



**NOTICE OF JOINT SPECIAL MEETING OF UNITHOLDERS OF  
INNVEST REAL ESTATE INVESTMENT TRUST AND INNVEST OPERATIONS TRUST**

**and**

**MANAGEMENT INFORMATION CIRCULAR**

**with respect to certain proposals, including a**

**PLAN OF ARRANGEMENT**

**involving**

**INNVEST REAL ESTATE INVESTMENT TRUST, INNVEST OPERATIONS TRUST,  
THEIR UNITHOLDERS**

**and**

**INNVEST HOTELS GP LTD., INNVEST PROPERTIES LONDON LTD.,  
INNVEST PROPERTIES TRURO INC., IOT TRUSTEE CORP. AND  
INNVEST HOTELS TRUSTEE CORP.**

**December 31, 2011**

*These materials are important and require your immediate attention. Unitholders of InnVest Real Estate Investment Trust and InnVest Operations Trust are being asked to make important decisions. If you are in doubt as to how to make such decisions, please contact your financial, legal or other professional advisors.*





December 31, 2011

Dear Unitholder:

You are cordially invited to attend the joint special meeting (the "Meeting") of unitholders of InnVest Real Estate Investment Trust (the "REIT") and InnVest Operations Trust ("IOT", and together with the REIT, "InnVest"), to be held at St. Andrew's Club & Conference Centre, 150 King Street West, 16th Floor (Conservatory Suite) on February 23, 2012 at 4:00 p.m. (Toronto time). As a holder of stapled units of InnVest ("Stapled Units"), each of which is comprised of a trust unit of the REIT (a "REIT Unit") and a non-voting trust unit of IOT (an "IOT Non-Voting Unit"), you will be entitled to vote as a holder of REIT Units on all matters that properly come before the Meeting in respect of the REIT and as a holder of IOT Non-Voting Units on matters that properly come before the Meeting in respect of IOT, but only to the extent the IOT Non-Voting Units carry class voting rights in respect of such matters pursuant to the terms of the declaration of trust governing the business and affairs of IOT.

The Meeting has been called to consider special resolutions authorizing and approving a proposed reorganization of InnVest (the "Reorganization") to unwind the stapled structure of the REIT and IOT, including, among other things, (a) the amendment and restatement of the respective declarations of trust of the REIT and IOT, and (b) certain transactions to be effected by way of a plan of arrangement pursuant to the *Canada Business Corporations Act*, the declarations of trust governing the business and affairs of the REIT and IOT and the *Trustee Act (Ontario)* (the "Plan of Arrangement"). As a result of the Reorganization, IOT (and the business of IOT) will be acquired by the REIT and unitholders will cease to hold any IOT Non-Voting Units. The IOT Non-Voting Units have class voting rights in respect of the Reorganization.

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

If the Reorganization is not completed before July 20, 2012, the anticipated changes will have a materially negative effect on InnVest's tax position. Following the Minister's announcement on July 20, 2011, the board of trustees of each of the REIT and IOT considered the strategic alternatives available to InnVest and both boards believe that the proposed Reorganization, including the Plan of Arrangement, is in the best interests of the REIT, IOT and their respective unitholders.

If the special resolutions in respect of the Reorganization are passed by the REIT unitholders and the IOT unitholders without variation they would, among other things, and subject to certain conditions described in the accompanying management information circular (the "Circular"), result in the completion of a series of transactions whereby (a) IOT would transfer substantially all of its assets and liabilities to the REIT, (b) the Stapled Units would be uncoupled and each holder of IOT Non-Voting Units would exchange its IOT Non-Voting Units for additional REIT Units, (c) the REIT Units would then be consolidated so that each holder would own an identical number of REIT Units following the Reorganization as Stapled Units prior to the Reorganization, and (d) the "stapled debentures" of InnVest, each consisting of a convertible debenture of the REIT and a convertible debenture of IOT, would become convertible debentures of the REIT only and would be convertible entirely into REIT Units. Following completion of the Reorganization, the economic interests represented by the REIT Units following the Reorganization will be identical to the economic interests currently represented by the Stapled Units and each unitholder's investment in InnVest will be held solely through the REIT.

Although the Reorganization is generally intended to be economically neutral to unitholders (other than with respect to tax matters), the steps of the Plan of Arrangement are highly technical. The Plan of Arrangement will not result

in any substantive changes to your indirect interest in the assets currently held by InnVest; however, the steps involved in the Plan of Arrangement do require your approval pursuant to the declarations of trust of the REIT and IOT and the interim order that has been granted by the Ontario Superior Court of Justice.

If the Reorganization is implemented, the REIT will make consequential amendments to its declaration of trust, unitholder rights plan and other agreements in order to accommodate the Reorganization and IOT will replace its current declaration of trust with a simplified form more appropriate for a wholly-owned subsidiary of the REIT. If passed without variation, the proposed special resolution of the REIT in respect of the Reorganization will give the REIT specific authority to amend and restate its declaration of trust and unitholder rights plan. Similarly, if passed without variation, the proposed special resolution of IOT in respect of the Reorganization will give IOT specific authority to amend and restate its declaration of trust.

The special resolution of the REIT in respect of the Reorganization (including the Plan of Arrangement and the amendment and restatement of the declaration of trust of the REIT and the unitholder rights plan) must be approved by 66 $\frac{2}{3}$ % of the votes cast by holders of REIT Units at the Meeting. The special resolution in respect of the Reorganization (including the Plan of Arrangement and the amendment and restatement of the declaration of trust of IOT) must be approved by 66 $\frac{2}{3}$ % of the votes cast by the holders of IOT Non-Voting Units, voting separately as a class, at the Meeting. InnVest Master LP, the holder of all of the outstanding voting trust units of IOT, has already passed a written resolution approving the Reorganization. The Plan of Arrangement is also subject to the approval of the Ontario Superior Court of Justice.

The Circular contains a detailed description of the Reorganization, including the Plan of Arrangement. Drafts of the proposed amended and restated declarations of trust of the REIT and IOT are also enclosed. **Please read this information carefully. If you require assistance, you are encouraged to consult your own legal, tax, financial or other professional advisor.**

Your participation in the affairs of InnVest is important, regardless of the number of Stapled Units you hold. Whether or not you plan to attend the Meeting, the board of trustees of each of the REIT and IOT request that you complete the enclosed form of proxy in accordance with the instructions set out therein and promptly return it in the envelope provided.

Yours very truly,

(signed) *Majid Mangalji*

Majid Mangalji  
Chairman of the Board of Trustees  
InnVest Real Estate Investment Trust

(signed) *Kenneth Gibson*

Kenneth D. Gibson  
Trustee  
InnVest Operations Trust

## TABLE OF CONTENTS

<b>NOTICE OF JOINT SPECIAL MEETING OF UNITHOLDERS .....</b>	<b>i</b>
<b>BUSINESS OF MEETING AND SUMMARY .....</b>	<b>ii</b>
<b>GLOSSARY OF TERMS.....</b>	<b>vi</b>
<b>INFORMATION FOR UNITED STATES UNITHOLDERS .....</b>	<b>xii</b>
<b>FORWARD-LOOKING STATEMENTS .....</b>	<b>xiii</b>
<b>SOLICITATION OF PROXIES AND VOTING AT THE MEETING.....</b>	<b>1</b>
SOLICITATION OF PROXIES .....	1
APPOINTMENT OF PROXIES.....	1
REVOCAION OF PROXIES .....	3
VOTING OF REIT UNITS AND IOT NON-VOTING UNITS REPRESENTED BY PROXIES .....	3
VOTING AT MEETING AND QUORUM .....	3
<b>DOCUMENTS INCORPORATED BY REFERENCE.....</b>	<b>4</b>
<b>INFORMATION REGARDING INNVEST .....</b>	<b>5</b>
PRINCIPAL HOLDERS OF STAPLED UNITS AND IOT VOTING UNITS .....	5
RESTRICTED SECURITY DISCLOSURE FOR IOT NON-VOTING UNITS .....	5
INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON .....	6
<b>REORGANIZATION .....</b>	<b>6</b>
INTRODUCTION AND REASONS FOR THE REORGANIZATION .....	7
DESCRIPTION OF THE REORGANIZATION .....	9
UNITHOLDER APPROVAL OF THE REORGANIZATION .....	16
COURT APPROVAL OF THE PLAN OF ARRANGEMENT.....	19
THIRD PARTY APPROVALS .....	19
TIMING OF COMPLETING THE PLAN OF ARRANGEMENT .....	19
CONDITIONS TO THE ARRANGEMENT .....	20
<b>CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS.....</b>	<b>20</b>
<b>CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS FOR DEBENTUREHOLDERS .</b>	<b>28</b>
<b>SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS.....</b>	<b>29</b>
DESCRIPTION OF EXECUTIVE INCENTIVE PLAN .....	29
DESCRIPTION OF TRUSTEE COMPENSATION PLAN .....	31
<b>INTERESTS OF INFORMED PERSONS IN MATERIAL TRANSACTIONS .....</b>	<b>31</b>
GENERAL .....	31
MANAGEMENT AGREEMENT .....	32
<b>TRUSTEES' AND OFFICERS' INSURANCE AND INDEMNIFICATION .....</b>	<b>34</b>
<b>EXPERTS.....</b>	<b>34</b>
<b>ADDITIONAL INFORMATION.....</b>	<b>34</b>

<b>BOARD OF TRUSTEES' APPROVAL .....</b>	<b>35</b>
<b>AUDITOR'S CONSENT.....</b>	<b>36</b>
<b>CONSENT OF LEGAL COUNSEL .....</b>	<b>37</b>
<b>SCHEDULE A PLAN OF ARRANGEMENT .....</b>	<b>A-1</b>
<b>SCHEDULE B RESOLUTION OF THE SOLE HOLDER OF VOTING UNITS OF INNVEST OPERATIONS TRUST .....</b>	<b>B-1</b>
<b>SCHEDULE C INTERIM ORDER .....</b>	<b>C-1</b>
<b>SCHEDULE D NOTICE OF APPLICATION FOR FINAL ORDER .....</b>	<b>D-1</b>



**NOTICE OF JOINT SPECIAL MEETING OF UNITHOLDERS**

**TO: THE UNITHOLDERS OF INNVEST REAL ESTATE INVESTMENT TRUST**

**AND TO: THE UNITHOLDERS OF INNVEST OPERATIONS TRUST**

NOTICE IS HEREBY GIVEN that a joint special meeting (the "Meeting") of unitholders of InnVest Real Estate Investment Trust (the "REIT") and InnVest Operations Trust ("IOT" and, together with the REIT, "InnVest") will be held:

on **February 23, 2012**  
at **4:00 p.m. (Toronto time)**  
at the **St. Andrew's Club & Conference Centre, 150 King Street West, 16th Floor (Conservatory Suite) Toronto, Ontario M5H 1J5**

for the following purposes:

- for unitholders of the REIT to consider, and if thought appropriate, pass a resolution authorizing (a) a reorganization (the "Reorganization"), including certain transactions to be effected by way of a plan of arrangement pursuant to the *Canada Business Corporations Act*, the declarations of trust governing the business and affairs of the REIT and IOT and the *Trustee Act* (Ontario) (the "Plan of Arrangement"), resulting in, among other things, the transfer of substantially all of IOT's assets and liabilities to the REIT and the unwinding of the stapled structure of InnVest so that IOT becomes a wholly-owned subsidiary of the REIT, (b) an amendment and restatement of the declaration of trust governing the business and affairs of the REIT as of the effective date of the Reorganization to accommodate the Reorganization, and (c) amendments to the REIT's unitholder rights plan agreement that are consequential to the Reorganization;
- for unitholders of IOT to consider, and if thought appropriate, pass a resolution authorizing (a) the Reorganization, including the Plan of Arrangement, and (b) an amendment and restatement of the declaration of trust governing the business and affairs of IOT as of the effective date of the Reorganization to replace the current declaration of trust with a simplified form more appropriate for a wholly-owned subsidiary of the REIT; and
- to transact any other business properly before the Meeting.

Unitholders of record of the REIT and IOT as of the close of business on January 19, 2012 will be entitled to vote at the Meeting or at any adjournment thereof. Non-voting trust units of IOT shall carry voting rights only in respect of matters in respect of which such units are specifically granted voting rights in accordance with the terms of the declaration of trust governing the business and affairs of IOT.

Whether or not you plan to attend the Meeting, please complete the enclosed form of proxy and return it in the postage prepaid envelope to Computershare Investor Services Inc., 100 University Avenue, 9<sup>th</sup> Floor, Toronto, Ontario M5J 2Y1. To be effective, your proxy must be received by Computershare Investor Services Inc. no later than 4:00 p.m. (Toronto time) on February 21, 2012 or such later time as the Chairman of the Meeting may determine.

By order of the Board of Trustees of the REIT

(signed) *Kenneth D. Gibson*

Kenneth D. Gibson  
President and Chief Executive Officer

Toronto, Ontario  
December 31, 2011

By order of the Board of Trustees of IOT

(signed) *Kenneth D. Gibson*

Kenneth D. Gibson  
President and Chief Executive Officer

## BUSINESS OF MEETING AND SUMMARY

*The following is a summary of certain information contained elsewhere in this Circular. This summary is not, and is not intended to be, complete in itself, and is qualified in its entirety by the more detailed information appearing elsewhere in this Circular. Unitholders are urged to review this Circular, including the schedules hereto, in its entirety. Certain capitalized terms used in this summary are defined in the Glossary of Terms. Unless otherwise indicated, all information contained herein is given as at December 31, 2011 and all dollar amounts are expressed in Canadian dollars.*

### **The Meeting**

The REIT and IOT jointly called the Meeting to consider and, if deemed advisable, approve the Special Resolutions and any other matters that may properly come before the Meeting. The Meeting will be held on February 23, 2012 at 4:00 p.m. (Toronto time) at the St. Andrew's Club & Conference Centre, 150 King Street West, 16th Floor (Conservatory Suite).

### **Special Resolutions**

If the Special Resolutions are passed without variation, subject to the conditions described in this Circular, substantially all of the assets and liabilities of IOT, including InnVest's hotel operating assets and franchising business, will be transferred to the REIT and substantially all of the outstanding IOT Voting Units and all of the outstanding IOT Non-Voting Units will be exchanged for REIT Units. Thereafter, each Unitholder's investment in InnVest will be held through the REIT, and IOT will be a wholly-owned subsidiary of the REIT with nominal assets. The REIT Units will be consolidated so that the number of REIT Units held by each Unitholder immediately following the Reorganization is equal to the number of Stapled Units held by such Unitholder immediately prior to the Effective Date. The Reorganization will constitute an Event of Uncoupling as of the Effective Date.

If the REIT Resolution is passed without variation, the REIT Declaration of Trust will be amended and restated as of the Effective Date to accommodate the Reorganization, including removing the restrictions on the issuance, transfer, redemption and purchase of REIT Units and the ability of the REIT Trustees to subdivide or consolidate the REIT Units, which were put in place on December 31, 2010 in order to implement the Stapled Unit structure. If the IOT Resolution is passed without variation, the IOT Declaration of Trust will be amended and restated as of the Effective Date to replace it with a simplified form more appropriate for a wholly-owned subsidiary of the REIT.

In addition, the REIT Resolution will specifically authorize the REIT to amend and restate the Unitholder Rights Plan in connection with the Reorganization. The REIT also intends to make consequential amendments to certain agreements or plans to which the REIT or its subsidiaries are party, including the Executive Incentive Plan, the DRIP, the 2002 Indenture, the 2011 REIT Indenture, the Management Agreement, the Administrative Services Agreements and the employment agreements of the Executive Officers. None of those amendments will require the approval of the Unitholders or the holders of the Stapled Debentures or the Series B, C, D or E REIT Debentures.

### **Recommendation of the Boards of Trustees**

After careful consideration, the REIT Trustees have unanimously determined that the Reorganization is in the best interests of the REIT and, accordingly, **the REIT Trustees unanimously recommend that holders of REIT Units vote FOR the REIT Resolution.**

After careful consideration, the IOT Trustees have unanimously determined that the Reorganization is in the best interests of IOT and, accordingly, **the IOT Trustees unanimously recommend that holders of IOT Non-Voting Units vote FOR the IOT Resolution.**



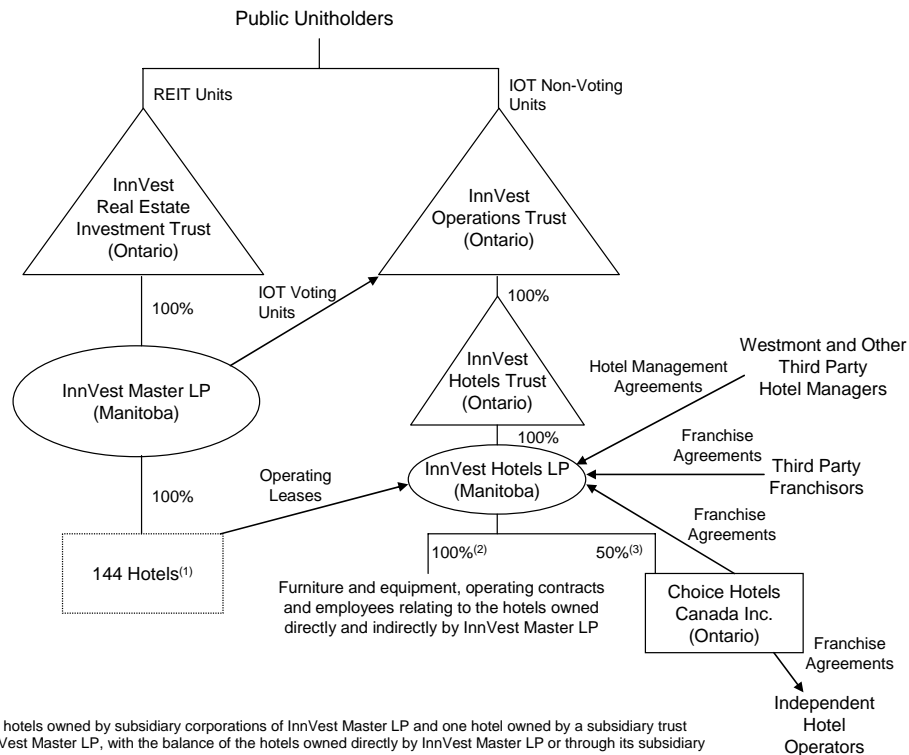
## Reasons for the Arrangement

In the course of their evaluation of the Reorganization, the REIT Trustees and the IOT Trustees consulted with senior management of the REIT and IOT, legal counsel and financial and tax advisors, and considered a number of factors including:

- Canadian tax implications, including the taxation of InnVest under the proposed Stapled Securities Rules in the absence of the Reorganization, and the effects of the Reorganization on Canadian resident and non-resident Unitholders;
- the relative expected impact of the Reorganization on Unitholder value as compared to strategic alternatives including: converting InnVest into a public corporation; a simple "uncoupling" of the Stapled Units and Stapled Debentures, where both the REIT and IOT would remain as public trusts but with divergent unitholder ownership and the REIT Units and IOT Non-Voting Units and Series F REIT Debentures and Series F IOT Debentures trading separately; and selling the assets of IOT to a third-party;
- the anticipated effects of implementing the Reorganization on InnVest's business; and
- the expected costs of implementing the Reorganization.

## Organizational Structure Before and After the Reorganization

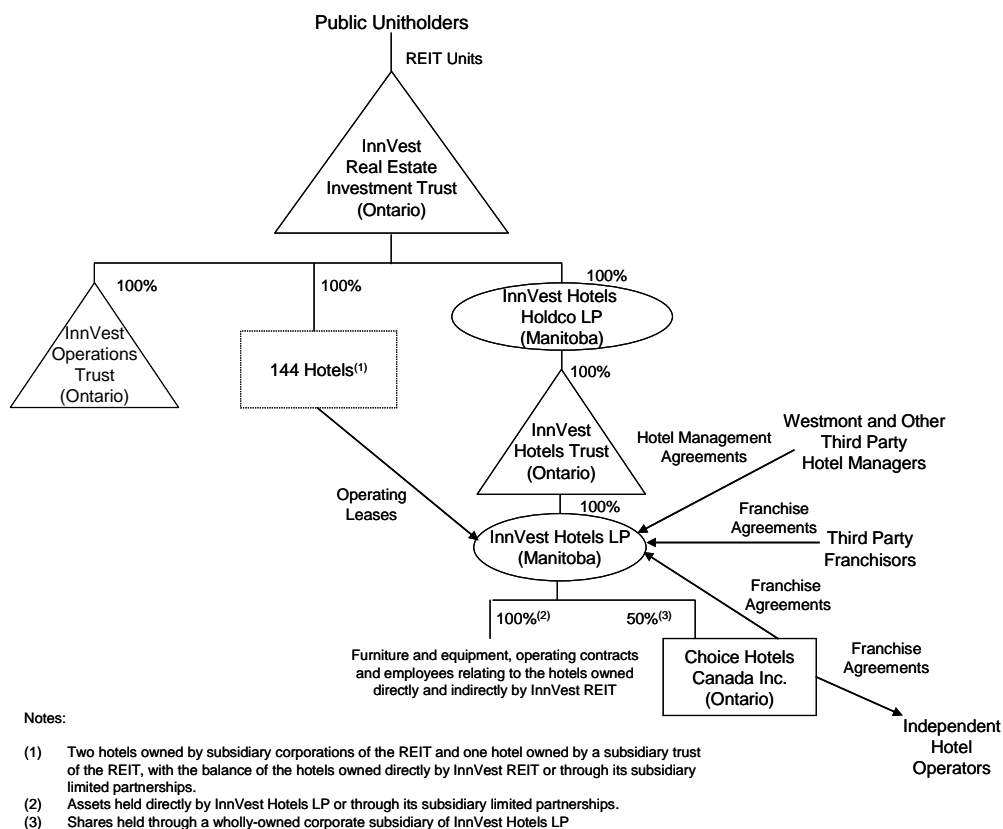
The following diagram illustrates the primary structural and contractual relationships between the REIT, IOT, their principal subsidiary entities and certain third parties as of December 31, 2011:



### Notes:

- (1) Three hotels owned by subsidiary corporations of InnVest Master LP and one hotel owned by a subsidiary trust of InnVest Master LP, with the balance of the hotels owned directly by InnVest Master LP or through its subsidiary limited partnerships.
- (2) Assets held directly by InnVest Hotels LP or through its subsidiary limited partnerships.
- (3) Shares held through a wholly-owned corporate subsidiary of InnVest Hotels LP

The following diagram illustrates the primary structural and contractual relationships between the REIT, its principal subsidiary entities, IOT and certain third parties after giving effect to the Reorganization:



### Conditions to the Arrangement

The completion of the Arrangement is subject to the following conditions precedent:

- The Interim Order shall not have been set aside or modified in a manner unacceptable to InnVest, acting reasonably, on appeal or otherwise.
- The Special Resolutions shall have been approved at the Meeting by the required votes.
- The Final Order shall have been granted in form and substance satisfactory to InnVest, acting reasonably, and shall not have been set aside or modified in a manner unacceptable to InnVest, acting reasonably, on appeal or otherwise.
- The absence of any changes or proposed changes with respect to the income tax laws or policies of Canada or to other regulatory laws or policies of Canada that would have a material adverse effect on the transactions contemplated by the Arrangement or the anticipated results.
- The absence of any temporary restraining order, preliminary or permanent injunction, or other judgment, order or decree issued by any court of competent jurisdiction or other legal restraint or prohibition that has the effect of preventing the consummation of the Arrangement.
- All third party and other consents, waivers, permits, exemptions, orders, approvals, agreements and amendments and modifications to agreements, indentures or arrangements as are considered necessary or desirable by InnVest, in its sole discretion, shall have been obtained or received on terms that are satisfactory to InnVest.

These conditions may not be satisfied, or may not be satisfied on terms satisfactory to InnVest, in which case the proposed Arrangement could be modified, restructured or terminated. In addition, the REIT Trustees or the IOT Trustees may, in their sole discretion, decide not to proceed with the Arrangement.

### **Timing of Completing the Plan of Arrangement**

Subject to satisfaction of all conditions precedent to completing the Plan of Arrangement and any applicable TSX requirements, InnVest anticipates that the Effective Date of the Arrangement will occur on or about June 30, 2012 and that the steps of the Plan of Arrangement will be completed prior to the opening of markets on July 3, 2012. However, if determined appropriate by the REIT Trustees and the IOT Trustees, InnVest may elect to complete the Plan of Arrangement on an earlier or later date. The implementation of the Plan of Arrangement could be delayed for a number of reasons, including an objection before the Court at the hearing of the application for the Final Order.

### **Certain Canadian Federal Income Tax Considerations**

Please see "Certain Canadian Federal Income Tax Considerations" for a summary of the principal Canadian federal income tax considerations generally applicable to Unitholders arising in connection with the proposed Plan of Arrangement.

### **Effect of Arrangement on Debentureholders**

#### *Series B, C, D and E Debentureholders*

Pursuant to the 2002 Indenture, following the Arrangement, any holder of Series B, C, D or E REIT Debentures who has not exercised its right of conversion prior to the Effective Date, upon exercise of such right thereafter, will be entitled to receive, and shall accept, in lieu of the Stapled Units then sought to be acquired by it, that number of REIT Units equal to the number of Stapled Units to which such holder of Series B, C, D or E REIT Debentures would have been entitled if the Arrangement had not occurred.

The REIT and the Indenture Trustee will enter into a supplemental indenture on the Effective Date that will (a) evidence the succession of the REIT to IOT in accordance with the terms of the 2002 Indenture, and (b) reflect that the Series B, C, D and E Debentures will be convertible into REIT Units only, rather than Stapled Units.

#### *Series F Debentureholders*

The Arrangement will constitute an "IOT MFT Merger" for purposes of the 2011 REIT Indenture and the 2011 IOT Indenture. In accordance with the terms of the 2011 REIT Indenture, the REIT and the Indenture Trustee will enter into a supplemental indenture on the Effective Date providing for the consolidation of the Series F IOT Debentures into the Series F REIT Debentures and such other adjustments as are indented to produce the same or substantially the same effect as if the REIT had been the sole issuer of the Stapled Debentures and such Stapled Debentures were convertible solely into REIT Units rather than Stapled Units. In accordance with the terms of the 2011 IOT Indenture, upon the completion of the Arrangement and the entering into by the REIT and the Indenture Trustee of the supplemental indenture described above, the Series F IOT Debentures will cease to be convertible into IOT Non-Voting Units, and the obligations of IOT in respect of the Series F IOT Debentures will be extinguished.

## GLOSSARY OF TERMS

The following terms shall have the meanings set forth below when used in this Circular. These defined terms are not always used in and may not conform exactly to the defined terms used in the schedules to this Circular or any agreements referred to herein.

