INNVEST REAL ESTATE INVESTMENT TRUST

FIRST QUARTER REPORT 2015

/ELEVATING PERFORMANCE

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INTRODUCTION

InnVest Real Estate Investment Trust ("InnVest" or the "REIT") is an unincorporated open-ended real estate investment trust owning interests in a portfolio of hotels across Canada. The unaudited interim condensed consolidated financial statements ("Interim Financial Statements") and financial data included in this management's discussion and analysis ("MD&A") reflect the consolidated financial results of InnVest. This MD&A is dated May 7, 2015.

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

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

OUR BUSINESS

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

Hotel Real Estate Owner

As at March 31, 2015, InnVest's portfolio comprised 108 hotel properties (13,860 rooms) as well as one additional hotel (1,363 rooms) in which InnVest owns a 20% interest. During the first quarter of 2015, InnVest has acquired a 20% interest in one full-service hotel and sold 2 hotels. For the 2014 year, InnVest acquired one full-service hotel and sold 19 hotels. InnVest's "same-hotel" metrics for the three months ended March 31, 2015 are based on the portfolio of 107 hotels owned over the entire periods presented, excluding acquisitions and divestitures completed during the periods presented.

Full-service hotels generate higher revenues per room given higher average daily rates charged and greater ancillary services sold. As a result, full-service hotels in the portfolio accounted for approximately 64% of hotel revenues generated during three months ended March 31, 2015 (2014 – 63%). Approximately 77% of hotel revenues (2014 – 78%) were generated from room revenues during this period with the remainder being generated from food and beverage sales and other services including meeting space rental, parking, retail operations and internet and telephone use.

InnVest's hotels are operated by five hotel management companies which earn base and incentive fees related to the revenues and profitability of each hotel. As at March 31, 2015, Westmont Hospitality Canada Limited ("Westmont"), a division of one of the largest privately held managers of hotels in the world, manages the majority of InnVest's hotels (97 hotels). InnVest also partners with other brand managers including Delta Hotels Limited (5 hotels), Fairmont Hotels Inc. (4 hotels), Hilton Canada Co. (2 hotels) and Hyatt Hotels of Canada Inc. (1 hotel), each an experienced hotel manager. All but one hotel (Les Suites, Ottawa) are operated under widely-recognized brands. While independent hotels may do well in strong market locations, we believe that most travellers prefer the consistent service and quality associated with recognized brands.

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

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

Retail and Retirement Home Business

At March 31, 2015, InnVest owns one retail complex as well as one retirement home. These real estate interests are adjacent to an owned hotel and were acquired as part of the hotel's acquisition. InnVest does not consider these assets to be core to its business and intends to divest of these assets. During the three months ended March 31, 2015, this line of business contributed $0.2 million in revenues (2014 – $0.2 million).

Franchise Business

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

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

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

HOTEL MANAGEMENT DIVERSIFICATION[1]

OUTER CIRCLE
Q1 2015 Hotel Revenues %
- **56%** Westmont
- **11%** Delta
- **17%** Fairmont
- **7%** Hilton
- **9%** Hyatt

INNER CIRCLE
Q1 2015 Hotel GOP %
- **70%** Westmont
- **5%** Delta
- **20%** Fairmont
- **−3%** Hilton
- **8%** Hyatt

HOTEL SERVICE CATEGORY DIVERSIFICATION[1]

OUTER CIRCLE
Q1 2015 Hotel Revenues %
- **64%** Full-Service
- **36%** Limited- and Focused-Service

INNER CIRCLE
Q1 2015 Hotel GOP %
- **44%** Full-Service
- **56%** Limited- and Focused-Service

HOTEL GEOGRAPHIC DIVERSIFICATION[1]

OUTER CIRCLE
Q1 2015 Hotel Revenues %
- **35%** Ontario
- **18%** Quebec
- **10%** Atlantic
- **37%** Western[2]

INNER CIRCLE
Q1 2015 Hotel GOP %
- **42%** Ontario
- **11%** Quebec
- **0%** Atlantic
- **47%** Western[2]

(1) Based on portfolio as at March 31, 2015.
(2) Alberta accounted for 20.2% of Hotel Revenues in 2015 (2014 – 24.7%) and 25.5% of Hotel GOP (2014 – 40.0%)

KEY PERFORMANCE INDICATORS

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

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

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

OUR STRATEGY

The last two years have demonstrated significant progress in achieving two key objectives: repositioning our property portfolio, and strengthening InnVest's financial position. Looking ahead, these two objectives remain a primary focus for InnVest and the foundation of our value enhancing strategies going forward. Building on this foundation, we will also focus on growth with an objective of developing the premier lodging portfolio in the Canadian industry. Our growth strategy includes organically growing our income, return on investments from prudent capital allocation and disciplined growth through property divestitures and acquisitions.

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

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

Management is currently reviewing InnVest's longer-term strategic objectives following the addition of new leadership and the internalization of the asset management platform.

Initiative	Objective	Year-to-Date Accomplishments
Portfolio Composition: *Investing and divesting as appropriate to drive superior return on investment.*	We believe one of the keys to success in the lodging industry is to own a well-diversified portfolio made up of high quality competitive assets in each of the markets where we are represented – hotels that will outperform in periods of growth and that are better insulated from declines during economic downturns. Optimal property attributes include high barrier to entry city-centre markets as well as highly competitive assets in tertiary markets.	• The first quarter of 2015 marked the first full quarter of ownership of the Hyatt Regency Vancouver which gave InnVest its first presence in the growing downtown Vancouver market. This addition expanded InnVest's brand and management relationships and enhanced its geographical diversification. • Acquired a 20% interest in the Fairmont Royal York Hotel ("Royal York Hotel") in downtown Toronto during the first quarter of 2015, expanding our presence in this high barrier to entry market.
	Part of optimizing our portfolio involves investing in our assets to ensure they are competitive within their markets. We have made significant investments in our properties in the past two years including the renovation of InnVest's 58 core Comfort Inn hotels and continue to see meaningful opportunities to improve the competitive positioning of other hotels within the portfolio.	• The Comfort Inn portfolio (renovated in 2013 and 2014) experienced 15.2% growth in room revenues during the first quarter of 2015 and 74.4% improvement in hotel gross operating profit as compared to the prior year.
	For 2015, management expects to invest approximately $60 to $80 million in its existing portfolio including: • The final phase of room renovations at its two full-service hotels in Calgary – the Fairmont Palliser and the Sheraton Suites Eau Claire. • Extensive renovations at the Delta London Armouries and the Delta Beausejour in Moncton following licence renewals for these hotels. • Management is reviewing a number of additional renovations to address upcoming franchise licence renewals and repositioning opportunities across the portfolio. • These investments are expected to be funded by net proceeds from the remaining hotel sales as well as available liquidity. The ultimate extent and timing of InnVest's capital investments will depend on the assessment of return expectations, market considerations (timed to minimize displacement where possible) and alternative uses for our capital.	• Invested $10.1 million during the first quarter of 2015 and expect to invest between $60 million and $80 million in 2015 depending on the timing of certain projects. – Completed the final phase of room renovations at Calgary's Fairmont Palliser and the Sheraton Suites Eau Claire early in the second quarter of 2015; – Renovations are underway at the Delta London Armouries; renovations will be ongoing through the second quarter; and – Completing lobby renovations at Moncton's Delta Beausejour in Q2 2015 with room renovations to begin in the fall.
	We will also look to recycle capital from the sale of non-core asset sales to improve the overall quality and diversification of the portfolio. • Remaining non-core assets (7 hotels) are expected to generate gross proceeds of over $40 million (net proceeds of approximately $15 million, after mortgage debt repayment).	• Sold 2 non-core assets in the first quarter of 2015 for aggregate gross proceeds of $15.3 million (net proceeds of $6.0 million).

Initiative	Objective	Year-to-Date Accomplishments
Growth: *Growing our business*	Capitalize on InnVest's recently internalized asset management platform.	• Hired new CEO in January 2015 • InnVest internalized its asset management function late in 2014 enabling it to have direct oversight of the portfolio • Hired key resources in 2015 as we develop our internal team and capabilities
	Evaluate acquisitions to grow and diversify the portfolio.	• Purchased a 20% interest in the Royal York Hotel in February 2015.
	Build on operating progress achieved by leveraging our renovated properties and experienced internalized asset management platform to shift business to higher-margin segments and capture greater market share amidst positive industry trends.	• Hotel GOP margins strengthened 190 basis points in the first quarter of 2015. • Aided by InnVest's active asset management oversight, the Hyatt Regency Vancouver grew its RevPAR Index by over 10 points during the first quarter.
Financial Health: *Further strengthening the balance sheet and financial position*	Maintain a strong balance sheet with appropriate leverage and staggered debt maturities in order to minimize InnVest's cost of capital and provide adequate financial flexibility to withstand market cycles	• Total liquidity of $77.6 million at March 31, 2015 as compared to $119.1 million at December 31, 2014. Given the portfolio's seasonality, liquidity is typically lowest during the first quarter. Year-end liquidity also included capital raised to fund the Royal York Hotel acquisition in early 2015.
	• Target leverage reduction below 60% (debt to gross asset value) • Further leverage reduction is contemplated over the longer term.	• Improved debt to gross asset value leverage to 60.7% at March 31, 2015 from 62.0% at December 31, 2014 and 66.9% at March 31, 2014.
	• Reduce reliance on convertible debentures.	• Early redemption of our $36.4 million Series D convertible debentures ("Series D Debentures") which resulted in approximately 90% of the Series D Debentures converting to equity.
	• Capitalize on the availability of capital and historically low interest rates to refinance debt, lowering the weighted average interest rate and extending our average term to maturities.	• Finalized an $80 million 10-year mortgage on the Hyatt Regency Vancouver at a fixed interest rate of 3.75%. • Approximately $218 million in mortgages mature in 2015 with a weighted average interest rate of 5.2%. Management is actively working to refinance this debt at lower interest rates to further enhance cash flows and extend its debt maturity profile from 2.6 years.
	• Lower payout ratio to improve financial flexibility	• 89.3% trailing payout ratio as compared to 88.4% at December 31, 2014, reflecting the seasonality of the business and the issuance of equity in November 2014. Improvements are expected through the balance of the year.

OUTLOOK

According to the Conference Board of Canada, economic growth for Canada is forecast to be 1.9% in 2015 and 2.2% in 2016. While growth is forecast across most provinces in Canada, Alberta's economy is being negatively impacted by the decline in crude oil prices. Of note, British Columbia and Manitoba are expected to exceed the national average growth rate in 2015 which would benefit our newest acquisition in Vancouver and our newly renovated full-service hotel in Winnipeg. The reduction in retail gas prices due to lower oil prices, and the decline in the Canadian dollar compared to the U.S. dollar, are expected, over time, to mitigate the negative impact of low crude oil prices on the overall Canadian economy as more Canadians choose to travel domestically. Overnight U.S. travel to Canada is forecast to increase 3.5% in 2015 compared to only a 1.2% increase in 2014. Our broad, diversified portfolio of quality assets provides us with appropriate risk mitigation in the face of regional disparities. In addition, industry fundamentals in the Canadian hotel business are expected to strengthen in 2015. According to HVS Global Hospitality Services, Canadian national RevPAR is forecasted to grow 3.8% in 2015 with national hotel occupancy rising to 65.4%, up from 63.8% in 2014.

We expect earnings to continue to grow through the balance of 2015 as our renovated hotels benefit from completed capital investments, our newly acquired hotels make a full year's contribution to our results, and our core portfolio capitalizes on positive industry fundamentals. However, the continuing impact of lower crude oil prices on the overall Canadian economy could constrain our growth over the near term.

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

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

Q1 2015 HIGHLIGHTS

Strategic Highlights

- Internalized asset management team and appointed a new CEO;
- Acquired a 20% interest in the Royal York Hotel in Toronto for $37.3 million (based on $186.5 million purchase price);
- Sold two non-core assets for aggregate gross proceeds of $15.3 million (net proceeds of $14.4 million, inclusive of a $8.3 million finance lease receivable).
- Reduced leverage from 62.0% at the end of 2014 to 60.7% at March 31, 2015.

Operating Highlights

- Same-hotel performance up strongly while overall quarterly results impacted by the strategic sale of 21 non-core properties since the beginning of 2014;
- Same-hotel RevPAR up 2.3% through a combination of rate and occupancy gains;
- Same-hotel GOP up 10.4% with same-hotel margin up 120 basis points to 14.4%;
- Overall GOP increased $1.7 million or 12.4% and GOP margins improved 200 basis points due primarily to sale of low yield non-core assets;
- The portfolio of 58 Comfort Inns renovated since 2013 grew room revenue by 15.2% and Hotel GOP by 74.4%; and
- FFO and AFFO and per unit amounts strengthen from prior year's first quarter due to improved same-hotel performance and sale of low yield non-core properties. Per unit amounts in 2015 impacted by the 26% increase in the weighted average number of units outstanding.

