opening balance at January 1, 2012	$ 19,417	$ 68	$ 19,485
Additions	497	8	505
Reclass to assets held for sale (Note 3)	(12,933)	–	(12,933)
Balance at December 31, 2012	6,981	76	7,057
Accumulated depreciation and amortization			
Opening balance at January 1, 2012	727	16	743
Depreciation and amortization	488	10	498
Reclass to assets held for sale (Note 3)	(839)	–	(839)
Balance at December 31, 2012	376	26	402
Carrying value, December 31, 2012	**$ 6,605**	**$ 50**	**$ 6,655**
Carrying value, January 1, 2012	**$ 18,690**	**$ 52**	**$ 18,742**

8. INTANGIBLE ASSETS

	Licence Contracts	Franchise Rights	Total
Cost			
Opening balance at January 1, 2013	$ 26,320	$ 2,498	$ 28,818
Derecognition of assets	–	(73)	(73)
Additions	–	110	110
Reclass to assets held for sale (Note 3)	–	(255)	(255)
Balance at September 30, 2013	26,320	2,280	28,600
Accumulated depreciation and amortization			
Opening balance at January 1, 2013	13,731	1,392	15,123
Derecognition of assets	–	(73)	(73)
Amortization	987	304	1,291
Reclass to assets held for sale (Note 3)	–	(191)	(191)
Balance at September 30, 2013	14,718	1,432	16,150
Carrying value, September 30, 2013	**$ 11,602**	**$ 848**	**$ 12,450**

	Licence Contracts	Franchise Rights	Total
Cost			
Opening balance at January 1, 2012	$ 26,320	$ 2,605	$ 28,925
Derecognition of assets	–	(185)	(185)
Additions	–	172	172
Reclass to assets held for sale (Note 3)	–	(94)	(94)
Balance at December 31, 2012	26,320	2,498	28,818
Accumulated depreciation and amortization			
Opening balance at January 1, 2012	12,415	1,084	13,499
Derecognition of assets	–	(185)	(185)
Amortization	1,316	518	1,834
Reclass to assets held for sale (Note 3)	–	(25)	(25)
Balance at December 31, 2012	13,731	1,392	15,123
Carrying value, December 31, 2012	**$ 12,589**	**$ 1,106**	**$ 13,695**
Carrying value, January 1, 2012	**$ 13,905**	**$ 1,521**	**$ 15,426**

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

9. LONG-TERM DEBT

	September 30, 2013	December 31, 2012	January 1, 2012
Mortgages payable	**$ 706,748**	$ 778,034	$ 804,832
Operating line	**–**	15,100	–
Bridge loan	**3,000**	3,500	4,250
	709,748	796,634	809,082
Reclass to liabilities related to assets held for sale (Note 3)	**(22,099)**	(57,565)	–
	687,649	739,069	809,082
Less debt issuance costs	**(6,798)**	(8,451)	(4,513)
Total long-term debt	**680,851**	730,618	804,569
Less current portion	**(260,201)**	(19,047)	(204,963)
Long-term debt – non-current	**$ 420,650**	$ 711,571	$ 599,606

Mortgages Payable

Substantially all of InnVest's assets have been pledged as security under debt agreements. At September 30, 2013, long-term debt had a weighted average interest rate of 5.8% (December 31, 2012 – 5.6%) and a weighted average effective interest rate of 6.0% (December 31, 2012 – 5.8%). The long-term debt is repayable in average monthly payments of principal and interest totalling $4,959 (December 31, 2012 – $5,296) and matures at various dates from April 1, 2014 to March 21, 2018 (Note 24).

In addition, InnVest has access to a loan facility, granted in conjunction with property mortgages, for up to $25,000 to fund 65% of capital expenditures incurred at certain of its hotels. At September 30, 2013, InnVest has remaining capacity on the facility of $12,076 (December 31, 2012 – $16,349) (Note 24).

Operating Line

InnVest has an operating line of credit of up to $40,000 with a major banking institution which expires August 31, 2014. The operating line is secured by 13 properties. The amount of the operating line is subject to a mortgageability test which is based on the operating results of the secured properties, calculated quarterly on a trailing four quarters basis. Based on the operating results of the secured properties for the four quarters ended September 30, 2013, InnVest qualifies for $36,686. The amount drawn on the operating line as at September 30, 2013 was $nil (December 31, 2012 – $15,100). The operating line bears interest at either, the Canadian bank prime rate plus 2.0% or the Canadian Bankers' Acceptance rate plus 3.0%.

Bridge Loan

InnVest has a bridge loan secured by one property. As at September 30, 2013, the bridge loan amount was $3,000 (December 31, 2012 – $3,500). In early 2013, InnVest extended the bridge loan to March 1, 2014. The bridge loan requires quarterly principal payments of $250 effective June 2013, and bears interest at the Canadian Bankers' Acceptance rate plus 3.5%.