**"2002 Indenture"** means the trust indenture dated July 26, 2002 between the REIT and the Indenture Trustee as supplemented by the first supplemental indenture dated April 2, 2004 (as amended on September 2, 2005), the second supplemental indenture dated May 16, 2006, the third supplemental indenture dated August 3, 2007, the fourth supplemental indenture dated December 30, 2009, the fifth supplemental indenture dated August 13, 2010 and the sixth supplemental indenture dated December 31, 2010, and as may be further amended, modified, replaced or supplemented from time to time;

**"2010 Exemption Order"** means the decision document dated May 3, 2010 issued to InnVest by the Ontario Securities Commission, as principal regulator, under Multilateral Instrument 11-102 *Passport System* and National Policy 11-203 *Process for Exemptive Relief Applications in Multiple Jurisdictions*;

**"2010 Reorganization"** means the reorganization of InnVest completed on December 31, 2010, including by way of a court-approved plan of arrangement under section 192 of the CBCA, the REIT Declaration of Trust, the IOT Declaration of Trust and section 60 of the Trustee Act, which resulted in the REIT, among other things, transferring its hotel operating assets and franchising business to IOT and distributing IOT Non-Voting Units to Unitholders on a one-for-one basis to implement the Stapled Unit structure;

**"2011 IOT Indenture"** means the trust indenture between IOT, as issuer, the REIT, as guarantor, and the Indenture Trustee dated March 15, 2011, as amended, modified, replaced or supplemented from time to time;

**"2011 REIT Indenture"** means the trust indenture between the REIT, as issuer, IOT, as guarantor, and the Indenture Trustee dated March 15, 2011, as amended, modified, replaced or supplemented from time to time;

**"Administrative Services Agreements"** means, collectively, (i) the amended and restated administrative services agreement dated December 31, 2010 between the REIT and the Manager, as may be further amended, supplemented or replaced in accordance with its terms from time to time, and (ii) the amended and restated administrative services agreement dated December 31, 2010 between IOT, the Operator and the Manager, as may be further amended, modified, replaced or supplemented from time to time;

**"Amended and Restated IOT Declaration of Trust"** means the second amended and restated IOT Declaration of Trust proposed in connection with the Arrangement, substantially in the form of the draft amended and restated IOT Declaration of Trust accompanying this Circular;

**"Amended and Restated REIT Declaration of Trust"** means the fourth amended and restated REIT Declaration of Trust proposed in connection with the Arrangement, substantially in the form of the draft amended and restated REIT Declaration of Trust accompanying this Circular, which is blacklined to the current REIT Declaration of Trust;

**"Arrangement"** means the arrangement under section 192 of the CBCA, the REIT Declaration of Trust, the IOT Declaration of Trust and section 60 of the Trustee Act on the terms and conditions set out in the Plan of Arrangement, and any amendments thereto or variations thereof made in accordance with Article 3 of the Plan of Arrangement;

**"CBCA"** means the *Canada Business Corporations Act*, as amended;

**"CDS"** means CDS Clearing and Depository Services Inc. or its nominee (which is, at the date hereof, CDS & Co.), together with its successors from time to time;

"**Circular**" means this management information circular dated December 31, 2011 and the schedules hereto;

"**Consolidation Date**" means the next business day following the Distribution Date;

"**Co-ordination Agreement**" means the co-ordination agreement entered into between the REIT and IOT dated as of December 31, 2010, as amended, modified, replaced or supplemented from time to time, which sets out certain obligations of the REIT and IOT relating to maintaining the Stapled Unit structure;

"**Court**" means the Ontario Superior Court of Justice;

"**CRA**" means the Canada Revenue Agency;

"**CSA**" means the Canadian Securities Administrators;

"**Distribution Date**" means the day immediately following the Effective Date;

"**DPSP**" means a deferred profit sharing plan as defined in subsection 147(1) of the Tax Act;

"**DRIP**" means the amended and restated distribution reinvestment plan of the REIT and IOT dated December 31, 2010, as amended, modified, replaced or supplemented from time to time;

"**Effective Date**" means the first date on which the Arrangement takes effect under the CBCA;

"**Event of Uncoupling**" means (a) a vote of holders of REIT Units in favour of the uncoupling of the REIT Units and the IOT Non-Voting Units such that the two securities will trade separately, or (b) the determination at the sole discretion of the REIT Trustees or the IOT Trustees that the REIT Units and the IOT Non-Voting Units will be uncoupled, but only in the event of the bankruptcy, insolvency, winding-up or reorganization (under an applicable law relating to insolvency) of the REIT, IOT and/or their respective subsidiaries or the taking of corporate action by the REIT, IOT and/or their respective subsidiaries in furtherance of any such action or the admitting in writing by any of the REIT, IOT and/or their respective subsidiaries of its inability to pay its debts generally as they become due;

"**Executive Incentive Plan**" means the amended and restated executive incentive plan of the REIT dated December 31, 2010, as amended, modified, replaced or supplemented from time to time;

"**Executive Officers**" means the Chief Executive Officer, Chief Financial Officer and Vice President, Finance, of the REIT and/or IOT, as the context requires;

"**Exempt Plan**" means an RRSP, RRIF, RESP, or TFSA; or a registered disability plan or deferred profit sharing plan as defined in the Tax Act;

"**First 2012 Taxation Year**" means the taxation year of the REIT that commences on January 1, 2012 and will end as a result of the Reorganization, as described under "Certain Canadian Federal Income Tax Considerations";

"**IFRS**" means International Financial Reporting Standards;

"**IHGP**" means InnVest Hotels GP Ltd., a corporation existing under the CBCA;

"**IH Holdco LP**" means InnVest Hotels Holdco LP, a wholly-owned limited partnership subsidiary of IOT;

"**IMLP**" means InnVest Master LP, a wholly-owned limited partnership subsidiary of the REIT;

"**Indenture Trustee**" means Computershare Trust Company of Canada, as trustee under the 2002 Indenture, the 2011 REIT Indenture and the 2011 IOT Indenture;

**"InnVest"** means the REIT and IOT;

**"Interim Order"** means the interim order of the Court dated December 23, 2011, attached as Schedule C to this Circular, confirming, among other things, the calling and holding of the Meeting and the voting thereat;

**"Intermediary"** means a participant in the book-based system administered by CDS with whom a Non-Registered Holder deals in respect of REIT Units, such as, among others, banks, trust companies, securities dealers or brokers, and trustees or administrators of self-administered deferred income plans;

**"IOT"** means InnVest Operations Trust or, where the context so requires, the IOT Trustees acting in their capacity as trustees of IOT;

**"IOT Debentures"** means convertible unsecured subordinated debentures of IOT, including the 5.75% Series F IOT Debentures issued pursuant to the 2011 IOT Indenture and forming part of the Stapled Debentures;

**"IOT Declaration of Trust"** means the amended and restated declaration of trust governing the business and affairs of IOT, as amended, modified, replaced or supplemented from time to time;

**"IOT Non-Voting Unit"** means a non-voting trust unit of IOT;

**"IOT Resolution"** means the special resolution of the holders of IOT Non-Voting Units authorizing and approving the Reorganization, the Plan of Arrangement and the amendment and restatement of the IOT Declaration of Trust, the text of which is set out at "Reorganization – Unitholder Approval of the Reorganization – IOT Resolution";

**"IOT Trustee Co"** means IOT Trustee Corp., a wholly-owned subsidiary of the REIT incorporated under the CBCA;

**"IOT Trustees"** means the trustees of IOT from time to time;

**"IOT Voting Unit"** means a voting trust unit of IOT;

**"London Ltd."** means InnVest Properties London Ltd., a corporation existing under the CBCA;

**"Management Agreement"** means the amended and restated master hotel management agreement between the Operator, the Manager and InnVest, as may be amended, supplemented or replaced from time to time;

**"Manager"** means Westmont Hospitality Canada Limited;

**"Meeting"** means the joint special meeting of unitholders of the REIT and IOT to be held on February 23, 2012, including any adjournment(s) or postponement(s) thereof, to conduct the business described in the Notice;

**"Meeting Materials"** means, collectively, the copies of the Notice, this Circular, the enclosed draft amended and restated declarations of trust and the form of proxy or voting instruction form distributed by InnVest to the clearing agencies and Intermediaries for onward distribution to Non-Registered Holders;

**"Minister of Finance"** means the Minister of Finance (Canada);

**"MI 61-101"** means Multilateral Instrument 61-101 *Protection of Minority Security Holders in Special Transactions* adopted by the Ontario Securities Commission and the Autorité des marchés financiers;

**"NI 51-102"** means National Instrument 51-102 *Continuous Disclosure Obligations* adopted by the CSA;

**"Non-Registered Holder"** means a beneficial holder of REIT Units and IOT Non-Voting Units that holds such units through an Intermediary;

**"Notice"** means the notice of meeting accompanying this Circular;

**"Operator"** means InnVest Hotels LP, an indirect, wholly-owned subsidiary of IOT;

**"Operator Trust"** means InnVest Hotels Trust, an indirect wholly-owned subsidiary of IOT and the registered holder of all of the limited partner units of the Operator and the shares of its general partner;

**"Participant"** means any officer or senior employee of the REIT or a subsidiary of the REIT who has been designated by the Compensation and Corporate Governance Committee and who has agreed to participate in the Executive Incentive Plan on terms specified by the REIT;

**"Partnership Wind-ups"** means the winding-up of IMLP and certain limited partnerships whose limited partner units are held by IMLP, expected to occur as part of the Reorganization;

**"Plan of Arrangement"** means the plan of arrangement under section 192 of the CBCA, the REIT Declaration of Trust, the IOT Declaration of Trust and section 60 of the Trustee Act involving the REIT, IOT, their respective unitholders and certain of their subsidiaries in the form attached hereto as Schedule A and any amendment or variation thereto, including, for certainty, any amendment to the date or dates and times on which the steps of the Arrangement are effective;

**"REIT"** means InnVest Real Estate Investment Trust or, where the context so requires, the REIT Trustees acting in their capacity as trustees of the REIT;

**"REIT Debentures"** means convertible unsecured subordinated debentures of the REIT, including (a) the 6.00% Series B REIT Debentures, the 5.85% Series C REIT Debentures, the 6.75% Series D REIT Debentures and the 6.00% Series E REIT Debentures issued by the REIT pursuant to the 2002 Indenture, and (b) the 5.75% Series F REIT Debentures issued pursuant to the 2011 REIT Indenture and forming part of the Stapled Debentures;

**"REIT Declaration of Trust"** means the third amended and restated declaration of trust governing the business and affairs of the REIT, as amended, modified, replaced or supplemented from time to time;

**"REIT Exception"** means the rules under the Tax Act and the REIT Proposals permitting the REIT, upon compliance with specified conditions, to be not subject to tax under the SIFT Rules, as described under "Certain Canadian Federal Income Tax Considerations";

**"REIT Proposals"** means the Tax Proposals respecting the REIT Exception which were released by the Minister of Finance on December 16, 2010, as described under "Certain Canadian Federal Income Tax Considerations";

**"REIT Resolution"** means the special resolution of the holders of REIT Units authorizing and approving the Reorganization, the Plan of Arrangement, the amendment and restatement of the REIT Declaration of Trust and consequential amendments to the Unitholder Rights Plan, the text of which is set out at "Reorganization – Unitholder Approval of the Reorganization – REIT Resolution";

**"REIT Trustees"** means the trustees of the REIT from time to time;

**"REIT Unit"** means a trust unit of the REIT;

**"Reorganization"** means the proposed series of transactions, including the Arrangement, whereby, among other things, substantially all of IOT's assets and liabilities will be transferred to the REIT and the stapled structure of InnVest will be unwound so that IOT becomes a wholly-owned subsidiary of the REIT, as further described under "Reorganization";

**"RESP"** means a registered education savings plan as defined in subsection 146.1(1) of the Tax Act;

**"RRIF"** means a registered retirement income fund as defined in subsection 146.3(1) of the Tax Act;

**"RRSP"** means a registered retirement savings plan as defined in subsection 146(1) of the Tax Act;

**"Second 2012 Taxation Year"** means the taxation year of the REIT that will commence as a result of the Reorganization and end on December 31, 2012, as described under "Certain Canadian Federal Income Tax Considerations";

**"SIFT Rules"** means the special taxation regime applicable to specified investment flow-through trusts or partnerships and investors in such trusts or partnerships, as described under "Certain Canadian Federal Income Tax Considerations";

**"Special Resolutions"** means the REIT Resolution and the IOT Resolution;

**"Stapled Debentures"** means the 5.75% Series F stapled convertible unsecured subordinated debentures of InnVest, each \$1,000 principal amount of which consists of \$850 principal amount of Series F REIT Debentures and \$150 principal amount of Series F IOT Debentures which trade together;

**"Stapled Securities Rules"** has the meaning set out in "Reorganization – Introduction and Reasons for the Reorganization";

**"Stapled Unit"** means one REIT Unit and one IOT Non-Voting Unit which trade together;

**"subsidiary"** includes, without limitation, a limited partnership, the limited partner units of which are held directly and the general partner interest of which is held through a wholly-owned corporate subsidiary, and a trust, the beneficial interests in which are held directly or together with another subsidiary;

**"Tax Act"** means the *Income Tax Act* (Canada), as amended;

**"Tax Proposals"** has the meaning set out in "Certain Canadian Federal Income Tax Considerations";

**"TFSA"** means a tax free savings account as defined in section 146.2 of the Tax Act;

**"Transferred Assets"** means substantially all of the assets of IOT that are transferred to the REIT under the Plan of Arrangement;

**"Triggering Event"** means (a) an Event of Uncoupling, or (b) any event that results in any of the then-outstanding IOT Voting Units ceasing to be held by the REIT or an affiliate thereof;

**"Truro"** means InnVest Properties Truro Inc., a company existing under the *Business Corporations Act* (Ontario), as amended;

**"Trustee Act"** means the *Trustee Act* (Ontario), as amended;

**"Trustees"** means the REIT Trustees and the IOT Trustees;

**"TSX"** means the Toronto Stock Exchange;

**"Unitholders"** means, prior to the completion of the Arrangement, holders of Stapled Units and, following completion of the Arrangement, holders of REIT Units;

**"Unitholder Rights Plan"** means the third amended and restated unitholder rights plan agreement dated as of December 31, 2010 between the REIT and Computershare Trust Company of Canada, as rights agent, as amended, modified, replaced or supplemented from time to time;



**"U.S. Exchange Act"** means the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder;

**"U.S. Securities Act"** means the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder; and

**"Westmont"** means Westmont Hospitality Group, Inc.

**THE SECURITIES TO BE ISSUED PURSUANT TO THE ARRANGEMENT HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR SECURITIES REGULATORY AUTHORITIES OF ANY STATE OF THE UNITED STATES, NOR HAS THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR SECURITIES REGULATORY AUTHORITIES OF ANY STATE OF THE UNITED STATES PASSED UPON THE ADEQUACY OR ACCURACY OF THIS CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.**

**THIS CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO PURCHASE, THE SECURITIES TO BE ISSUED UNDER THE ARRANGEMENT, OR THE SOLICITATION OF A PROXY, IN ANY JURISDICTION, TO OR FROM ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER, SOLICITATION OF AN OFFER OR PROXY SOLICITATION IN SUCH JURISDICTION. ANY RESPONSIBILITY OF INNVEST REAL ESTATE INVESTMENT TRUST OR INNVEST OPERATIONS TRUST FOR ANY THIRD PARTY'S NON-COMPLIANCE WITH THE LAWS IN SUCH JURISDICTION IS EXPRESSLY DISCLAIMED.**

### **INFORMATION FOR UNITED STATES UNITHOLDERS**

The securities to be received by Unitholders pursuant to the Arrangement described in this Circular have not been and will not be registered under the U.S. Securities Act or any state securities laws, and are being issued in reliance on the exemption from registration under the U.S. Securities Act set forth in Section 3(a)(10) thereof. Section 3(a)(10) of the U.S. Securities Act provides an exemption from registration under the U.S. Securities Act for offers and sales of securities issued in exchange for one or more outstanding securities where the terms and conditions of the issuance and exchange of such securities have been approved by a court authorized to grant such approval after a hearing upon the fairness of the terms and conditions of the issuance and exchange at which all persons to whom the securities will be issued have the right to appear. The Court is authorized to conduct a hearing at which the fairness of the terms and conditions of the Arrangement will be considered. The Court issued the Interim Order on December 23, 2011 and, subject to the approval of the Arrangement by the Unitholders at the Meeting on February 23, 2012, it is expected that the hearing on the Arrangement will be held on February 29, 2012 at 10:00 a.m. (Toronto time) at the Ontario Superior Court of Justice in Toronto at 330 University Avenue, Toronto, Ontario, M5G 1R7. All Unitholders are entitled to appear and be heard at this hearing. See "Business of the Meeting – Reorganization – Court Approval of the Plan of Arrangement" in this Circular.

The REIT is an unincorporated real estate investment trust created by the REIT Declaration of Trust under, and governed by, the laws of the Province of Ontario. IOT is an unincorporated investment trust created by the IOT Declaration of Trust under, and governed by, the laws of the Province of Ontario. The solicitation of proxies and the transactions contemplated in this Circular involve securities of Canadian issuers and are being effected in accordance with Canadian corporate and securities laws. The solicitation of proxies for the Meeting made pursuant to this Circular is not subject to the requirements of Section 14(a) of the U.S. Exchange Act. The securities to be issued to Unitholders pursuant to the Arrangement described in this Circular will not be listed for trading on any United States stock exchange or registered under the U.S. Exchange Act. Accordingly, this Circular has been prepared in accordance with disclosure requirements applicable in Canada. Unitholders should be aware that disclosure requirements under Canadian securities laws are different from requirements under U.S. securities laws.

The enforcement by investors of civil liabilities under U.S. federal securities laws may be affected adversely by the fact that the REIT is an unincorporated real estate investment trust created by the REIT Declaration of Trust under, and governed by, the laws of the Province of Ontario, that IOT is an unincorporated investment trust created by the IOT Declaration of Trust under, and governed by, the laws of the Province of Ontario, that some of their respective officers and trustees are not residents of the United States, that their auditors are not residents of the United States and that a substantial portion of their respective assets are located outside the United States. You may not be able to sue the REIT, IOT or their officers or trustees, or enforce judgments of a U.S. court, in a Canadian court for violations of U.S. securities laws.

Certain information concerning tax consequences of the Reorganization under the Tax Act for Unitholders who are U.S. taxpayers is set forth under "Certain Canadian Federal Income Tax Considerations". This Circular does not include a discussion of tax consequences of the Reorganization under U.S. tax laws. Unitholders are urged to consult their professional tax advisors regarding such U.S. tax consequences.

The historical financial statements of, and the financial information concerning, InnVest contained or incorporated by reference in this Circular are reported in Canadian dollars and have been prepared in accordance with generally accepted accounting principles in Canada (including IFRS for periods commencing on or after January 1, 2011), which may differ in significant ways from financial statements prepared in accordance with generally accepted accounting principles in the United States.

### **FORWARD-LOOKING STATEMENTS**

Certain information in this Circular may contain forward-looking statements within the meaning of applicable securities laws including, among others, statements relating to InnVest's objectives, strategies to achieve those objectives, InnVest's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by words such as "outlook", "objective", "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "should", "plans" or "continue" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect InnVest's current beliefs and are based on information currently available to management. Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future, and readers are cautioned that such statements may not be appropriate for other purposes. These statements are not guarantees of future performance and are based on InnVest's estimates and assumptions that are subject to risks and uncertainties, including those described under "Reorganization – Description of Reorganization – Risks Related to the Reorganization" in this Circular, and those discussed in InnVest's materials filed with the Canadian securities regulatory authorities from time to time, which could, individually or in the aggregate, cause the actual results and performance of InnVest to differ materially from the forward-looking statements contained in this Circular. Those risks and uncertainties include, among other things, risks related to: investment in real property; the hotel industry, including competition and franchising risks; Stapled Unit prices; availability of cash for distributions; tax laws; interest rate and other debt-related risks; lender concentration; ability to access capital markets; dilution; government regulation; labour disruptions; investment eligibility; risks related to the Stapled Unit structure; Unitholder liability; dependence on key personnel; dependence on the relationship with the Manager; and potential conflicts of interest. Unitholders are encouraged to review the detailed risk factors set forth in the REIT's annual information form dated March 28, 2011, which is incorporated by reference in this Circular. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include that the general economy remains stable, interest rates are relatively stable and equity and debt markets continue to provide access to capital. InnVest cautions that this list of factors is not exhaustive. Although the forward-looking statements contained in this Circular are based upon what InnVest believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. All forward-looking statements in this Circular are qualified by these cautionary statements. The forward-looking statements are made only as of the date that such statements are made and InnVest, except as required by applicable law, assumes no obligation to update or revise them to reflect new information or the occurrence of future events or circumstances.

# INNVEST REAL ESTATE INVESTMENT TRUST AND INNVEST OPERATIONS TRUST

## MANAGEMENT INFORMATION CIRCULAR

Unless otherwise indicated, all information contained herein is given as at December 31, 2011 and all dollar amounts are expressed in Canadian dollars.

### SOLICITATION OF PROXIES AND VOTING AT THE MEETING

#### Solicitation of Proxies

This Circular is furnished in connection with the solicitation of proxies by and on behalf of the management of InnVest for use at the Meeting and any adjournment(s) or postponement(s) thereof for the purposes set forth in the accompanying Notice. It is expected that the solicitation will be made primarily by mail, but proxies may also be solicited by telephone or by agents of InnVest. The costs of solicitation will be borne by InnVest.

The REIT Trustees and the IOT Trustees have fixed the close of business on January 19, 2012 as the record date for the Meeting, being the date for the determination of registered Unitholders entitled to receive notice of the Meeting. Duly executed and completed proxies must be received by the transfer agent, Computershare Investor Services Inc., at the address set out below no later than 4:00 p.m. (Toronto time) on February 21, 2012 or, if the Meeting is postponed or adjourned, no later than 48 hours (excluding Saturdays, Sundays and statutory holidays in Ontario) before the time of the Meeting.

The form of proxy or voting instruction form accompanying this Circular includes matters to be voted on by Unitholders both in their capacity as holders of REIT Units and in their capacity as holders of IOT Non-Voting Units.

#### Appointment of Proxies

##### *Registered Unitholders*

The persons named in the form of proxy accompanying this Circular are trustees or officers of the REIT and/or IOT. **A registered Unitholder has the right to appoint as proxy holder a person or company (who is not required to be a Unitholder), other than any person or company designated as proxy holder in the form of proxy, to attend and act on such Unitholder's behalf at the Meeting, either by inserting such other desired proxy holder's name in the blank space provided on the proxy and deleting the names thereon, or by substituting another proper form of proxy.** Whether or not you intend to be present at the Meeting, you are asked to complete the enclosed form of proxy and return it in the envelope provided.

To be valid, the enclosed form of proxy must be dated and executed by the registered Unitholder or the officer or attorney of such registered Unitholder, duly authorized in writing. If the proxy is executed by an attorney, a copy of the instrument appointing the attorney must accompany the proxy. Proxies to be used at the Meeting may be deposited with the transfer agent of InnVest, Computershare Investor Services Inc., by no later than 4:00 p.m. (Toronto time) on February 21, 2012, or, if the Meeting is postponed or adjourned, no later than 48 hours (excluding Saturdays, Sundays and holidays) before the time of the Meeting, unless otherwise determined by the Chairman of the Meeting in his sole discretion. Proxies may be delivered to Computershare Investor Services Inc. as follows:

In person or by courier or mail:      Computershare Investor Services Inc.  
100 University Avenue, 9th Floor  
Toronto, Ontario M5J 2Y1

By facsimile:                                1-866-249-7775 (toll-free, North America only)

### *Non-Registered Unitholders*

Only registered Unitholders, or the persons they appoint as their proxies, are permitted to attend and vote at the meeting. Each of the REIT Units and IOT Non-Voting Units is registered in the name of CDS, as depository, and is beneficially owned by a Non-Registered Unitholder.

A Non-Registered Holder is entitled to direct how the REIT Units and IOT Non-Voting Units beneficially owned by such holder are to be voted. A Non-Registered Holder may obtain a form of proxy from its Intermediary that will entitle the Non-Registered Holder to attend and vote at the meeting.

In accordance with the requirements of National Instrument 54-101 *Communication with Beneficial Owners of Securities of a Reporting Issuer*, InnVest has distributed copies of the Meeting Materials to the clearing agencies and Intermediaries for onward distribution to Non-Registered Holders. Intermediaries are required to forward the Meeting Materials to Non-Registered Holders unless a Non-Registered Holder has waived the right to receive them. Typically, Intermediaries will use a service company (such as Broadridge Investor Communication Solutions) to forward the Meeting Materials to Non-Registered Holders.

Non-Registered Holders who have not waived the right to receive Meeting Materials will receive either a voting instruction form or, less frequently, a form of proxy. The purpose of these forms is to permit Non-Registered Holders to direct the voting of the REIT Units and IOT Non-Voting Units they beneficially own. Non-Registered Holders should follow the procedures set out below, depending on which type of form they receive.

- **Voting Instruction Form.** In most cases, a Non-Registered Holder will receive, as part of the Meeting Materials, a voting instruction form. If the Non-Registered Holder does not wish to attend and vote at the meeting in person (or have another person attend and vote on its behalf), the voting instruction form must be completed, signed and returned in accordance with the directions on the form. Voting instruction forms in some cases permit the completion of the voting instruction form by telephone or through the internet. If a Non-Registered Holder wishes to attend and vote at the meeting in person (or have another person attend and vote on his or her behalf), the Non-Registered Holder must complete, sign and return the voting instruction form in accordance with the directions on the form and a form of proxy giving the right to attend and vote will be forwarded to the Non-Registered Holder.
- **Form of Proxy.** Less frequently, a Non-Registered Holder will receive, as part of the Meeting Materials, a form of proxy that has already been signed by the Intermediary (typically by a facsimile, stamped signature) which is restricted as to the number of REIT Units and IOT Non-Voting Units beneficially owned by the Non-Registered Holder but which is otherwise not complete. If a Non-Registered Holder wishes to attend and vote at the meeting in person (or have another person attend and vote on its behalf), the Non-Registered Holder must insert the Non-Registered Holder's (or such other person's) name in the blank space provided. The Non-Registered Holder must complete, sign and return the form of proxy to the transfer agent, Computershare Investor Services Inc., by no later than 4:00 p.m. (Toronto time) on February 21, 2012, or, if the Meeting is postponed or adjourned, no later than 48 hours (excluding Saturdays, Sundays and holidays) before the time of the Meeting, unless otherwise determined by the Chairman of the Meeting in his sole discretion. Proxies may be delivered to Computershare Investor Services Inc. as follows:

In person or by courier or mail: Computershare Investor Services Inc.  
100 University Avenue, 9th Floor  
Toronto, Ontario M5J 2Y1

By facsimile: 1-866-249-7775 (toll-free, North America only)

*Non-Registered Holders should follow the instructions on the forms they receive and contact their Intermediary promptly if they need assistance.*

## Revocation of Proxies

A registered Unitholder who has given a proxy pursuant to this solicitation may revoke it as to any matter on which a vote has not already been cast pursuant to its authority by instrument in writing executed by the Unitholder or by the officer or attorney of such Unitholder, duly authorized in writing, (a) delivered to Computershare Investor Services Inc., in such manner and at such address as specified above, at any time up to and including the close of business on the last business day preceding the day of the Meeting or any adjournment(s) or postponement(s) thereof at which the proxy is to be used, (b) deposited with the Chairman of the Meeting prior to the commencement of the Meeting on the day of the Meeting or any adjourned or postponed Meeting, or (c) in any other manner permitted by law.

A Non-Registered Holder may revoke a voting instruction form (or a waiver of the right to receive the Meeting Materials and to vote) given to an Intermediary at any time by written notice to the intermediary, except that an Intermediary is not required to act on a revocation that is not received by the intermediary at least seven days prior to the Meeting.