FINANCIAL HIGHLIGHTS

	Three Months Ended March 31		
	2015	2014	Variance %
Revenues	**$ 110,798**	$ 114,431	(3.2%)
Gross operating profit (GOP)[1]	**15,346**	13,653	12.4%
Gross operating margin	**13.9%**	11.9%	16.1%
Net loss and comprehensive loss	**(23,233)**	(34,871)	33.4%
Funds from operations (FFO)[1]	**(3,404)**	(4,582)	25.7%
Adjusted funds from operations (AFFO)[1]	**(5,200)**	(7,630)	31.8%
Distributions declared	**$ 11,932**	$ 9,378	27.2%
Per unit diluted:			
Net loss and comprehensive loss	**$ (0.196)**	$ (0.372)	47.3%
FFO	**$ (0.029)**	$ (0.049)	40.8%
AFFO	**$ (0.044)**	$ (0.081)	45.7%
Distributions	**$ 0.0999**	$ 0.0999	–

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

The following discussion summarizes InnVest's performance for the three months ended March 31, 2015 as compared to 2014. The first quarter is historically InnVest's lowest earnings period. Given the seasonality of the portfolio, the first quarter is not reflective of anticipated results for the annual period. Refer to *Quarterly Results – Seasonality*.

Revenues

	Three Months Ended March 31		
	2015	2014	Variance %
Hotel	**$ 110,619**	$ 114,235	(3.2%)
Other real estate properties	**179**	196	(8.7%)
Revenues	**$ 110,798**	$ 114,431	(3.2%)

InnVest's principal business is the ownership of hotel real estate (see detailed discussion below). The sale of non-core low yield hotels in 2014 and early 2015 contributed to a decline in overall revenues during the three months ended March 31, 2015 compared to the prior year's first quarter. Same-hotel revenue growth was 1.0%. Revenues from other real estate properties relate to a retail complex and retirement home adjacent to an existing hotel.

HOTEL REVENUES

	Three Months Ended March 31		
	2015	2014	Variance %
Room	**$ 84,607**	$ 88,982	(4.9%)
Non-room	**26,012**	25,253	3.0%
Hotel Revenues	**$ 110,619**	$ 114,235	(3.2%)

Hotel revenues consist primarily of revenue generated from room occupancy. Non-room revenues include food and beverage services and other miscellaneous revenue streams associated with hotel operations such as meeting space rentals, parking, retail operations and telephone use.

Same-hotel growth in revenues during the three months ended March 31, 2015 was offset by revenue declines resulting from the sale of non-core low yield properties over the prior twelve months. Since the beginning of 2014, 21 non-core low yield assets (2,679 rooms) have been sold (two in 2015 and 19 in 2014). This strategic reduction in hotels led to overall hotel revenues declining 3.2% or $3.6 million to $110.6 million. The decrease in revenues was partially offset by revenues related to one hotel acquired late in 2014.

Same-hotel RevPAR during the three months ended March 31, 2015 improved 2.3% with growth in occupancy and average daily rate. RevPAR growth was aided by revenue displacement caused by renovations across the portfolio in 2014. This was somewhat mitigated by ongoing disruption caused by renovations at select hotels in 2015 or still recovering from renovations undertaken in 2014.

Same-Hotel Portfolio	**Occupancy**	Variance to 2014	**ADR**	Variance to 2014	**RevPAR**	Variance to 2014
Ontario	**57.6%**	0.1 pts	**$ 111.95**	3.5%	**$ 64.46**	3.7%
Quebec	**56.7%**	2.4 pts	**113.15**	0.7%	**64.20**	5.3%
Atlantic	**43.5%**	(1.0 pts)	**107.38**	1.1%	**46.67**	(1.3%)
Western	**56.8%**	0.9 pts	**155.86**	(2.0%)	**88.59**	(0.4%)
Total	**55.0%**	0.6 pts	**$ 120.81**	1.2%	**$ 66.45**	2.3%

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

ROOM REVENUES

Same-hotel room revenues during the three months ended March 31, 2015 improved $1.6 million or 2.2%. Notably, room revenue growth achieved from the Comfort Inn assets which were renovated in 2013 and 2014 grew 15.2% as compared to the prior year. The sale of non-core low yield properties since the beginning of 2014 contributed to overall declines of $12.0 million compared to the prior year's first quarter. The acquisition of the Hyatt Regency Vancouver in December 2014 contributed $6.0 million in incremental room revenues.

Room revenues for the three months ended March 31, 2015 are net of $1.9 million (2014 – $1.9 million) of costs associated with third-party loyalty programs.

			Three Months Ended March 31, 2015		
				Variance to Prior Period	
	Number of Hotels	Number of Rooms	**Room Revenue**	$	%
Core Portfolio:					
Ontario	48	5,620	**$ 32,011**	$ 1,066	3.4%
Quebec	22	2,488	**13,909**	490	3.7%
Atlantic	16	1,785	**7,564**	(149)	(1.9%)
Western	16	2,670	**20,713**	(100)	(0.5%)
Total Core Portfolio	102	12,563	**74,197**	1,307	1.8%
Non-Core Portfolio	5	653	**3,173**	325	11.4%
Same-Hotel Portfolio	107	13,216	**77,370**	1,632	2.2%
Acquisition	1	644	**6,010**	6,010	nm
Total Current Portfolio	108	13,860	**83,380**	7,642	10.1%
2015 dispositions	2	296	**1,227**	(480)	nm
2014 dispositions	19	2,383	**–**	(11,537)	nm
			$ 84,607	$ (4,375)	(4.9%)

"nm" – not meaningful

Total Current Portfolio analysis for the three months ended March 31, 2015:

- Experienced growth across the Ontario region driven by strength in Northern Ontario, Sudbury and Ottawa due to renovations completed in prior years.
- Quebec region up strongly due primarily to renovations across the Comfort Inn portfolio. This growth offset year over year declines in Quebec City.
- Performance across the Atlantic region was impacted by poor weather and declining oil market which offset growth following completed renovations.
- Solid performance at the Delta Winnipeg following completed renovations offset by softening demand in Alberta due to the declining oil market and renovations underway at our two full service hotels in Calgary.

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

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

- Phased renovations underway in the first half of 2014 and during the first quarter of 2015 at two hotels in Calgary (the Fairmont Palliser and the Sheraton Calgary Eau Claire). Renovations to both hotels were completed in the second quarter of 2015.
- Multi-year renovation to all guestrooms and public space at the Delta Winnipeg was completed in the third quarter of 2014.
- Renovations to all guestrooms and public space at the Delta Prince Edward were completed through the first half of 2014.
- Rebranded one hotel to a Holiday Inn in the fourth quarter of 2014 following extensive renovations through the year.
- Started phased renovations to the Delta London Armouries in the first quarter of 2015. The first phase of guestrooms is expected to be completed in the second quarter of 2015. Remaining guestrooms and public space renovations will resume in the fall of 2015.

The following table summarizes operating results across our Core Portfolio and serves to highlight the displacement experienced while renovation work is underway, as well as the growth achieved-to-date following the completion of renovations. Moreover, the table highlights that revenues for renovated Comfort Inn hotels generally take a few quarters to ramp-up. Notably, the 27 Comfort Inn hotels which completed renovations in 2014 increased revenue by 16.7% for the three months ended March 31, 2015. We continue to see meaningful growth from hotels renovated for more than one year as highlighted by the 14.1% first quarter revenue growth from Comfort Inn hotels renovated in 2013. This growth rate significantly exceeds results achieved from hotels which have not been renovated, highlighting the return opportunities provided by internal investments within the existing portfolio.

The first quarter revenue reduction across other Core hotels is largely reflective of oil-related declines across the Alberta portfolio and other impacted markets, specifically Saint John, New Brunswick and St. John's, Newfoundland as well as reduced performance in Quebec City owing to reduced group demand as compared to the prior year. Excluding hotels in these markets, room revenue from other Core hotels would have improved 1.4% during the three months ended March 31, 2015.

			Three Months Ended March 31, 2015	Variance to Prior Year Comparative Period	
	Number of Hotels	Number of Rooms	**Room Revenue $**	$	%
Core Comfort Inn Portfolio					
Renovated in 2013(1)	31	2,502	**$ 11,728**	$ 1,449	14.1%
Q1 2014(1) renovations	4	295	**1,562**	442	39.5%
Q2 2014(1) renovations	11	686	**3,432**	733	27.2%
Q3 2014(1) renovations	1	146	**371**	(59)	(13.7%)
Q4 2014(1) renovations	11	842	**3,448**	144	4.4%
Renovated in 2014	27	1,969	**8,813**	1,260	16.7%
Renovated Core Comfort Portfolio	58	4,471	**20,541**	2,709	15.2%
Full service Core hotels under renovations:					
2014 renovations	3	747	**4,189**	625	17.5%
2014 & 2015 renovations	2	728	**8,577**	(355)	(4.0%)
2015 renovations	1	220	**1,092**	(365)	(25.1%)
Other Core hotels	38	6,397	**39,798**	(1,307)	(3.2%)
Total Core Portfolio(2)	102	12,563	**$ 74,197**	$ 1,307	1.8%

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

NON-ROOM REVENUES

The sale of food and beverage represented over 80% of the non-room revenue earned in 2015 and 2014. Non-room revenues increased $0.8 million (3.0%) in 2015. The acquisition of one hotel in December 2014 contributed to improved non-room revenues of $4.3 million on a year-over-year basis with the divestiture of 21 hotels since 2014 partially offsetting this increase. Same-hotel non-room revenues declined $0.6 million (2.7%) in 2015 due to reduced group activity in Quebec City and Prince Edward Island.

Hotel and Other Real Estate Properties Expense

	Three Months Ended March 31		
	2015	2014	Variance %
Hotel	**$ 95,117**	$ 100,469	(5.3%)
Other real estate properties	**335**	309	8.4%
Hotel and other real estate properties	**$ 95,452**	$ 100,778	(5.3%)

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

Hotel expenses decreased $5.3 million (5.3%) in 2015, primarily reflecting the elimination of costs associated with assets sold. Same-hotel expenses remained relatively flat compared to the prior year's first quarter at $84.7 million.

Gross Operating Profit

	Three Months Ended March 31		
	2015	2014	Variance %
Hotel	**$ 15,502**	$ 13,766	12.6%
Other real estate properties	**(156)**	(113)	(38.1%)
Hotel and other real estate properties	**$ 15,346**	$ 13,653	12.4%

Notwithstanding the $3.6 million, or 3.2%, total revenue decline, gross operating profit ("GOP") increased $1.7 million, or 12.4%, highlighting the relatively lower yielding nature of assets sold as compared to the existing portfolio. Same-hotel GOP improved approximately $1.3 million or 10.4%.

HOTEL GOP

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

For the three months ended March 31, 2015, Hotel GOP improved $1.7 million, or 12.6%, as compared to revenue declines of $3.6 million, or 3.2%. Same-hotel GOP growth of $1.3 million (10.4%) was offset by reduced contribution to Hotel GOP from the sale of non-core low yield assets totalling $0.9 million. The addition of one hotel in December 2014 contributed $1.3 million to GOP in the first quarter of 2015.

Overall Hotel GOP margins improved 190 basis points to 14.0%, largely benefiting from the divestiture of non-core low yielding assets and the return on investments following recent renovations. Same-hotel GOP margin was up 120 basis points to 14.4% driven by topline improvements. Ontario contributed same-hotel GOP growth benefiting from renovations completed at a number of hotels, particularly Comfort Inns.

			Three Months Ended March 31, 2015	Variance to Prior Year Comparative Period	
	Number of Hotels	Number of Rooms	**Hotel GOP**	$	%
Core Portfolio:					
Ontario	48	5,620	**$ 6,555**	$ 1,234	23.2%
Quebec	22	2,488	**1,560**	(56)	(3.5%)
Atlantic	16	1,785	**253**	(257)	(50.4%)
Western	16	2,670	**5,956**	(37)	(0.6%)
Total Core Portfolio	102	12,563	**14,324**	884	6.6%
Non-Core Portfolio	5	653	**(53)**	455	89.6%
Same-Hotel Portfolio	107	13,216	**14,271**	1,339	10.4%
Acquisition	1	644	**1,296**	1,296	nm
Total Current Portfolio	108	13,860	**15,567**	2,635	20.4%
2015 dispositions	2	296	**(65)**	(179)	nm
2014 dispositions	19	2,383	**–**	(720)	nm
			$ 15,502	$ 1,736	12.6%

"nm" – not meaningful

The following table summarizes operating results across our Core Portfolio and serves to highlight the profitability impact while renovations are underway, as well as the growth achieved-to-date following the completion of renovations. 58 Comfort Inn hotels have been renovated since 2013 (31 in 2013; 27 in 2014). In aggregate, the renovated Comfort Inn portfolio experienced Hotel GOP growth of 74.4% during the first quarter of 2015 reflecting the significant operating leverage of strong revenue growth. This growth rate significantly exceeds results achieved in our remaining portfolio, highlighting the return opportunities provided by internal investments within the existing portfolio.