Scheduled repayment of long-term debt is as follows:

	Regular Amortization	Due on Maturity	Total
Remainder of 2013	$ 4,705	$ –	$ 4,705
2014	13,885	244,496	258,381
2015	10,754	66,329	77,083
2016	9,534	45,495	55,029
2017	3,593	283,494	287,087
2018 and thereafter	98	5,266	5,364
	$ 42,569	**$ 645,080**	**$ 687,649**

The current portion of long-term debt on the balance sheet is based on the twelve months ending September 30, 2014, whereas the repayment schedule above reflects the fiscal year.

The estimated fair value of InnVest's mortgages payable at September 30, 2013 was approximately $712,314 (December 31, 2012 – $800,348). This estimate is determined by discounting expected cash flows at interest rates that reflect current market conditions for debt with similar terms, maturities and credit risk.

Long-term debt includes $25,391 (December 31, 2012 – $99,849) which is subject to floating interest rates. Annual interest expense will increase by $254 for every 1% increase in the base Bankers' Acceptance rate.

Interest expense on mortgages and other debt and convertible debentures interest are considered operating items in the condensed interim consolidated statements of cash flows.

10. CONVERTIBLE DEBENTURES

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

Debenture	Original Face Amount	Maturity Date	Coupon Interest Rate	Interest Rate Including Issuance Costs	Effective Interest Rate(1)	Conversion Strike Price	**Outstanding Principal September 30, 2013**	Outstanding Principal December 31, 2012 and January 1, 2012
Series B	$ 75,000	May 31, 2013	6.00%	6.76%	7.53%	$ 14.90	**$ –**	$ 74,980
Series C	70,000	August 1, 2014	5.85%	6.66%	7.42%	$ 14.70	**70,000**	70,000
Series D	50,000	March 31,2016	6.75%	7.64%	9.41%	$ 5.70	**36,358**	36,358
Series E	75,000	September 30, 2017	6.00%	6.79%	7.75%	$ 8.00	**75,000**	75,000
Series F	50,000	March 30, 2018	5.75%	6.57%	7.40%	$ 9.45	**50,000**	50,000
Series G	115,000	March 31, 2019	5.75%	6.60%	7.33%	$ 5.80	**115,000**	–
Total convertible debentures							**$ 346,358**	$ 306,338

(1) Includes issuance costs and conversion option allocation.

The net proceeds received from the issuance of each convertible debenture have been allocated between (i) a financial liability element and (ii) the conversion option component, representing the value attributable to the option to convert the financial liability into units of InnVest. InnVest has separated the conversion option component for each of its series of convertible debentures and measures such component at fair value at each reporting date. The conversion feature of the convertible debentures is recorded as a liability under 'Other liabilities' and measured at fair value (see Note 13).

	September 30, 2013	December 31, 2012	January 1, 2012
Convertible debentures	**$ 346,358**	$ 306,338	$ 306,338
Financing costs and accretion, net	**(2,721)**	1,966	(2,259)
Less allocation of conversion option value	**(15,805)**	(15,212)	(15,212)
	327,832	293,092	288,867
Less current portion	**(69,106)**	(74,496)	–
Convertible debentures – non-current	**$ 258,726**	$ 218,596	$ 288,867

The fair value of InnVest's convertible debentures, estimated based on the market price for each series of convertible debenture as at September 30, 2013, is $338,060 (December 31, 2012 – $304,299).

Issuances

On February 27, 2013, InnVest completed a public offering of $115,000 aggregate principal amount of 5.75% convertible unsecured subordinated debentures due March 31, 2019 ("Series G Debentures"). Interest is payable semi-annually in arrears on March 31 and September 30 in each year, commencing September 30, 2013. The Series G Debentures are convertible, at the option of the holder, into InnVest units at $5.80 per unit. The Series G Debentures are not redeemable on or prior to March 31, 2016. The conversion option component for the Series G Debentures was measured at $3,993 on February 27, 2013.

Redemptions

Concurrent with the closing of the Series G Debentures, on February 27, 2013, InnVest sent notice for the redemption of its $74,980 Series B 6.00% convertible unsecured subordinated debentures due May 31, 2013 ("Series B Debentures"). Using a portion of the funds raised via the Series G Debentures, $76,483 was paid for principal and interest owing on the Series B Debentures, on April 1, 2013.