## Voting of REIT Units and IOT Non-Voting Units Represented by Proxies

REIT Units and IOT Non-Voting Units represented by proxies will be voted or withheld from voting as specified on any ballot that may be called for. The proxy confers discretionary authority upon the persons named therein with respect to (a) each matter or group of matters identified therein where the Unitholder does not specify a choice with respect to any matter to be acted on, (b) amendments or variations to matters identified in the Notice, and (c) such other matters as may properly come before the Meeting or any adjournment(s) or postponement(s) thereof (provided that the REIT Units or IOT Non-Voting Units, as the case may be, carry voting rights in respect of such matters). If the Unitholder specifies a choice with respect to any matter to be acted upon, the REIT Units or IOT Non-Voting Units, as the case may be, represented by the proxy will be voted accordingly. **In respect of a matter for which no choice is specified in the proxy, or unless otherwise provided for in the proxy, the nominees named in the accompanying proxy will vote REIT Units or IOT Non-Voting Units, as the case may be, represented by the proxy FOR the approval of such matter.**

At the date of this Circular, management of InnVest is not aware of any amendments or variations or other matters to come before the Meeting other than the matters referred to in the Notice. **With respect to amendments or variations to matters identified in the Notice or other matters that may properly come before the Meeting, such REIT Units or IOT Non-Voting Units, as the case may be, will be voted by the persons so designated in their discretion (provided that the REIT Units or IOT Non-Voting Units, as the case may be, carry voting rights in respect of such matters).**

## Voting at Meeting and Quorum

On January 19, 2012, there were 93,538,022 Stapled Units (and therefore 93,538,022 REIT Units and 93,538,022 IOT Non-Voting Units) and 1,421,364 IOT Voting Units issued and outstanding.

Each REIT Unit entitles its holder to one vote at meetings of unitholders of the REIT. Unitholders of record at the close of business on January 19, 2012, the record date established for notice of the Meeting, will be entitled to vote their REIT Units at the Meeting, or any adjournment(s) or postponement(s) thereof, either in person or by proxy.

Each IOT Non-Voting Unit entitles its holder to one vote at meetings of unitholders of IOT, but only in respect of matters for which the holders of IOT Non-Voting Units are entitled to vote separately as a class in accordance with the IOT Declaration of Trust. See "Information Regarding InnVest – Restricted Security Disclosure for IOT Non-Voting Units". Since the Reorganization (including the Plan of Arrangement and the proposed amendment and restatement of the IOT Declaration of Trust) will result in the exchange and cancellation of the IOT Non-Voting Units, the holders of Non-Voting Units are entitled to vote separately as a class on the IOT Resolution. Unitholders of record at the close of business on January 19, 2012, the record date established for notice of the Meeting, will be entitled to vote their IOT Non-Voting Units at the Meeting, or any adjournment(s) or postponement(s) thereof, either in person or by proxy.

Each IOT Voting Unit entitles its holder to one vote at meetings of unitholders of IOT. IMLP, the sole holder of the IOT Voting Units, has passed a written resolution approving the Reorganization (including the Plan of Arrangement and the proposed amendment and restatement of the IOT Declaration of Trust). A copy of this written resolution is attached to this Circular as Schedule B.

Unless otherwise required by law, the REIT Declaration of Trust or the IOT Declaration of Trust, as the case may be, every question coming before the Meeting or any adjournment(s) or postponement(s) thereof shall be decided by the majority of the votes duly cast on the question. The quorum at the Meeting or any adjournment(s) or postponement(s) thereof shall consist of (i) in respect of the REIT, at least two individuals present in person, each of whom is a Unitholder or a proxy holder representing a Unitholder, and who, in the aggregate, hold or represent by proxy not less than 25% of the total votes attached to all outstanding REIT Units, and (ii) in respect of IOT, at least two individuals present in person, each of whom is a holder of IOT Voting Units or IOT Non-Voting Units or a proxy holder representing such a holder, and who, in the aggregate, hold or represent by proxy not less than 25% of the votes attached to all outstanding IOT Voting Units and IOT Non-Voting Units entitled to vote at the Meeting, provided that if there is only one such holder of IOT Voting Units and IOT Non-Voting Units, such holder present in person or by proxy constitutes a meeting and a quorum for the Meeting.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

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

- (a) the annual information form of the REIT dated March 28, 2011 for the year ended December 31, 2010, which includes disclosure required to be included in an annual information form in respect of both the REIT and IOT;
- (b) the audited consolidated financial statements of the REIT (which include the financial results of IOT) for the years ended December 31, 2010 and 2009, together with the notes thereto and auditor's report thereon;
- (c) management's discussion and analysis of the consolidated financial condition and results of operations of the REIT (which includes the financial condition and results of operations of IOT) for the year ended December 31, 2010;
- (d) the unaudited interim condensed consolidated financial statements of the REIT (which include the financial results of IOT) for the three and nine months ended September 30, 2011 and 2010, together with the notes thereto;
- (e) management's discussion and analysis of the consolidated financial condition and results of operations of the REIT (which includes the financial condition and results of operations of IOT) for the three and nine months ended September 30, 2011;
- (f) the material change report of the REIT dated December 31, 2010 in respect of the completion of the 2010 Reorganization;
- (g) the material change report of the REIT dated March 3, 2011 in respect of the offering together with IOT of \$50,000,000 aggregate principal amount of Stapled Debentures and 3,600,000 Stapled Units, which offering closed on March 15, 2011;
- (h) the material change report of the REIT dated November 11, 2011 in respect of the announcement of the Reorganization, and the reduction by InnVest of its annual distribution beginning with the monthly distribution payable on December 15, 2011;
- (i) the management information circular of the REIT dated May 13, 2010 prepared in connection with the REIT's annual and special meeting of unitholders held on June 16, 2010;

- (j) the management information circular of the REIT dated April 18, 2011 prepared in connection with the REIT's annual meeting of unitholders held on June 1, 2011; and
- (k) the notices of IOT dated March 21, 2011 and November 11, 2011, filed in accordance with the 2010 Exemption Order, indicating that IOT intends to rely on certain continuous disclosure documents, including financial statements, management's discussion and analysis, annual information forms, material change reports and statements of executive compensation filed by the REIT and attaching consolidating summary financial information for IOT and the REIT.

Any statement contained in this Circular or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this Circular to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that was required to be stated or that was necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Circular.

## **INFORMATION REGARDING INNVEST**

### **Principal Holders of Stapled Units and IOT Voting Units**

To the knowledge of the Trustees and the Executive Officers, there is no direct or indirect beneficial owner of, nor any person who exercises control or direction over, Stapled Units carrying more than 10% of the votes attached to the outstanding REIT Units and IOT Non-Voting Units.

IMLP is the registered and beneficial owner of all of the issued and outstanding IOT Voting Units.

### **Restricted Security Disclosure for IOT Non-Voting Units**

Prior to a Triggering Event, IOT Non-Voting Units do not entitle the holders thereof to vote at, or receive notice, information circulars or other materials in respect of, meetings of IOT unitholders, except in the following circumstances where the holders of IOT Non-Voting Units are entitled to vote separately as a class:

- (a) a proposal to terminate IOT in accordance with the IOT Declaration of Trust; or
- (b) a proposal to amend the IOT Declaration of Trust to:
  - (i) effect an exchange, reclassification or cancellation of the IOT Non-Voting Units;
  - (ii) add to, remove or change prejudicially the rights, privileges, restrictions or conditions attached to the IOT Non-Voting Units, including ownership, voting, transfer, redemption or pre-emptive rights and rights to accrued distributions;
  - (iii) add to the rights or privileges of any class of units having rights or privileges equal or superior to the IOT Non-Voting Units;
  - (iv) create a new class of units having rights or privileges equal or superior to the IOT Non-Voting Units;



- (v) make a class of units having rights or privileges inferior to the IOT Non-Voting Units equal or superior to the IOT Non-Voting Units; or
- (vi) effect an exchange or create a right of exchange of another class of units into IOT Non-Voting Units;

provided, however, that any such proposal will be deemed to be approved by the holders of IOT Non-Voting Units (hence the holders of IOT Non-Voting Units will not be entitled to vote on such proposal at a meeting of IOT unitholders) if a corresponding proposal in respect of the REIT Declaration of Trust is approved by the Unitholders in accordance with the terms of the REIT Declaration of Trust. If holders of Non-Voting Units are entitled to vote on a matter at a meeting of IOT unitholders, each IOT Non-Voting Unit entitles its holder to one vote in respect of such matter.

**IOT Non-Voting Units do not carry a right to participate if a takeover bid is made for the IOT Voting Units.** However, if an acquirer of the IOT Voting Units was not the REIT or an affiliate thereof, a Triggering Event would occur on consummation of the acquisition, whereupon each IOT Non-Voting Unit would carry the same voting rights as each IOT Voting Unit.

#### **Interest of Certain Persons or Companies in Matters to be Acted Upon**

Except as specified in this section, none of the Trustees or Executive Officers of InnVest, nor any person who has held such a position since the beginning of the last completed financial year end of InnVest, nor any associate or affiliate of the foregoing persons, has any substantial or material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted on at the Meeting and as set out herein.

Each Executive Officer is an officer of each of the REIT and IOT and is a trustee of IOT and each of the independent REIT Trustees is a member of IOT's independent advisory committee. In addition, each Executive Officer has an interest in the proposed amendments in connection with the Reorganization to his or her respective employment agreement and to the Executive Incentive Plan. The REIT intends to amend the Executive Incentive Plan to reflect the unwinding of the Stapled Unit structure. Participants in such plan would no longer be entitled to receive Stapled Units, and would instead receive REIT Units upon vesting of their restricted units. Unitholder approval is not required, and is not being sought, for the amendments to the employment agreements or the Executive Incentive Plan. The final form of any amendments to the employment agreements or the Executive Incentive Plan is subject to approval by the REIT's Compensation and Corporate Governance Committee.

### **BUSINESS OF THE MEETING**

#### **REORGANIZATION**

In accordance with the Interim Order, Unitholders are being asked to consider and, if thought fit, to pass, with or without variation, the Special Resolutions authorizing and approving the Reorganization, including the Plan of Arrangement. If the Special Resolutions are passed without variation, subject to InnVest obtaining the Final Order, then:

- (a) an Event of Uncoupling will occur on the Effective Date and the Stapled Unit structure will be unwound, so that Unitholders will hold only REIT Units rather than Stapled Units, holders of Stapled Debentures will hold only Series F REIT Debentures, substantially all of the assets and liabilities of IOT will be transferred to the REIT and IOT will become a wholly-owned subsidiary of the REIT;
- (b) the Amended and Restated REIT Declaration of Trust and the Amended and Restated IOT Declaration of Trust will be entered into on the Effective Date; and

- (c) the REIT will make certain consequential amendments to contracts or plans to which InnVest or its subsidiaries are party, including the Unitholder Rights Plan, the Executive Incentive Plan, the DRIP, the 2002 Indenture, the 2011 REIT Indenture, the Management Agreement, the Administrative Services Agreements and the employment agreements of the Executive Officers.

### **Introduction and Reasons for the Reorganization**

On October 31, 2006, the Minister of Finance announced the Canadian federal government's "tax-fairness plan" that included a proposal to change the tax treatment of publicly-traded trusts and partnerships. As a result, the SIFT Rules were enacted.

The SIFT Rules apply a tax at the entity level on certain income earned by, among other entities, publicly traded mutual fund trusts, at a rate of tax comparable to the combined federal and provincial corporate tax rate and treat distributions of such income to unitholders as dividends. Under the SIFT Rules, publicly traded trusts existing on October 31, 2006 generally had a four year transition period to 2011 during which they were not subject to the SIFT Rules, provided such trusts experienced only "normal growth" during the transition period. The SIFT Rules include the REIT Exception, which exempts an entity from the SIFT Rules for a taxation year if it qualifies as a "real estate investment trust" (as defined in the Tax Act) throughout that year. Generally, in order to qualify as a real estate investment trust, an entity must not have any investments other than direct or indirect investments in rental real estate and qualifying ancillary assets and activities (or, under the REIT Proposals, investments in non-qualifying assets whose aggregate fair market value does not exceed 10% of the entity's property (with certain limited exclusions) at any time in a year).

Prior to 2011, the REIT was not liable for any amounts of income tax under the Tax Act because it generally was entitled to deduct (and fully deducted) distributions to Unitholders in computing its income that would otherwise be subject to tax. Due to the hotel operation and franchising businesses of the REIT, management of the REIT determined that the REIT, as structured prior to December 31, 2010, did not qualify for the REIT Exception. As a result, had the REIT not divested itself of its non-qualifying assets prior to January 1, 2011, it would have been liable under the SIFT Rules to pay income tax for its 2011 taxation year and thereafter at a rate comparable to the combined federal and provincial corporate tax rate, even though it distributes its taxable income to Unitholders.

On December 31, 2010, the REIT completed the 2010 Reorganization with a view to qualifying the REIT for the REIT Exception. In particular, the REIT formed IOT and transferred to it substantially all of its hotel operating assets and its interest in the Choice Hotels Canada Inc. franchising business. IOT (through its subsidiaries) currently leases from the REIT (through its subsidiaries) each of the hotel properties in the REIT's portfolio and operates each of those properties pursuant to hotel management agreements with the Manager and others. In consideration for the transfer of the hotel operating assets and franchising business, IOT assumed joint and several liability with the REIT in respect of the REIT Debentures issued under the 2002 Indenture and issued to the REIT IOT Voting Units and IOT Non-Voting Units. The REIT distributed the IOT Non-Voting Units to Unitholders on a one-for-one basis and, pursuant to amendments to the REIT Declaration of Trust and the IOT Declaration of Trust on December 31, 2010, the REIT Units and IOT Non-Voting Units began trading together as Stapled Units.

Pursuant to the terms of the 2002 Indenture and the sixth supplemental indenture thereto, the REIT Debentures issued thereunder became convertible into Stapled Units, rather than REIT Units, from and after December 31, 2010. In addition, the REIT and IOT issued the Stapled Debentures pursuant the 2011 REIT Indenture and the 2011 IOT Debenture on March 15, 2011.

Management of InnVest believes that the REIT qualified for the REIT Exception throughout its 2011 taxation year. IOT is a "SIFT trust" for purposes of the Tax Act and is not eligible for the REIT Exception. Accordingly, IOT is required to pay income tax at a rate comparable to the combined federal and provincial corporate tax rate.

On July 20, 2011, the Minister of Finance announced changes in, among other things, the treatment under the Tax Act of real estate investment trusts that have issued "stapled" securities such as the Stapled Units and Stapled Debentures (such proposed changes are referred to herein as the "**Stapled Securities Rules**"). If the Minister of Finance's announcement is enacted as proposed and no changes are made to the existing organizational structure of InnVest, then rents (and certain other amounts) paid by IOT and its subsidiaries to the REIT and its subsidiaries after

the applicable transition date (expected to be July 20, 2012) would cease to be deductible in computing the income of IOT under the Tax Act. If InnVest's current organizational structure remains in place beyond July 19, 2012, the anticipated changes to the Tax Act will have a materially negative effect on InnVest's tax position.

The REIT Trustees and the IOT Trustees have authorized the Reorganization, the Plan of Arrangement and the amendment and restatement of the REIT Declaration of Trust and IOT Declaration of Trust, and have submitted such matters for Unitholder approval at the Meeting, with a view to avoiding the negative tax consequences for InnVest that would result from the proposed Stapled Securities Rules. Prior to the Effective Date, IMLP and certain of its subsidiary limited partnerships will be wound up, so that the assets of IMLP (including the IOT Voting Units) and such subsidiaries will be held directly by the REIT. On the Effective Date, an Event of Uncoupling will occur and, pursuant to the Plan of Arrangement, IOT will transfer to the REIT substantially all of its assets, including the hotel operating assets and its interest in the Choice Hotels Canada Inc. franchising business in consideration for the assumption by the REIT of all of IOT's liabilities, including its liabilities under the REIT Debentures and the IOT Debentures, and the issuance by the REIT to IOT of additional REIT Units. These REIT Units will then be distributed on the day immediately following the Effective Date to Unitholders in exchange for all of the IOT Non-Voting Units and to the REIT in exchange for substantially all of the IOT Voting Units. The REIT Units distributed to the REIT will be immediately cancelled and the remaining REIT Units will be consolidated so that the number of REIT Units held by each Unitholder immediately following the completion of the Arrangement is equal to the number of Stapled Units held by such Unitholder immediately prior to the Arrangement.

Following completion of the Arrangement, each Unitholder's investment in InnVest will be held through the REIT only, and Unitholders will receive distributions solely from the REIT in accordance with the REIT Declaration of Trust. Based on the anticipated structure of the REIT and its subsidiaries following the Reorganization, including the fact that the units and debt of the Operator Trust will not qualify as qualified REIT properties, the REIT will likely not qualify for the REIT Exception following the Reorganization under the current provisions of the Tax Act. Furthermore, there are substantial factual uncertainties as to whether the REIT will satisfy the REIT Exception under the REIT Proposals for its taxation years ending after the Reorganization, including the Second 2012 Taxation Year. Accordingly, the REIT's management expects that it will make provision out of its anticipated cash flow for tax under the SIFT Rules on the full amount of taxable income earned by it in the Second 2012 Taxation Year. See "Certain Canadian Federal Income Tax Considerations." Such provision will be reversed if the REIT subsequently determines that the REIT Exception should be available for the Second 2012 Taxation Year based on changes in applicable law or in the REIT Proposals or in its circumstances, or based on resolution of the factual uncertainties referred to above.

If, as described above, the REIT does not qualify for the REIT Exception, income earned by it for purposes of the Tax Act will be subject to entity-level taxation under the SIFT Rules even though such income is distributed to the Unitholders; however, most distributions from the REIT (other than return-of-capital distributions) will be treated for Canadian income tax purposes as dividends. Conversely, if the REIT should qualify for the REIT Exception, it will not be subject to entity-level taxation on amounts distributed to Unitholders, and Unitholders will be taxed on distributions from the REIT in the same manner as they are currently taxed. The tax consequences of the Reorganization to Unitholders are discussed in greater detail below under "Certain Canadian Federal Income Tax Considerations — Taxation of Unitholders".

In accordance with the terms of the 2002 Indenture, the REIT Debentures issued thereunder will become convertible into REIT Units alone, rather than Stapled Units and the REIT will enter into a supplemental indenture to evidence this adjustment. In accordance with the terms of the 2011 REIT Indenture and the 2011 IOT Indenture, the Series F IOT Debentures forming part of the Stapled Debentures will be consolidated into the Series F REIT Debentures forming part of the Stapled Debentures, so that only the Series F REIT Debentures are outstanding, but with an aggregate principal amount immediately following the Arrangement equal to the aggregate principal amount of the Stapled Debentures immediately prior to the Arrangement, and such consolidated debentures will be convertible only into REIT Units. The REIT will enter into a supplemental indenture to evidence this adjustment.

The TSX has conditionally approved the listing and posting for trading of the REIT Units on the TSX under the symbol "INN.UN" in substitution for the Stapled Units and the listing and posting for trading of the Series F REIT Debentures under the symbol "INN.DB.F" in substitution for the Stapled Debentures, in each case following completion of the Reorganization.

In the course of their evaluation of the Reorganization, the REIT Trustees and the IOT Trustees consulted with senior management of InnVest, legal counsel and financial and tax advisors, and considered a number of factors including:

- Canadian tax implications, including the taxation of InnVest under the proposed Stapled Securities Rules in the absence of the Reorganization, and the effects of the Reorganization on Canadian resident and non-resident Unitholders;
- the relative expected impact of the Reorganization on Unitholder value as compared to strategic alternatives including: converting InnVest into a public corporation; a simple "uncoupling" of the Stapled Units and Stapled Debentures, where both the REIT and IOT would remain as public trusts but with divergent unitholder ownership and the REIT Units and IOT Non-Voting Units and Series F REIT Debentures and Series F IOT Debentures trading separately, and selling the assets of IOT to a third-party;
- the anticipated effects of implementing the Reorganization on InnVest's business; and
- the expected costs of implementing the Reorganization.

Based on the foregoing considerations, REIT Trustees and the IOT Trustees determined that the Reorganization, including the Arrangement and the amendment and restatement of the REIT Declaration of Trust and the IOT Declaration of Trust, is in the best interests of the REIT, IOT and the Unitholders.

Although the Arrangement is generally intended to be economically neutral to Unitholders (other than with respect to tax matters), the steps of the Arrangement are highly technical. While the Arrangement will not result in any substantive changes to Unitholders' indirect interest in the assets currently held by InnVest, the Arrangement does require Unitholder approval pursuant to the REIT Declaration of Trust, the IOT Declaration of Trust and the Interim Order. Unitholders are encouraged to review the full text of the Plan of Arrangement, attached hereto as Schedule A, and the Special Resolutions, set out below under "– Unitholder Approval of the Reorganization".

## **Description of the Reorganization**

### *Principal Steps of Reorganization*

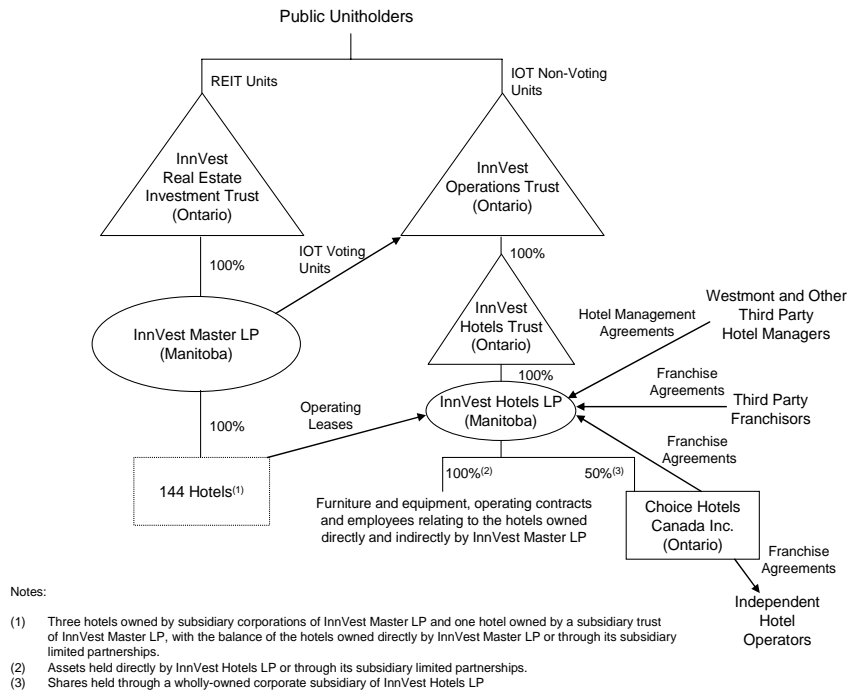
The following is a summary of the anticipated principal steps of the Reorganization. Steps 4 to 12 will be effected pursuant to the Plan of Arrangement:

1. Prior to Step 4, IMLP and certain of its subsidiary limited partnerships or other subsidiaries are wound up so that their assets (including the IOT Voting Units) are distributed to the REIT and their liabilities assumed by the REIT.
2. Prior to Step 4, IOT transfers the debt of the Operator Trust that it holds to IH Holdco LP in consideration for the issuance by it to the Operator Trust of additional limited partner units and the issuance by it of a demand interest-bearing promissory note in the principal amount of \$1,000.
3. Prior to Step 4, IHGP transfers the limited partner units of the Operator that it holds to the Operator Trust in repayment of a portion of the interest-bearing debt owing by it to the Operator Trust equal to the fair market value of such limited partner units of the Operator.
4. The REIT Declaration of Trust and IOT Declaration of Trust are amended to accommodate the Reorganization, as described in more detail below under "– Amendment and Restatement of the REIT Declaration of Trust" and "– Amendment and Restatement of the IOT Declaration of Trust", and the Co-ordination Agreement is terminated, as described in more detail below under "– Co-ordination Agreement".
5. IOT transfers substantially all of its assets to the REIT in consideration for the assumption by the REIT of all of IOT's liabilities and obligations and the issuance to IOT of such number of REIT Units as shall be

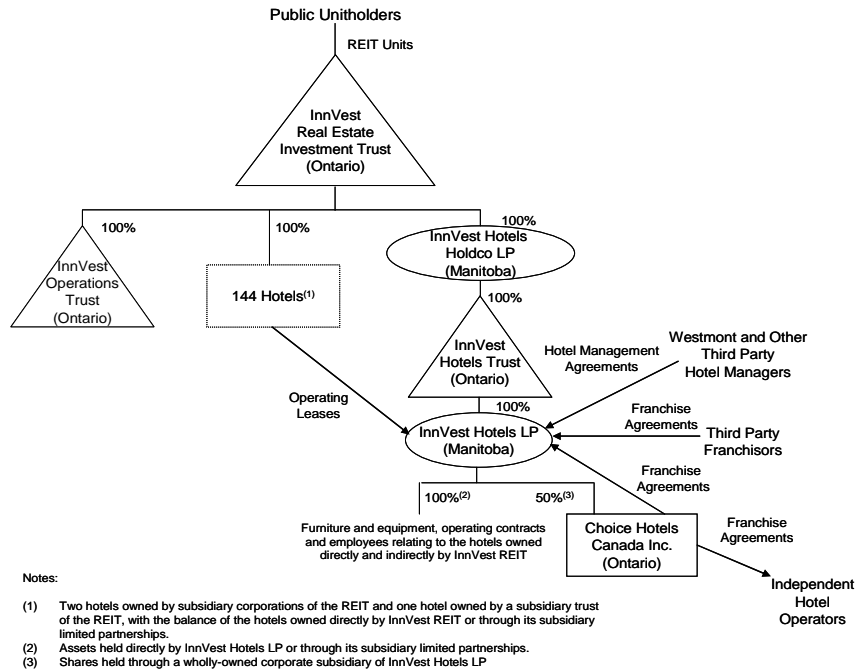
- necessary to effect the exchange in Step 9, in each case, effective 5:00 p.m. (Toronto time) on the Effective Date.
6. Effective 6:00 pm (Toronto time) on the Effective Date, the Operator Trust distributes its common shares in the capital of IHGP to IH Holdco LP for nominal consideration.
  7. Effective 7:00 pm (Toronto time) on the Effective Date, IH Holdco LP, by its general partner, InnVest Hotels Holdco GP Ltd., a corporation existing under the *Business Corporations Act* (Ontario), distributes its common shares in the capital of IHGP to the REIT for nominal consideration.
  8. London Ltd., Truro and IHGP are amalgamated, effective 11:59 p.m. (Toronto time) on the Effective Date, to continue as InnVest Properties London Ltd. pursuant to a short-form amalgamation and the shares in the capital of IHGP and Truro held by the REIT are cancelled.
  9. Effective 9:00 a.m. (Toronto time) on the Distribution Date, IOT repurchases for cancellation substantially all of the IOT Voting Units from the REIT and all of the IOT Non-Voting Units from the Unitholders in exchange for the REIT Units received by IOT in Step 5, so that the REIT and each Unitholder receives, for each IOT Voting Unit or IOT Non-Voting Unit that is so repurchased, 15/85 of a REIT Unit. Accordingly, IOT now is wholly-owned by the REIT.
  10. Effective immediately after Step 9, the REIT cancels the REIT Units transferred to it by IOT in exchange for the IOT Voting Units in Step 9.
  11. Effective 9:00 a.m. (Toronto time) on the Consolidation Date, in accordance with the terms of the 2011 IOT Indenture, the 2011 REIT Indenture and a supplemental indenture to be entered into between the REIT and the Indenture Trustee, (i) the liabilities and obligations of IOT in respect of the Series F IOT Debentures and the Series F REIT Debentures shall be extinguished, so that the REIT is the sole issuer and obligor under each of the 2011 IOT Indenture and the 2011 REIT Indenture and any guarantees given by the REIT or IOT in respect of either such indenture are terminated and of no further force and effect, (ii) the Series F IOT Debentures (which are then debt obligations of the REIT only, and not of IOT) shall be reclassified as Series F REIT Debentures so that each \$150 principal amount of Series F IOT Debentures and \$850 principal amount of Series F REIT Debentures previously comprising a Stapled Debenture are, effective as of the date of such supplemental indenture, an aggregate \$1,000 principal amount of Series F REIT Debentures, (iii) such Series F REIT Debentures as so consolidated shall not be convertible into IOT Non-Voting Units and shall, instead, be convertible into REIT Units at 100/85 of the conversion rate for which the Series F REIT Debentures were convertible into REIT Units immediately preceding the time when the supplemental indenture was entered into, and (iv) such other adjustments shall be made to produce substantially the same effect as if the REIT had been the sole issuer of the Stapled Debentures, so that only the Series F REIT Debentures, rather than the Stapled Debentures, are outstanding, and such consolidated debentures are convertible only into REIT Units.
  12. Effective 9:15 a.m. (Toronto time) on the Consolidation Date, the outstanding REIT Units are consolidated so that the number of REIT Units held by each Unitholder following such consolidation is equal to the number of Stapled Units held by it immediately prior to Step 9 and the conversion rate for the Series F REIT Debentures referred to in Step 11(iii) is adjusted accordingly to the conversion rate for which the Series F REIT Debentures were convertible into REIT Units immediately preceding the time when the supplemental indenture was entered into.
  13. Effective 9:30 a.m. (Toronto time) on the Consolidation Date or such later date on which IOT receives any required regulatory approvals, IOT shall cease to be a reporting issuer under applicable Canadian securities laws.
  14. Effective immediately following Step 13, the resignations of each of the IOT Trustees take effect and the appointment of IOT Trustee Co (a newly-incorporated CBCA subsidiary of the REIT) as the sole trustee of IOT becomes effective.

