InnVest R · E · I · T

2003 THIRD QUARTER REPORT TO UNITHOLDERS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2003

Letter to Unitholders

The third quarter continued to present difficult operating conditions for the Canadian Hospitality market. However, we are beginning to see some indications of a recovery, as RevPAR performance relative to the prior year continues to improve on a monthly basis, particularly in the Greater Toronto Area ("GTA"). As a result of recent events, we continued to experience lower room revenues in the third quarter compared to the same quarter in 2002. Our Ontario hotels continue to contribute the majority of the negative variances to the prior year with concentration in the GTA. Despite these difficulties, our portfolio outperformed the market in the third quarter.

For the quarter, InnVest's revenue per available room ("RevPAR") declined 11.5% compared to a market decline of 11.2%. When adjusted to eliminate approximately $1.2 million of one-time crew business in the Western region in the third quarter of 2002, InnVest's RevPAR decrease is reduced to 9.9%. InnVest outperformed the market in all regions after adjusting for this one-time crew business, with the exception of the Atlantic region, where we performed consistently with the market. Our strategy of maintaining rates resulted in less erosion of average daily rate ("ADR") in InnVest's portfolio in virtually all geographic regions relative to the market, and has put us in a strong position to recover as the market improves.

We continue to maintain the quality of our properties through our capital program. During the quarter, we spent $1.4 million on capital items, and we plan to spend an additional $1.8 million on capital improvements in the fourth quarter.

We continue to pursue new acquisitions and expect to close the purchase of the Holiday Inn in Dartmouth, Nova Scotia by the end of the year. We are well positioned to identify attractive acquisition candidates and have significant unutilized financing capacity to make acquisitions that are accretive to cash flow and demonstrate long term value.

Overall, while it was a particularly challenging quarter for the industry, we feel that the impact of SARS is short term in nature and not indicative of stabilized performance in the long term of our hotels. We are taking the necessary actions to maximize results in the short term while continuing to execute on our strategy to build value over the longer term.

Financial Review

In the third quarter hotel revenues were $70.3 million, $9.1 million or 11.5% below last year. This reflects a 7.8 percentage point reduction in occupancy rates to 71.0% and a $1.53 reduction (1.7%) in ADR to $87.20. As a result, RevPAR of $61.91 was 11.5% below last year. Our Ontario properties represented approximately 81% of the adjusted decline with the remainder of the adjusted decline coming from the rest of the portfolio. Of the Ontario variance, the GTA made up approximately 46% of the shortfall.

Hotel expenses for the third quarter were $38.3 million, 7.5% lower than a year ago. Expense savings were realized in all departments, with the exception of non-controllable fixed costs, such as property taxes and insurance. Overall, the decrease in hotel expenses is a result of lower occupancy and cost control initiatives undertaken in response to weaker demand.

Hotel operating income for the third quarter was $32.0 million, which was $6.0 million below prior year. The decrease is a result of lower hotel revenues partially offset by lower hotel expenses.

Distributable income for the quarter was $21.3 million or $0.519 per unit on a basic basis. During the quarter, $11.6 million or $0.2813 per unit was distributed to Unitholders, maintaining our distribution program of $0.09375 per unit per month.

InnVest's balance sheet remains strong with $22.9 million of cash including $13.4 million of cash earmarked for future furniture, fixture and equipment and capital improvements. Our financial leverage at quarter end was 38.0%, debt to gross asset value, which was slightly lower than at the end of the second quarter and well within the 50% limit. We also have significant unutilized credit facilities to support our business plan.

Outlook

Looking ahead, we expect to see the negative monthly variances experienced in the last two quarters to continue to improve in the fourth quarter. We view the impact of SARS as short term and not indicative of the longer term stabilized performance of our hotels. As the industry recovers, InnVest is well positioned to improve performance due to the geographic and customer diversity, our strategy of maintaining room rates and the positive operating leverage of our limited service portfolio.

Given the current environment, our priorities continue to be maximizing revenues through room sales and marketing initiatives, maintaining room rates and controlling operating costs. Our longer term objective is to provide stable and growing cash distributions and to maximize the long term unit value of the REIT by continuing to actively manage the hotel assets, to make selective acquisitions that are accretive to earnings and cash flow and provide long term value to the REIT. While we monitor distributions on a monthly basis, we are comfortable with the current distribution level.

(signed)

Kenneth Gibson
President and Chief Executive Officer
November 25, 2003

The following is a discussion of the results of operations and financial condition of InnVest Real Estate Investment Trust ("InnVest" or the "REIT") for the three months and nine months ended September 30, 2003, with a comparison with the results of operations of the acquired hotel properties and franchise business during the comparable periods in 2002.

The following management's discussion and analysis should be read in conjunction with the unaudited consolidated financial statements of the REIT and the notes thereto as at and for the three and nine months ended September 30, 2003, and the period from July 26, 2002 to September 30, 2002, and with the audited consolidated financial statements and the notes thereto for the 159-day period from July 26, 2002 to December 31, 2002.

The financial statements of InnVest are prepared in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars. Data in tabular form and in the text, unless otherwise indicated, are in thousands of dollars, except for per unit, Average Daily Rate ("ADR"), and Revenue per Available Room ("RevPAR") amounts.