The scheduled convertible debentures maturities are as follows:

	Due on Maturity
Remainder of 2013	**$ –**
2014	**70,000**
2015	**–**
2016	**36,358**
2017	**75,000**
2018 and thereafter	**165,000**
	$ 346,358
Financing costs and allocation of conversion option value	**(18,526)**
	$ 327,832

11. PROVISIONS

	September 30, 2013	December 31, 2012
Opening balance, beginning of period	**$ 9,349**	$ 11,662
Increase (decrease) to 'Hotel properties':		
Effect of changes in the discount rate	**(1,929)**	611
Reclass to assets held for sale (Note 3)	**–**	(2,850)
Sale of hotels	**–**	(74)
Ending balance, end of period	**$ 7,420**	$ 9,349

Decommissioning and restoration obligations

The provision for decommissioning and restoration relates to the estimated future cost of environmental obligations for certain properties. InnVest intends to settle the obligations at the end of the expected useful life of the hotel properties. At September 30, 2013, the liability has been discounted at a rate of 3.1% (December 31, 2012 – 2.4%). Upon the initial recognition of the liability, the decommissioning and restoration obligation was capitalized in buildings and is being amortized over the remaining useful life. Additional provisions and effects of the change of the discount rate are capitalized in buildings and amortized over the remaining useful life.

12. OTHER LONG-TERM OBLIGATIONS

	September 30, 2013	December 31, 2012	January 1, 2012
		(Restated, Note 2)	(Restated, Note 2)
Finance lease	**$ 992**	$ 1,151	$ 1,291
Other lease obligations	**284**	281	276
Employee retiring allowance	**1,265**	2,370	2,370
Employee benefit plans (Note 2)	**3,041**	3,194	3,250
Total other long-term obligations	**$ 5,582**	$ 6,996	$ 7,187
Reclass to assets held for sale (employee retiring allowance) (Note 3)	**(198)**	(893)	–
Less current portion	**(177)**	(166)	(147)
Other long-term obligations – non-current	**$ 5,207**	$ 5,937	$ 7,040

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

Defined Benefit Pension Plans and Other Employment Benefits

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

InnVest has defined benefit pension plans which are for specific employees of four hotels and are closed plans. InnVest adopted the Amended IAS 19 "Employee benefits", effective January 1, 2013. The amendment requires the immediate recognition of changes in the defined benefit obligation and in plan assets, when such changes occur, eliminating the corridor approach and accelerating the recognition of past service costs. Refer to Note 2 (c) for a summary of the effect of the revised standard to previously reported periods.

13. OTHER LIABILITIES

	September 30, 2013	December 31, 2012	January 1, 2012
InnVest Operations Trust	**$ –**	$ –	$ 36,762
Exchangeable units	**1,506**	1,499	1,499
Convertible debentures holders' conversion option	**8,475**	662	514
Unvested executive compensation	**53**	387	343
Other liabilities	**$ 10,034**	$ 2,548	$ 39,118

InnVest Operations Trust

Prior to July 3, 2012, InnVest Operations Trust ("IOT") represented the InnVest unitholders' interest in IOT through ownership of the IOT non-voting units. Previously, each non-voting unit of IOT traded together with each issued and outstanding unit of the REIT as an InnVest unit. IOT indirectly held the hotel operating assets along with a 50% interest in CHC. These IOT holdings were presented as liabilities at their fair value at each reporting date. The liability was $36,762 as at January 1, 2012. Effective July 3, 2012, following the completion of InnVest's internal reorganization to unwind the stapled unit structure, substantially all of IOT's assets and liabilities were transferred to the REIT such that IOT is a wholly-owned subsidiary of the REIT and is no longer presented separately on the consolidated balance sheet in 'Other liabilities'. As at July 3, 2012, the IOT liability of $46,768 was reclassified to 'Unitholders' equity'.

Exchangeable Units

As part of an acquisition made in 2005, InnVest granted 362,869 exchangeable units ("Exchangeable units") to a third party. The Exchangeable units receive a monthly cash payment equal to the value of the cash distributions that would have been paid on the InnVest units if they had been issued on the date of grant. The Exchangeable units are exchangeable into InnVest units with three business days of prior written notice to InnVest. The Exchangeable units are presented as liabilities at their fair value based on the market price of InnVest units. During the nine months ended September 30, 2013, distributions totalling $109 (2012 – $109) were paid on the Exchangeable units and are included in 'Mortgages and other debt interest expense' in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss).

Convertible Debenture Holders' Conversion Option

InnVest has separated the conversion option component for each of its series of convertible debentures which are presented as liabilities. InnVest measures the conversion option component at fair value at each reporting date which is derived based on the volatility of InnVest units' market price, market interest rates as well as management's judgment relating to interest rate spreads for instruments of similar terms and risks. The liability increase at September 30, 2013 was mainly due to the increase in market interest rates from December 31, 2012 , and the addition of the holders' conversion option on the new Series G Debentures, offset by a modest increase in unit price.