The profitability reduction across other Core hotels is largely reflective of oil-related market declines as well as reduced performance in Quebec City owing to lower group demand as compared to the prior year. Excluding hotels in these markets, Hotel GOP from other Core hotels would have improved 3.6% during the three months ended March 31, 2015.

			Three Months Ended March 31, 2015	Variance to Prior Year Comparative Period	
	Number of Hotels	Number of Rooms	**Hotel GOP**	$	%
Core Comfort Inn Portfolio:					
Renovated in 2013(1)	31	2,502	**$ 3,523**	$ 1,345	61.8%
Q1 2014[1] renovations	4	295	**446**	399	848.9%
Q2 2014[1] renovations	11	686	**948**	601	173.2%
Q3 2014[1] renovations	1	146	**21**	(54)	(72.0%)
Q4 2014[1] renovations	11	842	**590**	67	12.8%
Renovated in 2014	27	1,969	**2,005**	1,013	102.1%
Renovated Core Comfort Portfolio	58	4,471	**5,528**	2,358	74.4%
Full service Core hotels under renovations:					
2014 renovations	3	747	**223**	265	631.0%
2014 and 2015 renovations	2	728	**2,261**	(150)	(6.2%)
2015 renovations	1	220	**(139)**	(301)	(185.8%)
Other Core hotels	38	6,397	**6,451**	(1,288)	(16.6%)
Total Core Portfolio(2)	102	12,563	**$ 14,324**	$ 884	6.6%

(1) Based on the period in which substantial completion of renovations were completed.

(2) Excludes one hotel acquired during the year and five non-core hotels which have been identified for divestiture.

Other Expenses

	Three Months Ended March 31		
	2015	2014	Variance %
Corporate and administrative[1]	**$ 2,981**	$ 5,196	(42.6%)
Interest expense			
Mortgages and other debt	**12,746**	11,158	14.2%
Convertible debentures	**4,353**	6,282	(30.7%)
Joint venture income	**(765)**	(705)	8.5%
Loss from investment in associate	**347**	–	nm
Other (income) and expense, net	**(720)**	(1,129)	(36.2%)
Writedown of hotel properties, net	**–**	(575)	nm
Depreciation and amortization	**20,809**	20,226	2.9%
Unrealized (gain) loss on liabilities presented at fair value	**(1,172)**	8,071	nm
Other expenses	**$ 38,579**	$ 48,524	(20.5%)

(1) Prior period included $3.6 million in non-recurring costs relating to a settlement.
nm – not meaningful

Other expenses during the three months ended March 31, 2015 decreased $9.9 million or 20.5%.

Lower corporate and administrative costs reflect the prior period inclusion of $3.6 million in non-recurring settlement costs. Excluding this amount, costs were higher reflecting the addition of full time executive function at the REIT, as well as a non-cash charge relating to the unit based inducement compensation awarded to the newly appointed Chief Executive Officer in the first quarter of 2015 (refer to *Unit Information*). Corporate and administrative expenses also reflect incremental costs associated with the internalization of InnVest's asset management platform in late 2014. Effective December 1, 2014, external asset management fees, previously included in 'Operating expenses', were eliminated and resources are now allocated to corporate and administrative expenses. In the first quarter of the prior period, InnVest paid $0.4 million in external asset management fees.

InnVest has benefited from a reduction in its debt leverage and weighted average cost of debt since the beginning of 2014. Higher mortgage interest expenses during the three months ended March 31, 2015 reflect the new mortgage associated with the Hyatt Regency acquisition in December 2014 and the funding of the KingSett loan in April 2014 (refer to *Related Party Transactions*). These increases were somewhat offset by the net repayment of mortgage debt from asset sales over the past year. Convertible debenture interest savings reflect the redemption of InnVest's $70 million Series C debentures in early June 2014, the purchase for cancellation of $28.8 million of its Series G debentures on July 31, 2014, and the early redemption of the Series D Debentures on March 3, 2015 (refer to *Unit Information*).

Joint venture income reflects InnVest's 50% interest in the net profits of Choice Canada. InnVest's joint venture income generated $0.8 million in the first quarter of 2015, up from $0.7 million in the first quarter of 2014.

During the three months ended March 31, 2015, InnVest recognized a non-cash loss of $0.3 million from its 20% proportionate share of net earnings (after interest and depreciation) from its recently acquired ownership interest in the Royal York Hotel. InnVest exercises significant influence over its investment and accounts for its investment using the equity method.

Other income and expenses during the first quarter of 2015 reflect receiving a non-recurring termination payment of $0.5 million from the sale of two hotels jointly licenced between InnVest and Choice Canada as well as a gain of $0.2 million relating to the early redemption of the Series D Debentures.

InnVest accounts for various unit-based instruments as financial liabilities. These instruments are re-measured at their fair value at each reporting period resulting in non-cash gains or losses based on the volatility of InnVest's unit price over the periods presented and their impact on convertible debenture holders' conversion option feature. For the three months ended March 31, 2015, InnVest recognized a fair value gain of $1.2 million (2014 – loss of $8.1 million).

Income Taxes

InnVest did not generate income taxes during the three months ended March 31, 2015 and 2014.

Net Loss and Comprehensive Loss

For the three months ended March 31, 2015, InnVest realized a net loss of $23.2 million ($0.196 per unit diluted) compared to a net loss of $34.9 million in the prior period ($0.372 per unit diluted). Refer to FFO for a comparison of profitability excluding non-recurring costs and non-cash items. Per unit amounts in 2015 were impacted by the 26% increase in the weighted average number of units outstanding.

Funds From Operations (FFO)

For the three months ended March 31, 2015, InnVest generated a FFO loss of $3.4 million ($0.029 loss per unit diluted) compared to a loss of $4.6 million in the prior period ($0.049 loss per unit diluted). The $1.2 million improvement primarily reflects higher Hotel GOP. Per unit amounts in 2015 were impacted by the 26% increase in the weighted average number of units outstanding. Refer to *Non-IFRS Financial Measures and Additional IFRS Financial Measures* for a reconciliation of net loss and comprehensive loss to FFO.

Adjusted Funds From Operations (AFFO)

For the three months ended March 31, 2015, InnVest generated an AFFO loss of $5.2 million ($0.044 loss per unit diluted) compared to a loss of $7.6 million in the prior period ($0.081 loss per unit diluted). The $2.4 million improvement reflects the higher FFO generated and additional non-cash portion of mortgage interest expense. Per unit amounts in 2015 were impacted by the 26% increase in the weighted average number of units outstanding. Refer to *Non-IFRS Financial Measures and Additional IFRS Financial Measures* for a reconciliation of FFO to AFFO.

Distributions declared in the first quarter of 2015 totalled $11.9 million, or $0.0999 per unit (2014 – $9.4 million or $0.0999 per unit). The increase in total distributions paid reflects incremental units outstanding following the issuance of units in November 2014 to partially fund the acquisition of one hotel as well as the conversion of Series D Debentures in the first quarter of 2015. Refer to *Unit Information*.

CHANGES IN FINANCIAL CONDITION

Operating Activities

For the three months ended March 31, 2015, cash utilized by operating activities was $7.7 million, a $4.6 million increase as compared to the same period in 2014 owing to higher usage of working capital, largely reflecting working capital movement following asset sales completed over the past year.

Financing Activities

For the three months ended March 31, 2015, financing activities included regular payment of annual mortgage principal amortization as well as the redemption and cancellation of certain Series D Debentures. Financing activities for the same quarter in 2014, included cash proceeds related to the refinancing of the Sheraton Eau Claire, Calgary for $68.0 million and repayment of the outstanding mortgage of $31.6 million.

Cash distributions to unitholders in 2015 totalled $11.5 million as compared to $9.3 million in the prior period. The increase reflects the higher number of outstanding units compared to the same period in the prior year.

Investing Activities

Investing activities include an investment of $18.8 million related to the acquisition of a 20% interest in the Royal York Hotel which was funded with available cash on hand.

In assessing the operating performance of its hotels, InnVest allocates 4% to 5% of hotel revenues ("FF&E Reserve"). Whether funds are specifically set aside or not, this FF&E reserve is a source of funding to maintain the physical quality of the portfolio. Capital expenditures during the three months ended March 31, 2015 totalled $10.1 million (2014 – $18.5 million) compared to the FF&E Reserve of $4.6 million (2014 – $4.8 million). Incremental capital above the FF&E Reserve was funded through cash generated from asset sales and cash on hand.

Capital investments completed in early 2015 include the final phase of room renovations at Calgary's Fairmont Palliser and the Sheraton Suites Eau Claire. In addition, renovations were initiated as part of licence renewals at the Delta London Armouries and Moncton's Delta Beausejour. The prior period included significant activity related to the Comfort Inn portfolio revitalization.

Investing activities reflect quarterly distributions of $0.9 million received from InnVest's investment in Choice Canada (2014 – $0.7 million).

Investing activities also include gross proceeds of $7.0 million from the sale of two properties during the first quarter of 2015 (four properties were sold in the first quarter of 2014 for gross proceeds of $14.3 million).

QUARTERLY RESULTS

Seasonality

InnVest's operations are seasonal and as such its results are not consistent throughout the year. Revenue earned from hotel operations fluctuates throughout the year, with the third quarter being the highest due to the increased level of leisure travel in the summer months and the first quarter being the lowest because leisure travel tends to be lower during that period due to weather related issues. The results from operations vary materially from quarter to quarter given the seasonal nature of the revenue stream and the fact that certain costs such as property taxes, insurance, interest, and depreciation and amortization are fixed or virtually fixed. The quarterly results highlighted below have been impacted by the sale of non-core low yield assets completed in 2014 and 2015 and consequently are not reflective of the typical seasonality of the portfolio on a same-hotel basis.

Quarter Ended (Unaudited)

	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Revenues	**$ 110,798**	$ 126,439	$ 148,434	$ 146,231	$ 114,431	$ 140,667	$ 161,133	$ 161,276
Gross operating profit	**15,346**	27,766	48,398	39,004	13,653	29,751	47,537	43,429
Net (loss) income	**(23,233)**	(1,182)	16,508	4,818	(34,871)	(47,741)	13,946	20,505
FFO	**(3,404)**	10,359	31,720	20,765	(4,393)	12,432	31,504	25,097
AFFO	**(5,200)**	8,205	27,319	16,450	(7,623)	8,133	26,482	20,174
Distributions declared	**11,932**	10,910	9,481	9,453	9,378	9,373	9,368	9,364
Per unit – diluted:								
Net (loss) income	**$ (0.196)**	$ (0.011)	$ 0.161	$ 0.051	$ (0.372)	$ (0.509)	$ 0.139	$ 0.189
FFO	**(0.029)**	0.100	0.278	0.190	(0.049)	0.127	0.270	0.223
AFFO	**(0.044)**	0.079	0.239	0.151	(0.081)	0.086	0.226	0.180
Trust units outstanding	**122,203,362**	116,280,294	94,992,322	94,713,251	93,909,613	93,830,897	93,788,684	93,745,281
Weighted average trust units outstanding	**118,646,773**	103,154,099	94,863,069	94,433,893	93,858,254	93,812,648	93,770,602	93,726,338
Total assets	**$ 1,284,327**	$ 1,329,285	$ 1,186,098	$ 1,227,354	$ 1,271,608	$ 1,280,541	$ 1,339,982	$ 1,387,235
Total long-term debt	**$ 790,446**	$ 782,951	$ 709,493	$ 714,154	$ 688,038	$ 674,088	$ 680,851	$ 690,792

ASSET PROFILE

InnVest's total asset carrying value was $1,284.3 million at March 31, 2015, down $45.0 million, as compared to $1,329.3 million at December 31, 2014. The following table summarizes some of the key balance sheet movements year-over-year.

	March 31, 2015	December 31, 2014	
Current assets			
Cash	**$ 7,561**	$ 56,404	Utlized cash to fund the Royal York acquisition, capital expenditures and unit distributions.
Accounts receivable	**21,693**	22,175	
Prepaid expenses and other assets	**10,104**	7,734	Higher balance reflects the timing of property tax payments.
Finance lease receivable	**10,392**	2,078	Additional temporary lease receivable arrangement following the sale of one asset in the first quarter of 2015.
Assets held for sale	**–**	14,924	Two hotels classified as held for sale at December 31, 2014 were sold in the first quarter of 2015.
	49,750	103,315	
Non-current assets			
Restricted cash	**2,144**	2,236	
Investment in joint venture	**1,218**	1,179	
Investment in associate	**18,412**	–	Represents 20% interest in the Royal York Hotel.
Hotel properties	**1,200,783**	1,210,143	See description below.
Other real estate properties	**1,916**	1,918	
Intangible assets	**10,104**	10,494	
Total assets	**$ 1,284,327**	$ 1,329,285	

Hotel properties comprise over 90% of InnVest's total assets. Activity during the three months ended March 31, 2015 included capital additions of $10.1 million which was offset by depreciation of $20.8 million.