## Organizational Structure Before and After the Reorganization

The following diagram illustrates the primary structural and contractual relationships between the REIT, IOT, their principal subsidiary entities and certain third parties as of December 31, 2011:



The following diagram illustrates the primary structural and contractual relationships between the REIT, its principal subsidiary entities, IOT and certain third parties after giving effect to the Reorganization:



#### *Amendment and Restatement of the REIT Declaration of Trust*

If the REIT Resolution is passed without variation, the REIT Trustees will be authorized to enter into as of the Effective Date the Amended and Restated REIT Declaration of Trust, with such amendments or modifications thereto, or deletions therefrom which, in the opinion of the REIT Trustees, are not prejudicial to the Unitholders and are necessary or desirable.

The purpose of the amendment and restatement of the REIT Declaration of Trust is to accommodate the Reorganization, principally by removing the provisions relating to the "stapling" of the REIT Units and the IOT Non-Voting Units, reversing certain other amendments made to the REIT Declaration of Trust in connection with the 2010 Reorganization that are inappropriate or unnecessary as a result of the unwinding of the Stapled Unit structure and adjusting the provisions relating to the date or dates on which the Arrangement is effective. The REIT Declaration of Trust will also be amended to provide that if, (a) at the time any REIT Units are tendered for redemption by a Unitholder, the outstanding REIT Units are not listed for trading or quoted on any stock exchange or market that provides representative fair market value prices for the Units, or (b) on the date on which any REIT Units are tendered for redemption, or for more than five trading days during the 10 trading day period commencing immediately after such date, the normal trading of the outstanding Units is suspended or halted on any stock exchange or market on which the REIT Units are listed or quoted for trading, then the redemption price for per REIT Unit tendered for redemption by a Unitholder shall, subject to receipt of all necessary regulatory approvals, be paid and satisfied by way of a distribution *in specie* to such Unitholder of notes of the Operator Trust. Currently, under the REIT Declaration of Trust, such redemption price is satisfied by way of a distribution of notes of IMLP, rather than a distribution of notes of the Operator Trust. If the Arrangement is not completed, the REIT Declaration of Trust will not be amended and restated.

A draft of the proposed Amended and Restated REIT Declaration of Trust, blacklined to reflect the changes to the REIT Declaration of Trust in effect on the date hereof, is enclosed with this Circular. Unitholders are encouraged to review the proposed Amended and Restated REIT Declaration of Trust in order to fully understand all of the changes being proposed to the REIT Declaration of Trust.

#### *Amendment and Restatement of the IOT Declaration of Trust*

If the IOT Resolution is passed without variation, the IOT Trustees will be authorized to enter into as of the Effective Date the Amended and Restated IOT Declaration of Trust, with such amendments or modifications thereto, or deletions therefrom which, in the opinion of the IOT Trustees, are not prejudicial to the Unitholders and are necessary or desirable.

The purpose of the amendment and restatement of the IOT Declaration of Trust is to accommodate the Reorganization, principally by removing the provisions relating to the "stapling" of the REIT Units and the IOT Non-Voting Units and adjusting the provisions relating to the date or dates on which the Arrangement is effective, and to replace the IOT Declaration of Trust with a simplified form of declaration of trust more appropriate for a wholly-owned subsidiary of the REIT, which IOT will be following completion of the Arrangement.

The Amended and Restated IOT Declaration of Trust will not be adopted until the Effective Date and Unitholders will continue to hold IOT Non-Voting Units only until the business day immediately following the Effective Date. Accordingly, in light of the fact that the IOT Non-Voting Units will be repurchased for cancellation by IOT, and IOT will become a wholly-owned subsidiary of InnVest, as part of the Arrangement, InnVest has determined that the Amended and Restated IOT Declaration of Trust, which is a simple form without the provisions that would typically be included in, for example, a publicly-traded REIT, is appropriate in the circumstances. If the Arrangement is not completed, the IOT Declaration of Trust will not be amended and restated.

A draft of the proposed Amended and Restated IOT Declaration of Trust is enclosed with this Circular. Unitholders are encouraged to review the proposed Amended and Restated IOT Declaration of Trust in order to fully understand all of the changes being proposed to the IOT Declaration of Trust.

### *Co-ordination Agreement*

The Co-ordination Agreement was entered into by the REIT and IOT in connection with the 2010 Reorganization to maintain the integrity of the Stapled Unit structure. If the Stapled Unit structure is unwound, the Co-ordination agreement will be unnecessary and will be terminated on the Effective Date.

### *Unitholder Rights Plan*

In connection with the 2010 Reorganization, the Unitholder Rights Plan was amended and restated to require a holder of a right issued thereunder to simultaneously subscribe for an IOT Non-Voting Unit for each REIT Unit purchased on the exercise of such right. If the Stapled Unit structure is unwound, it will be necessary to amend the plan to remove any entitlement to subscribe for IOT Non-Voting Units. The REIT therefore proposes to amend and restate the Unitholder Rights Plan as of the Effective Date to restore the Unitholder Rights Plan as nearly as possible to the form that existed prior to December 31, 2010, with such changes as described above or as may be necessary or desirable to give effect to the Reorganization or as a consequence of the Reorganization. The amended and restated Unitholder Rights Plan will expire on the earlier to occur of the redemption of the rights (provided they are not reissued immediately after such redemption) or June 16, 2013, the date on which the Unitholder Rights Plan currently in force was to have expired.

The foregoing amendments to the Unitholder Rights Plan cannot be made without the approval of a majority of votes cast by independent Unitholders at a meeting of Unitholders, as well as the consent of the TSX. If passed without variation, the REIT Resolution will provide the REIT with specific Unitholder approval to amend and restate the Unitholder Rights Plan as may be necessary or desirable to give effect to the Reorganization or as a consequence of the Reorganization. The REIT will file the amended and restated Unitholder Rights Plan on SEDAR at [www.sedar.com](http://www.sedar.com) as soon as practicable following the Effective Date.

### *Executive Incentive Plan*

The Executive Incentive Plan was amended and restated in connection with the 2010 Reorganization to provide that the REIT would satisfy its obligations in respect of restricted units granted thereunder by delivering or causing to be delivered to the relevant participant in the Executive Incentive Plan one Stapled Unit, rather than one REIT Unit, for each restricted unit held by such participant on the relevant payment date. In addition, participants would be granted additional restricted units on the payment of cash distributions by either the REIT or IOT, rather than the REIT only. A description of the terms of the Executive Incentive Plan in effect on the date hereof are set out at "Securities Authorized for Issuance Under Equity Compensation Plans – Description of Executive Incentive Plan".

As a result of the unwinding of the Stapled Unit structure, the REIT intends to further amend and restate the Executive Incentive Plan to restore the Executive Incentive Plan as nearly as possible to the form that existed prior to December 31, 2010, with such changes as may be necessary or desirable as a consequence of the Reorganization. The final form of any amendments to the Executive Incentive Plan is subject to approval by the REIT's Compensation and Corporate Governance Committee. None of the proposed amendments requires Unitholder approval in accordance with the terms of the Executive Incentive Plan or the rules of the TSX, and Unitholder approval for such amendments is not being sought at the Meeting.

### *Distribution Reinvestment Plan*

In connection with the 2010 Reorganization, the REIT amended and restated the DRIP to add IOT as a party and to reflect that distributions on the REIT Units or IOT Non-Voting Units forming a part of the Stapled Units held by Unitholders participating in the DRIP would be reinvested in additional Stapled Units, rather than REIT Units only. In response to the Minister of Finance's announcement of the Stapled Securities Rules, InnVest suspended the DRIP in respect of distributions declared after July 20, 2011 because further issuances of Stapled Units under the DRIP could have jeopardized IOT's grandfathering from the Stapled Securities Rules during the transition period.

The REIT intends to reinstate the DRIP following completion of the Reorganization. To that end, the REIT will amend and restate the DRIP as of the Effective Date to remove IOT as a party and to reflect that the DRIP will apply



only to distributions on the REIT Units and that such distributions will be reinvested in additional REIT Units only, rather than Stapled Units. The REIT and Computershare Trust Company of Canada will enter into an amended and restated distribution reinvestment plan agency agreement in order to give effect to the foregoing.

#### *2002 Indenture*

Pursuant to the 2002 Indenture, following the Arrangement, any holder of REIT Debentures issued thereunder who has not exercised its right of conversion prior to the Effective Date, upon exercise of such right thereafter, will be entitled to receive, and shall accept, in lieu of the Stapled Units then sought to be acquired by it, that number of REIT Units equal to the number of Stapled Units to which such holder of REIT Debentures would have been entitled if the Arrangement had not occurred. In addition, to the extent that the REIT was entitled to satisfy any purchase or redemption price for the REIT Debentures or exercise its right to repay the principal thereof by issuing Stapled Units prior to the Effective Date, such purchase or redemption price or repayment will be satisfied through the issuance to Debentureholders of REIT Units alone following the Effective Date, subject to further adjustments that may apply to successive reclassifications, capital reorganizations, amalgamations, consolidations, mergers, sales or conveyances that may be undertaken by the REIT.

The Arrangement will also result in the succession of the REIT to IOT in accordance with the terms of the 2002 Indenture, such that all of the covenants and obligations of IOT under the 2002 Indenture will become covenants and obligations of the REIT and IOT will be released from its covenants and obligations under the 2002 Indenture.

The REIT and the Indenture Trustee will enter into a supplemental indenture on the Effective Date that will evidence (a) the succession of the REIT to IOT in accordance with the terms of the 2002 Indenture, and (b) that the REIT Debentures issued thereunder will be convertible into (and any unit-based purchase, redemption or repayment will be payable in) REIT Units only, rather than Stapled Units.

#### *2011 REIT Indenture and 2011 IOT Indenture*

The Arrangement will constitute an "IOT MFT Merger" for purposes of the 2011 REIT Indenture and the 2011 IOT Indenture. In accordance with the terms of the 2011 REIT Indenture, the REIT and the Indenture Trustee will enter into a supplemental indenture on the Effective Date providing for the consolidation of the Series F IOT Debentures into the Series F REIT Debentures and such other adjustments as are intended to produce the same or substantially the same effect as if the REIT had been the sole issuer of the Stapled Debentures and such Stapled Debentures were convertible solely into REIT Units rather than Stapled Units. In addition, the Arrangement will result in the succession of the REIT to IOT as guarantor of the Series F REIT Debentures in accordance with the terms of the 2011 REIT Indenture, so that the REIT will be the sole obligor in respect of the 2011 REIT Debentures.

In accordance with the terms of the 2011 IOT Indenture, upon the completion of the Arrangement and the entering into by the REIT and the Indenture Trustee of the supplemental indenture described above, the Series F IOT Debentures will cease to be convertible into IOT Non-Voting Units, and the obligations of IOT in respect of the Series F IOT Debentures will be extinguished.

#### *Canadian Securities Law and Stock Exchange Considerations*

The REIT Units to be issued and distributed pursuant to the Plan of Arrangement will be issued to IOT and distributed by IOT to the Unitholders and the REIT in reliance on exemptions from prospectus and registration requirements of applicable Canadian securities laws. The REIT Units will generally be "freely tradeable" (other than pursuant to certain "control distributions") under applicable Canadian securities laws.

The Stapled Units are currently listed and posted for trading on the TSX. The REIT Units and the IOT Non-Voting Units forming part of the Stapled Units are separately listed, but not separately posted for trading, on the TSX. The TSX has conditionally approved the listing and posting for trading of the REIT Units on the TSX under the symbol "INN.UN" in substitution for the Stapled Units following completion of the Arrangement, subject to satisfaction of the customary listing requirements of the TSX. In addition, the TSX has conditionally approved the listing and posting for trading of the Series F REIT Debentures on the TSX under the symbol "INN.DB.F" in substitution for

the Stapled Debentures following completion of the Arrangement, subject to satisfaction of the customary listing requirements of the TSX.

Following completion of the Arrangement, the REIT and IOT will no longer be entitled to rely on the 2010 Exemption Order. As a result of the unwinding of the Stapled Unit structure and the anticipated listing and posting for trading of the REIT Units on the TSX in substitution for the Stapled Units, management of InnVest does not expect that the REIT will require any of the relief granted to it under the 2010 Exemption Order to comply with its obligations under Canadian securities laws following the Arrangement. IOT intends to apply to securities regulators to cease to be a "reporting issuer" under Canadian securities laws following the Arrangement and therefore management of InnVest does not expect that IOT will require any of the relief granted to it under the 2010 Exemption Order to comply with its obligations under Canadian securities laws following the Arrangement.

Pursuant to a decision document dated January 18, 2012, issued to IOT by the Ontario Securities Commission, as principal regulator, under Multilateral Instrument 11-102 *Passport System* and National Policy 11-203 *Process for Exemptive Relief Applications in Multiple Jurisdictions*, IOT was granted an exemption from (a) the provisions of MI 61-101 that would have technically subjected the Arrangement to certain related party rules contained in MI 61-101 due solely to the Stapled Unit structure, and (b) the provision of NI 51-102 that would have required IOT to include in this Circular prospectus-level disclosure about the REIT as a result of the exchange of the IOT Non-Voting Units for REIT Units as part of the Arrangement. A copy of this decision can be found on the Ontario Securities Commission website at [www.osc.gov.on.ca](http://www.osc.gov.on.ca).

#### *U.S. Securities Law Considerations*

The REIT Units to be delivered to Unitholders pursuant to the Arrangement will not be registered under the U.S. Securities Act in reliance upon the exemption from registration under the U.S. Securities Act provided by Section 3(a)(10) thereof. Section 3(a)(10) of the U.S. Securities Act provides an exemption from registration under the U.S. Securities Act for offers and sales of securities issued in exchange for one or more outstanding securities where the terms and conditions of the issuance and exchange of such securities have been approved by a court authorized to grant such approval after the hearing upon the fairness of the terms and conditions of the issuance and exchange at which all persons to whom the securities will be issued have the right to appear. The Court is authorized to conduct a hearing at which the fairness of the terms and conditions of the Arrangement will be considered. The Court issued the Interim Order on December 23, 2011 and, subject to the approval of the Arrangement by the Unitholders at the Meeting on February 23, 2012, it is expected that the hearing on the Arrangement will be held on February 29, 2012 at 10:00 a.m. (Toronto time) at the Ontario Superior Court of Justice in Toronto at 330 University Avenue, Toronto, Ontario, M5G 1R7. All Unitholders are entitled to appear and be heard at this hearing. See "Business of the Meeting – Reorganization – Court Approval of the Plan of Arrangement".

Unitholders who are not "affiliates" of the REIT immediately after the Arrangement and have not been "affiliates" of the REIT within 90 days of the resale in question, may resell the Units received by them in the Arrangement within or outside the United States without restriction under the U.S. Securities Act. Unitholders who are "affiliates" of the REIT after the Arrangement or within 90 days of the resale in question may not resell their Units without an exemption from registration under the U.S. Securities Act. For the purposes of the U.S. Securities Act, an "affiliate" of the REIT is a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with the REIT.

Subject to applicable Canadian requirements, Unitholders who are affiliates of the REIT solely by virtue of serving as an officer or trustee may immediately resell such securities outside the United States without registration under the U.S. Securities Act pursuant to Regulation S. Any such sales must be made in "offshore transactions" within the meaning of Regulation S and neither the seller, nor an affiliate, nor any Person acting on their behalf may engage in "directed selling efforts" (as defined in Regulation S) in the United States. Additionally, no selling concession, fee or other remuneration may be paid in connection with any such offer or sale other than a usual and customary broker's commission that would be received by a Person executing such transaction as agent. For the purposes of Regulation S, "directed selling efforts" means any activity undertaken for the purpose of, or that could reasonably be expected to have the effect of, conditioning the market in the United States for the Units. For the purposes of Regulation S, an "offshore transaction" is a transaction that meets the following requirements: (i) the offer is not made to a Person in the United States, and (ii) either (A) at the time the buy order is originated, the buyer is outside

the United States, or the seller and any Person acting on its behalf reasonably believe that the buyer is outside the United States, or (B) the transaction is executed in, on or through the facilities of a designated offshore securities market (which would currently include the TSX), and neither the seller nor any Person acting on its behalf knows that the transaction has been pre-arranged with a buyer in the United States; and (iii) offers and sales are not specifically targeted at identifiable groups of U.S. citizens abroad.

Certain additional Regulation S restrictions are applicable to a Unitholder who will be an affiliate of the REIT other than by virtue of his status as an officer or trustee.

Unitholders are urged to consult their legal advisors prior to disposing of REIT Units received in the Arrangement to determine the extent of all applicable resale provisions.

#### *Accounting Impact of the Reorganization*

Based on the understanding of the management of InnVest of IFRS on the date hereof, management does not expect the consolidated financial statements of the REIT to be affected by the Reorganization, except that the balance sheet would no longer reflect a liability relating to the non-controlling interest in IOT of the holders of IOT Non-Voting Units and the statement of net income (loss) would cease to reflect changes in the fair value of that liability. (However, management anticipates that the balance sheet of the REIT will contain a provision for future income tax liability for tax under the SIFT Rules and that its income statement will include an expense for such SIFT tax in respect of the Second 2012 Taxation Year.)

#### *Post-Effective Time Implementation of the Arrangement*

On the dates on which the REIT Units are required, pursuant to the Plan of Arrangement, to be issued to Unitholders and then consolidated, subject to the conditions described herein, the REIT will deliver or arrange to be delivered certificates representing the requisite REIT Units following such issuance and consolidation of REIT Units as set out in the Plan of Arrangement. On the date on which the Series F REIT Debentures and the Series F IOT Debentures are required, pursuant to the Plan of Arrangement, to be consolidated, subject to the conditions described herein, the REIT will deliver or arrange to be delivered a certificate representing the requisite Series F REIT Debentures following such consolidation of Series F REIT Debentures and Series F IOT Debentures as set out in the Plan of Arrangement.

### **Unitholder Approval of the Reorganization**

#### *REIT Resolution*

The Reorganization, the Plan of Arrangement, the amendment and restatement of the REIT Declaration of Trust and the amendment and restatement of the Unitholder Rights Plan require the approval of two-thirds of the votes cast by holders of REIT Units represented at the Meeting, in person or by proxy. The text of the REIT Resolution (to be voted on by holders of REIT Units) is set out below. **Unless the Unitholder specifies in the accompanying form of proxy that persons named therein are to vote against the REIT Resolution, such persons intend to vote for the REIT Resolution authorizing the Reorganization, the Plan of Arrangement, the amendment and restatement of the REIT Declaration of Trust and the amendment and restatement of the Unitholder Rights Plan. The REIT Trustees unanimously recommend that Unitholders vote in favour of the REIT Resolution.**

#### **REIT Resolution**

"BE IT RESOLVED THAT:

1. the Reorganization (as such term is defined in the management information circular (the "Circular") of InnVest Real Estate Investment Trust (the "REIT") and InnVest Operations Trust ("IOT") dated December 31, 2011) and the plan of arrangement to be effected pursuant to section 192 of the *Canada Business Corporations Act*, the declarations of trust governing the business and affairs of the REIT and IOT and section 60 of the *Trustee Act* (Ontario) (the "Plan of

Arrangement"), substantially in the form attached as Schedule A to the Circular, as such Plan of Arrangement may be modified or amended in accordance with its terms, are hereby ratified, authorized, confirmed, approved and adopted;

2. the amendment and restatement as of the Effective Date (as defined in the Circular) of the third amended and restated declaration of trust of the REIT dated December 31, 2010, as amended or amended and restated (the "Declaration of Trust"), substantially on the terms and in the form of the draft fourth amended and restated Declaration of Trust accompanying the Circular, is hereby authorized and approved;
3. the trustees of the REIT (the "Trustees") are hereby authorized to enter into, execute, deliver, authorize, confirm, approve or adopt an amended and restated Declaration of Trust, substantially in the form of the draft fourth amended and restated Declaration of Trust accompanying the Circular, with such additions or modifications thereto or deletions therefrom which, in the opinion of the Trustees, are not prejudicial to the unitholders of the REIT and are necessary or desirable, such determination to be conclusively evidenced by the execution and delivery by the Trustees of such amended and restated Declaration of Trust
4. any one Trustee or officer of the REIT is hereby authorized to enter into, ratify, authorize, confirm, approve, adopt, execute or cause to be executed on behalf of the REIT an amendment and restatement of the Unitholder Rights Plan (as defined in the Circular) as such Trustee or officer shall determine to be necessary or desirable to give effect to the Reorganization and as a consequence of the Reorganization or otherwise as contemplated in the Circular, such determination to be conclusively evidenced by the execution and delivery of such amended and restated Unitholder Rights Plan;
5. any one Trustee or officer of the REIT is hereby authorized to enter into, execute or cause to be executed on behalf of the REIT to prepare and deliver or cause to be prepared and delivered all such other documents, agreements and instruments, or cause to be done all such other acts and things, as such Trustee or officer shall determine to be necessary or desirable in order to carry out the intent of the foregoing resolutions and the matters authorized thereby, such determination to be conclusively evidenced by the execution or preparation and delivery of such document, agreement or instrument or the doing of any such act or thing;
6. an Event of Uncoupling (as defined in the Circular) shall be deemed to occur on the Effective Date; and
7. notwithstanding that this resolution has been passed by the unitholders of the REIT, or that the Plan of Arrangement has been approved by the Ontario Superior Court of Justice, the Trustees are hereby authorized and empowered without further notice, or approval of the unitholders of the REIT, to: (a) modify the specific steps involved in the Reorganization (including, for certainty, in the Plan of Arrangement) or otherwise amend the Reorganization (including, for certainty, the Plan of Arrangement), to the extent permitted by the Plan of Arrangement; (b) determine the timing and arrange for the implementation of the Reorganization (including, for certainty, the Plan of Arrangement), to the extent permitted by the Plan of Arrangement; (c) decide not to proceed with the Reorganization (including, for certainty, the Plan of Arrangement) or the amendment and restatement of the Declaration of Trust or Unitholder Rights Plan; and (d) revoke this resolution before it is acted on."

#### *IOT Resolution*

The Reorganization, the Plan of Arrangement and the amendment and restatement of the IOT Declaration of Trust require the approval of (i) two-thirds of the votes cast by holders of IOT Voting Units represented at the Meeting, in person or by proxy, or by a written resolution in lieu thereof, and (ii) two-thirds of the votes cast by holders of IOT Non-Voting Units represented at the Meeting, in person or by proxy, voting separately as a class. The text of the IOT Resolution (to be voted on by holders of IOT Non-Voting Units) is set out below. The written resolution

passed by IMLP, as the sole holder of the IOT Voting Units, approving the Reorganization, the Plan of Arrangement and the amendment and restatement of the IOT Declaration of Trust is attached to this Circular as Schedule B. **Unless the Unitholder specifies in the accompanying form of proxy that persons named therein are to vote against the IOT Resolution, such persons intend to vote for the IOT Resolution authorizing the Reorganization, the Plan of Arrangement and the amendment and restatement of the IOT Declaration of Trust. The IOT Trustees unanimously recommend that Unitholders vote in favour of the IOT Resolution.**

### **IOT Resolution**

"BE IT RESOLVED THAT:

1. the Reorganization (as such term is defined in the management information circular (the "Circular") of InnVest Real Estate Investment Trust (the "REIT") and InnVest Operations Trust ("IOT") dated December 31, 2011) and the plan of arrangement to be effected pursuant to section 192 of the *Canada Business Corporations Act*, the declarations of trust governing the business and affairs of the REIT and IOT and section 60 of the *Trustee Act* (Ontario) (the "Plan of Arrangement"), substantially in the form attached as Schedule A to the Circular, as such Plan of Arrangement may be modified or amended in accordance with its terms, are hereby ratified, authorized, confirmed, approved and adopted;
2. the amendment and restatement as of the Effective Date (as defined in the Circular) of the amended and restated declaration of trust of IOT dated December 31, 2010, as amended or amended and restated (the "Declaration of Trust"), substantially on the terms and in the form of the draft second amended and restated Declaration of Trust accompanying the Circular, is hereby authorized and approved;
3. the trustees of IOT (the "Trustees") are hereby authorized to enter into, execute, deliver, authorize, confirm, approve or adopt an amended and restated Declaration of Trust, substantially in the form of the draft second amended and restated Declaration of Trust accompanying the Circular, with such additions or modifications thereto or deletions therefrom which, in the opinion of the Trustees, are not prejudicial to the unitholders of IOT and are necessary or desirable, such determination to be conclusively evidenced by the execution and delivery by the Trustees of such amended and restated Declaration of Trust;
4. any one Trustee or officer of IOT is hereby authorized to enter into, execute or cause to be executed on behalf of IOT to prepare and deliver or cause to be prepared and delivered all such other documents, agreements and instruments, or cause to be done all such other acts and things, as such Trustee or officer shall determine to be necessary or desirable in order to carry out the intent of the foregoing resolutions and the matters authorized thereby, such determination to be conclusively evidenced by the execution or preparation and delivery of such document, agreement or instrument or the doing of any such act or thing; and
5. notwithstanding that this resolution has been passed by the holders of non-voting units of IOT, or that the Plan of Arrangement has been approved by the Ontario Superior Court of Justice, the Trustees are hereby authorized and empowered without further notice, or approval of the unitholders of IOT, to: (a) modify the specific steps involved in the Reorganization (including, for certainty, in the Plan of Arrangement) or otherwise amend the Reorganization (including, for certainty, the Plan of Arrangement), to the extent permitted by the Plan of Arrangement; (b) determine the timing and arrange for the implementation of the Reorganization (including, for certainty, the Plan of Arrangement), to the extent permitted by the Plan of Arrangement; (c) decide not to proceed with the Reorganization (including, for certainty, the Plan of Arrangement) or the amendment and restatement of the Declaration of Trust; and (d) revoke this resolution before it is acted on."