Executive Compensation Plan

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

14. CAPITAL MANAGEMENT

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

At September 30, 2013, InnVest's primary contractual obligations consisted of long-term mortgage obligations and convertible debentures. InnVest is not permitted to exceed certain financial leverage amounts under the terms of the DOT. InnVest is permitted to hold indebtedness excluding convertible debentures up to a level of 60% of gross asset value. Further, InnVest is permitted to have indebtedness and convertible debentures up to a level of 75% of gross asset value. Indebtedness is computed as of the last day of each financial year excluding any indebtedness under any operating line, non-interest bearing indebtedness, trade accounts payable and for greater certainty, deferred income tax liability.

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

InnVest's leverage excluding and including convertible debentures at September 30, 2013 is calculated below:

		September 30, 2013		December 31, 2012		January 1, 2012
				(Restated, Note 2)		(Restated, Note 2)
Total assets per consolidated balance sheet		**$ 1,339,982**		$ 1,412,981		$ 1,559,403
Accumulated depreciation and amortization		**310,319**		274,185		235,118
Deferred income tax asset		**–**		–		(22,010)
Gross asset value		**$ 1,650,301**		$ 1,687,166		$ 1,772,511
Book value of mortgages and bridge loan (Note 9)[1]	**$ 709,748**	**43.0%**	$ 781,534	46.3%	$ 809,082	45.6%
Convertible debentures (Note 10)[2]	**346,358**	**21.0%**	306,338	18.2%	306,338	17.3%
	$ 1,056,106	**64.0%**	$1,087,872	64.5%	$ 1,115,420	62.9%

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

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

InnVest is in compliance with these guidelines.

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

	Threshold	**September 30, 2013**	**Capacity[1]**	December 31, 2012	January 1, 2012
(i) Total indebtedness (including convertible debentures) as a percentage of gross assets	< 70.0%	**64.0%**	**$ 99,105**	64.5%	62.9%
(ii) Trailing 12 months consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") to consolidated interest expense	> 1.8 x	**2.1 x**	**$ 17,084**	2.1 x	2.1 x
(iii) Trailing 12 months consolidated EBITDA to consolidated debt service	> 1.5 x	**1.6 x**	**$ 8,896**	1.6 x	1.6 x
(iv) Unitholders' equity plus accumulated depreciation less 'Intangible assets'	>$ 300,000	**$ 499,001**	**$ 199,001**	$ 497,413	$ 329,422

(1) Reflects additional capacity (for total indebtedness, EBITDA or Unitholders' Equity, as applicable) before exceeding the covenant threshold at September 30, 2013.

15. FINANCIAL INSTRUMENTS

Risk Management

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

INTEREST RATE RISK

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

InnVest's floating rate debt balance is monitored by management to minimize InnVest's exposure to interest rate fluctuations. As at September 30, 2013, InnVest's floating rate debt balance of $25,391 (December 31, 2012 – $99,849) is approximately 3.6% (December 31, 2012 – 12.5%) of total long-term debt, excluding convertible debentures.

CREDIT RISK

Credit risk relates to the possibility that hotel guests, either individual or corporate, do not pay the amounts owed to InnVest. InnVest mitigates this risk by limiting its exposure to customers allowed to pay by invoice after check out ("direct bill"). Accounts receivable as at September 30, 2013 are $31,534 (December 31, 2012 – $22,453). InnVest reviews accounts receivable regularly and the allowance for doubtful accounts is adjusted for any balances which are determined by management to be uncollectable. This provision adjustment is expensed in operating expenses. The allowance as at September 30, 2013 is $424 or 1.3% (December 31, 2012 – $617 or 2.8%) of total receivables. Bad debt expense included in operating expenses is $95 for the nine months ended September 30, 2013 (2012 – $152).

Accounts receivable amounts outstanding for over 90 days, which have not been provided for, total $264 at September 30, 2013 (December 31, 2012 – $339).

LIQUIDITY RISK

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

Estimated maturities of InnVest's financial liabilities, excluding 'Other liabilities' and 'Liabilities related to assets held for sale', are:

	Remainder of 2013	2014	2015	2016	2017	2018 and Thereafter	Contractual Cash Flows(1)
Accounts payable and accrued liabilities	**$ 77,266**	$ –	$ –	$ –	$ –	$ –	$ 77,266
Mortgage payable – principal(2)	**4,205**	255,881	77,083	55,029	287,087	5,364	684,649
Mortgage payable – interest(3)	**10,210**	29,932	22,566	19,860	5,745	72	88,385
Bridge loan – principal	**500**	2,500	–	–	–	–	3,000
Bridge loan – interest	**37**	22	–	–	–	–	59
Convertible debentures – principal	**–**	70,000	–	36,358	75,000	165,000	346,358
Convertible debentures – interest	**2,047**	20,537	16,442	15,215	13,988	11,356	79,585
Long-term land leases	**1,225**	4,899	4,140	3,896	2,246	77,083	93,489
Total	**$ 95,489**	$ 383,771	$ 120,231	$ 130,358	$ 384,066	$ 258,875	$ 1,372,791

(1) Contractual cash flows include principal and interest payments and include extension options available to InnVest.
(2) Mortgage principal includes regular amortization and repayments at maturity, excluding assets held for sale.
(3) Interest for floating rate debt is based on interest rates prevailing at September 30, 2013.