LIQUIDITY AND CAPITAL RESOURCES

InnVest has several sources of liquidity including the following:

CASH GENERATED FROM HOTEL OPERATIONS

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

CREDIT FACILITIES

InnVest has various credit facilities including a revolving operating line, a capital expenditure line and a bridge loan. Refer to *Debt Strategy* for a detailed description of each of these credit facilities. These credit facilities can be used to finance temporary shortfalls in cash resulting from business seasonality and working capital fluctuations, to cover letters of credit, to provide short-term financing in the event of the acquisition of a new hotel, to provide additional short-term liquidity pending the sale of assets and/or permanent financing, and to fund a portion of capital expenditures in accordance with mortgage terms.

ISSUING ADDITIONAL DEBT

InnVest has the ability to raise funds by mortgaging its properties or by issuing either unsecured debt or unsecured convertible debt securities. InnVest typically uses long-term debt financing to refinance existing debt or to finance an acquisition. The ability to secure debt financing on reasonable terms is ultimately dependent on market conditions and the lender's determination of InnVest's creditworthiness. At March 31, 2015, substantially all of InnVest's hotel assets have been pledged as security under debt agreements.

ISSUING ADDITIONAL EQUITY SECURITIES

InnVest's listing on the Toronto Stock Exchange gives it the ability to access, subject to market conditions, additional equity through the issuance of units or equity-linked instruments.

At March 31, 2015, InnVest had total current liquidity of $77.6 million (total potential liquidity of $79.7 million).

	March 31, 2015
Cash	**$ 7,561**
Operating line availability (net of letters of credit)	**37,800**
Bridge loan availability	**23,815**
Capital expenditure loan facility availability	**8,386**
Total current liquidity	**$ 77,562**
Additional liquidity contingent on capital expenditures incurred:	
Restricted cash	**2,144**
Total potential liquidity	**$ 79,706**

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

Cash on Hand

At March 31, 2015, InnVest had cash totalling $9.7 million, of which $2.1 million is restricted to undertake capital refurbishments in accordance with certain mortgage and franchise agreements.

Capital expenditures during the three months ended March 31, 2015 totalled $10.1 million (2014 – $18.5 million) compared to the allocated FF&E Reserve of $4.6 million (2014 – $4.8 million). Incremental capital expenditures above the allocated FF&E Reserve were funded through cash generated from asset sales and cash on hand. The following chart shows the funding of capital expenditures and changes in the FF&E Reserve restricted cash balance during the first quarter of 2015.

Opening balance, January 1, 2015	**$ 2,236**
FF&E Reserve	**4,586**
Transferred from operating cash	**5,403**
Capital expenditures	**(10,081)**
Closing balance, March 31, 2015	**$ 2,144**

Debt Strategy

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

CREDIT FACILITY AND BRIDGE LOANS

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

InnVest has an operating line of credit of up to $40.0 million with a major banking institution which matures August 31, 2016. At March 31, 2015, the operating line is secured by nine properties. The amount of availability for the operating line is subject to a mortgage-ability test, which is based on the operating results of the secured properties. Interest rates are based on the lesser of (i) Canadian prime rate plus 2.0% and (ii) the Canadian Bankers' Acceptance rate plus 3.0%. Based on the operating results of the secured properties for the four quarters ended March 31, 2015, InnVest qualifies for $40.0 million availability under the line of credit before inclusion of outstanding letters of credit. At March 31, 2015, no amount was drawn on the credit facility (December 31, 2014 – $nil). Letters of credit totalling $2.2 million were issued pursuant to the facility (December 31, 2014 – $8.2 million).

InnVest has a bridge loan for up to $40.0 million to be used pending permanent financing or the sale of assets. As at March 31, 2015, the bridge loan is secured by four properties (originally secured by six properties), expires on May 31, 2015 and bears interest at Canadian prime plus 1.5% or the Canadian Bankers' Acceptance rate plus 2.5%. The amount available under the bridge loan is subject to a mortgage-ability test, which is based on the operating results of the secured properties. Given the sale of two assets, at March 31, 2015, InnVest qualifies for $23.8 million availability, of which no amount was drawn.

At March 31, 2015, InnVest has a $2.0 million (December 31, 2014 – $2.0 million) bridge loan secured by one hotel which bears interest at the Canadian Bankers' Acceptance rate plus 4.0%. In early 2015, InnVest extended the bridge loan to February 29, 2016.

Management expects to combine and extend its operating line and bridge loans during the second quarter of 2015. Refer to *Risks and Uncertainties*.

MORTGAGES, SUBORDINATED TERM LOANS AND CONVERTIBLE DEBENTURES

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

	March 31, 2015	December 31, 2014
Mortgages and subordinated term loans		
Mortgages and subordinated term loans payable	**$ 795,080**	$ 799,363
Weighted average term to maturity	**2.6 years**	2.8 years
Weighted average interest rate	**5.4%**	5.5%
Percentage of mortgages and subordinated term loan at floating interest rate debt(1)	**21.1%**	21.0%
Convertible debentures		
Convertible debentures outstanding	**$ 211,225**	$ 247,608
Weighted average term to maturity	**3.2 years**	3.2 years
Weighted average interest rate	**6.0%**	6.1%

(1) 12.5% floating rate debt pro forma the April 2015 refinancing of a $70 million floating rate debt with fixed rate financing.

In early 2015, management elected not to exercise a one year option to extend mortgage debt of approximately $155 million. As a result, InnVest has approximately $218 million of mortgages (excluding $8.3 million offset by a lease receivable) with a weighted average interest rate of 5.2% maturing in 2015. Approximately $155 million of this current debt is with one lender. Based on available capital liquidity in the market, management expects to refinance this debt on advantageous terms including reducing the interest rate and further extending the term to maturity. Management is in active discussions to address all 2015 maturities.

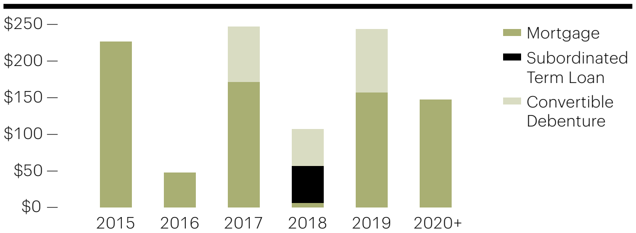
Based on recent negotiations with lenders and its knowledge and experience refinancing mortgages and accessing the public markets, management expects to address its debt maturities in the normal course of business.

In April 2015, management completed the refinancing of the Hyatt Regency Vancouver for $80.0 million at a fixed interest rate of 3.75% for a 10-year term. This refinancing replaced a $70.0 million three year floating rate mortgage completed as part of the hotel's acquisition. Incremental proceeds from the refinancing will be used to fund capital investments, to repay debt and for general corporate purposes.

As part of certain mortgage agreements, InnVest has access to a loan facility for up to $30.0 million to fund 65% of capital expenditures incurred at certain of its hotels. At March 31, 2015, InnVest has remaining capacity on this facility of $8.4 million (December 31, 2014 – $8.4 million).

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

The following chart highlights InnVest's mortgage, subordinated term loans and convertible debentures maturity schedule at March 31, 2015, pro forma the refinancing of the Hyatt Regency Vancouver completed in April 2015.



(1) Management elected not to exercise a two-year renewal option on approximately $155 million of 2015 maturities given its expectation to refinance such debt on advantageous terms during the year.

Leverage

InnVest is not permitted to exceed certain financial leverage amounts under the terms of its Declaration of Trust. InnVest is permitted to incur indebtedness up to a level of 60% of gross asset value (75% including convertible debentures). The financial ratio is computed as of the last day of each financial year excluding any indebtedness under any operating line, non-interest bearing indebtedness, trade accounts payable and for greater certainty, deferred income tax liability. Management's policy is not to exceed this leverage limit at any time during the year. Separately, InnVest is further limited by its credit facility covenant, which limits aggregate indebtedness (including convertible debentures) to a level up to 70% of gross asset value as at the end of every quarter.

Consistent with its strategic objective to decrease its debt leverage, during the three months ended March 31, 2015, InnVest reduced its leverage 130 basis points to 60.7% (December 31, 2014 – 62.0%) and improved by 620 basis points as compared to 66.9% at March 31, 2014. InnVest's leverage excluding convertible debentures was 48.0% (December 31, 2014 – 47.4%).

Total assets per Consolidated Balance Sheet	**$1,284,327**	
Accumulated depreciation and amortization	**377,870**	
Gross Asset Value	**$1,662,197**	
Book value of mortgages and other indebtedness(1)	**$ 797,080**	48.0%
Convertible debentures(2)	**211,225**	12.7%
Total debt	**$1,008,305**	60.7%

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

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

Contractual Obligations Repayment Summary

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

The following table summarizes InnVest's contractual obligations as at March 31, 2015. In addition to the table below, InnVest, through its partial ownership of the Royal York Partnership has minimum capital commitments to fund capital expenditures and working capital needs of the hotel over an unspecified period of time. As at March 31, 2015, InnVest has remaining capital commitments approximating $16.5 million.

	Remainder of 2015	2016	2017	2018	2019	2020 and Thereafter	Contractual Cash Flows(1)
Accounts payable and accrued liabilities	$ 62,827	$ –	$ –	$ –	$ –	$ –	$ 62,827
Mortgage and subordinated term loan payable							
– principal(2)	233,974	56,655	239,506	60,995	142,233	61,717	795,080
– interest(3)	26,731	30,693	21,538	11,998	5,668	12,569	109,197
Bridge loan							
– principal	750	1,250	–	–	–	–	2,000
– interest	68	17	–	–	–	–	85
Convertible debentures - principal							
– principal	–	–	75,000	49,975	86,250	–	211,225
– interest	6,382	12,764	12,764	6,828	2,695	–	41,433
Long-term leases	1,368	1,839	1,839	1,843	1,817	71,309	80,015
Capital commitments	11,883	–	–	–	–	–	11,883
Total	$ 343,443	$ 103,218	$ 350,647	$ 131,639	$238,663	$ 145,595	$ 1,313,205

(1) Contractual cash flows include principal and interest payments and include extension options available to InnVest.
(2) Principal includes regular amortization and repayments.
(3) Interest amounts for floating rate debt is based on interest rates prevailing at March 31, 2015.

As at March 31, 2015, InnVest has leasehold interests in seven of its hotels. The leaseholds require minimum annual average lease payments and expire between 2018 and 2088. At March 31, 2015, the average term of InnVest's leaseholds exceeded 35 years.

Contingent Obligations

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

DISTRIBUTIONS TO UNITHOLDERS

For the three months ended March 31, 2015, distributions totalling $11.9 million were declared ($0.0999 per unit). While the per unit level of distribution was unchanged, total distributions paid increased from $9.4 million in the prior year reflecting the issuance of additional units over the year from the DRIP as well as the equity and private placement offering in November 2014 (refer to *Unit Information*). The non-cash distributions have the effect of increasing the number of units outstanding, which will cause cash distributions to increase over time assuming stable per unit distribution levels.

For the twelve months ended March 31, 2015, InnVest's payout ratio was 89.3% of AFFO, relatively unchanged from the recent annual period. Given the seasonally lower nature of our first quarter earnings, higher FFO achieved was offset by the 26% increase in the weighted average number of Units outstanding resulting from our November 2014 equity offering.

	Twelve Months Ended					Years Ended December 31
	March 31, 2015	2014	2013	2012	2011	2010
AFFO	**$ 46,774**	$ 44,351	$ 46,185	$ 44,619	$ 46,440	$ 41,776
Distributions	**41,776**	39,222	37,465	37,383	44,896	44,384
AFFO in excess of (less than) distributions	**4,998**	5,129	8,720	7,236	1,544	(2,608)
Non-cash distributions made through the DRIP	**3,387**	3,224	500	143	309	1,688
AFFO in excess of (less than) cash distributions	**$ 8,385**	$ 8,353	$ 9,220	$ 7,379	$ 1,853	$ (920)
AFFO Payout ratios:						
Total distributions	**89.3%**	88.4%	81.1%	83.8%	96.7%	106.2%
Cash distributions (excluding DRIP)	**82.1%**	81.2%	80.0%	83.5%	96.0%	102.2%

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

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

In assessing the operating performance of its hotels, InnVest deducts a reserve for capital expenditures based on 4% to 5% of hotel revenues (the "FF&E Reserve"). Whether funds are specifically set aside or not, the FF&E Reserve is used in determining the level of distributions paid to unitholders and, as such, is considered a source of funding to maintain the quality of the portfolio. Actual capital spent may be in excess of this FF&E Reserve, as demonstrated in the three months ended March 31, 2015. Management attempts to complete its capital expenditures during its lowest occupancy periods in order to minimize operating disruption. This typically results in over-investments as compared to the FF&E Reserve in the first quarter.

Annual capital expenditure is expected to exceed the FF&E Reserve for the full year 2015 based on the extensive renovation program anticipated during the year. Refer to *Our Stategy*.

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

UNIT INFORMATION

Since January 1, 2014, InnVest issued units as follows:

Units outstanding, January 1, 2015	116,280,294
Distribution reinvestment plan	49,818
Conversion of Convertible Debentures	5,742,110
Executive compensation plan	131,140
Units outstanding, March 31, 2015	122,203,362
Issued subsequent to the quarter	
Distribution reinvestment plan	20,994
Units outstanding, May 11, 2015	122,224,356

The following table summarizes the number of units issuable based on the convertible debentures outstanding at March 31, 2015.