## **Court Approval of the Plan of Arrangement**

An arrangement under the CBCA requires Court approval. In addition, the REIT Trustees and the IOT Trustees are seeking the direction of the Court in respect of the Plan of Arrangement under section 60 of the Trustee Act. Prior to the mailing of this Circular, InnVest obtained the Interim Order, which provides for the calling and holding of the Meeting, and other procedural matters. A copy of the Interim Order is attached as Schedule C to this Circular.

Subject to approval of the Special Resolutions by the Unitholders at the Meeting in the manner required by the Interim Order, InnVest will make application to the Court for the Final Order. The application for the Final Order is expected to be made on February 29, 2012 at 10:00 a.m. (Toronto time), or as soon thereafter as counsel may be heard, at 330 University Avenue, Toronto, Ontario, M5G 1R7. The Notice of Application is attached hereto as Schedule D. At the hearing, any Unitholder and any other interested party who wishes to participate or to be represented or to present evidence or argument may do so, subject to filing with the Court and serving upon InnVest, a notice of appearance, together with any evidence or materials which such party intends to present to the Court, as soon as practicable and, in any event, no later than 2:00 p.m. on the day before the hearing. Service of such notice shall be effected by service upon the solicitors for InnVest: Davies Ward Phillips & Vineberg LLP, 44th Floor, 1 First Canadian Place, Toronto, Ontario, M5X 1B1, Attention: James Bunting.

The Court's approval is required for the Plan of Arrangement to become effective. The Court has broad discretion under the CBCA and the Trustee Act when making orders with respect to the Arrangement and the Court will consider, among other things, the fairness and reasonableness of the Arrangement, both from a substantive and a procedural point of view. The Court may approve the Arrangement either as proposed or as amended in any manner the Court may direct, subject to compliance with such terms and conditions, if any, as the Court thinks fit. Depending upon the nature of any required amendments, InnVest may determine not to proceed with the Arrangement.

The securities to be issued or distributed pursuant to the Arrangement will not be registered under the U.S. Securities Act, in reliance upon the exemption from registration provided by Section 3(a)(10) thereof. The Court will be advised at the hearing of the application for the Final Order that if the terms and conditions of the Arrangement, and the fairness thereof, are approved by the Court, such approval will constitute the basis for an exemption from the registration requirements of the U.S. Securities Act, pursuant to Section 3(a)(10) thereof, with respect to the offer and sale of the securities to be issued pursuant to the Arrangement.

## **Third Party Approvals**

Elements of the Reorganization may require the consent of certain of InnVest's third parties. Certain of the InnVest's loan facilities may require amendments to reflect the unwinding of the Stapled Unit structure following the Reorganization. InnVest expects to obtain the required consents and make the necessary amendments on or before the Effective Date. However, there can be no assurance that such consents or amendments can be obtained or made, respectively, on a timely basis on terms and conditions satisfactory to InnVest. If these consents or amendments are not obtained or made, InnVest may, at its option, not complete the Reorganization.

## **Timing of Completing the Plan of Arrangement**

Subject to satisfaction of all conditions precedent to completing the Arrangement and any applicable TSX notice requirements, InnVest anticipates that the Effective Date of the Arrangement will occur on or about June 30, 2012 and that the steps of the Plan of Arrangement will be completed prior to the opening of markets on July 3, 2012. However, if determined appropriate by the REIT Trustees and the IOT Trustees, InnVest may elect to complete the Plan of Arrangement on an earlier or later date. The implementation of the Plan of Arrangement could be delayed for a number of reasons, including an objection before the Court at the hearing of the application for the Final Order. If completion of the Plan of Arrangement is delayed beyond July 19, 2012, the Stapled Securities Rules would begin to apply to IOT as of July 20, 2012, which could have a materially negative impact on InnVest's tax position.

## Conditions to the Arrangement

The completion of the proposed Arrangement is subject to the following conditions precedent:

- The Interim Order shall not have been set aside or modified in a manner unacceptable to InnVest, acting reasonably, on appeal or otherwise.
- The Special Resolutions shall have been approved at the Meeting by the required votes.
- The Final Order shall have been granted in form and substance satisfactory to InnVest, acting reasonably, and shall not have been set aside or modified in a manner unacceptable to InnVest, acting reasonably, on appeal or otherwise.
- The absence of any changes with respect to the income tax laws or policies of Canada or to other regulatory laws or policies of Canada that would have a material adverse effect on the transactions contemplated by the Arrangement or the anticipated results.
- The absence of any temporary restraining order, preliminary or permanent injunction, or other judgment, order or decree issued by any court of competent jurisdiction or other legal restraint or prohibition that has the effect of preventing the consummation of the Arrangement.
- All third party and other consents, waivers, permits, exemptions, orders, approvals, agreements and amendments and modifications to agreements, indentures or arrangements as are considered necessary or desirable by InnVest, in its sole discretion, shall have been obtained or received on terms that are satisfactory to InnVest.

These conditions may not be satisfied, or may not be satisfied on terms satisfactory to InnVest, in which case the proposed Arrangement could be modified, restructured or terminated. In addition, the REIT Trustees or the IOT Trustees may, in their sole discretion, decide not to proceed with the Arrangement.

## CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The following summary describes, as of the date of this Circular, the principal Canadian federal income tax considerations of the Reorganization generally applicable to a Unitholder who, at all relevant times and for the purposes of the Tax Act, is resident in Canada, holds Stapled Units (comprised of IOT Non-Voting Units and REIT Units) as capital property, will hold REIT Units acquired on the Reorganization as capital property and deals at arm's length, and is not affiliated, with the REIT and IOT. Generally, any such units will be considered to be capital property to a Unitholder provided that the Unitholder does not hold the units in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain Unitholders whose units might not otherwise qualify as capital property may, in certain circumstances, be entitled to make an irrevocable election in accordance with subsection 39(4) of the Tax Act to have such units, and all other "Canadian securities" as defined in the Tax Act, deemed to be capital property. Unitholders who do not hold their units as capital property should consult their own tax advisors regarding their particular circumstances.

This summary is not applicable to a Unitholder (a) that is a "financial institution" for purposes of the mark-to-market rules, (b) that is a "specified financial institution", (c) an interest in which is a "tax shelter investment" or (d) that has elected to determine its Canadian tax results using an "elected functional currency," as each of those terms is defined in the Tax Act. Such Unitholders should consult their own tax advisors.

This summary assumes that the REIT will comply with its investment objectives as set out in the REIT Declaration of Trust. This summary also assumes that following the Reorganization, the REIT will distribute to the Unitholders the full amount of its income for purposes of the Tax Act for each taxation year of the REIT in which any such distribution occurs. The discussion below under "Tax Considerations Applicable to the Reorganization – Qualifying Exchange" also assumes that IOT will not directly hold any depreciable property at the time of the Reorganization.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder and counsel's understanding of the current administrative policies and assessing practices of the CRA made publicly available prior to the date of this Circular. This summary takes into account all specific proposals to amend the Tax Act and the regulations thereunder announced by or on behalf of the Minister of Finance prior to the date of this Circular (the "**Tax Proposals**,") and assumes that the Tax Proposals will be enacted as proposed, but no assurance can be given that this will be the case. This summary does not otherwise take into account or anticipate any changes in the law, whether by legislative, governmental or judicial decision or action, and does not take into account provincial, territorial or foreign tax legislation or considerations, which may differ significantly from those discussed herein. There can be no assurance that the CRA will not change its administrative policies or assessing practices.

**This summary is of a general nature only and is not exhaustive of all Canadian federal tax considerations applicable to Unitholders. This summary is not intended to be, and should not be construed to be, legal, business or tax advice to any particular Unitholder, and no representation with respect to the tax consequences to any particular Unitholder are made. Unitholders should consult their own tax advisors to determine the tax consequences to them of the Reorganization having regard to their particular circumstances, including the application and effect of the income and other tax laws of any country, province, territory, state or local tax authority.**

### **Tax Considerations Applicable to the Reorganization**

#### *Qualifying Exchange*

The transfer under the Reorganization by IOT of substantially all its assets (the "**Transferred Assets**") to the REIT for consideration including REIT Units and the disposition by Unitholders of their IOT Non-Voting Units to IOT in consideration for the transfer to them of such REIT Units will constitute a "qualifying exchange" as defined in section 132.2 of the Tax Act (as it is proposed to be amended by the Tax Proposals), thereby allowing an election to be made to establish the proceeds of disposition which IOT will be deemed to receive on the transfer by it of the Transferred Assets to the REIT. Under that election, any Transferred Assets whose fair market value is lower than their cost amount for purposes of the Tax Act ("accrued loss assets") would, in most circumstances, be deemed to be disposed of for their fair market value; and Transferred Assets whose fair market value is higher than their cost amount ("accrued gain assets") would, in most circumstances, be deemed to be disposed of for their cost amount or such higher amount (not exceeding their fair market value) as is stipulated in the election. Management of the REIT and IOT have advised that they intend that such election will be completed on the basis that any income realized on the disposition of accrued gain assets would not exceed the amount of any losses or deductions available to IOT including losses realized on the disposition of accrued loss assets.

When the election is completed as described above and filed on a timely basis, there should be no income tax liability to IOT resulting from the transfer of the Transferred Assets. Management of the REIT and IOT have advised that the REIT and IOT will cause such election to be completed and filed on a timely basis.

The qualifying exchange referred to above will cause the taxation year of the REIT that will commence on January 1, 2012 (the "**First 2012 Taxation Year**") to end on the Effective Date, and will cause a second taxation year of the REIT (the "**Second 2012 Taxation Year**") to commence immediately after the time on the Effective Date on which the First 2012 Taxation Year ended. The Second 2012 Taxation Year is expected to end on December 31, 2012.

The REIT will be deemed to have acquired the Transferred Assets at the end of its First 2012 Taxation Year. Management of the REIT has advised counsel that it anticipates that the value of the Transferred Assets on the Effective Date will not be such as to potentially cause the REIT Exception (if it otherwise will be available for the First 2012 Taxation Year) to not be available for the First 2012 Taxation Year. See "Taxation of the REIT – REIT Exception."

#### *Other Reorganization Transactions*

It is proposed that the Reorganization will include a winding-up of IMLP and of certain limited partnerships whose limited partner units are held by IMLP (the "**Partnership Wind-ups**"). Management of the REIT intends that the



Partnership Wind-ups will be implemented on a basis that accesses the benefits of subsection 98(5) of the Tax Act so as to potentially result in there being no immediate recognition of gain on those transactions. Management of the REIT, who have been informed by counsel of the conditions under the Tax Act applicable to the operation of subsection 98(5) and based on their current knowledge of the particulars of the Partnership Wind-ups and taking such conditions into account, anticipate that no transfers or other dispositions of property in the course of the Partnership Wind-ups will result in the realization of significant gain for purposes of the Tax Act.

Management has advised that it anticipates that the disposition under the Reorganization by IHGP of its limited partner units of the Operator will not result in the recognition by it of significant gain for purposes of the Tax Act on the basis of the estimated fair market value and adjusted cost base of such units.

The amalgamation and corporate continuance transactions that are contemplated to occur as part of the Reorganization should not result in the realization of gain by the amalgamating or continuing corporations, or any of their shareholders.

The proposed amendments to the REIT Declaration of Trust and IOT Declaration of Trust, including amendments respecting the payment of the redemption price for REIT Units, and in connection with the appointment of IOT Trustee Co as the replacement trustee of IOT, should not be considered to result in the termination of the REIT or IOT or otherwise to result in a disposition or deemed disposition by either trust of its property.

### **Participation of Unitholders in the Reorganization**

A Unitholder will not realize a capital gain or a capital loss as a result of the repurchase by IOT under the Reorganization of the IOT Non-Voting Units of the Unitholder in consideration for transfer by it to the Unitholder of REIT Units. The cost to the Unitholder of the REIT Units so acquired by it will be equal to the adjusted cost base of the IOT Non-Voting Units of the Unitholder which were so repurchased. The cost of these REIT Units will be required to be averaged with the adjusted cost base of all other REIT Units held by the Unitholder as capital property immediately before the acquisition in order to determine the adjusted cost base of each REIT Unit.

The consolidation of REIT Units occurring as part of the Reorganization will not be considered to result in a disposition of REIT Units by Unitholders. The aggregate adjusted cost base of REIT Units owned by a Unitholder after the Reorganization will be equal to the aggregate adjusted cost base of the Stapled Units owned by the Unitholder immediately prior to the Reorganization.

The proposed amendments of the REIT Declaration of Trust and of the IOT Declaration of Trust will not be considered to result in a disposition of REIT Units or IOT Non-Voting Units by Unitholders.

### **Taxation of Unitholders in respect of REIT Units following the Reorganization**

#### *Distributions on REIT Units*

Following the Reorganization, a Unitholder will be deemed in a particular taxation year of the Unitholder to receive a dividend from a taxable Canadian corporation to the extent that an amount paid or payable, or deemed to be paid or payable, by the REIT to the Unitholder in a taxation year of the REIT, is not deductible in computing the income of the REIT for that taxation year by virtue of the SIFT Rules (see the discussion below under "Taxation of the REIT Following the Reorganization"). A Unitholder is generally required to include in computing income the portion of the net income of the REIT, including net taxable capital gains (determined for purposes of the Tax Act), that is paid or payable, or deemed to be paid or payable, to the Unitholder (whether or not those amounts are reinvested under the DRIP), except to the extent that such amount is included in the computation of the Unitholder's income as a deemed dividend under the SIFT Rules, as described in the preceding sentence. The REIT Trustees may designate a portion of the proceeds of the redemption paid by the REIT on the redemption of a REIT Unit as being a distribution of income including any net taxable gains realized by the REIT in that taxation year.

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

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

Management of the REIT has advised counsel that the REIT will also designate, to the extent permitted by the Tax Act, the portion of the taxable income distributed to Unitholders as may reasonably be considered to consist of net taxable capital gains of the REIT, other than taxable capital gains that are deemed to be taxable dividends under the SIFT Rules. Any such designated amounts will be deemed for tax purposes to be received by Unitholders in the year as a taxable capital gain and will be subject to the general rules relating to the taxation of capital gains described below under "— Taxable Capital Gains and other Investment Income." The non-taxable portion of any net capital gains of the REIT, the taxable portion of which is so deemed to be paid to a Unitholder in a taxation year, will not be included in computing such Unitholder's income for the year.

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

#### *Dispositions of REIT Units*

On the disposition or deemed disposition of a REIT Unit by a Unitholder, whether on redemption or otherwise, the Unitholder will generally realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition exceed (or are less than) the aggregate of the Unitholder's adjusted cost base of the REIT Unit, and any reasonable costs of disposition. Proceeds of disposition will not include an amount payable by the REIT that is otherwise required to be included in the Unitholder's income or recognized as a distribution of capital gains (such as an amount designated as payable by the REIT to a redeeming Unitholder out of capital gains or income of the REIT as described above). In the case of a redemption of REIT Units, management of the REIT has advised counsel that the REIT will advise the redeeming Unitholder as to the amount, if any, which represents a distribution of income or has been designated so as to be treated as a distribution of capital gains.

For the purpose of determining the adjusted cost base of REIT Units, when a REIT Unit is acquired, the cost of the newly-acquired unit will be averaged with the adjusted cost base of all REIT Units owned by the Unitholder as capital property immediately before that acquisition. The adjusted cost base of a REIT Unit to a Unitholder will include all amounts paid by the Unitholder for such unit (or the deemed cost of such unit if it was acquired on the Reorganization, as described above under "Participation of Unitholders in the Reorganization,") with certain adjustments including, in the case of REIT Units which have been held by the Unitholder continuously since the time of the 2010 Reorganization, reductions generally applicable in respect of the fair market value of IOT Non-Voting Units distributed on such REIT Units. The cost of REIT Units acquired on the reinvestment of distributions under the DRIP will be the amount of such investment allocated to such REIT Units.

Where REIT Units are redeemed by the transfer of notes (of the Operator Trust or another subsidiary of the REIT) to the Unitholder thereof, the Unitholder will be considered to have disposed of such units for proceeds of disposition to the Unitholder equal to the fair market value of the notes so distributed less any capital gain (or other income) realized by the REIT as a result of the redemption of those REIT Units to the extent such capital gain (or income) is designated by the REIT as payable by it to the redeeming Unitholder. The taxable portion of any such capital gain (and any other such income) that has been so designated will be required to be included in computing the Unitholder's income, except to the extent that it is included in the computation of the Unitholder's income as a deemed dividend under the SIFT Rules. The cost of any notes transferred by the REIT to a Unitholder upon a redemption of REIT Units will be equal to the fair market value of the notes at the time of disposition. As any capital gain of the REIT which is so designated by it to the redeeming Unitholder will not be included in the Unitholder's proceeds of disposition of the redeemed REIT Units and also generally will not reduce the adjusted cost base to the Unitholder of such REIT Units (on the basis described above under "– Distributions on REIT Units"), such designation will result in a reduction in the capital gain otherwise realized by the Unitholder on such disposition of the REIT Units (or, depending on the circumstances, may increase the Unitholder's capital loss).

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

One-half of any capital gain realized by a Unitholder, and the amount of any net taxable capital gains designated by the REIT in respect of such a Unitholder (but excluding any amount which is included in the computation of the Unitholder's income as a deemed dividend under the SIFT Rules by virtue of being distributed to the Unitholder), will be included in the Unitholder's income as a taxable capital gain. One-half of any capital loss realized by such a Unitholder on a disposition, or deemed disposition, of REIT Units, is required to be deducted only from taxable capital gains of the Unitholder in the year of disposition, and any excess of one-half of such capital losses over taxable capital gains may generally be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any following year against taxable capital gains realized in such year, to the extent and under the circumstances described in the Tax Act.

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

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

#### **Exempt Plans**

Subject to the assumptions herein, REIT Units received by a Unitholder under the Reorganization will be qualified investments for Exempt Plans. However, notes of the Operator Trust which may be delivered to Unitholders on an *in specie* redemption of REIT Units following the Reorganization will not be qualified investments for Exempt Plans. Accordingly, tax advice should be obtained for Exempt Plans prior to their exercise of redemption rights respecting any REIT Units owned by them.

The holder of a TFSA or the annuitant of an RRSP or a RRIF which holds REIT Units will be subject to penalty tax if such holder or annuitant does not deal at arm's length with the REIT or if the holder or annuitant has a "significant

interest" (as defined in the Tax Act) in the REIT or in any corporation, partnership or trust with which the REIT does not deal at arm's length, within the meaning of the Tax Act.

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

### *Mutual Fund Trust*

This summary assumes that the REIT qualifies, and will continue at all times to qualify, as a "mutual fund trust" for purposes of the Tax Act. In addition, the discussion above under "Participation of Unitholders in the Reorganization" and under "Tax Considerations Applicable to the Reorganization – Qualifying Exchange" assumes that IOT will qualify as a mutual fund trust for such purposes until it ceases to so qualify (and is deemed for certain purposes of the Tax Act to not so qualify) as a result of certain of the Reorganization transactions.

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

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

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

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

## **Taxation of the REIT Following the Reorganization**

### *Application of SIFT Rules*

A special taxation regime (the "**SIFT Rules**") applies to specified investment flow-through trusts or partnerships and investors in such trusts or partnerships. If the REIT becomes (or is) subject to the SIFT Rules, it will no longer be able to deduct any part of the amounts payable to Unitholders in respect of its "non-portfolio earnings", which include: (i) income from its "non-portfolio properties" (in excess of any losses for the taxation year from non-portfolio properties); and (ii) taxable capital gains from dispositions of non-portfolio properties (exceeding allowable capital losses for the taxation year from the disposition of such properties). For this purpose, "non-portfolio properties" include: (i) the Canadian real and immovable properties (or resource properties) of the REIT if their total fair market value is greater than 50% of the equity value of the REIT; (ii) a property that the REIT (or a person or partnership with which it does not deal at arm's length) uses in the course of carrying on a business in Canada; and (iii) securities of a "subject entity" if (subject to certain exceptions) the REIT holds securities of the subject entity that have a total fair market value that is greater than 10% of the subject entity's equity value or if the REIT holds securities of the subject entity which, together with all securities held by it in entities affiliated with the subject entity, have a total fair market value that is greater than 50% of the REIT's equity value. A "subject entity" includes corporations resident in Canada, trusts resident in Canada, and "Canadian resident partnerships".

"Securities" are broadly defined, and include, among other things, any liability of a corporation, trust or partnership, in addition to shares, most trust interests and partnership interests, and rights to acquire such a security.

Management of the REIT has indicated that following the Reorganization substantially all of the property of the REIT will consist of Canadian hotels that it leases to direct or indirect subsidiaries of the Operator Trust, securities of subsidiary limited partnerships or other subsidiaries which beneficially own Canadian hotels that they lease to direct or indirect subsidiaries of the Operator Trust, and securities of subsidiaries which indirectly (through further subsidiaries) lease such hotels for use in their Canadian hotel businesses. Hence, substantially all of the REIT's property will be non-portfolio property, and substantially all of its income (were it subject to the SIFT Rules) would be non-portfolio earnings. Accordingly, the REIT will be subject to the SIFT Rules (except in the event that it satisfies the REIT Exception discussed below under "— REIT Exception").

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

#### *REIT Exception*

The SIFT Rules are not applicable to "real estate investment trusts" (as defined in the Tax Act) that meet certain specified criteria relating to the nature of their income and investments (the "**REIT Exception**"). In particular, in order for the REIT to qualify for the REIT Exception in a particular taxation year (and after taking into account Tax Proposals released by the Minister of Finance on December 16, 2010 to amend the tests respecting the REIT Exception on a retroactive basis (the "**REIT Proposals**")):

- (i) *90% qualified REIT property test.* At each time in the taxation year the total fair market value of all "non-portfolio properties" that are "qualified REIT properties" of the REIT must be at least 90% of the fair market value of all "non-portfolio properties" of the REIT;
- (ii) *90% revenue test.* Not less than 90% of the REIT's "gross REIT revenues" (including capital gains and gains from "eligible resale properties") for the taxation year must be derived from one or more of the following: "rent from real or immovable properties"; interest; capital gains from dispositions of "real or immovable properties" or gains from dispositions of "eligible resale properties"; dividends; and royalties;
- (iii) *75% revenue test.* Not less than 75% of the REIT's "gross REIT revenues" for the taxation year must be derived from one or more of the following: "rent from real or immovable properties"; interest from mortgages or hypothecs on "real or immovable properties"; and capital gains from dispositions of "real or immovable properties";
- (iv) *75% asset test.* At no time in the taxation year may the total fair market value of all properties held by the REIT, each of which is a "real or immovable property", cash (including bank deposits, deposits with credit unions and bankers' acceptances), or, generally, a debt obligation of a government in Canada or certain other public bodies, be less than 75% of the equity value of the REIT at that time; and
- (v) *Listing test.* "Investments" in the REIT (such as the REIT Units) must, at some time in the taxation year, be listed or traded on a stock exchange or other public market.

The definition of "qualified REIT property" of a trust includes capital property of the trust that is: "real or immovable property"; a security of a "subject entity" (such as Canadian-resident corporation, trust or partnership) that is a nominee holder of legal title to real or immovable property of the trust or of another "subject entity" all of whose securities are held by the trust; tangible personal property or, in Quebec, corporeal moveable property (and, before giving effect to the REIT Proposals, any intangible personal property) that is ancillary to the earning by the REIT of (a) rent from "real or immovable property", or (b) capital gains from the disposition of such properties; and securities of a "subject entity" all or substantially all of whose "gross REIT revenues" for its taxation year which ends in the taxation year of the trust are from maintaining, improving, leasing or managing "real or immovable properties" that are capital properties of the trust (or of an entity of which the trust holds a share or interest) or

certain "eligible resale properties". In addition, under a look-through rule, securities of a subsidiary limited partnership, corporation or trust of the REIT could qualify as "qualified REIT property" if the subsidiary itself satisfies the first four tests listed above for the REIT to qualify for the REIT Exception. For the foregoing purposes, "rent from real or immovable properties" excludes among other things rent based on profits and payments for the occupation or use of a hotel room. Real or immovable property of a subsidiary limited partnership of the REIT that is held on income account generally will qualify as an "eligible resale property" if it is contiguous to a particular real or immovable property that is capital property of the REIT and its holding is necessary and incidental to the holding of that particular property.

The version of the first (90% qualified REIT property) test referred to above contained in the current provisions of the Tax Act (i.e., before giving effect to the REIT Proposals) requires that in the particular taxation year the REIT not hold *any* non-portfolio property which is not a qualified REIT property.

Based on the anticipated structure of the REIT and its subsidiaries following the Reorganization including the fact that the units and debt of Operator Trust will not qualify as qualified REIT properties, the REIT will not qualify for the REIT Exception following the Reorganization under the current provisions of the Tax Act. Furthermore, there are substantial factual uncertainties as to whether the REIT will qualify for the REIT Exception under the REIT Proposals for its taxation years ending after the Reorganization, including the Second 2012 Taxation Year. Management of the REIT has advised that it accordingly expects that the REIT will make provision, out of its anticipated cash flow, for tax under the SIFT Rules on the full amount of taxable income earned by the REIT in the Second 2012 Taxation Year.

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

The taxation year of the REIT is the calendar year. In each taxation year, the REIT is subject to tax under the Tax Act on its income for the year, including net realized taxable capital gains, computed in accordance with the detailed provisions of the Tax Act, less any portion thereof that it deducts in respect of amounts paid or payable or deemed to be paid or payable in the year to Unitholders. As noted above under "—Application of SIFT Rules", the REIT will not generally be entitled to deduct amounts that are paid or payable by it out of non-portfolio earnings if it should become subject to taxation under the SIFT Rules. Management of the REIT has advised counsel that it anticipates that all or substantially all the income of the REIT will be "non-portfolio earnings". The amount (subject to potential adjustments) of the income which the REIT is unable to deduct by virtue of the SIFT Rules (generally, its reduced deduction by virtue of earning non-portfolio earnings, provided that the REIT Exception is not available) would be taxed under those rules at a combined federal and provincial tax rate similar to that applicable to a corporation. Losses incurred by REIT cannot be allocated to Unitholders, but may be deducted by the REIT in future years in accordance with the Tax Act.

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

The income for purposes of the Tax Act of the REIT for a taxation year will include its share of the income of subsidiary limited partnerships (which also will have calendar taxation years) for their corresponding taxation years. If such partnerships were to incur losses for purposes of the Tax Act, the REIT's ability to deduct such losses may be limited by certain rules under the Tax Act.

In general, the REIT will not be subject to tax on amounts received as distributions from subsidiary limited partnerships. Generally, distributions to the REIT in excess of its allocated share of the income of any such partnership for taxation year will result in a reduction of the adjusted cost base of the REIT's limited partner units in such partnership equal to such excess. If, as a result, the REIT's adjusted cost base at the end of the taxation year of its limited units in such partnership would otherwise be a negative amount, the REIT will be deemed to realize a capital gain in such amount for that year, and the REIT's adjusted cost base of its units in the partnership at the beginning of the next taxation year will then be nil.

In computing its income for purposes of the Tax Act, the REIT may deduct reasonable administrative costs, interest and other expenses incurred by it for the purpose of earning income. The REIT may also deduct from its income for

the year a portion of any reasonable expenses incurred by it to issue REIT Units and REIT Debentures. The portion of such issue expenses deductible by the REIT in a taxation year is 20% of such issue expenses pro rated for a taxation year of the REIT that is less than 365 days.