Contingent Liabilities

InnVest and its operating subsidiaries are contingently liable with respect to litigation and claims that arise from time to time in the normal course of business. An application has been filed against InnVest by a landlord relating to one leased hotel. The claim seeks $20,000 in damages for various alleged breaches of the lease. InnVest is contesting this claim and believes it has strong defences to the claim, including a potential counter-claim against a prior tenant. The proceeding is at its early stages. Management is in discussions with the landlord relating to various matters concerning this hotel. At this time the amount of contingent cash outflow, if any, related to this claim is uncertain.

Fair Values

The fair values of InnVest's current financial assets and current financial liabilities approximate their recorded values at September 30, 2013 and December 31, 2012 due to their short-term nature.

The fair value of InnVest's long-term debt is greater than the carrying value by approximately $2,566 at September 30, 2013 (December 31, 2012 – $3,714) due to changes in interest rates since the dates on which the individual mortgages were arranged. The fair value of long-term debt has been estimated based on the current market rates for mortgages with similar terms, credit risks and conditions.

The fair value of InnVest's convertible debentures is greater than the carrying value by approximately $1,753 at September 30, 2013 (December 31, 2012 – $10,545 greater than the carrying value). The fair value of convertible debentures is based on the market price for each series of convertible debentures as at each reporting date.

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

	September 30, 2013			December 31, 2012			January 1, 2012		
	Level 1	**Level 3**	**Total**	Level 1	Level 3	Total	Level 1	Level 3	Total
Financial Liabilities:									
InnVest Operations Trust	**$ –**	**$ –**	**$ –**	$ –	$ –	$ –	$ –	$ 36,762	$ 36,762
Exchangeable units	**1,506**	**–**	**1,506**	1,499	–	1,499	1,499	–	1,499
Convertible debenture holders' conversion option	**–**	**8,475**	**8,475**	–	662	662	–	514	514
Unvested executive compensation	**53**	**–**	**53**	387	–	387	343	–	343
Total financial liabilities	**$ 1,559**	**$ 8,475**	**$ 10,034**	$ 1,886	$ 662	$ 2,548	$ 1,842	$ 37,276	$ 39,118

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

The following table reconciles movements in convertible debentures holders' conversion option, which are financial instruments classified as Level 3 during the nine months ended September 30, 2013 and the year ended December 31, 2012.

	September 30, 2013	December 31, 2012
Balance at beginning of the period	**$ 662**	$ 514
Fair value loss in net income (loss)	**3,820**	148
Issuance	**3,993**	–
Balance at the end of the period	**$ 8,475**	$ 662

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

Letters of Credit

As at September 30, 2013, InnVest has letters of credit totalling $2,486 (December 31, 2012 – $2,486) held on behalf of security deposits for various utility companies and liquor licences, and additional security for the pension liabilities.

16. UNITS OUTSTANDING

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

Units issued and outstanding:

	Units
Balance at January 1, 2012	93,538,022
Units issued under distribution reinvestment plan	30,467
Units issued under trustee and executive plans	15,415
Balance at December 31, 2012	93,583,904
Units issued under distribution reinvestment plan	82,901
Units issued under trustee and executive plans	121,879
Balance at September 30, 2013	**93,788,684**

Trustee Compensation Plan

The members of the Board of Trustees receive 50% of their annual retainer in units (based on the then-current market price of the units). InnVest has set aside 350,000 units in reserve for this purpose. The balance in this reserve account at September 30, 2013 is 179,270 units (December 31, 2012 – 206,549 units). Given restrictions on the issuance of stapled securities, from July 20, 2011 through July 3, 2012 (completion of the 2012 internal reorganization, referred to as the "2012 Reorganization"), 100% of the Board of Trustees' compensation was paid in cash during this period.

Executive Compensation Plan

The senior executives participate in the executive compensation plan under which InnVest units are granted by the Board of Trustees from time to time. All granted units vest equally on the third and fourth anniversaries of the effective date of grant. InnVest has reserved a maximum of 1,000,000 units for issuance under the plan. The balance in this reserve account at September 30, 2013 is 629,965 units (December 31, 2012 – 642,266 units). A unit granted through the plan entitles the holder to receive, on the vesting date, the then-current fair market value of the unit plus the value of the cash distributions that would have been paid on the unit if it had been issued on the date of grant assuming the reinvestment of the distribution into InnVest units. The payment will be satisfied through the issuance of units.