Convertible Debentures	Maturity Date	Conversion Strike Price	Balance Outstanding	Units to Be Issued Upon Conversion
Series E	September 30, 2017	$ 8.00	$ 75,000	9,375,000
Series F	March 30, 2018	$ 9.45	$ 49,975	5,288,359
Series G	March 31, 2019	$ 7.50	$ 86,250	11,500,000

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

Redemptions

On March 3, 2015, InnVest completed the early redemption of its Series D Debentures (due March 31, 2016). During the three months ended March 31, 2015, Series D Debentures totalling $32.7 million were converted into 5,739,465 units. On March 3, 2015, InnVest redeemed and cancelled $3.6 million of remaining Series D Debentures. Series F 5.75% Debentures were converted into 2,645 units during the first quarter.

Distribution Reinvestment Plan ("DRIP")

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

Executive and Trustee Compensation Programs

InnVest's executive compensation program provides for the grant of restricted units to certain senior employees. Units granted vest not more than four years from the effective date of grant. At March 31, 2015, there were 96,329 unvested executive units granted under the plan (December 31, 2014 – 58,794). Given his short-term compensation agreement, units issued to InnVest's former President and CEO vested immediately upon grant, rather than vesting over the three- and four-year periods. In January 2015, 44,000 units were granted to the former President and CEO (2014 – 40,000).

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

InnVest has set aside 350,000 units in reserve for Board compensation. At March 31, 2015, the balance in this reserve account is 152,745 units (December 31, 2014 – 152,745). In September 2014, InnVest's Board approved an increase of this reserve to 1% of InnVest's outstanding units from time to time in connection with proposed changes to the Trustee compensation structure. The listing of additional units relating to this change was conditionally approved by the Toronto Stock Exchange ("TSX") in October 2014, subject to unitholder approval at the annual general meeting on June 16, 2015 and other customary conditions. At March 31, 2015, 129,551 units were granted to Trustees under the new compensation structure which remain subject to unitholder and final TSX approval. InnVest's redesigned compensation structure enhances unit-compensation, including minimum ownership requirements, further aligning our Board's interest with those of our unitholders.

RELATED PARTY TRANSACTIONS

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

Westmont Hospitality Canada Limited

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

Two trustees of InnVest have a direct or indirect controlling interest in Westmont and as such have a material interest in the Agreements. Westmont is considered a related party to InnVest as a result of its ability to exercise significant influence through the Agreements. At March 31, 2015, Westmont managed 97 of InnVest's hotels. The Agreements are on terms consistent with those that prevail in arm's length transactions.

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

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

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

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

Total management and other fees paid to Westmont during the three months ended March 31, 2015 were $3.5 million (2014 – $4.4 million). Total fees paid year-to-date in 2015 reflect the elimination of the asset management fee and reduced project management fees based on lower capital expenditures incurred. These fees represent approximately 71% (2014 – 72%) of total hotel management and other fees paid by InnVest to the five hotel management companies with which it partners.

KingSett Capital

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

In the first year that the Term Loan is outstanding, a portion of the Term Interest Payments due in that year, equal to 3% per annum, will be payable in units at the option of KingSett. During the three subsequent years, the same portion of the Term Interest Payments will be payable in units if mutually agreed by KingSett and InnVest. Any units will be issued at a price equal to the five-day volume-weighted average price of the units on the TSX prior to the date of each issuance. Since its inception, InnVest issued 146,950 units in satisfaction of the Term Interest Payments. No units were issued during the three months ended March 31, 2015.

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

NON-IFRS FINANCIAL MEASURES AND ADDITIONAL IFRS FINANCIAL MEASURES

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

Additional IFRS Financial Measures

GROSS OPERATING PROFIT ("GOP")

GOP is defined as revenues less hotel and other real estate properties expenses. GOP reflects results of operations from InnVest's two lines of business: hotel ownership and other real estate assets. For the three months ended March 31, 2015 and 2014, InnVest's hotel ownership operations accounted for all of its GOP.

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

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

GOP has been calculated as follows:

	Three Months Ended March 31	
	2015	2014
Revenues	**$ 110,798**	$ 114,431
Hotel and other real estate properties		
Operating expenses	**82,718**	85,806
Property taxes, rent and insurance	**9,157**	10,612
Management fees	**3,577**	4,360
	95,452	100,778
Gross operating profit	**$ 15,346**	$ 13,653

Non-IFRS Financial Measures

FUNDS FROM OPERATIONS ("FFO")

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

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

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

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

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

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

	Three Months Ended March 31	
	2015	2014
Net loss and comprehensive loss	**$ (23,233)**	$ (34,871)
Add (deduct)		
Non-cash items:		
Depreciation and amortization(1)	**21,165**	20,226
Unrealized changes in the fair value of financial liabilities (including fair value changes in unit-based compensation)	**(1,221)**	8,064
Writedown reversal of hotel properties, net	**–**	(575)
Distributions included in expenses	**36**	36
Loss (gain) on sale on assets, net	**45**	(1,056)
Gain on early redemption of convertible debentures, net	**(196)**	–
Non-recurring items:		
Proxy defense and settlement costs	**–**	3,594
Funds from operations (FFO)	**$ (3,404)**	$ (4,582)
FFO per unit		
basic and diluted	**$ (0.029)**	$ (0.049)
Weighted average unit outstanding		
basic	**118,646,773**	93,858,254
diluted	**119,199,754**	94,244,391

(1) Includes depreciation and amortizaton included in 'Loss from investment in associate'.

ADJUSTED FUNDS FROM OPERATIONS ("AFFO")

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

AFFO is defined as FFO adjusted for:

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

A reconciliation of FFO to AFFO is as follows:

	Three Months Ended March 31	
	2015	2014
FFO	**$ (3,404)**	$ (4,582)
Add (deduct)		
Non-cash portion of mortgage interest expense[1]	**1,938**	566
Non-cash portion of convertible debentures interest and accretion	**852**	1,148
FF&E Reserve	**(4,586)**	(4,762)
AFFO	**$ (5,200)**	$ (7,630)
AFFO per unit		
Basic and Diluted	**$ (0.044)**	$ (0.081)
Weighted average unit outstanding		
Basic	**118,646,773**	93,858,254
Diluted	**119,199,754**	94,244,391

(1) Includes defered financing amortization included in 'Loss from investment in associate'.

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

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

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

	Three Months Ended March 31	
	2015	2014
Cash flow generated from operating activities	**$ (7,650)**	$ (3,092)
Changes in non-cash working capital	**3,151**	(9,108)
Joint venture income	**926**	864
Loss from investment in associate	**(347)**	–
Others, net	**3,306**	8,468
FF&E Reserve	**(4,586)**	(4,762)
AFFO	**$ (5,200)**	$ (7,630)

RISKS AND UNCERTAINTIES

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

There have been no changes to InnVest's assessment of its risk factors since December 31, 2014. For a discussion of risk factors that have been identified, readers should refer to InnVest's 2014 Annual Report and InnVest's Annual Information Form dated March 11, 2015, both of which are available on SEDAR.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

ACCOUNTING POLICY CHANGES

During the three months ended March 31, 2015, InnVest adopted a new accounting policy relating to its 20% participation in the acquisition of the Royal York Hotel.

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

FUTURE ACCOUNTING CHANGES

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

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

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

CONTROLS AND PROCEDURES

Management of InnVest is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS. In accordance with National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, the Chief Executive Officer and the Chief Financial Officer have assessed, or caused an assessment to be made under their direct supervision, of the design and operating effectiveness of InnVest's internal controls over financial reporting as at March 31, 2015, and based on that assessment, have concluded that InnVest's internal controls over financial reporting were appropriately designed and were operating effectively.

During the three months ended March 31, 2015, there were no changes in InnVest's internal controls over financial reporting which have significantly affected, or are reasonably likely to significantly affect, InnVest's internal controls over financial reporting.

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

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

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

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars) (unaudited)	**March 31, 2015**	December 31, 2014
ASSETS		
Current assets		
Cash	**$ 7,561**	$ 56,404
Accounts receivable	**21,693**	22,175
Prepaid expenses and other assets	**10,104**	7,734
Finance lease receivable (Note 3)	**10,392**	2,078
Assets held for sale (Note 3)	**–**	14,924
	49,750	103,315
Non-current assets		
Restricted cash (Note 4)	**2,144**	2,236
Investment in joint venture (Note 5)	**1,218**	1,179
Investment in associate (Note 6)	**18,412**	–
Hotel properties (Note 7)	**1,200,783**	1,210,143
Other real estate properties (Note 8)	**1,916**	1,918
Intangible assets (Note 9)	**10,104**	10,494
Total assets	**$ 1,284,327**	$ 1,329,285
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 62,287**	$ 67,570
Distributions payable	**4,070**	3,872
Long-term debt (Note 11)	**238,725**	231,731
Other long-term obligations (Note 14)	**190**	190
Liabilities related to assets held for sale (Note 3)	**–**	9,144
	305,272	312,507
Non-current liabilities		
Long-term debt (Note 11)	**551,721**	552,520
Convertible debentures (Note 12)	**200,390**	234,981
Provisions (Note 13)	**10,334**	9,359
Other long-term obligations (Note 14)	**4,836**	4,841
Other liabilities (Note 15)	**9,282**	13,086
	1,081,835	1,127,294
UNITHOLDERS' EQUITY	**202,492**	201,991
	$ 1,284,327	$ 1,329,285

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

(in thousands of Canadian dollars, except per unit amounts) (unaudited)	**Three Months Ended March 31, 2015**	Three Months Ended March 31, 2014
Revenues (Note 25)	**$ 110,798**	$ 114,431
Hotel and other real estate properties		
Operating expenses (Note 21)	**82,718**	85,806
Property taxes, rent and insurance	**9,157**	10,612
Management fees (Note 21)	**3,577**	4,360
	95,452	100,778
Gross operating profit	**15,346**	13,653
Other expenses		
Corporate and administrative (Note 21)	**2,981**	5,196
Interest expense		
Mortgages and other debt	**12,746**	11,158
Convertible debentures	**4,353**	6,282
Joint venture income	**(765)**	(705)
Loss from investment in associate (Note 6)	**347**	–
Other (income) and expense, net (Note 22)	**(720)**	(1,129)
Writedown reversal of hotel properties, net (Note 23)	**–**	(575)
Depreciation and amortization	**20,809**	20,226
Unrealized (gain) loss on liabilities presented at fair value (Note 24)	**(1,172)**	8,071
Net loss and total comprehensive loss	**$ (23,233)**	$ (34,871)
Net loss per unit (Note 19)		
Basic and diluted	**$ (0.196)**	$ (0.372)

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

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

(in thousands of Canadian dollars) (unaudited)	Deficit	Units in $	Total
Balance December 31, 2013	$ (502,923)	$ 644,380	$ 141,457
CHANGES DURING THE PERIOD			
Net loss and total comprehensive loss	(34,871)	–	(34,871)
Distributions to unitholders	(9,378)	–	(9,378)
Distribution reinvestment plan units issued (Note 18)	–	121	121
Vested executive compensation (Note 18)	–	210	210
Trustee compensation (Note 18)	–	44	44
Balance March 31, 2014	$ (547,172)	$ 644,755	$ 97,583
Balance December 31, 2014	**$ (556,872)**	**$ 758,863**	**$ 201,991**
CHANGES DURING THE PERIOD			
Net loss and total comprehensive loss	**(23,233)**	**–**	**(23,233)**
Distributions to unitholders	**(11,932)**	**–**	**(11,932)**
Distribution reinvestment plan units issued (Note 18)	**–**	**284**	**284**
Vested executive compensation (Note 18)	**–**	**838**	**838**
Issue of new units, net (Note 18)	**–**	**34,544**	**34,544**
Balance March 31, 2015	**$ (592,037)**	**$ 794,529**	**$ 202,492**

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars) (unaudited)	**Three Months Ended March 31, 2015**	Three Months Ended March 31, 2014
OPERATING ACTIVITIES		
Net loss and total comprehensive loss	**$ (23,233)**	$ (34,871)
Add (deduct) items not affecting cash		
Depreciation and amortization	**20,809**	20,226
Loss (gain) on sale of assets, net (Note 22)	**45**	(1,056)
Gain on redemption of convertible debentures (Note 22)	**(196)**	–
Writedown reversal of hotel properties, net (Note 23)	**–**	(575)
Unrealized (gain) loss on liabilities presented at fair value (Note 24)	**(1,172)**	8,071
Interest on mortgages and other debt	**12,746**	11,158
Convertible debentures interest and accretion	**4,353**	6,282
Interest expense paid	**(18,110)**	(20,825)
Non-cash executive and trustee compensation	**838**	254
Share of net earnings from joint venture (Note 5)	**(926)**	(864)
Share of net loss from associate (Note 6)	**347**	–
Changes in non-cash working capital (Note 20)	**(3,151)**	9,108
Cash utilized in operating activities	**(7,650)**	(3,092)
FINANCING ACTIVITIES		
Repayment of long-term debt	**(4,284)**	(42,170)
Proceeds from long-term debt, net of issuance costs	**–**	67,584
Redemption and cancellation of convertible debentures	**(3,643)**	–
Distributions to unitholders	**(11,450)**	(9,255)
Cash (utilized in) generated from financing activities	**(19,377)**	16,159
INVESTING ACTIVITIES		
Capital expenditures (Note 25)	**(10,081)**	(18,496)
Investment in associate (Note 6)	**(18,759)**	–
Dividends received from investment in joint venture (Note 5)	**887**	748
Proceeds from sale of assets	**6,959**	14,325
Payment of costs associated with sale of assets	**(914)**	(1,053)
Decrease in restricted cash	**92**	2,791
Cash utilized in investing activities	**(21,816)**	(1,685)
(Decrease) increase in cash during the period	**(48,843)**	11,382
Cash, beginning of the period	**56,404**	20,261
Cash, end of the period	**$ 7,561**	$ 31,643

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2015 (all Canadian dollar amounts are in thousands, except unit and per unit amounts) (unaudited)

1. BASIS OF PRESENTATION

InnVest Real Estate Investment Trust ("InnVest" or the "REIT") is an unincorporated open-ended real estate investment trust governed by the laws of Ontario. The REIT began operations on July 26, 2002. As at March 31, 2015, the REIT owned 108 Canadian hotels and a 20% interest in a partnership which holds an interest in one hotel, each operated under international brands.