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

The Tax Act provides for a special 36% tax, the Part XII.2 tax, on the designated income (including income from Canadian real property, taxable capital gains from dispositions of taxable Canadian property (including Canadian real property, property used in carrying on a business in Canada and a share or unit of most corporations, partnerships or trusts that derives more than 50% of its fair market value from Canadian real property or certain other types of property) and income from businesses carried on in Canada) of certain trusts which have designated beneficiaries (including non-resident persons and certain tax-exempt persons) in circumstances where all or a substantial portion of such income has been distributed by the trusts to their beneficiaries. If the trust makes an appropriate designation to this effect in its return of income for the year in which such income is realized, a pro rata portion of such tax is deemed to have been paid by Canadian resident beneficiaries of the trust who are not designated beneficiaries and by certain other persons as an amount on account of their liability for tax under Part I of the Tax Act, so that they potentially can receive a full or partial refund of their pro rata share of the Part XII.2 tax paid by the trust for the year. The Part XII.2 tax does not apply to a trust for a taxation year if the trust is a mutual fund trust throughout such year. Accordingly, provided the REIT qualifies as a mutual fund trust throughout a taxation year, it will not be subject to the special tax for such taxation year.

## **CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS FOR DEBENTUREHOLDERS**

Holders of Series F IOT Debentures who hold such debentures as capital property and who are resident in Canada generally will be considered to dispose of those debentures on the Reorganization for proceeds of disposition equal to their fair market value and to acquire Series F REIT Debentures (having the same principal) at a cost equal to the same amount. Holders of other REIT Debentures, including Series F REIT Debentures, who hold such debentures as capital property and who are resident in Canada, will not be considered to have disposed of such debentures as a result of the Reorganization.

Following completion of the Reorganization, the REIT Debentures will be exchangeable only for REIT Units (rather than Stapled Units) pursuant to the terms of such debentures. The Canadian federal income tax considerations arising to a resident of Canada who is a holder of a REIT Debenture upon an exchange, redemption or other disposition of the REIT Debenture following completion of the Reorganization are generally those described in the final short form prospectus of the REIT dated December 18, 2009, under "Certain Canadian Federal Income Tax Considerations—Taxation of Holders of Debentures—Exercise of Conversion Privilege", "—Redemption or Repayment of Debentures" and "—Dispositions of Debentures", subject to the limitations and assumptions set forth in such prospectus. A copy of this prospectus is available on SEDAR at [www.sedar.com](http://www.sedar.com).

The 2011 REIT Indenture contemplates that a non-resident debentureholder who converts its Series F REIT Debentures will be subject on the conversion to Canadian withholding tax unless specified conditions are satisfied. Holders of Series F REIT Debentures who are not persons resident in Canada for purposes of the Tax Act should consult their own tax advisors.

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The table below sets forth the securities of InnVest which were authorized for issuance under the REIT's equity compensation plans as at December 31, 2011.

Plan Category	Number of units to be issued upon exercise of outstanding options, warrants and rights	Weighted-average price of outstanding options, warrants and rights <sup>(2)</sup>	Number of units remaining available for future issuance under equity compensation plans
Equity compensation plans approved by Unitholders	116,814	N/A	926,016
Equity compensation plans not approved by Unitholders <sup>(1)</sup>	N/A	N/A	N/A

Notes:

- (1) The only equity compensation plans of the REIT in existence as at December 31, 2011 were (a) the Executive Incentive Plan, the amendment and restatement of which was approved by the Unitholders on May 13, 2010, and (b) section 2.9 of the REIT Declaration of Trust, which provides that 50% of the annual compensation of the REIT Trustees shall be paid in REIT Units or, prior to an Event of Uncoupling, Stapled Units. The REIT Declaration of Trust was approved by the Unitholders on May 13, 2010 and the reservation for issuance of an additional 250,000 REIT Units was approved by the Unitholders on the same date. As at December 31, 2011, 704,052 Stapled Units remained available for future issuance under the Executive Incentive Plan and 221,964 Stapled Units remained available for issuance as REIT Trustee compensation.
- (2) Restricted units granted under the Executive Incentive Plan do not have an exercise price. Instead, recipients are entitled to receive, on the vesting date of a restricted unit, an amount, payable in Stapled Units, based on the then current market value of one Stapled Unit plus the value of all distributions which would have been paid on such Stapled Unit from the date of grant of the applicable restricted unit, assuming the reinvestment of these distributions in Stapled Units.

### Description of Executive Incentive Plan

On December 31, 2010, in connection with the 2010 Reorganization, the REIT amended and restated the Executive Incentive Plan to provide that, prior to an Event of Uncoupling, the REIT would satisfy its obligations in respect of restricted units granted thereunder by delivering or causing to be delivered to the relevant participant in the Executive Incentive Plan one Stapled Unit for each restricted unit held by such participant on the relevant payment date. The Executive Incentive Plan was also amended to provide that participants will be granted additional restricted units when cash distributions are paid on either the REIT Units or the IOT Non-Voting Units and to adjust the forfeiture provisions applicable upon a termination of a participant's employment and the amendment and termination provisions of the plan, in each case solely to accommodate the Stapled Unit structure and to make minor adjustments of a housekeeping nature. The amended and restated Executive Incentive Plan was approved by the Unitholders on May 13, 2010.

The Executive Incentive Plan provides for the grant of restricted units to any officer or senior employee of the REIT or a subsidiary of the REIT who has been designated by the Compensation and Corporate Governance Committee and who has agreed to participate in the Executive Incentive Plan on terms specified by the REIT (each such individual, a "Participant"). Each of the Executive Officers participates in the Executive Incentive Plan and may be granted restricted units from time to time. Restricted units vest pursuant to a schedule that has been approved by the REIT Trustees. Subject to certain conditions, each restricted unit entitles the holder thereof to receive a payment on the vesting date stipulated at the time of the grant of the restricted unit, as such date may be changed from time to time in the discretion of the Compensation and Corporate Governance Committee (the "Payment Date"), of an amount, payable in Stapled Units based on their then current market value, equal to the then current market value of one Stapled Unit plus the value of the cash distributions that would have been paid on one Stapled Unit if it had been issued on the date of grant of the restricted unit, assuming the reinvestment of these distributions in Stapled Units. In the event of a proposed or completed take-over bid for all of the REIT Units (including REIT Units that are a component of Stapled Units), or a substantial asset sale, merger, amalgamation, arrangement or other reorganization of the REIT or IOT, the Compensation and Corporate Governance Committee may make such changes to the terms of the Executive Incentive Plan and the restricted units as it determines in its sole discretion.



A maximum of 1,000,000 Stapled Units (including REIT Units issued under vested awards that now trade as components of Stapled Units) have been reserved for issuance under the Executive Incentive Plan, representing approximately 1.1% of the outstanding Stapled Units at December 31, 2011. Any increase in this maximum or other amendment to the Executive Incentive Plan is subject to regulatory approval and to Unitholder approval, if required. As at December 31, 2011, 295,947 (December 31, 2010 – 258,260) restricted units had been granted under the Executive Incentive Plan, of which 116,814 (December 31, 2010 – 106,869) were unvested, representing approximately 0.1% of the outstanding Stapled Units at December 31, 2011. The Executive Officers are not involved in setting or amending the Executive Incentive Plan. Previous restricted units awarded are not taken into account when considering the award of new restricted units.

The maximum number of REIT Units (including REIT Units that are a component of Stapled Units) reserved for issuance in satisfaction of rights under restricted units granted under the Executive Incentive Plan and under other entitlements granted under any other existing security-based compensation arrangements of the REIT to any one person shall not exceed 5% of the outstanding REIT Units from time to time. The number of REIT Units reserved for issuance to insiders in satisfaction of rights under restricted units granted under the Executive Incentive Plan and under other entitlements granted under any other existing security-based compensation arrangements of the REIT shall not exceed 10% of the outstanding REIT Units from time to time. Within any one-year period, the number of REIT Units issued to insiders pursuant to the Executive Incentive Plan and under other entitlements granted under all other existing security-based compensation arrangements of the REIT shall not exceed 10% of the outstanding REIT Units and the number of REIT Units issued to any one insider and such insider's associates shall not exceed 5% of the outstanding REIT Units.

Restricted units are not REIT Units or Stapled Units and do not confer on the Participant any rights associated with REIT Units or Stapled Units, including voting rights, entitlements to distributions or rights on liquidation. A Participant may not assign any of his or her restricted units.

If a Participant ceases to be employed by the REIT or any of its subsidiaries for any reason other than death, long-term disability, retirement or is terminated by the REIT for cause, all rights granted to such Participant under all restricted units for which the Payment Date has not yet occurred will immediately be forfeited.

If a Participant ceases to be an employee of the REIT or any of its subsidiaries by reason of the termination of the Participant's employment by the REIT or its subsidiary other than for cause, any restricted units granted to such Participant for which the Payment Date has not occurred but whose Payment Date will occur no later than one year following the date of the termination notice given to the Participant will continue to be outstanding and, unless otherwise agreed by the REIT or determined by the Compensation and Corporate Governance Committee, all other restricted units will be immediately forfeited.

If a Participant dies or ceases to be an employee of the REIT or any of its subsidiaries by reason of long-term disability or retirement or for any other reason specified by the REIT, in its sole discretion, the Payment Date for all restricted units granted to such Participant will be determined by the REIT in its sole discretion. In this circumstance, the Payment Date will be no later than the original Payment Date for the restricted units and the first year anniversary of the Participant's death.

If a Participant dies or ceases to be an employee of the REIT or any of its subsidiaries by reason of long-term disability or retirement or for any other reason specified by the REIT, in its sole discretion, the Payment Date for all restricted units granted to such Participant will be determined by the REIT in its sole discretion. In this circumstance, the Payment Date will be no later than the original Payment Date for the restricted units and the first year anniversary of the Participant's death.

As a result of the Minister of Finance's announcement of the Stapled Securities Rules on July 20, 2011, InnVest suspended the issuance from treasury of additional Stapled Units in payment in respect of any restricted units scheduled to vest prior to the Effective Date. Accordingly, payment in respect of any such restricted units scheduled to vest prior to the Effective Date will be satisfied in cash, rather than in Stapled Units, since further issuances of Stapled Units to Participants could jeopardize IOT's grandfathering from the Stapled Securities Rules during the transition period. Each Participant has waived his or her right to receive Stapled Units on any Payment Date that occurs prior to the Effective Date and has agreed to accept a cash payment in lieu of Stapled Units. Additionally,

the REIT Trustees have approved paying Participants in cash in respect of any such restricted units, rather than in Stapled Units.

The REIT intends to amend the Executive Incentive Plan as of the Effective Date to accommodate the Reorganization and reflect the unwinding of the Stapled Unit structure. See "Reorganization – Description of Reorganization – Executive Incentive Plan".

### **Description of Trustee Compensation Plan**

Pursuant to section 2.9 of the REIT Declaration of Trust, 50% of the REIT Trustees' annual compensation is payable in REIT Units or, prior to an Event of Uncoupling, Stapled Units (based on the then-current market price), subject to the receipt of all required regulatory approvals. Under section 2.9, the REIT Trustees may, from time to time, unanimously adjust the amount of annual compensation payable to the REIT Trustees without Unitholder approval; however, any amendment to section 2.9, including the obligation of the REIT to pay 50% of the REIT Trustees' annual compensation in REIT Units or Stapled Units, requires the approval of two-thirds of the votes cast at a meeting of Unitholders called for that purpose. The IOT Declaration of Trust includes a similar provision; however, all of the IOT Trustees are officers of InnVest and as such are not entitled to be separately compensated for their services as trustees of IOT.

In 2010, the REIT approved the reservation of an additional 250,000 REIT Units for the purpose of paying 50% of the REIT Trustees' annual compensation provided for in the REIT Declaration of Trust to address the fact that the reserve of REIT Units authorized for issuance as trustee compensation had been depleted. The reservation of these additional REIT Units was approved by the Unitholders on May 13, 2010 and, in connection with the 2010 Reorganization, IOT reserved for issuance an equal amount of IOT Non-Voting Units to facilitate the issuance of Stapled Units to the REIT Trustees as compensation.

A maximum of 350,000 Stapled Units (including REIT units issued to REIT Trustees prior to the 2010 Reorganization that now trade as components of Stapled Units) have been reserved for payment of the REIT Trustees' annual compensation, representing approximately 0.4% of the outstanding Stapled Units at December 31, 2011. As at December 31, 2011, 128,036 (December 31, 2010 – 111,275) Stapled Units (some of which were issued as REIT Units and are now held as Stapled Units) had been granted under the Trustee Compensation Plan, representing approximately 0.1% of the outstanding Stapled Units at December 31, 2011.

As a result of the Minister of Finance's announcement of the Stapled Securities Rules on July 20, 2011, InnVest suspended the issuance from treasury of additional Stapled Units in payment of the REIT Trustees' annual compensation, because further issuances of Stapled Units to the REIT Trustees could have jeopardized IOT's grandfathering from the Stapled Securities Rules during the transition period. Accordingly, the REIT currently satisfies its obligations under section 2.9 of the REIT Declaration of Trust by cash payment of 100% of the REIT Trustees' annual compensation. Each of the REIT Trustees has waived his or her right to receive a portion of his or her annual compensation in Stapled Units and has agreed to accept a cash payment in lieu of Stapled Units. If the Amended and Restated REIT Declaration of Trust is adopted, the unit-based portion of the REIT Trustees' annual compensation will be payable in REIT Units only, rather than Stapled Units, from and after the Effective Date.

## **INTERESTS OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

### **General**

Each of the Executive Officers is an officer of both the REIT and IOT and a trustee of IOT. In addition, the independent REIT Trustees serve as members of IOT's independent advisory committee.

The REIT Declaration of Trust contains "conflict of interest" provisions that are intended to provide certain protections to Unitholders without creating undue limitations on the REIT. Given that the REIT Trustees are engaged in a wide range of activities, the REIT Declaration of Trust contains provisions, similar to those contained in the CBCA, that require each REIT Trustee or officer of the REIT to disclose to the REIT the nature and extent of any interest arising due to such person being a party to a material contract or transaction or proposed material

contract or transaction with the REIT (including a contract or transaction involving the making or disposition of any investment in real property or a joint venture arrangement) or due to such person being a trustee, director or officer of, or otherwise having a material interest in, any person or entity who is a party to a material contract or transaction or proposed material contract or transaction with the REIT. Such disclosure is required to be made in writing to the REIT or, by request, to be entered into the minutes of meetings of REIT Trustees at the first meeting at which a proposed contract or transaction is considered or at the first meeting after the time at which such person develops an interest.

In the event that a material contract or transaction or proposed material contract or transaction is one that in the ordinary course would not require approval by the REIT Trustees, a REIT Trustee or an officer of the REIT is required to disclose in writing to the REIT, or request to have entered into the minutes of meetings of REIT Trustees, the nature and extent of his or her interest forthwith after such REIT Trustee or officer of the REIT becomes aware of the contract or transaction or proposed contract or transaction. In any case, a REIT Trustee or officer who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction is one relating primarily to his or her remuneration as a REIT Trustee, officer, employee or agent of the REIT or one for indemnity under the provisions of the REIT Declaration of Trust or liability insurance.

The REIT Declaration of Trust contains provisions to address potential conflicts of interest arising between the REIT and any related party. Among other things, the REIT must obtain a valuation in respect of any property that it intends to purchase from or sell to a related party by a valuator engaged by, and prepared under the supervision of, a committee of two or more independent REIT Trustees who have no interest in such transaction. In addition, each transaction between the REIT and a related party must be on commercially reasonable terms and requires the approval of at least 66⅔% of the independent REIT Trustees who have no interest in such transaction.

For the purposes of those provisions, in the event that any transaction is being considered by the REIT Trustees prior to an Event of Uncoupling, IOT and its subsidiaries will be deemed not to be related parties and no independent REIT Trustee will be deemed to have an interest in a transaction solely by virtue of serving on an IOT's independent advisory committee. Accordingly, the proposed Reorganization does not trigger the related party transaction provisions in the REIT Declaration of Trust.

The IOT Declaration of Trust contains analogous provisions relating to conflicts of interest and related party transaction, except that, prior to an Event of Uncoupling, valuations in respect of related party transactions must be prepared under the supervision of a committee of two or more members of IOT's independent advisory committee who have no interest in such transaction. In addition, each transaction between IOT and a related party must be on commercially reasonable terms and requires the approval of at least 66⅔% of the members of IOT's independent advisory committee who have no interest in such transaction. For the purposes of those provisions, in the event that any transaction is being considered by the IOT Trustees or its independent advisory committee prior to an Event of Uncoupling, the REIT and its subsidiaries will be deemed not to be related parties and no member of IOT's independent advisory committee will be deemed to have an interest in a transaction solely by virtue of serving as a trustee of the REIT. Accordingly, the proposed Reorganization does not trigger the related party provisions in the IOT Declaration of Trust.

### **Management Agreement**

In connection with the 2010 Reorganization, the Operator and InnVest entered into an amended and restated Management Agreement with the Manager on December 31, 2010 pursuant to which the Manager is responsible for the management of the majority of the hotel businesses in InnVest. The Manager 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.

Messrs. Fereed Mangalji and Majid Mangalji, trustees of the REIT, have a direct or indirect controlling interest in the Manager and as such have a material interest in the Management Agreement.

The Management Agreement expires on July 25, 2017 and is subject to a five-year renewal term thereafter, subject to the consent of the Manager and approval by the Operator. If the REIT acquires any additional hotels during the term of the Management Agreement, the Manager will manage such additional hotels in accordance with the Management Agreement for the balance of the term of the Management Agreement. The Management Agreement is subject to non-competitive arrangements for limited service hotels in Canada, essentially restricting the Manager's ability to acquire and manage competitive limited service hotels in Canada.

The Management Agreement provides for the payment by the Operator or its subsidiaries of an annual management fee to the Manager during the term of the Management Agreement, including renewal periods, in an amount equal to 3.375% of gross revenues from the REIT's hotel portfolio, calculated and payable monthly. In addition, the Manager is entitled to an annual incentive fee equal to the sum of:

- (a) 15% of the amount by which 90% of "Distributable Income" (as described below) in any year exceeds the "First Incentive Fee Hurdle" (as described below) but is less than or equal to the "Second Incentive Fee Hurdle" (as described below);
- (b) 20% of the amount by which 90% of Distributable Income exceeds the Second Incentive Fee Hurdle but is less than or equal to the "Third Incentive Fee Hurdle" (as described below); and
- (c) 25% of the amount by which 90% of Distributable Income exceeds the Third Incentive Fee Hurdle.

"Distributable Income" means the aggregate of the Distributable Income (as defined in the REIT Declaration of Trust) of the REIT and the Distributable Income (as defined in the IOT Declaration of Trust) of IOT; provided that for the purposes of calculating the annual incentive fee, Distributable Income is calculated without deducting the incentive fee and the Distributable Income of the REIT excludes any amounts received by the REIT or its subsidiaries out of the Distributable Income of IOT if such amounts were not deducted in the computation of the Distributable Income of IOT.

The "First Incentive Fee Hurdle" is an amount equal to the product of \$1.125 per Stapled Unit multiplied by the weighted average number of Stapled Units outstanding during the relevant period. The "Second Incentive Fee Hurdle" is an amount equal to the product of \$1.275 per Stapled Unit multiplied by the weighted average number of Stapled Units outstanding during the relevant period. The "Third Incentive Fee Hurdle" is an amount equal to the product of \$1.425 per Stapled Unit multiplied by the weighted average number of Stapled Units outstanding during the relevant period.

The incentive fee hurdle calculations are subject to customary anti-dilution provisions, primarily to protect the Manager, in the event of certain events including, without limitation, splits and consolidations of the REIT Units or the IOT Non-Voting Units and distributions to holders of the REIT Units or the IOT Non-Voting Units other than in the ordinary course of business resulting from, among other things, refinancings or asset sales. For example, such a distribution would lead to a proportional reduction in the incentive fee hurdles and, conversely, a consolidation of the REIT Units or IOT Non-Voting Units would lead to a proportional increase in the incentive fee hurdles.

In addition to the base management fee and incentive fee, the Manager is entitled to (i) reasonable fees based on a percentage of the cost of purchasing certain goods and supplies for the hotel businesses and of certain construction costs and certain capital expenditures, and (ii) fees for accounting services. The Manager is also entitled to be reimbursed for certain reasonable out-of-pocket costs and expenses incurred by the Manager in the performance of its duties under the Management Agreement, provided that such costs have been identified in a budget approved by the Operator or otherwise are approved in writing by the Operator prior to being incurred by the Manager.

In consideration for services rendered in 2011, the Manager was paid approximately \$11.5 million in management fees and approximately \$6.2 million for other services.

The Management Agreement also provides that upon the occurrence of an Event of Uncoupling, the parties will in good faith negotiate such amendments to the Management Agreement as may be reasonable in the circumstances.

InnVest expects to enter into an amended and restated Management Agreement on the Effective Date to reflect the unwinding of the Stapled Unit structure. The final form of any amendments to the Management Agreement is subject to approval by the independent REIT Trustees.

The Manager's address is 5090 Explorer Drive, Mississauga, Ontario.

### **TRUSTEES' AND OFFICERS' INSURANCE AND INDEMNIFICATION**

InnVest maintains insurance for the benefit of the REIT Trustees, IOT Trustees and officers of the REIT and IOT against liability in their respective capacities as trustees and officers. The annual premium paid and expensed in 2011 by InnVest in respect of such insurance was \$190,931. There is a per-loss deductible of \$250,000, a securities claim deductible of \$250,000, and no deductible for claims under this insurance policy for trustees and officers as it relates to non-indemnifiable claims. As of the date of this Circular, no claim has ever been presented or paid under this policy.

The REIT Declaration of Trust provides that the REIT shall indemnify the REIT Trustees against all liabilities, damages, losses, debts and claims whatsoever, including costs, charges and expenses in connection therewith, incurred by the REIT Trustee in respect of any action to which the REIT Trustee was made a party in relation to the execution of his or her duties as a REIT Trustee, if the REIT Trustee acted honestly and in good faith with a view to the best interests of the REIT or, in the case of a criminal or administrative action or proceeding that is enforced by monetary penalty, the REIT Trustee had reasonable grounds for believing that his or her conduct was lawful. An analogous provision is contained in the IOT Declaration of Trust in respect of the IOT Trustees.

### **EXPERTS**

As at the date hereof, the partners and associates of Davies Ward Phillips & Vineberg LLP beneficially own, directly or indirectly, in the aggregate less than 1% of the issued and outstanding Stapled Units.

The audited consolidated balance sheets of the REIT as at December 31, 2010 and December 31, 2009 and the audited consolidated statements of net loss and comprehensive loss, unitholders' equity and cash flows of the REIT for the years then ended incorporated by reference in this Circular have been audited by Deloitte & Touche LLP, Chartered Accountants, Licensed Public Accountants, who have advised that they are independent with respect to InnVest within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

### **ADDITIONAL INFORMATION**

Additional information relating to InnVest is available on SEDAR at [www.sedar.com](http://www.sedar.com). Financial information is provided in the REIT's comparative financial statements and related management's discussion and analysis for the financial year ended December 31, 2010 and the three and nine months ended September 30, 2011 and the consolidating summary financial information filed by IOT concurrently with the REIT's comparative financial statements.

InnVest will provide free of charge to Unitholders, upon request to its Investor Relations Liaison, a copy of:

- (a) the REIT's 2010 annual report, including management's discussion and analysis of financial and operating results;
- (b) the REIT's annual information form dated March 28, 2011, together with a copy of any document, or pertinent pages of any document, incorporated therein by reference;
- (c) the REIT's comparative financial statements for the year ended December 31, 2010, together with the notes thereto and report of its auditors thereon, and any interim financial statements subsequently filed; and

- (d) any other document incorporated by reference in this Circular under the caption "Documents Incorporated by Reference".

InnVest's Investor Relations Liaison may be reached at:

5090 Explorer Drive, 7th Floor  
Mississauga, ON L4W 4T9  
Attn: Investor Relations Liaison  
Phone: 905-206-7100  
Facsimile: 905-206-7114  
Toll Free: 1-877-209-3429 (Canada & U.S.)

Website: [www.investreit.com](http://www.investreit.com)

### **BOARD OF TRUSTEES' APPROVAL**

The REIT Trustees and the IOT Trustees have approved the contents of this Circular and the sending of this Circular to Unitholders.

(signed) *Kenneth D. Gibson*

Kenneth D. Gibson  
President and Chief Executive Officer  
InnVest Real Estate Investment Trust

Toronto, Ontario  
December 31, 2011

(signed) *Kenneth D. Gibson*

Kenneth D. Gibson  
President and Chief Executive Officer  
InnVest Operations Trust

## AUDITOR'S CONSENT

We have read the management information circular dated December 31, 2011 (the "Circular") of InnVest Real Estate Investment Trust (the "REIT") and InnVest Operations Trust ("IOT", and together with the REIT, "InnVest") relating to the proposed reorganization of the REIT and IOT pursuant to a plan of arrangement described therein, which will result in the distribution of trust units of the REIT to IOT in exchange for substantially all of the assets of IOT and the subsequent repurchase for cancellation of substantially all of the outstanding voting trust units of IOT and all of the outstanding non-voting trust units of IOT in exchange for such units of the REIT held by IOT. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the Circular of our report to the unitholders of InnVest on the consolidated balance sheets of the REIT as at December 31, 2010 and December 31, 2009 and the consolidated statements of net income (loss) and comprehensive income (loss), unitholders' equity and cash flows for the years then ended. Our report is dated March 16, 2011.

Toronto, Ontario  
January 24, 2012

(signed) *Deloitte & Touche LLP*

Chartered Accountants  
Licensed Public Accountants

**CONSENT OF LEGAL COUNSEL**

We hereby consent to the reference to our name and opinions contained under the captions "Reorganization—Court Approval of the Plan of Arrangement", "Certain Canadian Federal Income Tax Considerations" and "Certain Canadian Federal Income Tax Considerations for Debentureholders" in the management information circular of InnVest Real Estate Investment Trust and InnVest Operations Trust dated December 31, 2011.