Given restrictions on the issuance of stapled securities from July 20, 2011 through July 3, 2012 (completion of the 2012 Reorganization), 36,882 executive compensation units, which vested in January 2012, were satisfied in cash as opposed to the issuance of units.

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

At September 30, 2013, there were 26,591 (December 31, 2012 – 100,790) unvested executive units granted under the plan. In January 2013, 86,500 units vested, primarily reflecting the accelerated vesting schedule following the departure of a senior executive. The unvested units are presented as liabilities over the vesting periods.

The following table summarizes the status of the executive compensation plan at September 30, 2013, excluding granted units which have fully vested:

	Unvested Executive Units	Units Accumulated from Distributions	Total Units	Fair Value Per Unit at Grant Date
2009 – granted	25,500	11,852	37,352	$ 4.24
2010 – granted	28,500	7,702	36,202	$ 5.30
2011 – granted	27,815	5,000	32,815	$ 6.80
2012 – granted	54,355	2,097	56,452	$ 4.50
2013 – granted	19,000	282	19,282	$ 4.78
Units cancelled 2012	(35,750)	(5,182)	(40,932)	
Units vested 2012	(14,500)	(5,580)	(20,080)	
Units vested 2013	(81,170)	(13,330)	(94,500)	
	23,750	2,841	26,591	

Distribution Reinvestment Plan ("DRIP")

InnVest has a DRIP whereby eligible Canadian unitholders may elect to have their monthly distributions automatically reinvested in additional InnVest units. On August 12, 2011, InnVest suspended its DRIP pending completion of the 2012 Reorganization. InnVest reinstated its DRIP effective July 3, 2012.

17. PER UNIT INFORMATION

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

	Three Months Ended September 30, 2013		Three Months Ended September 30, 2012	
	Net Income	**Weighted Average Units**	Net Loss	Weighted Average Units
Basic	**$ 13,946**	**93,770,602**	$ (221,472)	93,547,482
Diluted	**$ 16,738**	**120,363,956**	$ (221,472)	93,547,482

	Nine Months Ended September 30, 2013		Nine Months Ended September 30, 2012	
	Net Loss	**Weighted Average Units**	Net Loss	Weighted Average Units
Basic and diluted	**$ (7,215)**	**93,720,441**	$ (249,654)	93,541,199

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

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	**Nine Months Ended September 30, 2013**	Nine Months Ended September 30, 2012
Convertible debentures	**19,427,909**	30,838,721	**43,171,670**	30,838,721

For the nine months ended September 30, 2013, InnVest declared $28,092 distributions to unitholders (2012 – $28,034) at $0.40 per unit annually, or $0.0333 per unit monthly (2012 – $0.40 per unit annually or $0.0333 per unit monthly). Distributions declared include cash distributions and distributions arising from the DRIP (Note 16). Subsequent to the end of the quarter, InnVest declared $3,124 distributions to unitholders at $0.0333 per month to November 6, 2013.

18. CHANGES IN NON-CASH WORKING CAPITAL

Cash generated from (utilized in)	**Nine Months Ended September 30, 2013**	Nine Months Ended September 30, 2012
Accounts receivable	**$ (7,571)**	$ (1,975)
Prepaid expenses and other assets	**(4,985)**	(4,740)
Accounts payable and other liabilities	**14,318**	3,458
Changes in non-cash working capital	**$ 1,762**	$ (3,257)

19. RELATED PARTY DISCLOSURES

Westmont Hospitality Canada Limited

InnVest has a Management Agreement for hotel management and accounting services and an Administrative Services Agreement (the "Agreements") with Westmont Hospitality Canada Limited ("Westmont") pursuant to which Westmont is responsible for the management of the majority of the hotel businesses in InnVest. The current term expires July 25, 2017 and the Agreements include an additional renewal term for a five-year extension, subject to the consent of Westmont and approval of InnVest.

Two trustees of InnVest have a direct or indirect controlling interest in Westmont and as such have a material interest in the Agreements. Westmont is considered a related party to InnVest as a result of its ability to exercise significant influence through the Agreements. At September 30, 2013, Westmont manages all but 14 of InnVest's hotels. The Agreements are on terms equivalent to those that prevail in arm's length transactions.