The REIT leases its hotels to InnVest Hotels Trust ("IHT"), an indirectly-owned unit trust. IHT indirectly holds all of the hotel operating assets, earns revenues from hotel customers and pays rent to the REIT. IHT also indirectly holds a 50% interest in Choice Hotels Canada Inc ("CHC"). At March 31, 2015, InnVest wholly-owns an indirect interest in the entities that carry on the business of operating hotels.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

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

b) Investment in Associate

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

c) Estimates

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

d) Future Accounting Changes

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the IASB issued its new revenue standard, IFRS 15, "Revenue from Contracts with Customers". IFRS 15 specifies how and when revenue should be recognized as well as requiring more informative and relevant disclosures. IFRS 15 supersedes IAS 18, "Revenue Recognition", IAS 11, "Construction Contracts" and a number of revenue-related interpretations. Application of the standard is mandatory and it applies to nearly all contracts with customers with the exceptions of leases, financial instruments and insurance contracts. IFRS 15 is effective for annual periods on or after January 1, 2017. InnVest is currently evaluating the impact to the consolidated financial statements.

AMENDMENTS TO IAS 1 – PRESENTATION OF FINANCIAL STATEMENTS

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

3. ASSETS HELD FOR SALE

There were no assets held for sale at March 31, 2015 (December 31, 2014 – 2 hotels). All assets and liabilities relating to hotel properties held for sale at December 31, 2014 were classified to current assets and current liabilities and are outlined in the table below:

		December 31, 2014
Assets		
Accounts receivable	$	355
Prepaid expenses and other assets		138
Hotel properties (Note 7)		14,431
Total assets	$	14,924
Liabilities		
Accounts payable and accrued liabilities	$	591
Long-term debt (Note 11)		8,553
Total liabilities	$	9,144

The assets held for sale at December 31, 2014 were sold during the three months ended March 31, 2015.

Sale of Assets

During the three months ended March 31, 2015, InnVest sold two hotels for aggregate net proceeds after closing costs of $14,386. InnVest entered into a lease and sale agreement with the purchaser of one of the hotels which resulted in a finance lease receivable of $8,341 resulting in net cash proceeds of $6,045. The finance lease receivable bears interest of 5.2%. The lease arrangement has a term consistent with the repayment of a securitized mortgage loan anticipated in the third quarter of 2015. InnVest recorded a corresponding net loss on sale of $45 which was included in 'Other (income) and expense, net' (Note 22) in the condensed interim consolidated statements of net loss and comprehensive loss.

4. RESTRICTED CASH

The restricted cash of $2,144 (December 31, 2014 – $2,236) is being held by InnVest to undertake capital refurbishments in accordance with certain mortgage and franchise agreements.

5. INVESTMENT IN JOINT VENTURE

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

Related party transactions occur between InnVest and CHC. These related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to between the related parties. As at March 31, 2015, the related party balances with CHC are included in accounts payable, in the amount of $452 (December 31, 2014 – accounts receivable – $53).

InnVest's Choice branded hotels pay franchise fees to CHC based upon a master franchise agreement. The REIT eliminates the 50% portion of this joint venture income by reducing operating expenses. For the three month period ended March 31, 2015, this amount was $161.

The following table summarizes the movement of InnVest's joint venture investment:

		Investment in Joint Venture
Opening balance, January 1, 2014	$	1,202
Add:		
InnVest's 50% share of CHC's net income for the year ended December 31, 2014		4,998
Less:		
Dividends and royalties received		(5,021)
Closing balance, December 31, 2014	$	1,179
Add:		
InnVest's 50% share of CHC's net income for the three months ended March 31, 2015		926
Less:		
Dividends and royalties received		(887)
Closing balance, March 31, 2015	**$**	**1,218**

6. INVESTMENT IN ASSOCIATE

On February 2, 2015, InnVest acquired a 20% interest in the Fairmont Royal York Hotel in Toronto, Ontario (the "Royal York Hotel") in an arrangement with KingSett Real Estate Growth LP No. 5, an affiliate of KingSett Capital ("Kingsett") for an aggregate 80% interest in the Royal York Hotel where Ivanhoé Cambridge retained a 20% interest in the hotel (collectively, the "Partnership").

The Partnership acquired the Royal York Hotel for an aggregate price of $186,500 before closing costs and working capital adjustments. The Partnership financed the acquisition with equity from the partners of $86,500 plus financing costs of $1,752 and approximately $100,000, from a 3-year floating rate mortgage loan. InnVest's share of the equity contribution was $17,541. InnVest incurred transaction costs of $1,218 on the acquisition for a total net investment of $18,759. InnVest exercises significant influence over its investment in the Partnership and accounts for its investment using the equity method.

Under the Partnership, each partner has minimum capital commitments to fund capital expenditures and working capital needs for the Royal York Hotel over a specified period of time. As at March 31, 2015, InnVest's remaining capital commitment approximated $16,500. In addition, InnVest is contingently liable for certain obligations of the Partnership, and all of the net assets of the Partnership are available for the purpose of satisfying such obligations and guarantees.

Opening balance at acquisition	**$ 18,759**
Add:	
InnVest's 20% share of the Partnership's net loss from February 2, 2015 to March 31, 2015	**(347)**
Closing balance, March 31, 2015	**$ 18,412**

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

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

	March 31, 2015	February 2, 2015
Hotel property	**$ 187,366**	$ 186,500
Current assets	**7,460**	9,449
Total assets	**194,826**	195,949
Non-current liabilities	**$ 98,975**	$ 97,562
Current liabilities	**9,880**	10,683
Total liabilities	**108,855**	108,245
Net assets	**$ 85,971**	$ 87,704
InnVest 20% share of net assets	**17,194**	17,541
Acquisition costs	**1,218**	1,218
Investment in associate	**$ 18,412**	$ 18,759

	February 2, 2015 to March 31, 2015
Revenues	**$ 17,482**
Hotel property expenses	**(16,656)**
Gross operating income	**826**
Other expenses	
Depreciation and amortization	**(1,781)**
Interest expense	**(778)**
Net loss	**(1,733)**
InnVest 20% share of net loss	**$ (347)**

7. HOTEL PROPERTIES

	Building and Leaseholds	Building Finishes	Electrical and Mechanical	Fixtures and Equipment	Total
Cost					
Opening balance at January 1, 2015	$ 882,725	$ 348,027	$ 206,711	$ 113,159	$ 1,550,622
Derecognition of assets	–	–	–	(2,423)	(2,423)
Additions	875	5,794	731	2,663	10,063
Fair value of decommissioning and restoration provision (Note 13)	975	–	–	–	975
Balance at March 31, 2015	884,575	353,821	207,442	113,399	1,559,237
Accumulated depreciation					
Opening balance at January 1, 2015	83,060	171,048	31,339	55,032	340,479
Derecognition of assets	–	–	–	(2,423)	(2,423)
Depreciation	4,436	10,739	1,675	3,548	20,398
Balance at March 31, 2015	87,496	181,787	33,014	56,157	358,454
Carrying value, March 31, 2015	**$ 797,079**	**$ 172,034**	**$ 174,428**	**$ 57,242**	**$ 1,200,783**

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

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

The land amount included in land, building and leaseholds is $160,902 at March 31, 2015 (December 31, 2014 – $160,902). This amount is not depreciated. Hotel properties at March 31, 2015 include $2,947 relating to leased assets (December 31, 2014 – $3,145).

Impairment Review During the Period

Each reporting period, InnVest performs a review for indicators of impairment in respect of its hotel properties. If an impairment indicator is identified, InnVest determines the recoverable amount of the individual hotel property as the higher of value-in-use and fair value less costs to sell. Value-in-use is based on a discounted cash flow approach whereas fair value less costs to sell is determined giving consideration to comparable sales transactions and price per room metrics. No properties triggered impairment testing during the three months ended March 31, 2015. As a result, no impairment was recognized for the three months ended March 31, 2015 (2014 – $nil).

8. OTHER REAL ESTATE PROPERTIES

Other real estate properties include a retail property and a retirement residence. The land amount included in land and building is $121 at March 31, 2015 (December 31, 2014 – $121). This amount is not depreciated.

As described in Note 7, a similar impairment review was performed on other real estate properties. No impairment was recognized for the three months ended March 31, 2015 (2014 – $nil).

	Land and Building	Furniture, Fixtures and Equipment	Total
Cost			
Opening balance at January 1, 2015	$ 2,529	$ 77	$ 2,606
Additions	18	–	18
Balance at March 31, 2015	2,547	77	2,624
Accumulated depreciation			
Opening balance at January 1, 2015	641	47	688
Depreciation	17	3	20
Balance at March 31, 2015	658	50	708
Carrying value, March 31, 2015	**$ 1,889**	**$ 27**	**$ 1,916**

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

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

9. INTANGIBLE ASSETS

	Licence Contracts	Franchise Rights	Total
Cost			
Opening balance at January 1, 2015	$ 26,320	$ 2,492	$ 28,812
Additions	–	–	–
Balance at March 31, 2015	26,320	2,492	28,812
Accumulated amortization			
Opening balance at January 1, 2015	16,363	1,955	18,318
Amortization	327	63	390
Balance at March 31, 2015	16,690	2,018	18,708
Carrying value, March 31, 2015	**$ 9,630**	**$ 474**	**$ 10,104**

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

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

10. BANK INDEBTEDNESS

On May 23, 2014, InnVest obtained a bridge facility of up to $40,000 with a major banking institution which expires May 31, 2015. As at March 31, 2015, the bridge facility is secured by four properties. The amount of the bridge facility is subject to a mortgageability test which is based on the operating results of the secured properties, calculated quarterly on a trailing four quarters basis. Based on the operating results of the secured properties for the four quarters ended March 31, 2015, InnVest had the ability to draw up to $23,815. The amount drawn on the bridge facility as at March 31, 2015 was $nil. The bridge facility bears interest at either the Canadian bank prime rate plus 1.5% or the Canadian Bankers' Acceptance rate plus 2.5%.

11. LONG-TERM DEBT

	March 31, 2015	December 31, 2014
Mortgages payable	**$ 745,080**	$ 749,363
Subordinated term loan	**50,000**	50,000
Bridge loan	**2,000**	2,000
	797,080	801,363
Reclass to liabilities related to assets held for sale (Note 3)	**–**	(8,553)
	797,080	792,810
Less debt issuance costs	**(6,634)**	(8,559)
Total long-term debt	**790,446**	784,251
Less current portion	**(238,725)**	(231,731)
Net long-term debt – non-current	**$ 551,721**	$ 552,520

Substantially all of InnVest's assets have been pledged as security under debt agreements. At March 31, 2015, long-term debt had a weighted average interest rate of 5.5% (December 31, 2014 – 5.5%) and a weighted average effective interest rate of 6.0% (December 31, 2014 – 5.9%). The long-term debt is repayable in average monthly payments of principal and interest totalling $5,014 (December 31, 2014 – $5,098) and matures at various dates from June 30, 2015 to January 1, 2024.

Mortgages Payable

InnVest has access to a loan facility for up to $30,000 to fund 65% of capital expenditures incurred at certain of its hotels. At March 31, 2015, InnVest had remaining capacity on the facility of $8,386 (December 31, 2014 – $8,386).

Subordinated Term Loan

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

In connection with the Term Loan, a portion of the interest payments can be paid in units if mutually agreed upon by KingSett and InnVest. During the three months ended March 31, 2015, no units were issued in satisfaction of the interest payments.