(signed) *Davies Ward Phillips & Vineberg LLP*

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Toronto, Ontario  
December 31, 2011

DAVIES WARD PHILLIPS & VINEBERG LLP



## SCHEDULE A

### PLAN OF ARRANGEMENT

#### PLAN OF ARRANGEMENT UNDER SECTION 192 OF THE CANADA BUSINESS CORPORATIONS ACT

### ARTICLE 1 INTERPRETATION

#### **1.1**            Definitions

In this Plan of Arrangement, unless the context otherwise requires, the following terms shall have the respective meanings set out below:

**"2011 IOT Indenture"** means the trust indenture between IOT, as issuer, the REIT, as guarantor, and the Indenture Trustee dated March 15, 2011, as amended, modified, replaced or supplemented from time to time;

**"2011 REIT Indenture"** means the trust indenture between the REIT, as issuer, IOT, as guarantor, and the Indenture Trustee dated March 15, 2011, as amended, modified, replaced or supplemented from time to time;

**"Amended and Restated IOT Declaration of Trust"** means the second amended and restated IOT Declaration of Trust proposed in connection with the Arrangement;

**"Amended and Restated REIT Declaration of Trust"** means the fourth amended and restated REIT Declaration of Trust proposed in connection with the Arrangement;

**"Arrangement"** means the arrangement pursuant to section 192 of the CBCA set forth in this Plan of Arrangement, other than the steps of Article 3 that are not Corporate Steps and including, for certainty, Sections 3.2 and 3.3, as supplemented, modified or amended in accordance with the terms hereof;

**"Articles of Arrangement"** means the articles of arrangement in respect of the Arrangement required under subsection 192(6) of the CBCA to be filed with the Director after the Final Order has been made to give effect to the Arrangement;

**"CBCA"** means the *Canada Business Corporations Act*;

**"CDS"** means CDS Clearing and Depository Services Inc. or its nominee (including CDS & Co.), together with its successors from time to time;

**"Certificate"** means the certificate or certificates or other confirmation of filing to be issued by the Director pursuant to subsection 192(7) of the CBCA giving effect to the Arrangement;

**"Circular"** means the joint management information circular of the REIT and IOT dated as of December 31, 2011 that was sent to Unitholders in connection with the Meeting;

**"Consolidation Date"** has the meaning set out in step 11 of Section 3.1;

**"Co-ordination Agreement"** means the co-ordination agreement entered into between the REIT and IOT dated as of December 31, 2010, as amended, modified, replaced or supplemented from time to time, providing for certain obligations on the part of the REIT and IOT relating to maintaining the Stapled Unit structure;

**"Corporate Steps"** means steps 3, 7, 5 and 11 of Section 3.1 and excludes, for certainty, steps 1, 2, 6, 7, 11, 9 and 10 of Section 3.1;

**"Court"** means the Ontario Superior Court of Justice (Commercial List);

**"Director"** means the Director appointed under the CBCA;

**"Distribution Date"** has the meaning set out in step 6 of Section 3.1;

**"Effective Date"** means the first date on which the Arrangement takes effect under the CBCA;

**"Effective Time"** means 4:00 p.m. (Toronto time) on the Effective Date;

**"Final Order"** means the order of the Court approving the Arrangement to be applied for following the Meeting and to be granted pursuant to the provisions of subsection 192(4)(e) of the CBCA, as such order may be affirmed, amended or modified by any court of competent jurisdiction;

**"IHGP"** means InnVest Hotels GP Ltd., a corporation existing under the CBCA;

**"IH Holdco LP"** means a InnVest Hotels Holdco LP, a wholly-owned subsidiary of the IOT formed as a limited partnership under the laws of the Province of Manitoba;

**"Indenture Trustee"** means Computershare Trust Company of Canada, as trustee under the 2011 IOT Indenture and the 2011 REIT Indenture;

**"Interim Order"** means the interim order of the Court dated December 23, 2011 under subsection 192(4) of the CBCA containing declarations and directions with respect to the Arrangement and the Meeting and issued pursuant to the joint application of the REIT and IOT;

**"IOT"** means InnVest Operations Trust, an open-ended unit trust established under the laws of the Province of Ontario;

**"IOT Debentures"** means the 5.75% Series F convertible unsecured subordinated debentures of IOT issued pursuant to the 2011 IOT Indenture and forming part of the Stapled Debentures;

**"IOT Declaration of Trust"** means the amended and restated declaration of trust governing the business and affairs of IOT, as amended, modified, replaced or supplemented from time to time in accordance with its terms prior to the Effective Date;

**"IOT Non-Voting Units"** means a non-voting trust unit of IOT;

**"IOT Resolution"** means the special resolution of the holders of IOT Non-Voting Units authorizing and approving the Reorganization, the Plan of Arrangement and the Amended and Restated IOT Declaration of Trust, the text of which is set out in the Circular under the caption "Reorganization – Unitholder Approval of the Reorganization – IOT Resolution", and includes any variation thereof that is voted on at the Meeting by the holders of IOT Non-Voting Units;

**"IOT Trustee Co."** means IOT Trustee Corp., a wholly-owned subsidiary of the REIT existing under the CBCA;

**"IOT Unitholders"** means, collectively, the holders of IOT Voting Units and IOT Non-Voting Units, from time to time;

**"IOT Voting Unit"** means a voting trust unit of IOT;

**"London Amalco"** means InnVest Properties London Ltd., the corporation continuing as a result of the amalgamation of London Ltd., Truro and IHGP in accordance with this Plan of Arrangement;

**"London Ltd."** means InnVest Properties London Ltd., a corporation existing under the CBCA;

**"Meeting"** means the joint special meeting of Unitholders held on February 23, 2012, and any adjournment(s) or postponement(s) thereof, to consider and vote on the IOT Resolution, the REIT Resolution and the other matters described in the Circular;

**"Operator Trust"** means InnVest Hotels Trust, an indirect wholly-owned subsidiary trust of IOT governed by the laws of the Province of Ontario;

**"Person"** means any individual, partnership, association, body corporate, trust, trustee, executor, administrator, legal representative, government, regulatory authority or other entity;

**"Plan of Arrangement"** means this plan of arrangement as amended or supplemented from time to time in accordance with the terms hereof;

**"REIT"** means InnVest Real Estate Investment Trust, an open-ended trust established under the laws of the Province of Ontario;

**"REIT Debentures"** means the 5.75% Series F convertible unsecured subordinated debentures of the REIT issued pursuant to the 2011 REIT Indenture and forming part of the Stapled Debentures;

**"REIT Declaration of Trust"** means the third amended and restated declaration of trust governing the business and affairs of the REIT, as amended, modified, replaced or supplemented from time to time in accordance with its terms prior to the Effective Date;

**"REIT Resolution"** means the special resolution of the REIT Unitholders authorizing and approving the Reorganization, the Plan of Arrangement, the Amended and Restated REIT Declaration of Trust and consequential amendments to the Unitholder Rights Plan (as such term is defined in the Circular), the text of which is set out in the Circular under the caption "Reorganization – Unitholder Approval of the Reorganization – REIT Resolution", and includes any variation thereof that is voted on at the Meeting by the REIT Unitholders;

**"REIT Unit"** means a trust unit of the REIT;

**"REIT Unitholders"** means the holders of REIT Units from time to time;

**"Reorganization"** means the proposed series of transactions, including the Arrangement, whereby, among other things, substantially all the assets of IOT will be transferred to the REIT and IOT Voting Units will be exchanged for REIT Units;

**"Stapled Debentures"** means the 5.75% Series F stapled convertible unsecured subordinated debentures of the REIT and IOT, each \$1,000 principal amount of which consists of \$850 principal amount of REIT Debentures and \$150 principal amount of IOT Debentures, which trade together;

**"Stapled Unit"** means one REIT Unit and one IOT Non-Voting Unit which trade together;

**"Tax Act"** means the *Income Tax Act* (Canada);

**"Transfer Agent"** means Computershare Investor Services Inc.;

**"Truro"** means InnVest Properties Truro Inc. a corporation continued under the CBCA; and

"Unitholders" means, collectively, the IOT Unitholders and the REIT Unitholders, from time to time.

## **1.2 Rules of Construction**

In this Plan of Arrangement, unless otherwise expressly stated or the context otherwise requires:

- (a) the terms "Plan", "Plan of Arrangement", "hereto", "hereof", "herein", "hereby", "hereunder" and similar expressions refer to this Plan in its entirety and not to any particular provision hereof;
- (b) references to an "Article", "Section", "step", "paragraph" or "Schedule" followed by a number or letter refer to the specified Article, Section, step, paragraph or Schedule of this Plan;
- (c) the division of this Plan into Articles, Sections, steps and paragraphs and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Plan;
- (d) words importing the singular number only shall include the plural and vice versa and words importing the use of any gender shall include all genders;
- (e) the words "include", "includes" and "including" mean "include", "includes" or "including", in each case, "without limitation";
- (f) any reference to a statute, regulation or rule shall be construed to be a reference thereto as the same may from time to time be amended, re-enacted or replaced, and any reference to a statute shall include any regulations or rules made thereunder;
- (g) for greater certainty, the trustees of the REIT have entered into this Plan of Arrangement in their capacity as trustees of the REIT under the REIT Declaration of Trust and, unless otherwise expressly provided herein, where any reference is made in this Plan of Arrangement to the REIT as a party to this Plan of Arrangement or any other agreement or to an act to be performed by or a covenant, representation or warranty given by the REIT, such reference shall be construed and applied for all purposes as if it referred to the trustees of the REIT, in their capacity as trustees under the REIT Declaration of Trust;
- (h) for greater certainty, the trustees of IOT have entered into this Plan of Arrangement in their capacity as trustees of IOT under the IOT Declaration of Trust and, unless otherwise expressly provided herein, where any reference is made in this Plan of Arrangement to IOT as a party to this Plan of Arrangement or any other agreement or to an act to be performed by or a covenant, representation or warranty given by IOT, such reference shall be construed and applied for all purposes as if it referred to the trustees of IOT, in their capacity as trustees under the IOT Declaration of Trust; and
- (i) for greater certainty, any assets, indebtedness, shares, limited partnership interests, limited partnership units or other securities transferred to, issued by or held by a limited partnership pursuant to this Plan of Arrangement shall be transferred to, issued by or held by the general partner of such limited partnership, in its capacity as general partner of such limited partnership.

## **ARTICLE 2 EFFECTIVENESS OF THE ARRANGEMENT**

### **2.1 Effectiveness of the Arrangement**

- (a) The Corporate Steps in this Plan of Arrangement are made pursuant to, and constitute an arrangement as referred to in, section 192 of the CBCA.

(b) The Corporate Steps in this Plan of Arrangement, upon the filing of the Articles of Arrangement and the issuance of the Certificate, will become effective on, and be binding on and after the Effective Time on each of the Persons referred to in such steps.

(c) The Articles of Arrangement and the Certificate shall be filed and issued, respectively, with respect to this Arrangement in its entirety. The Certificate shall be conclusive evidence that the Arrangement has become effective and that each of the Corporate Steps of Article 3 has become effective in the sequence and at the times set out therein.

### **ARTICLE 3** **ARRANGEMENT**

#### **3.1 Events Occurring Within the Plan**

Commencing at the Effective Time, unless otherwise stated, the following transactions shall occur and the Corporate Steps in this Section 3.1 shall be deemed to occur in the following order without any further authorization, act or formality,

1. The trustees of the REIT shall enter into the Amended and Restated REIT Declaration of Trust as authorized by the REIT Resolution, the trustees of IOT shall enter into the Amended and Restated IOT Declaration of Trust as authorized by the IOT Resolution and the Co-ordination Agreement shall be terminated.
2. Substantially all of the assets of IOT (other than a promissory note issued by IH Holdco LP to IOT in the aggregate amount of \$1,000), shall be transferred by IOT to the REIT in consideration for (i) the assumption by the REIT of all of IOT's liabilities and obligations under the IOT Debentures and any other liabilities and obligations of IOT (including IOT's liabilities and obligations under the 2011 REIT Indenture) and (ii) the issuance to IOT of such number of REIT Units as shall be necessary to effect the exchange in step 6, in each case effective at 5:00 p.m. (Toronto time) on the Effective Date.
3. Effective 6:00 p.m. (Toronto time) on the Effective Date, the Operator Trust, by its trustee, InnVest Hotels Trustee Corp., a corporation existing under the CBCA, shall distribute the 100 common shares it holds in the capital of IHGP to IH Holdco LP for nominal consideration.
4. Effective 7:00 p.m. (Toronto time) on the Effective Date, IH Holdco LP, by its general partner, InnVest Hotels Holdco GP Ltd., a corporation existing under the *Business Corporations Act* (Ontario), shall distribute the 100 common shares it holds in the capital of IHGP to the REIT for nominal consideration.
5. London Ltd., Truro and IHGP shall be amalgamated effective 11:59 p.m. on the Effective Date to continue as London Amalco pursuant to a short-form amalgamation under which the 100 common shares in the capital of IHGP and the two common shares in the capital of Truro held by the REIT are cancelled.
6. Effective 9:00 a.m. (Toronto time) on the day immediately following the Effective Date (the "Distribution Date"), IOT shall repurchase for cancellation all of the IOT Non-Voting Units and all of the IOT Voting Units (other than 1,000 IOT Voting Units held by the REIT) from the Unitholders in exchange for the REIT Units received by IOT in step 2, so that each IOT Unitholder receives, for each IOT Voting Unit or IOT Non-Voting Unit that is so repurchased, 15/85 of a REIT Unit.
7. The REIT shall cancel all of the REIT Units transferred to it by IOT in exchange for the IOT Voting Units repurchased pursuant to step 6.

8. Effective 9:00 a.m. (Toronto time) on the next business day following the Distribution Date (the "Consolidation Date"), in accordance with the terms of the 2011 IOT Indenture, the 2011 REIT Indenture and a supplemental indenture to be entered into between the REIT and the Indenture Trustee, (i) the liabilities and obligations of IOT in respect of the IOT Debentures and the REIT Debentures shall be extinguished, so that the REIT is the sole issuer and obligor under each of the 2011 IOT Indenture and the 2011 REIT Indenture and any guarantees given by the REIT or IOT in respect of either such indenture are terminated and of no further force and effect, (ii) the IOT Debentures (which are then debt obligations of the REIT only, and not of IOT) shall be reclassified as REIT Debentures so that each \$150 principal amount of IOT Debentures and \$850 principal amount of REIT Debentures previously comprising a Stapled Debenture are, effective as of the date of such supplemental indenture, an aggregate \$1,000 principal amount of REIT Debentures, (iii) such REIT Debentures as so consolidated shall not be convertible into IOT Non-Voting Units and shall, instead, be convertible into REIT Units at 100/85 of the conversion rate for which REIT Debentures were convertible into REIT Units immediately preceding the time when the supplemental indenture was entered into, and (iv) such other adjustments shall be made to produce substantially the same effect as if the REIT had been the sole issuer of the Stapled Debentures, so that only the REIT Debentures, rather than the Stapled Debentures, are outstanding, and such consolidated debentures are convertible only into REIT Units.
9. Effective 9:15 a.m. (Toronto time) on the Consolidation Date, the outstanding REIT Units shall be consolidated so that the number of REIT Units held by each REIT Unitholder following such consolidation is equal to the number of Stapled Units held by it immediately prior to step 6 and the conversion rate for the REIT Debentures referred to in step 11(iii) shall be adjusted accordingly to the conversion rate for which REIT Debentures were convertible into REIT Units immediately preceding the time when the supplemental indenture was entered into.
10. Effective 9:30 a.m. (Toronto time) on the Consolidation Date or such later date on which IOT receives any required regulatory approvals, IOT shall cease to be a reporting issuer under applicable Canadian securities laws.
11. Effective immediately following step 10, the resignations of each of the trustees of IOT shall take effect and the appointment of IOT Trustee Co. as the replacement trustee of IOT shall take effect. The directors of IOT Trustee Co. shall be the same Persons as the Persons who resign as trustees of IOT pursuant to this step or, if any such Person is not willing or able to act as a director on the Effective Date, such other Person that is qualified under the CBCA to be a director and is appointed by the shareholder of IOT Trustee Co.

### **3.2 Implementation of Plan of Arrangement**

- (a) Subject to the satisfaction or waiver by the REIT and IOT of the conditions precedent to the Arrangement set out at Article 5, pursuant to one or more treasury directions delivered to the Transfer Agent:
  - (i) the REIT Units required to be issued pursuant to step 2 of Section 3.1 and a unit certificate representing such REIT Units dated the Effective Date will be issued to and in the name of IOT;
  - (ii) effective as of the Distribution Date, the REIT Units transferred to the REIT by IOT in exchange for the IOT Voting Units repurchased pursuant to step 6 of Section 3.1 shall be cancelled;
  - (iii) a REIT Unit certificate dated the Distribution Date representing (A) the REIT Units issued in exchange for the IOT Non-Voting Units that are repurchased pursuant to step 6 of Section 3.1 and (B) the REIT Units outstanding immediately prior to the Effective Date will be issued in the name of CDS in exchange for all of the unit certificates representing Stapled Units held by CDS at such time, and such Stapled Unit certificates shall be immediately cancelled;

- (iv) a certificate dated the Consolidation Date representing the number of REIT Debentures outstanding following the consolidation of IOT Debentures and REIT Debentures in step 11 of Section 3.1 will be issued in the name of CDS in exchange for all of the certificates representing Stapled Debentures held by CDS at such time, and such Stapled Debenture certificates shall be immediately cancelled; and
- (v) a unit certificate dated the Consolidation Date representing the number of REIT Units outstanding following the consolidation in step 9 of Section 3.1 will be issued in the name of CDS in exchange for the unit certificate issued to CDS in Section 3.2(a)(iii) and such exchanged unit certificate shall be immediately cancelled.

No fractional REIT Units shall be issued pursuant to the Plan of Arrangement, as provided in the Amended and Restated REIT Declaration of Trust. Subject to the satisfaction or waiver by the REIT and IOT of the conditions precedent to the Arrangement set out at Article 5:

- (i) effective as of the Effective Date, IOT will be added to the register of REIT Unitholders in respect of that number of REIT Units distributed to IOT pursuant to the Plan of Arrangement in accordance with the Amended and Restated REIT Declaration of Trust;
- (ii) effective as of the Distribution Date, CDS will be added to the register of REIT Unitholders in respect of that number of REIT Units distributed to holders of IOT Non-Voting and IOT Voting Units pursuant to step 6 of Section 3.1 in accordance with the Amended and Restated REIT Declaration of Trust;
- (iii) effective as of the Distribution Date, the register of REIT Unitholders will be updated to reflect the cancellation of that number of REIT Units transferred to the REIT by IOT in exchange for the IOT Voting Units repurchased pursuant to step 6 of Section 3.1 in accordance with the Amended and Restated REIT Declaration of Trust; and
- (iv) effective as of the Consolidation Date, the register of REIT Unitholders will be updated to reflect the consolidation in step 9 of Section 3.1 in accordance with the Amended and Restated REIT Declaration of Trust.

(b) Subject to the satisfaction or waiver by the REIT and IOT of the conditions precedent to the Arrangement set out at Article 5, pursuant to the supplemental indenture referred to in step 11 of Section 3.1, effective as of the Consolidation Date, the register of holders of IOT Debentures shall be updated to reflect that IOT is no longer an issuer of the IOT Debentures and therefore that there are no longer any holders of IOT Debentures, and the register of holders of REIT Debentures shall be updated to reflect that (i) the REIT is the issuer of the IOT Debentures, and (ii) the reclassification of the REIT Debentures and IOT Debentures described in step 11 of Section 3.1.

#### **ARTICLE 4** **LONDON AMALCO**

Immediately upon the amalgamation of London Ltd., Truro and IHGP pursuant to step 5 of Section 3.1, the following provisions shall apply to London Amalco:

#### **4.1**            **Name**

The name of London Amalco shall be " InnVest Properties London Ltd.".

#### **4.2**            **Registered Office**

The registered office of London Amalco shall be located at 5090 Explorer Drive, Suite 700, Mississauga, Ontario, L4W 4T9.

#### **4.3 Authorized Capital and Share Provisions**

The authorized capital of London Amalco shall consist of an unlimited number of common shares. The rights, privileges, restrictions and conditions set forth in Schedule 1 shall attach to the common shares of London Amalco.

#### **4.4 Directors and Officers**

(a) The board of directors of London Amalco shall, until otherwise changed in accordance with the CBCA, consist of a minimum of one and a maximum of 10 directors. The number of directors of London Amalco shall initially be three. The initial directors of London Amalco immediately following the amalgamation of London Ltd., Truro and IHGP shall be the Persons whose names and jurisdictions of residence appear below or, if any such Person is not willing or able to act as a director on the Effective Date, such other Person that is qualified under the CBCA to be a director that is appointed by the shareholder of London Amalco:

- (i) Kenneth D. Gibson: Ontario, Canada;
- (ii) Tamara L. Lawson: Ontario, Canada; and
- (iii) George M. Kosziwka: Ontario, Canada.

(b) The initial directors shall hold office until the next annual meeting of the shareholders of London Amalco or until their successors are elected or appointed. The board of directors of London Amalco may appoint one or more additional directors, who shall hold office for a term expiring not later than the close of the next annual meeting of shareholders, but the total number of directors so appointed may not exceed one-third of the number of directors elected at the previous annual meeting of shareholders.

(c) The initial officers of London Amalco shall be Kenneth D. Gibson (President), Tamara L. Lawson (Chief Financial Officer and Corporate Secretary) and George M. Kosziwka (Vice-President, Finance).

#### **4.5 Business and Powers**

There shall be no restrictions on the business that may be carried on by London Amalco.

#### **4.6 Restrictions on Transfer**

The right to transfer securities of London Amalco (other than debt securities that are not convertible into shares of London Amalco) shall be restricted in that no holder of such securities shall be entitled to transfer any such securities without either:

- (a) if the transfer of such securities is restricted by any security holders' agreement, complying with such restrictions in such agreement; or
- (b) if there are no such restrictions, either:
  - (i) the express sanction of the holders of more than 50% of the voting shares of London Amalco for the time being outstanding expressed by a resolution passed at a meeting of the shareholders or by an instrument or instruments in writing signed by the holders of more than 50% of such shares; or
  - (ii) the express sanction of the directors of London Amalco expressed by a resolution passed by the votes of a majority of the directors of London Amalco at a meeting of the board of directors or signed by all of the directors entitled to vote on that resolution at a meeting of directors.



**4.7**            **By-laws**

The by-laws of London Amalco, until repealed, amended or altered, shall be the by-laws of London Ltd.

**4.8**            **Effect of Amalgamation**

As of the effective time of the amalgamation of London Ltd., Truro and IHGP referred to in step 5 of Section 3.1:

- (a) the property of each of London Ltd., Truro and IHGP continues to be the property of London Amalco;
- (b) London Amalco continues to be liable for the obligations of each of London Ltd., Truro and IHGP;
- (c) any existing cause of action, claim or liabilities to prosecution of London Ltd., Truro and IHGP is unaffected;
- (d) any civil, criminal or administrative action or proceeding pending by or against any of London Ltd., Truro or IHGP may be continued to be prosecuted by or against London Amalco; and
- (e) a conviction against, or ruling, order or judgment in favour of or against, any of London Ltd., Truro or IHGP may be enforced by or against London Amalco.

**ARTICLE 5**  
**CONDITIONS PRECEDENT**

**5.1**            **Conditions to the Plan of Arrangement**

The implementation of this Arrangement shall be conditional upon the fulfilment of all of the conditions set forth below by no later than June 30, 2012, except to the extent that the REIT and IOT waive said conditions or extend the time period for the fulfilment thereof:

- (a) the Interim Order shall not have been set aside or modified in a manner unacceptable to the REIT and IOT acting reasonably, on appeal or otherwise;
- (b) each of the IOT Resolution and the REIT Resolution shall have been approved at the Meeting by the required vote;
- (c) the Final Order shall have been granted in form and substance satisfactory to the REIT and IOT acting reasonably, and shall not have been set aside or modified in a manner unacceptable to the REIT or IOT, acting reasonably, on appeal or otherwise;
- (d) the absence of any changes with respect to the income tax laws or policies of Canada or to other regulatory laws or policies of Canada that would have a material adverse effect on the transactions contemplated by the Arrangement or the anticipated results;
- (e) the absence of any temporary restraining order, preliminary or permanent injunction, or other judgment, order or decree issued by any court of competent jurisdiction or other legal restraint or prohibition that has the effect of preventing the consummation of the Arrangement; and
- (f) all third party and other consents, waivers, permits, exemptions, orders, approvals, agreements and amendments and modifications to agreements, indentures or arrangements as are considered

necessary or desirable by the REIT or IOT, in their sole discretion, shall have been obtained or received on terms that are satisfactory to the REIT and IOT.

If the above stipulated conditions are not met and/or waived by the REIT and IOT within the specified time period, the Effective Date shall not occur and the Arrangement and the Final Order shall cease to have any effect.

## **ARTICLE 6** **AMENDMENTS**

### **6.1**            **Amendment**

(a)        The REIT or IOT may amend, modify and/or supplement this Plan of Arrangement at any time and from time to time prior to the Effective Date, including, for certainty, to adjust the date or dates and times on which the steps of the Arrangement are effective, provided that each such amendment, modification and/or supplement must be: (i) set out in writing; (ii) filed with the Court and, if made following the Meeting, approved by the Court; and (iii) communicated to the Unitholders if and as required by the Court.

(b)        Any amendment of, modification to or supplement to this Plan of Arrangement may be proposed by the REIT or IOT at any time prior to or at the Meeting with or without any other prior notice or communication, and if so proposed and accepted by the Unitholders voting at the Meeting, shall become part of this Plan of Arrangement for all purposes.

(c)        Any amendment, modification or supplement to this Plan of Arrangement may be proposed by the REIT or IOT after the Meeting but prior to the Effective Date, and any such amendment, modification or supplement that is approved by the Court following the Meeting shall be effective and shall become part of the Plan of Arrangement for all purposes.

## SCHEDULE 1

### LONDON AMALCO SHARE PROVISIONS

*Dividends.* The holders of common shares shall be entitled to receive dividends and London Amalco shall pay dividends thereon, as and when declared by the board of directors of London Amalco out of moneys properly applicable to the payment of dividends, in such amount and in such form as the board of directors may from time to time determine, and all dividends which London Amalco may declare on the common shares shall be declared and paid in equal amounts per share on all common shares at the time outstanding.

*Dissolution.* In the event of the dissolution, liquidation or winding-up of London Amalco, whether voluntary or involuntary, or any other distribution of assets of London Amalco among its shareholders for the purpose of winding up its affairs, the holders of the common shares shall be entitled to receive the remaining property and assets of London Amalco.

*Voting Rights.* The holders of the common shares shall be entitled to receive notice of and to attend all meetings of the shareholders of London Amalco and shall have one vote for each common share held at all meetings of the shareholders of London Amalco.

## SCHEDULE B

### **RESOLUTION OF THE SOLE HOLDER OF VOTING UNITS OF INNVEST OPERATIONS TRUST**

WHEREAS INNVEST OPERATIONS TRUST ("IOT") proposes to implement a reorganization, including certain transactions to be effected by way of a plan of arrangement (the "Plan of Arrangement") pursuant to the *Canada Business Corporations Act*, the declaration of trust governing the business and affairs of IOT (the "IOT Declaration of Trust") and the *Trustee Act* (Ontario), resulting in, among other things, a merger of IOT into InnVest Real Estate Investment Trust (the "REIT"), which Plan of Arrangement will be substantially in the form attached as Schedule A to the management information circular (the "Circular") of IOT and the REIT dated December 31, 2011;

AND WHEREAS the trustees of IOT propose to the amend and restate the IOT Declaration of Trust, substantially as described in the Circular, in order to adopt a simplified form of declaration of trust more appropriate for a wholly-owned subsidiary of the REIT, which IOT will be following the Plan of Arrangement;

AND WHEREAS in accordance with the IOT Declaration of Trust, the undersigned, being the sole holder of the voting trust units of IOT, wishes to pass the following resolutions in writing in lieu of passing them at a meeting of unitholders of IOT;

NOW THEREFORE BE IT RESOLVED THAT:

1. the Reorganization (as such term is defined in the Circular) and the Plan of Arrangement, substantially in the form attached as Schedule A to the Circular, as such Plan of Arrangement may be modified or amended in accordance with its terms, are hereby ratified, authorized, confirmed, approved and adopted;
2. the amendment and restatement as of the Effective Date (as defined in the Circular) of the IOT Declaration of Trust, substantially on the terms and in the form of the draft second amended and restated IOT Declaration of Trust accompanying the Circular, is hereby authorized and approved;
3. the trustees of the IOT (the "Trustees") are hereby authorized to enter into, execute, deliver, authorize, confirm, approve or adopt an amended and restated IOT Declaration of Trust, substantially as described in the Circular, with such modifications thereto which, in the opinion of the Trustees, are not prejudicial to the Unitholders and are necessary or desirable, such determination to be conclusively evidenced by the execution and delivery by the Trustees of such amended and restated IOT Declaration of Trust;
4. any one Trustee or officer of IOT is hereby authorized to enter into, execute or cause to be executed on behalf of IOT to prepare and deliver or cause to be prepared and delivered all such other documents, agreements and instruments, or cause to be done all such other acts and things, as such Trustee or officer shall determine to be necessary or desirable in order to carry out the intent of the foregoing resolutions and the matters authorized thereby, such determination to be conclusively evidenced by the execution or preparation and delivery of such document, agreement or instrument or the doing of any such act or thing; and
5. notwithstanding that this resolution has been passed by the sole holder of voting trust units of IOT, or that the Plan of Arrangement has been approved by the Ontario Superior Court of Justice, the Trustees are hereby authorized and empowered without further notice to or approval of the unitholders of IOT to:

(a) modify the specific steps involved in the Reorganization (including, for certainty, in the Plan of Arrangement) or otherwise amend the Reorganization (including, for certainty, the Plan of Arrangement), to the extent permitted by the Plan of Arrangement; (b) determine the timing and arrange for the implementation of the Reorganization (including, for certainty, the Plan of Arrangement), to the extent permitted by the Plan of Arrangement; (c) decide not to proceed with the Reorganization (including, for certainty, the Plan of Arrangement) or the amendment and restatement of the IOT Declaration of Trust; and (d) revoke this resolution before it is acted on.