Westmont manages the hotel businesses and provides customary hotel management services, including preparation of annual operating and capital budgets and marketing plans, accounting and financial reporting, supervision of sales and marketing, human resource management, purchasing, management and supervision of construction and technical services, information technology, franchise relations and evaluations, supervision of property repairs and maintenance, supervision of compliance with material contracts relating to the hotel properties, leasing, yield management and quality control. For assets sold which are managed by Westmont, InnVest pays a termination fee equal to the fees paid based on trailing 12 months revenues.

For certain hotels owned by InnVest and not managed by Westmont, Westmont is entitled to an asset management fee based on a fixed percentage of the purchase price of the hotel or a fixed percentage of gross operating profit, after the reserve for replacement of furniture, fixtures and equipment and capital improvements, subject to an annual minimum fee. The asset supervisory agreement expires in May 2015.

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

Westmont also provides certain administrative and support services, including the provision of: (i) office space and office equipment; (ii) communications and computer systems; and (iii) such administrative and secretarial support services as reasonably required from time to time to support InnVest's ongoing administration and operation. Such services are provided on a cost recovery basis pursuant to a budget.

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

During the three and nine months ended September 30, 2013 and 2012, the fees charged to InnVest pursuant to the Agreements were as follows:

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	**Nine Months Ended September 30, 2013**	Nine Months Ended September 30, 2012
Management fees	**$ 3,387**	$ 3,533	**$ 8,905**	$ 9,216
Asset management fees (included in 'Management fees')	**464**	465	**1,394**	1,407
Accounting services (included in 'Operating expenses')	**579**	608	**1,751**	1,843
Administrative services (included in 'Corporate and administrative')	**92**	129	**255**	362
Project management and general contractor services (capitalized to 'Hotel properties')	**969**	246	**1,859**	795
Termination fees (included in 'Operating expenses')	**144**	175	**288**	259
	$ 5,635	$ 5,156	**$ 14,452**	$ 13,882

In addition, InnVest reimburses Westmont for costs of certain employees which are paid by Westmont on account of InnVest. Prior to 2013, many of these costs were incurred directly by InnVest. For the nine months ended September 30, 2013 InnVest reimbursed $2,084 of related costs (2012 – $309). Included in 'Accounts payable and accrued liabilities' are amounts owed to Westmont at September 30, 2013 totalling $2,894 (December 31, 2012 – $1,627).

20. OTHER (INCOME) EXPENSE, NET

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	**Nine Months Ended September 30, 2013**	Nine Months Ended September 30, 2012
(Gain) loss on sale of assets	**$ (602)**	$ 890	**$ (8,702)**	$ (430)
Lease agreement income (Note 3)	**(798)**	–	**(798)**	–
Interest income	**(28)**	(414)	**(108)**	(448)
	$ (1,428)	$ 476	**$ (9,608)**	$ (878)

During the nine months ended September 30, 2013, InnVest recorded a net gain of $8,702 on the sale of two hotels and one office and retail complex (2012 – $430 on the sale of four assets). InnVest also recorded other income of $798, in the third quarter of 2013, resulting

from a short term lease agreement to record income earned during the wind down period after the sale of a hotel that is being closed and converted to an alternative use. The hotel was previously included in 'Assets held for sale' (Note 3).

21. (REVERSAL OF) WRITEDOWN OF HOTEL PROPERTIES, NET

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Reversal of previous impairment (Note 3)	$ (999)	$ 65	$ (3,464)	$ (736)
Writedown of hotel properties held for sale (Note 3)	–	29,016	2,550	29,703
Writedown of hotel property (Note 6)	–	–	3,300	–
	$ (999)	$ 29,081	$ 2,386	$ 28,967

During the nine months ended September 30, 2013, InnVest recorded an impairment loss of $5,850, relating to one Quebec hotel and five Ontario hotels. Three of the Ontario hotels are classified as assets held for sale at September 30, 2013 (Note 3) and one Ontario hotel was sold during the third quarter. The reversal of previous impairment, related to one Quebec hotel, one Ontario hotel and one Western region hotel which were included in assets held for sale. During the nine months ended September 30, 2012, InnVest recognized an impairment loss of $29,703 relating to two Ontario hotels and one Quebec hotel, which were classified as assets held for sale.

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

Fair value (gains) losses recorded are as follows:

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
InnVest operations trust	$ –	$ –	$ –	$ 10,006
Exchangeable units	(29)	192	7	399
Convertible debentures holders' conversion option	(963)	2,172	3,820	3,782
	$ (992)	$ 2,364	$ 3,827	$ 14,187

23. SEGMENT INFORMATION

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

Revenues

Three Months Ended September 30, 2013	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	**$ 41,493**	**$ 60,355**	**$ 30,767**	**$ 28,297**	**$ 160,912**
Other real estate properties					**221**
Revenues					**$ 161,133**

Three Months ended September 30, 2012 (Restated, Note 2)	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	$ 44,049	$ 62,584	$ 37,289	$ 28,656	$ 172,578
Other real estate properties					793
Revenues					$ 173,371