Bridge Loan

InnVest has a bridge loan secured by one property. As at March 31, 2015, the bridge loan amount was $2,000 (December 31, 2014 – $2,000). During the quarter, InnVest extended the bridge loan to February 29, 2016. The bridge loan requires quarterly principal payments of $250 starting June 1, 2015 and bears interest at the Canadian Bankers' Acceptance rate plus 4.0%.

Operating Line

InnVest has an operating line of credit of up to $40,000 with a Canadian chartered bank which expires August 31, 2016. At March 31, 2015, the operating line is secured by nine properties (December 31, 2014 – nine properties). The amount of the operating line is subject to a mortgageability test which is based on the operating results of the secured properties, calculated quarterly on a trailing four quarters basis. Based on the operating results of the secured properties for the four quarters ended March 31, 2015, InnVest had the ability to draw up to $40,000. The amount drawn on the operating line as at March 31, 2015 was $nil (December 31, 2014 – $nil). The operating line bears interest at either the Canadian bank prime rate plus 2.0% or the Canadian Bankers' Acceptance rate plus 3.0%.

Scheduled repayments of long-term debt are as follows:

	Regular Amortization	Due on Maturity	Total
2015	$ 10,740	$ 223,984	$ 234,724
2016	11,160	46,745	57,905
2017	8,094	231,412	239,506
2018	5,739	55,256	60,995
2019	3,165	139,068	142,233
2020 and thereafter	5,721	55,996	61,717
	$ 44,619	**$ 752,461**	**$ 797,080**

The estimated fair value of InnVest's long-term debt at March 31, 2015 was approximately $818,489 (December 31, 2014 – $817,791). This estimate was determined by discounting expected cash flows at interest rates that reflect current market conditions for debt with similar terms, maturities and credit risk.

Long-term debt includes $169,419 (December 31, 2014 – $170,013) which is subject to floating interest rates. Annual interest expense will increase by $1,694 for every 1% increase in the base Bankers' Acceptance rate. Subsequent to the quarter, the REIT refinanced $70,000 of floating debt (refer to Note 26).

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

12. CONVERTIBLE DEBENTURES

The convertible debentures outstanding are as follows:

Debenture	Face Amount	Maturity Date	Coupon Interest Rate	Interest Rate Including Issuance Costs	Effective Interest Rate(1)	Conversion Strike Price	**Outstanding Principal March 31, 2015**	Outstanding Principal December 31, 2014
Series D	50,000	March 31, 2016	6.75%	7.64%	9.41%	$ 5.70	**$ –**	$ 36,358
Series E	75,000	September 30, 2017	6.00%	6.79%	7.75%	$ 8.00	**75,000**	75,000
Series F	50,000	March 30, 2018	5.75%	6.57%	7.40%	$ 9.45	**49,975**	50,000
Series G	86,250	March 31, 2019	6.25%	6.25%	8.25%	$ 7.50	**86,250**	86,250
Total convertible debentures							**$ 211,225**	$ 247,608

(1) Includes issuance costs and conversion option allocation.

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

	March 31, 2015	December 31, 2014
Convertible debentures	**$ 211,225**	$ 247,608
Financing costs and accretion, net	**1,485**	2,602
Less allocation of conversion option value	**(12,320)**	(15,229)
Convertible debentures	**$ 200,390**	$ 234,981

The fair value of InnVest's convertible debentures, estimated based on the market price for each series of convertible debentures as at March 31, 2015, is $216,837 (December 31, 2014 – $253,667).

Redemption and Conversion of Series D Convertible Debentures

During the three months ended March 31, 2015, Series D convertible debentures with a face value totalling $32,715 were converted into 5,739,465 units of the REIT. On March 3, 2015, the REIT redeemed and cancelled all remaining Series D convertible debentures totalling $3,643. The convertible debentures redeemed resulted in a gain of $196 included in 'Other (income) and expenses, net' (Note 22).

The scheduled convertible debentures maturities are as follows:

	Due on Maturity
2015	$ –
2016	–
2017	**75,000**
2018	**49,975**
2019	**86,250**
	$ 211,225
Financing costs and allocation of conversion option value	**(10,835)**
	$ 200,390

13. PROVISIONS

	March 31, 2015	December 31, 2014
Opening balance, beginning of period	**$ 9,359**	$ 7,073
Increase (decrease) to 'Hotel properties':		
Other	**–**	(27)
Effect of changes in the discount rate (Note 7)	**975**	2,313
Ending balance, end of period	**$ 10,334**	$ 9,359

The entire provision of $10,334 relates to InnVest's decommissioning and restoration obligation. The provision for decommissioning and restoration relates to the estimated future cost of environmental obligations for certain properties. InnVest intends to settle the obligations at the end of the expected useful life of the hotel properties. At March 31, 2015, the liability has been discounted at a rate of 1.99% based on the Bank of Canada long-term bond yields (December 31, 2014 – 2.33%). Upon the initial recognition of the liability, the decommissioning and restoration obligation was capitalized to buildings and is being amortized over the remaining useful life. The effects of the change to the discount rate are capitalized to buildings and amortized over the remaining useful life.

14. OTHER LONG-TERM OBLIGATIONS

	March 31, 2015	December 31, 2014
Finance lease	**$ 821**	$ 821
Other lease obligations	**257**	262
Employee retiring allowance	**1,271**	1,271
Employee benefit plans	**2,677**	2,677
Total other long-term obligations	**$ 5,026**	$ 5,031
Less current portion	**(190)**	(190)
Other long-term obligations – non-current	**$ 4,836**	$ 4,841

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

Defined Benefit Pension Plans and Other Employment Benefits

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

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

15. OTHER LIABILITIES

		March 31, 2015		December 31, 2014
Exchangeable units	$	2,094	$	2,170
Convertible debenture holders' conversion option (Note 17)		5,879		9,931
Deferred Units		973		774
Unvested executive compensation		336		211
Other liabilities	$	9,282	$	13,086

Exchangeable Units

As part of an acquisition made in 2005, InnVest granted 362,869 exchangeable units ("Exchangeable units") to a third party. The Exchangeable units receive a monthly cash payment equal to the value of the cash distributions that would have been paid on the InnVest units if they had been issued on the date of grant. The Exchangeable units are exchangeable into InnVest units with three business days of prior written notice to InnVest or on August 2, 2015. The Exchangeable units are presented as liabilities at their fair value based on the market price of InnVest units. During the three months ended March 31, 2015, distributions totalling $145 (2014 – $145) were paid on the Exchangeable units and are included in 'Interest' expenses in the condensed interim consolidated statements of net loss and comprehensive loss.

Convertible Debenture Holders' Conversion Option

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

Deferred Unit Plan

InnVest's trustees participate in a compensation plan involving the grant of deferred units. The plan entitles trustees, at their option, to receive up to 100% of their annual retainer in the form of deferred units. The value of deferred units granted is equal to the trustee's election multiplied by 2 (InnVest matches the trustee's election).

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

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

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

Upon issuance of units (following a trustee's departure from the Board), the liability is reclassified to 'Unitholders' equity' at the then current fair value based on the market price of the REIT's units.

Executive Compensation Plan

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

16. CAPITAL MANAGEMENT

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

At March 31, 2015, InnVest's primary contractual obligations consisted of long-term mortgage obligations and convertible debentures. InnVest is not permitted to exceed certain financial leverage amounts under the terms of the DOT. InnVest is permitted to hold indebtedness excluding convertible debentures up to a level of 60% of gross asset value. Further, InnVest is permitted to have indebtedness and convertible debentures up to a level of 75% of gross asset value. Indebtedness is computed as of the last day of each financial period excluding any indebtedness under any operating line, non-interest bearing indebtedness, trade accounts payable and, for greater certainty, deferred income tax liability. InnVest is further limited by an operating line covenant which limits total indebtedness including convertible debentures up to 70% of gross asset value. Management's policy is not to exceed this leverage limit at any time during the year. Under the terms of the DOT, individual property mortgages (or mortgages on a pool of properties) cannot exceed 75% of the fair value of the underlying property.

At March 31, 2015, InnVest's leverage excluding and including convertible debentures was 48.0% and 60.7%, respectively, calculated as follows:

		March 31, 2015		December 31, 2014
Total assets per consolidated balance sheets		**$ 1,284,327**		$ 1,329,285
Accumulated depreciation and amortization		**377,870**		363,923
Gross asset value		**$ 1,662,197**		$ 1,693,208
Book value of long-term debt and bridge facility (Notes 10 and 11)(1)	**$ 797,080**	**48.0%**	$ 801,363	47.4%
Convertible debentures (Note 12)(2)	**211,225**	**12.7%**	247,608	14.6%
Total indebtedness	**$ 1,008,305**	**60.7%**	$ 1,048,971	62.0%

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

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

(a) Direct and indirect investments in real property on which hotels are situated and the hotel business conducted thereon, primarily in Canada, and in entities whose activities consist primarily of franchising hotels;
(b) Temporary investments held in cash, deposits with a Canadian chartered bank or trust company, short-term government debt securities or in money market instruments of, or guaranteed by, a Schedule 1 Canadian bank, short-term commercial paper, notes, bonds of other debt securities of a Canadian entity having a rating of at least R-1 (Mid) by Dominion Bond Rating Service or A-1 (Mid) by Standard & Poor's Corporation maturing prior to one year from the date of issue;
(c) Investments in mortgages or mortgage bonds, where the related security is a first mortgage on income producing real property which otherwise complies with (a) above and is subject to certain leverage limits and debt service coverage. The aggregate value of such investments shall not exceed 20% of unitholders' equity; and
(d) Investments other than those summarized in (a) through (c) are limited to 15% of InnVest's Unitholders' equity plus accumulated depreciation.

InnVest is in compliance with these guidelines.

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

	Threshold	March 31, 2015	Capacity(1)	December 31, 2014
(i) Total indebtedness (including convertible debentures) as a percentage of gross assets	< 70.0%	**60.7%**	**$ 155,233**	62.0%
(ii) Trailing 12 months consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") to consolidated interest expense(2)	> 1.8 x	**2.2 x**	**$ 24,053**	2.0 x
(iii) Trailing 12 months consolidated EBITDA to consolidated debt service(3)	> 1.5 x	**1.7 x**	**$ 15,422**	1.6 x
(iv) Unitholders' equity plus accumulated depreciation less 'Intangible assets'	> $ 300,000	**$ 570,258**	**$ 270,258**	$ 555,421

(1) Reflects additional capacity (for debt, EBITDA or unitholders' equity, as applicable) before exceeding the covenant threshold at March 31, 2015.
(2) Consolidated interest expense excludes non-cash portion of mortgage interest expense and non-cash portion of convertible debenture interest and accretion.
(3) Consolidated debt service includes consolidated interest expense plus regular principal payments of $17,566.

17. FINANCIAL INSTRUMENTS

Risk Management

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

INTEREST RATE RISK

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

InnVest's floating rate debt balance is monitored by management to minimize InnVest's exposure to interest rate fluctuations. As at March 31, 2015, InnVest's floating rate debt balance of $169,419 (December 31, 2014 – $170,013) is approximately 21.4% (December 31, 2014 – 21.2%) of total long-term debt, excluding convertible debentures. Subsequent to the quarter, the REIT refinanced $70,000 of floating rate with a new fixed rate mortgage (refer to Note 26).

CREDIT RISK

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

	March 31, 2015	December 31, 2014
Accounts receivable	**$ 21,693**	$ 22,175
Allowance for doubtful debts	**$ 326**	$ 365
Accounts receivable greater than 90 days not provided	**$ 28**	$ 447
Allowance for doubtful debts to total receivables	**1.5%**	1.6%

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Bad debt (recovery) expense	**$ (39)**	$ 28

LIQUIDITY RISK

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

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

	Remainder of 2015	2016	2017	2018	2019	2020 and Thereafter	Contractual Cash Flows(1)
Accounts payable and accrued liabilities	$ 62,287	$ –	$ –	$ –	$ –	$ –	$ 62,287
Mortgage and subordinated term loan payable							
– principal(2)	233,974	56,655	239,506	60,995	142,233	61,717	795,080
– interest(3)	26,731	30,693	21,538	11,998	5,668	12,569	109,197
Bridge loan							
– principal	750	1,250	–	–	–	–	2,000
– interest	68	17	–	–	–	–	85
Convertible debentures							
– principal	–	–	75,000	49,975	86,250	–	211,225
– interest	6,382	12,764	12,764	6,828	2,695	–	41,433
Long-term leases	1,368	1,839	1,839	1,843	1,817	71,309	80,015
Total	$ 331,560	$ 103,218	$ 350,647	$ 131,639	$ 238,663	$ 145,595	$ 1,301,322

(1) Contractual cash flows include principal and interest payments.
(2) Mortgage principal includes regular amortization and repayments at maturity.
(3) Interest for floating rate debt is based on interest rates prevailing at March 31, 2015.

CONTINGENT OBLIGATIONS

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

Fair Values

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

The fair value of InnVest's long-term debt is greater than the carrying value by approximately $21,409 at March 31, 2015 (December 31, 2014 – $16,428) due to changes in interest rates since the dates on which the individual mortgages were arranged. The fair value of long-term debt has been estimated based on the current market rates for mortgages with similar terms, credit risks and conditions.