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The undersigned, being the sole holder of voting trust units of INNVEST OPERATIONS TRUST, passes the foregoing resolution.

DATED December 31, 2011.

**INNVEST MASTER GP LTD., in its capacity  
as general partner of INNVEST MASTER LP**

by (signed) *Tamara L. Lawson*

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Tamara L. Lawson  
Chief Financial Officer and  
Corporate Secretary

**SCHEDULE C**

**INTERIM ORDER**

Commercial List File No. CV-11-9517-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(Commercial List)**

THE HONOURABLE ) FRIDAY, THE 23<sup>rd</sup> DAY  
MR. JUSTICE BROWN ) OF DECEMBER, 2011

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(Commercial List)**



**IN THE MATTER OF AN APPLICATION UNDER SECTION 192 OF THE CANADA  
BUSINESS CORPORATIONS ACT, R.S.C. 1985, C. C-44, AS AMENDED, AND  
RULES 14.05(2) AND 14.05(3) OF THE RULES OF CIVIL PROCEDURE**

**AND IN THE MATTER OF A PROPOSED ARRANGEMENT INVOLVING INNVEST  
REAL ESTATE INVESTMENT TRUST, INNVEST HOTELS GP LTD., INNVEST  
PROPERTIES LONDON LTD., INNVEST PROPERTIES TRURO INC., IOT TRUSTEE  
CORP., INNVEST HOTELS TRUSTEE CORP., INNVEST OPERATIONS TRUST and  
THEIR RESPECTIVE UNITHOLDERS AND SHAREHOLDERS**

**INNVEST REAL ESTATE INVESTMENT TRUST, INNVEST HOTELS GP LTD.,  
INNVEST PROPERTIES LONDON LTD., INNVEST PROPERTIES TRURO INC., IOT  
TRUSTEE CORP., INNVEST HOTELS TRUSTEE CORP. AND INNVEST  
OPERATIONS TRUST**

Applicants

**INTERIM ORDER**

**THIS MOTION**, made without notice by the Applicants, InnVest Real Estate Investment Trust (the "REIT"), InnVest Hotels GP Ltd., InnVest Properties London Ltd., InnVest Properties Truro Inc., IOT Trustee Corp., InnVest Hotels Trustee Corp. and InnVest Operations Trust ("IOT") for an interim order for advice and directions pursuant to section 60 of the *Trustee Act*, R.S.O. 1990, c. T. 23, as amended, section 192 of the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended (the "CBCA"), the third amended and restated declaration of trust dated December 31, 2010 governing the REIT (the "REIT Declaration of Trust"), and the amended and restated

declaration of trust dated December 31, 2010 governing IOT (the "IOT Declaration of Trust") was heard this day at 330 University Avenue, Toronto, Ontario.

**ON READING** the Notice of Motion herein, the Affidavit of Tamara L. Lawson sworn December 16, 2011 (the "Lawson Affidavit"), including the Plan of Arrangement, which is attached as Schedule A to the draft management information circular (the "Information Circular"), which is attached as Exhibit A to the Lawson Affidavit, and upon hearing the submissions of counsel for the Applicants and on being advised that the Director appointed under the CBCA (the "Director") does not consider it necessary to appear:

**Definitions**

1. **THIS COURT ORDERS** that all definitions used in this Interim Order shall have the meaning ascribed thereto in the Information Circular or otherwise as specifically defined herein.

**The Meeting**

2. **THIS COURT ORDERS** that, in accordance with Article 6 of the REIT Declaration of Trust and in accordance with Article 6 of the IOT Declaration of Trust, the REIT and IOT are permitted to call, hold and conduct a special meeting (the "Meeting") of the unitholders of the REIT (the "REIT Unitholders") and of the unitholders of IOT (the "IOT Unitholders" and together with the REIT Unitholders, the "Unitholders"), respectively, at St. Andrew's Club & Conference Centre, 150 King Street West, 16th Floor (Conservatory Suite) on February 23, 2012 at 4:00 p.m. (Toronto time) in order for the Unitholders to consider and, if deemed advisable, pass the Special Resolutions (which is comprised of the REIT Resolution and the IOT Resolution), the text of which is

set out at "Reorganization – Unitholder Approval of the Reorganization" in the Information Circular to, among other things, authorize, adopt and approve the Reorganization, including the Arrangement and the Plan of Arrangement.

3. **THIS COURT ORDERS** that the Meeting shall be called, held and conducted in accordance with the notice of meeting of Unitholders, which accompanies the Information Circular (the "**Notice of Meeting**"), the REIT Declaration of Trust and the IOT Declaration of Trust, subject to what may be provided hereafter and subject to further order of this Honourable Court.

4. **THIS COURT ORDERS** that, in accordance with Section 6.7 of the REIT Declaration of Trust and Section 6.7 of the IOT Declaration of Trust, the record date (the "**Record Date**") for determination of the Unitholders entitled to notice of, and to vote at, the Meeting shall be the close of business on January 19, 2012.

5. **THIS COURT ORDERS** that, subject to the REIT Declaration of Trust and the IOT Declaration of Trust, the only persons entitled to attend or speak at the Meeting shall be:

- (a) the Unitholders or their respective proxyholders,
- (b) the officers, trustees, auditors and advisors of the REIT;
- (c) the officers, trustees, auditors and advisors of IOT; and
- (d) other persons who may receive the permission of the Chair of the Meeting.



6. **THIS COURT ORDERS** that, in accordance with Section 6.2 of the REIT Declaration of Trust and Section 6.2 of the IOT Declaration of Trust, the REIT or IOT may also transact such other business at the Meeting as is contemplated in the Information Circular or as otherwise may be properly before the Meeting.

**Quorum**

7. **THIS COURT ORDERS** that the Chair of the Meeting shall be determined by the REIT and IOT and that, in accordance with Section 6.4 of the REIT Declaration of Trust and Section 6.4 of the IOT Declaration of Trust, the quorum for the Meeting shall be not less than (i) in respect of the REIT, two individuals present in person, each of whom is a REIT Unitholder or a proxy holder representing a REIT Unitholder, and who in the aggregate, hold or represent by proxy not less than 25% of the total votes attached to all outstanding REIT Units, and (ii) in respect of IOT, two individuals present in person, each of whom is a holder of IOT Voting Units or IOT Non-Voting Units or a proxy holder representing such a holder, and who, in the aggregate, hold or represent by proxy not less than 25% of the votes attached to all outstanding IOT Voting Units and IOT Non-Voting Units entitled to vote at the Meeting, provided that if there is only one such holder of IOT Voting Units and IOT Non-Voting Units, such holder present in person or by proxy constitutes a meeting and a quorum for the Meeting.

**Amendments**

8. **THIS COURT ORDERS** that the Applicants are authorized to make, subject to compliance with the REIT Declaration of Trust, the IOT Declaration of Trust, the terms of the Plan of Arrangement and paragraph 8 below, such amendments, modifications or supplements to the Arrangement and the Plan of Arrangement as they

may determine without any additional notice to the Unitholders, or others entitled to receive notice under paragraph 13 hereof, and the Arrangement and Plan of Arrangement, as so amended, modified or supplemented shall be the Arrangement and Plan of Arrangement to be submitted to the Unitholders at the Meeting and shall be the subject of the Special Resolutions. Amendments, modifications or supplements may be made following the Meeting, but shall be subject to review and, if appropriate, further direction by this Honourable Court at the hearing for the final approval of the Arrangement.

9. **THIS COURT ORDERS** that, if any amendments, modifications or supplements to the Arrangement or Plan of Arrangement as referred to in paragraph 8, above, would, if disclosed, reasonably be expected to affect a Unitholder's decision to vote for or against the Special Resolutions, notice of such amendment, modification or supplement shall be distributed, subject to the REIT Declaration of Trust, the IOT Declaration of Trust and the further order of this Honourable Court, by press release, newspaper advertisement, prepaid ordinary mail, or by the method most reasonably practical in the circumstances, as the Applicants may determine.

**Amendments to the Information Circular**

10. **THIS COURT ORDERS** that the REIT or IOT are authorized to make such amendments, revisions and/or supplements to the draft Information Circular as it may determine and the Information Circular, as so amended, revised and/or supplemental, shall be the Information Circular to be distributed in accordance with paragraph 13.

**Adjournments and Postponements**

11. **THIS COURT ORDERS** that the REIT, if it deems advisable and subject to Article 6 of the REIT Declaration of Trust and the Trustees' Regulations dated May 15, 2008 adopted pursuant to the REIT Declaration of Trust (the "REIT Trustees' Regulations"), is specifically authorized to adjourn or postpone the Meeting on one or more occasions, without the necessity of first convening the Meeting or first obtaining any vote of the Unitholders respecting the adjournment or postponement, and notice of any such adjournment or postponement shall be given by such method as the REIT may determine is appropriate in the circumstances. This provision shall not limit the authority of the Chair of the Meeting in respect of adjournments or postponements.

12. **THIS COURT ORDERS** that IOT, if it deems advisable and subject to Article 6 of the IOT Declaration of Trust and the Trustees' Regulations dated December 31, 2010 adopted pursuant to the IOT Declaration of Trust (the "IOT Trustees' Resolutions"), is specifically authorized to adjourn or postpone the Meeting on one or more occasions, without the necessity of first convening the Meeting or first obtaining any vote of the Unitholders respecting the adjournment or postponement, and notice of any such adjournment or postponement shall be given by such method as IOT may determine is appropriate in the circumstances. This provision shall not limit the authority of the Chair of the Meeting in respect of adjournments or postponements.

**Notice of Meeting**

13. **THIS COURT ORDERS** that the Information Circular (including the Notice of Application and this Interim Order), the Notice of Meeting and the form of proxy, along with such amendments or additional documents as the Applicants determine are necessary or desirable and are not inconsistent with the terms of this Interim Order

(collectively, the "**Meeting Materials**"). shall be sent, in accordance with Sections 6.3, 14.2 and 14.7 of the REIT Declaration of Trust and in accordance with Sections 6.3, 14.2 and 14.7 of the IOT Declaration of Trust, to:

- (a) the registered Unitholders at the close of business on the Record Date, not less than twenty-one (21) days and not more than sixty (60) days prior to the date of the Meeting, by one or more of the following methods:
  - (i) by pre-paid first class mail at the addresses of the Unitholders as they appear on the books and records of the REIT and IOT, or their respective registrars and transfer agents, at the close of business on the Record Date; or
  - (ii) by delivery, in person or by recognized courier service or inter-office mail, to the address specified in (i) above;
- (b) non-registered Unitholders by providing sufficient copies of the Meeting Materials to intermediaries and registered nominees in a timely manner, in accordance with *National Instrument 54-101* of the Canadian Securities Administrators; and
- (c) the respective trustees and auditors of the REIT and IOT by delivery in person, by recognized courier service, or by pre-paid first class mail, not less than twenty-one (21) days and not more than sixty (60) days prior to the date of the Meeting;

and that compliance with this paragraph shall constitute sufficient notice of the Meeting.

14. **THIS COURT ORDERS** that, in accordance with Section 14.3 of the REIT Declaration of Trust and Section 14.3 of the IOT Declaration of Trust, the failure by the Trustees, by accident or omission or otherwise unintentionally to give notice of the

Meeting or to distribute the Meeting Materials to any person entitled by the REIT Declaration of Trust, the IOT Declaration of Trust or this Interim Order to receive notice shall, subject to further order of this Honourable Court, not constitute a breach of this Interim Order nor shall it invalidate any resolution passed or proceedings taken at the Meeting. If any such failure is brought to the attention of the REIT or IOT, they shall use their best efforts to rectify it by the method and in the time most reasonably practical in the circumstances.

15. **THIS COURT ORDERS** that, subject to compliance with the REIT Declaration of Trust, the IOT Declaration of Trust and applicable securities laws, the Applicants are hereby authorized to make such amendments, revisions or supplements to the Meeting Materials, as they may determine ("**Additional Information**"), and that notice of such Additional Information may, subject to paragraph 9, above, be distributed by press release, newspaper advertisement, pre-paid ordinary mail, or by the method most reasonably practicable in the circumstances, as the Applicants may determine.

16. **THIS COURT ORDERS** that, subject to compliance with the REIT Declaration of Trust, the IOT Declaration of Trust and applicable securities laws, distribution of the Meeting Materials pursuant to paragraph 13 of this Interim Order shall constitute notice and good and sufficient service upon the persons described in paragraph 13 of this Interim Order of the Meeting and the within Application. Further, no other form of service of the Meeting Materials or any portion thereof need be made, or notice given or other material served in respect of these proceedings and/or the Meeting to such persons or to any other persons, except to the extent required by paragraph 9, above.

**Solicitation and Revocation of Proxies**

17. **THIS COURT ORDERS** that the REIT is authorized to use proxies at the Meeting in accordance with Section 6.8 of the REIT Declaration of Trust and the REIT Trustees' Regulations and that IOT is authorized to use proxies at the Meeting in accordance with Section 6.8 of the IOT Declaration of Trust and the IOT Trustees' Regulations, as reflected by the procedures set forth in the information Circular.

18. **THIS COURT ORDERS** that REIT Unitholders shall be entitled to revoke their proxies in accordance with Section 6.8 of the REIT Declaration of Trust and that IOT Unitholders shall be entitled to revoke their proxies in accordance with Section 6.8 of the IOT Declaration of Trust, as reflected by the procedures set forth in the Information Circular.

**Voting**

19. **THIS COURT ORDERS** that, in accordance with Section 6.7 of the REIT Declaration of Trust, the only persons entitled to vote in person or by proxy on the REIT Resolution, or such other business relating to the REIT as may be properly brought before the Meeting, shall be those REIT Unitholders who hold REIT Units as of the close of business on the Record Date.

20. **THIS COURT ORDERS** that, in accordance with Section 6.7 of the IOT Declaration of Trust, the only persons entitled to vote in person or by proxy on the IOT Resolution, or such other business relating to IOT as may be properly brought before the Meeting, shall be those IOT Unitholders who hold IOT Units as of the close of business on the Record Date.

21. **THIS COURT ORDERS** that votes shall be taken at the Meeting on the basis of one vote per unit held and that in order for the Plan of Arrangement to be implemented, subject to further Order of this Honourable Court, the Special Resolutions must, in accordance with Section 11.2 of the REIT Declaration of Trust and Section 11.2 of the IOT Declaration of Trust, be passed, with or without variation, at the Meeting by affirmative votes of not less than two-thirds (66%) of the votes cast in respect of each of the Special Resolutions at the Meeting in person or by proxy by the respective Unitholders.

22. **THIS COURT ORDERS** that, in accordance with Section 6.5 of the REIT Declaration of Trust, in respect of matters properly brought before the Meeting pertaining to items of business affecting the REIT (other than in respect of the REIT Resolution), each REIT Unitholder is entitled to one vote for each REIT Unit held.

23. **THIS COURT ORDERS** that in respect of matters properly brought before the Meeting pertaining to items of business affecting IOT (other than in respect of the IOT Resolution), each IOT Unitholder is entitled to vote in accordance with Articles 5 and 6 of the IOT Declaration of Trust.

**Hearing of Application for Approval of the Arrangement**

24. **THIS COURT ORDERS** that upon approval by the Unitholders of the Special Resolutions in the manner set forth in this Interim Order, the Applicants may apply to this Honourable Court for final approval of the Arrangement.

25. **THIS COURT ORDERS** that distribution of the Notice of Application and the Interim Order in the Information Circular, when sent in accordance with paragraph 13 shall constitute good and sufficient service of the Notice of Application and this

Interim Order and, subject to paragraph 9 above, no other form of service need be effected and no other material need be served unless a Notice of Appearance is served in accordance with paragraph 26.

26. **THIS COURT ORDERS** that any Notice of Appearance served in response to the Notice of Application shall be served on the lawyers for the Applicants, as soon as reasonably practicable, and, in any event, no less than two days before the hearing of this Application at the following address:

Davies Ward Phillips & Vineberg LLP  
44th Floor, 1 First Canadian Place  
Toronto, ON M5X 1B1

Attention: James Bunting

27. **THIS COURT ORDERS** that, subject to further order of this Honourable Court, the only persons entitled to appear and be heard at the hearing of the within application shall be: (i) the Applicants; and (ii) any person who has filed a Notice of Appearance herein in accordance with the Notice of Application, this Interim Order and the *Rules of Civil Procedure*.

28. **THIS COURT ORDERS** that any materials to be filed by the Applicants in support of the within Application for final approval of the Arrangement may be filed up to one day prior to the hearing of the Application without further order of this Honourable Court.

29. **THIS COURT ORDERS** that in the event the within Application for final approval does not proceed on the date set forth in the Notice of Application, and is



adjourned, only those persons who served and filed a Notice of Appearance in accordance with paragraph 26 shall be entitled to be given notice of the adjourned date.

**Precedence**

30. **THIS COURT ORDERS** that , to the extent of any inconsistency or discrepancy between this Interim Order and the terms of any instrument creating, governing or collateral to the, convertible debentures issued by the REIT, convertible debentures Issued by IOT, the REIT Declaration of Trust or the IOT Declaration of Trust, this Interim Order shall govern.

**Extra-Territorial Assistance**

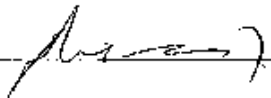
31. **THIS COURT** seeks and requests the aid and recognition of any court or any judicial, regulatory or administrative body in any province of Canada and any judicial, regulatory or administrative tribunal or other court constituted pursuant to the Parliament of Canada or the legislature of any province and any court or any judicial, regulatory or administrative body of the United States or other country to act in aid of and to assist this Honourable Court in carrying out the terms of this Interim Order.

**Variance**

32. **THIS COURT ORDERS** that the Applicants shall be entitled to seek leave to vary this Interim Order upon such terms and upon the giving of such notice as this Honourable Court may direct.

RECORDED & INDEXED  
IN COURT  
AT OREGON, OREGON  
DEC 2 6 2011

RECEIVED



A handwritten signature in black ink, appearing to be 'A. ...', written over a horizontal line.

**IN THE MATTER OF AN APPLICATION UNDER SECTION 182 OF THE CANADA  
BUSINESS CORPORATIONS ACT, R.S.C. 1985, C. C-44, AS AMENDED, AND RULES  
14.05(2) AND 14.05(3) OF THE RULES OF CIVIL PROCEDURE  
AND IN THE MATTER OF A PROPOSED ARRANGEMENT INVOLVING INVEST REAL  
ESTATE INVESTMENT TRUST, et al.**

Commercial List File No. CV-11-9517-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(Commercial List)**

Proceeding commenced at Toronto

**ORDER**

**DAVEY WARD PHILLIPS & VINEBERG LLP**  
44th Floor, 1 First Canadian Place  
Toronto, ON M5X 1B1

James D. Bunting (LSUC #482241K)  
Bryan D. McLeese (LSUC #55607C)

Tel: 416.863.0900  
Fax: 416.863.0871

Lawyers for the Applicants

SCHEDULE D

NOTICE OF APPLICATION FOR FINAL ORDER

*Cv11-9517-00CL*  
Commercial List File No.

ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)

IN THE MATTER OF AN APPLICATION UNDER SECTION 182 OF THE CANADA BUSINESS CORPORATIONS ACT, R.S.C. 1985, C. C-44, AS AMENDED, AND RULES 14.05(2) AND 14.05(3) OF THE RULES OF CIVIL PROCEDURE

AND IN THE MATTER OF A PROPOSED ARRANGEMENT INVOLVING INNVEST REAL ESTATE INVESTMENT TRUST, INNVEST HOTELS GP LTD., INNVEST PROPERTIES LONDON LTD., INNVEST PROPERTIES TRURO INC., IOT TRUSTEE CORP., INNVEST HOTELS TRUSTEE CORP., INNVEST OPERATIONS TRUST and OTHER RESPECTIVE UNITHOLDERS AND SHAREHOLDERS



INNVEST REAL ESTATE INVESTMENT TRUST, INNVEST HOTELS GP LTD., INNVEST PROPERTIES LONDON LTD., INNVEST PROPERTIES TRURO INC., IOT TRUSTEE CORP., INNVEST HOTELS TRUSTEE CORP. AND INNVEST OPERATIONS TRUST

Applicants

**NOTICE OF APPLICATION**

TO: THE RESPONDENTS

A LEGAL PROCEEDING HAS BEEN COMMENCED BY THE APPLICANTS. The claim made by the Applicants appears on the following pages.

THIS APPLICATION will come on for a hearing before a Judge presiding over the Commercial List at 330 University Avenue, Toronto on Wednesday, February 29, 2012 at 10:00 a.m. or as soon after that time as the matter can be heard.

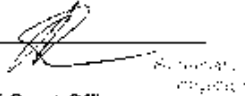
IF YOU WISH TO OPPOSE THIS APPLICATION, to receive notice of any step in the Application, or to be served with any documents in the Application, you or an Ontario lawyer acting for you must forthwith prepare a Notice of Appearance in Form 38A prescribed by the Rules of Civil Procedure, serve it on the Applicants' lawyer and file it, with proof of service, in this court office, and you or your lawyer must appear at the hearing.

IF YOU WISH TO PRESENT AFFIDAVIT OR OTHER DOCUMENTARY EVIDENCE TO THE COURT OR TO EXAMINE OR CROSS-EXAMINE WITNESSES ON THE APPLICATION, you or your lawyer must, in addition to serving your Notice of Appearance, serve a copy of the evidence on the Applicants' lawyer and file it, with proof of service, in the court office where the Application is to be heard as soon as possible, but not later than 2:00 p.m. on the day before the hearing.

IF YOU FAIL TO APPEAR AT THE HEARING, JUDGMENT MAY BE GIVEN IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO OPPOSE THIS APPLICATION BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

Date: December 13, 2011

Issued by: \_\_\_\_\_



Address of Court Office:  
330 University Avenue, 7<sup>th</sup> Floor  
Toronto, Ontario  
M5G 1E6

TO: All holders of trust units of InnVest Real Estate Investment Trust and InnVest Operations Trust

AND TO: The trustees and auditors of InnVest Real Estate Investment Trust and InnVest Operations Trust

### APPLICATION

1. The Applicants, InnVest Real Estate Investment Trust (the "REIT"), InnVest Hotels GP Ltd., InnVest Properties London Ltd., InnVest Properties Truro Inc., IOT Trustee Corp., InnVest Hotels Trustee Corp. and InnVest Operations Trust ("IOT") make application for:

- (a) an Interim Order for advice and directions pursuant to section 60 of the *Trustee Act*, R.S.O. 1990, c. T. 23, as amended ("*Trustee Act*"), section 192 of the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended (the "*CBCA*"), the amended and restated declaration of trust dated December 31, 2010 governing IOT, as it may be amended, supplemented or restated (the "*IOT Declaration of Trust*") and the third amended and restated declaration of trust dated December 31, 2010 governing the REIT, as it may be amended, supplemented or restated (the "*REIT Declaration of Trust*"), with respect to the calling, holding and conducting of a joint special meeting (the "*Meeting*") of the unitholders of IOT and the REIT (collectively, the "*Unitholders*"), in accordance with the *IOT Declaration of Trust* and the *REIT Declaration of Trust*, to consider, among other things, a plan of arrangement involving the Applicants and their respective unitholders and shareholders (the "*Arrangement*");
- (b) an order pursuant to section 192 of the *CBCA* and section 60 of the *Trustee Act* approving the *Arrangement*; and
- (c) such further and other relief as this Honourable Court deems just.

2. THE GROUNDS for the Application are:
- (a) each of InnVest Hotels GP Ltd., InnVest Properties London Ltd., InnVest Properties Truro Inc., IOT Trustee Corp. and InnVest Hotels Trustee Corp. is a corporation existing under the provisions of the CBCA with their head offices in Mississauga, Ontario;
  - (b) the REIT is an unincorporated, open-ended unit trust established under the laws of the Province of Ontario pursuant to a declaration of trust and has its head office in Mississauga, Ontario;
  - (c) IOT is an unincorporated, open-ended unit trust established under the laws of the Province of Ontario pursuant to a declaration of trust and has its head office in Mississauga, Ontario;
  - (d) the Arrangement is an "arrangement" under the meaning of section 182 of the CBCA;
  - (e) all statutory requirements under the CBCA have been fulfilled;
  - (f) the Arrangement is in the best interests of, and is fair and reasonable to, the Unitholders and the Applicants, and is put forward in good faith;
  - (g) the IOT Declaration of Trust and the REIT Declaration of Trust will be amended, subject to separate approval of the Unitholders at the Meeting, to facilitate the Arrangement;
  - (h) section 182 of the CBCA;

- (i) section 60 of the *Trustee Act*, R.S.O. 1990, c. T. 23, as amended;
- (j) the inherent jurisdiction of the Court;
- (k) rules 14.05(2), 14.05(3), 16.04(1), 16.08 and 38 of the *Rules of Civil Procedure*; and
- (l) such further and other grounds as counsel may advise and this Honourable Court may permit.

3. THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the Application:

- (a) such Interim Order as may be granted by this Honourable Court;
- (b) the Affidavit of Tamara L. Lawson, to be sworn, and the exhibits attached thereto and other materials referred to therein;
- (c) supplementary affidavit material, to be sworn, and the exhibits thereto and other materials referred to therein; and
- (d) such further and other materials as counsel may advise and this Honourable Court may permit.

Date of Issue: December 13, 2011

Davies Ward Phillips & Vineberg LLP  
Barristers and Solicitors  
1 First Canadian Place, 44th Floor  
Toronto, ON M5X 1B1

James D. Bunting (LSUC #48244K)  
Bryan D. McLesse (LSUC #55607C)  
Tel: 416.863.0900  
Fax: 416.863.0871

Lawyers for the Applicants

*Cv-11-9517-00 CC*  
Commercial List File No:

**IN THE MATTER OF AN APPLICATION UNDER SECTION 192 OF THE CANADA  
BUSINESS CORPORATIONS ACT, R.S.C. 1985, C. C-44, AS AMENDED, AND RULES  
14.05(2) AND 14.05(3) OF THE RULES OF CIVIL PROCEDURE  
AND IN THE MATTER OF A PROPOSED ARRANGEMENT INVOLVING INNVEST REAL  
ESTATE INVESTMENT TRUST, et al.**

**ONTARIO  
SUPERIOR COURT OF JUSTICE-  
(COMMERCIAL LIST)**

Proceeding commenced at Toronto

**NOTICE OF APPLICATION**

**Davies Ward Phillips & Vineberg LLP**  
44th Floor, 1 First Canadian Place  
Toronto, ON M5X 1B1

James D. Bunting (LSUC #48244K)  
Bryan D. McLesse (LSUC #55607C)

Tel: 416.863.0900  
Fax: 416.863.0871

Lawyers for the Applicants