Nine Months Ended September 30, 2013	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	**$ 120,358**	**$ 162,824**	**$ 93,765**	**$ 67,663**	**$ 444,610**
Other real estate properties					**1,621**
Revenues					**$ 446,231**

Nine Months ended September 30, 2012 (Restated, Note 2)	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	$ 124,733	$ 167,327	$ 101,456	$ 68,343	$ 461,859
Other real estate properties					2,471
Revenues					$ 464,330

Net Income (Loss)

Three Months Ended September 30, 2013	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	**$ 12,186**	**$ 16,621**	**$ 9,693**	**$ 9,038**	**$ 47,538**
Other real estate properties					**(1)**
Gross operating profit					**47,537**
Other expenses, net					**(33,613)**
Income tax recovery					**22**
Net income					**$ 13,946**

Three Months ended September 30, 2012 (Restated, Note 2)	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	$ 14,141	$ 16,672	$ 9,771	$ 9,267	$ 49,851
Other real estate properties					253
Gross operating profit					50,104
Other expenses, net					(74,220)
Income tax expense					(197,356)
Net loss					$ (221,472)

Nine Months Ended September 30, 2013	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	**$ 33,562**	**$ 36,461**	**$ 19,515**	**$ 14,455**	**$ 103,993**
Other real estate properties					**394**
Gross operating profit					**104,387**
Other expenses, net					**(111,946)**
Income tax recovery					**344**
Net loss					**$ (7,215)**

Nine Months ended September 30, 2012 (Restated, Note 2)	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	$ 36,183	$ 37,011	$ 20,331	$ 14,471	$ 107,996
Other real estate properties					800
Gross operating profit					108,796
Other expenses, net					(170,755)
Income tax expense					(187,695)
Net loss					$ (249,654)

Hotel Properties

	Western	Ontario	Quebec	Atlantic	Total
September 30, 2013	**$ 381,539**	**$ 469,589**	**$ 187,546**	**$ 153,905**	**$ 1,192,579**
December 31, 2012 (Restated, Note 2)	$ 379,528	$ 495,965	$ 214,423	$ 175,275	$ 1,265,191
January 1, 2012 (Restated, Note 2)	$ 417,670	$ 546,557	$ 305,916	$ 183,493	$ 1,453,636

Capital Expenditures on Hotel Properties

	Western	Ontario	Quebec	Atlantic	Total
Nine Months Ended September 30, 2013	**$ 21,983**	**$ 10,041**	**$ 2,926**	**$ 6,277**	**$ 41,227**
Nine Months Ended September 30, 2012	$ 4,879	$ 11,334	$ 7,347	$ 5,288	$ 28,848

24. SUBSEQUENT EVENTS

Financing Activity

On October 9, 2013, InnVest completed the refinancing of an $183,756 mortgage for a 67-month term through May 2019, with two additional one-year renewal options through May 2021. The mortgage will carry its existing weighted average interest rate of 6.0% through May 2014 (the original maturity date) and approximately 5.1% thereafter. In conjunction with this refinancing, InnVest will have access to a loan facility (which replaces its existing facility) for up to $30,000 to fund capital expenditures.

Management also entered into a separate agreement subsequent to the end of the quarter, to refinance the Sheraton Eau Claire, Calgary for $68,000 at a fixed interest rate of 5.33% for a 10-year term. Incremental proceeds of $36,418 from the refinancing will be used to partially repay a $45,398 mortgage maturity in April 2014. The Sheraton Eau Claire refinancing is expected to close in early January 2014.

Assets Held for Sale

Subsequent to the end of the quarter, six assets triggered the conditions to be presented as held for sale (four in Ontario and two in Quebec). These assets had previously been identified as sale candidates in management's planned divestiture program. The sales of these properties, which have been approved by the Board of Trustees, are highly probable and are expected to close within a year of their classification as held for sale.

25. APPROVAL OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

These interim financial statements were authorized for issue by the Board of Trustees of InnVest on November 6, 2013.

Corporate and Unitholder Information

Corporate Office

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

Stock Exchange Listing

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

Registrar and Transfer Agent

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

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

Auditors

Deloitte LLP
Toronto, Ontario

Distribution Reinvestment Plan

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

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InnVest REIT

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STAYBRIDGE SUITES HOTELS 1-877-660-8550 • TRAVELODGE 1-800-578-7878

InnVest REIT holds one of Canada's largest hotel portfolios together with an interest in Choice Hotels Canada Inc, one of the largest franchisors of hotels in Canada. InnVest's portfolio comprises 131 hotels with 16,500 guest rooms operated under 14 internationally recognized brands.

www.innvestreit.com