The fair value of InnVest's convertible debentures is greater than the carrying value by approximately $10,568 at March 31, 2015 (December 31, 2014 – $8,755). The fair value of convertible debentures is based on the market price for each series of convertible debentures as at each reporting date.

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

	March 31, 2015			December 31, 2014		
	Level 1	**Level 3**	**Total**	Level 1	Level 3	Total
Financial Liabilities:						
Exchangeable units	**2,094**	**–**	**2,094**	2,170	–	2,170
Convertible debenture holders' conversion option	**–**	**5,879**	**5,879**	–	9,931	9,931
Deferred Units	**973**	**–**	**973**	774	–	774
Unvested executive compensation	**336**	**–**	**336**	211	–	211
Total financial liabilities	**$ 3,403**	**$ 5,879**	**$ 9,282**	$ 3,155	$ 9,931	$ 13,086

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

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

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

	March 31, 2015	December 31, 2014
Expected volatility	**27% – 49%**	27.0%
Expected distribution yield	**6.9%**	6.7%

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

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

	March 31, 2015	December 31, 2014
Opening balance at January 1	**$ 9,931**	$ 17,227
Fair value (gain) loss included in net loss	**(1,097)**	9,027
Change in fair value of Series G conversion option resulting from redemption and amendment	**–**	(16,323)
Change in fair value of Series D conversion option resulting from redemption and conversions	**(2,955)**	–
Balance at end of the period	**$ 5,879**	$ 9,931

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

Letters of Credit

As at March 31, 2015, InnVest has letters of credit totalling $2,224 (December 31, 2014 – $8,255 which included $6,000 relating to a deposit on the investment in the Royal York Hotel acquisition, refer to Note 6). The letters of credit outstanding relate to security deposits for various utility companies and liquor licences and additional security for the pension liabilities.

18. UNITS OUTSTANDING

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

Units issued and outstanding:

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
	Units	**$**	Units	$
Balance, beginning of period	**116,280,294**	**758,863**	93,830,897	644,380
Issuance of Units	**5,742,110**	**34,544**	–	–
Units issued under distribution reinvestment plan	**49,818**	**284**	24,111	121
Units vested under executive and trustee plans	**131,140**	**838**	54,605	254
Balance, end of period	**122,203,362**	**794,529**	93,909,613	644,755

Issuance of Units

During the three months ended March 31, 2015, convertible debentures with a face value totalling $32,740 were converted into 5,742,110 units of the REIT.

Units Vested Under Executive and Trustee Plans

Units vested under the executive and trustee unit plans for the three months ended March 31, 2015 was 131,140 units included 80,000 units vested for the President and CEO in January 2015 (2014 – 54,605).

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

Distribution Reinvestment Plan ("DRIP")

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

Trustee Compensation Plan

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

In September 2014, InnVest's Board of Trustees approved an increase of this reserve to 1% of InnVest's outstanding units from time to time in connection with proposed changes to the Board of Trustees compensation structure. The listing of additional units relating to this change was conditionally approved by the Toronto Stock Exchange ("TSX") in October 2014, subject to unitholder approval at the annual general meeting on June 16, 2015 and other customary conditions. At March 31, 2015, 129,551 units were granted to Trustees under the new compensation structure which remain subject to unitholder and final TSX approval.

Executive Compensation Plan

The senior executives participate in the executive compensation plan under which InnVest units are granted by the Board of Trustees from time to time. Granted units vest not more than four years from the effective date of grant. InnVest has reserved a maximum of 1,000,000 units for issuance under the plan. The balance in this reserve account at March 31, 2015 is 497,038 units (December 31, 2014 – 584,780 units). A unit granted through the plan entitles the holder to receive, on the vesting date, the then-current fair market value of the unit plus the value of the cash distributions that would have been paid on the unit if it had been issued on the date of grant assuming the reinvestment of the distribution into InnVest units. The payment will be satisfied through the issuance of units.

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

At March 31, 2015 there were 96,329 unvested executive units granted (December 31, 2014 – 58,794) under the plan. The unvested units are presented as 'Other liabilities'.

The following table summarizes the status of the executive compensation plan at March 31, 2015, excluding granted units which have fully vested and/or were cancelled:

	Unvested (Vested) Executive Units, Net	Unvested (Vested) Units Accumulated from Distributions, Net	Unvested (Vested) Total Units, Net	Fair Value per Unit at Grant Date
2011 – granted	4,000	1,316	5,316	$ 6.80
Vested in 2014	(2,000)	(557)	(2,557)	
Vested in 2015	(2,000)	(758)	(2,758)	
2012 – granted	7,000	1,836	8,836	$ 4.50
Vested in 2015	(3,500)	(882)	(4,382)	
2013 – granted	11,000	1,666	12,666	$ 4.65
2014 – granted	73,172	2,241	75,413	$ 5.30
Vested in 2014	(40,000)	–	(40,000)	
2015 – granted	87,795	–	87,795	$ 5.98
Vested in 2015	(44,000)	–	(44,000)	
	91,467	4,862	96,329	

19. PER UNIT INFORMATION

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

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
	Net Loss	**Weighted Average Units**	Net Loss	Weighted Average Units
Basic and diluted	**$ (23,233)**	**118,646,773**	$ (34,871)	93,858,254

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

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Convertible debentures	**30,295,030**	45,634,091

For the three months ended March 31, 2015, InnVest declared distributions to unitholders totalling $11,932 (2014 – $9,378) at $0.0333 distributions per unit monthly (2014 – $0.0333 per unit monthly). Declared distributions include cash distributions and distributions arising from the DRIP (Note 18). Subsequent to the end of the quarter, InnVest declared $4,070 of distributions to unitholders ($0.0333 per month) to May 11, 2015.

20. CHANGES IN NON-CASH WORKING CAPITAL

Cash (utilized in) generated from	**Three Months Ended March 31, 2015**	Three Months Ended March 31, 2014
Accounts receivable	**$ 482**	$ 4,682
Prepaid expenses and other assets	**(2,370)**	217
Accounts payable and other liabilities	**(1,263)**	4,209
Changes in non-cash working capital	**$ (3,151)**	$ 9,108

21. RELATED PARTY DISCLOSURES

Westmont Hospitality Canada Limited

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

Two trustees of InnVest have a direct or indirect controlling interest in Westmont and as such have a material interest in the Agreements. Westmont is considered a related party to InnVest as a result of its ability to exercise significant influence through the Agreements. At March 31, 2015, Westmont managed all but 11 of InnVest's hotels. The Agreements are on terms consistent with those that prevail in arm's length transactions.

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

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

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

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

During the three months ended March 31, 2015 and 2014, the fees charged by Westmont pursuant to the Agreements were as follows:

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Management fees	**$ 2,141**	$ 2,275
Asset management fees (included in 'Management fees')	**–**	398
Accounting services (included in 'Operating expenses')	**489**	571
Administrative services (included in 'Corporate and administrative')	**127**	85
Project management and general contractor services (capitalized to 'Hotel properties')	**454**	859
Termination fees	**254**	190
	$ 3,465	$ 4,378

In addition, InnVest reimburses Westmont for costs of certain employees which are paid by Westmont on account of InnVest. For the three months ended March 31, 2015 InnVest reimbursed $nil of related costs (2014 – $605). Included in 'Accounts payable and accrued liabilities' are amounts owed to Westmont at March 31, 2015 totalling $1,299 (December 31, 2014 – $1,071).

KingSett Capital ("Kingsett")

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

An affiliate of KingSett is the land owner for one leasehold hotel owned by InnVest. The lease expires in 2088. For the three months ended March 31, 2015, InnVest paid $135 (2014 – $135) in lease payments related to this asset. Included in 'Accounts payable and accrued liabilities' are amounts owed to an affiliate of KingSett at March 31, 2015 totalling $45 (December 31, 2014 – $45).

22. OTHER (INCOME) AND EXPENSES, NET

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Loss (gain) on sale of assets, net (Note 3)	**$ 45**	$ (1,056)
Termination of royalty fee arrangement for joint CHC and InnVest licensed properties	**(547)**	–
Gain on early redemption of convertible debentures, net (Note 12)	**(196)**	–
Interest and other income	**(22)**	(73)
	$ (720)	$ (1,129)

During the three months ended March 31, 2015, InnVest recorded a net loss of $45 on the sale of two hotels (2014 – gain of $1,056 on the sale of one hotel).

23. WRITEDOWN OF HOTEL PROPERTIES, NET

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Reversal of previous impairment	**$ –**	$ 575

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

Fair value losses recorded are as follows:

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Exchangeable units	**$ (75)**	$ 224
Convertible debenture holders' conversion option	**(1,097)**	7,847
	$ (1,172)	$ 8,071

25. SEGMENT INFORMATION

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

Revenues

Three Months Ended March 31, 2015	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	**$ 40,311**	**$ 39,319**	**$ 19,403**	**$ 11,586**	**$ 110,619**
Other real estate properties					**179**
Revenues					**$ 110,798**

Three Months Ended March 31, 2014	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	$ 35,328	$ 42,839	$ 20,523	$ 15,545	$ 114,235
Other real estate properties					196
Revenues					$ 114,431

Net Loss

Three Months Ended March 31, 2015	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	**$ 7,251**	**$ 6,511**	**$ 1,753**	**$ (13)**	**$ 15,502**
Other real estate properties					**(156)**
Gross operating profit					**15,346**
Other expenses, net					**(38,579)**
Net loss					**$ (23,233)**

Three Months Ended March 31, 2014	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	$ 7,190	$ 5,467	$ 1,490	$ (540)	$ 13,607
Other real estate properties					(113)
Gross operating profit					13,494
Other expenses, net					(48,365)
Net loss					$ (34,871)

Hotel Properties	Western	Ontario	Quebec	Atlantic	Total
March 31, 2015	**$ 506,556**	**$ 383,008**	**$ 176,984**	**$ 134,235**	**$ 1,200,783**
December 31, 2014	$ 508,446	$ 386,460	$ 178,888	$ 136,349	$ 1,210,143

CAPITAL EXPENDITURES

Three Months Ended March 31, 2015	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	**$ 5,219**	**$ 3,247**	**$ 1,202**	**$ 395**	**$ 10,063**
Other real estate properties					**18**
					$ 10,081
Three Months Ended March 31, 2014	$ 6,353	$ 4,854	$ 3,585	$ 3,704	$ 18,496

26. SUBSEQUENT EVENTS

In April 2015, InnVest completed the refinancing of the Hyatt Regency Vancouver hotel for a new 10-year $80,000 mortgage at a fixed interest rate of 3.75%. This financing replaced the $70,000, 3-year floating rate mortgage incurred as part of the acquisition of the property. Incremental proceeds from the refinancing will be used to fund capital investments, to repay debt and for general corporate purposes.

27. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These condensed interim consolidated financial statements were authorized for issue by the Board of Trustees of InnVest on May 7, 2015.


FAIRMONT HOTEL MACDONALD, EDMONTON

CORPORATE INFORMATION

CORPORATE OFFICE

(effective May 2015)
Royal Bank Plaza
200 Bay Street, Suite 3205
South Tower
Toronto, Ontario M5J 2J2
Toll-free: 1-877-209-3429
Email: investor@innvestreit.com
Website: www.innvestreit.com

STOCK EXCHANGE LISTING

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

REGISTRAR AND TRANSFER AGENT

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

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

AUDITORS

Deloitte LLP
Toronto, Ontario

DISTRIBUTION REINVESTMENT PLAN

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

InnVest REIT holds one of Canada's largest hotel portfolios together with an which owns interests in Choice Hotels Canada. InnVest's portfolio comprises interests in approximately 110 hotels across Canada operated under internationally recognized brands.

RESERVATIONS

BEST WESTERN
1-800-780-7234

COMFORT INN
1-800-424-6423

DELTA HOTELS
1-888-890-3222

FAIRMONT HOTELS & RESORTS
1-800-257-7544

HILTON GARDEN INN
1-877-782-9444

HILTON HOTELS
1-800-445-8667

HOLIDAY INN
1-888-465-4329

HOLIDAY INN EXPRESS
1-888-465-4329

HOMEWOOD SUITES HOTELS
1-800-225-5466

HYATT REGENCY VANCOUVER
1-888-591-1234

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

RADISSON
1-888-201-1718

SHERATON HOTELS & RESORTS
1-800-325-3535

STAYBRIDGE SUITES HOTELS
1-877-660-8550

TRAVELODGE
1-800-578-7878

HYATT REGENCY
Fairmont HOTELS & RESORTS
Hilton
Sheraton HOTELS & RESORTS
DELTA
STAYBRIDGE SUITES
HOMEWOOD SUITES Hilton
Hilton Garden Inn
Holiday Inn
Holiday Inn Express
Radisson
Best Western
Comfort BY CHOICE HOTELS
QUALITY BY CHOICE HOTELS
Travelodge

www.innvestreit.com