Forward-looking information

The following discussion, as well as other sections within this quarterly report, contains forward looking or outlook information with respect to InnVest. Because forward-looking information addresses future events and conditions, it involves risk and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking information. These risks and uncertainties are discussed in the management's discussion and analysis contained in the 2002 annual report, which is filed with SEDAR and posted on InnVest's Web site at www.InnVestreit.com.

InnVest disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do so by applicable securities laws.

Key Performance Indicators

The key measures that indicate the performance of the hotel industry and the relative strength of participants in the industry are Occupancy, Average Daily Rate and Revenue per Available Room. These key performance indicators for the REIT by geographic segment of the portfolio for the three and nine months ended September 30, 2003 are as follows:

Three months ended September 30, 2003

	Ontario	Quebec	Atlantic	Western	Total
Occupancy	67.2%	76.6%	86.8%	63.9%	71.0%
Average Daily Rate	$ 88.42	$ 91.32	$ 92.55	$ 71.02	$ 87.20
Revenue per Available Room	$ 59.42	$ 69.95	$ 80.33	$ 45.38	$ 61.91

Nine months ended September 30, 2003

	Ontario	Quebec	Atlantic	Western	Total
Occupancy	59.8%	67.8%	68.7%	55.6%	61.9%
Average Daily Rate	$ 85.40	$ 86.45	$ 82.36	$ 67.36	$ 82.73
Revenue per Available Room	$ 51.07	$ 58.61	$ 56.58	$ 37.45	$ 51.21

Seasonality

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

Financial Highlights Summary

	Three months ended September 30, 2003	Nine months ended September 30, 2003	For the period from July 26 to September 30, 2002
Hotel revenues	$ 70,306	$ 173,929	$ 57,274
Hotel expenses	38,258	109,009	29,649
Hotel operating income	32,048	64,920	27,625
EBITDA[(1),(2)]	32,321	64,601	27,989
Net income	$ 19,712	$ 24,272	$ 17,715
Net income per unit			
– basic	$ 0.431	$ 0.446	$ 0.399
– diluted	$ 0.410	$ 0.446	$ 0.369
Net income	$ 19,712	$ 24,272	$ 17,715
Add / (deduct)			
Depreciation and amortization	7,745	23,004	5,519
Future income tax recovery	(1,542)	(2,626)	(317)
Non-cash executive and trustee compensation	57	201	30
Funds from operations	$ 25,972	$ 44,851	$ 22,947
Funds from operations per unit[(3)]			
– basic	$ 0.587	$ 0.958	$ 0.526
– diluted	$ 0.540	$ 0.933	$ 0.477
Funds from operations	$ 25,972	$ 44,851	$ 22,947
Amortization of fair value debt adjustment	(360)	(1,042)	(248)
Amortization of deferred financing costs	365	1,097	281
Reserve for replacement of furniture, fixtures and equipment and capital improvements	(2,812)	(6,957)	(2,291)
Convertible debentures interest	(1,828)	(5,484)	(1,342)
Distributable income[(2)]	$ 21,337	$ 32,465	$ 19,347
Distributable income per unit[(3)]			
– basic	$ 0.519	$ 0.790	$ 0.471
– diluted	$ 0.481	$ 0.789	$ 0.430
Distributions	$ 11,577	$ 34,686	$ 4,596
Distributions – per unit	$ 0.2813	$ 0.8438	$ 0.1119

(1) EBITDA – Earnings before interest, income taxes, capital taxes and depreciation and amortization.
(2) EBITDA and distributable income are measures of earnings and cash flow that are not required under Canadian generally accepted accounting principles, and accordingly, may not be comparable to similar measures used by other organizations.
(3) Distributable income per unit and funds from operations per unit have been calculated on a basis consistent with that prescribed by Canadian generally accepted accounting principles for calculating earnings per unit.

Comparison to Previous Year

The table below compares the unaudited results for the three and nine months ended September 30, 2003 to the unaudited third quarter and nine-month figures for 2002 of the acquired hotel properties.

Hotel Operating Results

	Three months ended September 30(1)			Nine months ended September 30(1)		
	2003	2002	Variance %	**2003**	2002	Variance %
Occupancy	**71.0%**	78.8%	(9.9%)	**61.9%**	67.8%	(8.7%)
Average daily rates	**$ 87.20**	$ 88.73	(1.7%)	**$ 82.73**	$ 82.92	(0.2%)
Revenue per available room	**$ 61.91**	$ 69.92	(11.5%)	**$ 51.21**	$ 56.22	(8.9%)
Room revenue	**$ 65,786**	$ 74,304	(11.5%)	**$ 161,484**	$ 176,871	(8.7%)
Total revenue	**$ 70,306**	$ 79,435	(11.5%)	**$ 173,929**	$ 190,557	(8.7%)
Hotel operating expenses and management fees	**$ 32,327**	$ 35,715	(9.5%)	**$ 91,270**	$ 96,014	(4.9%)
Gross operating profit	**$ 37,979**	$ 43,720	(13.1%)	**$ 82,659**	$ 94,543	(12.6%)
Gross operating profit margin	**54.0%**	55.0%	(1.8%)	**47.5%**	49.6%	(4.2%)
Property taxes, rent and insurance	**$ 5,931**	$ 5,665	4.7%	**$ 17,739**	$ 17,239	2.9%
Hotel operating income	**$ 32,048**	$ 38,055	(15.8%)	**$ 64,920**	$ 77,304	(16.0%)
Hotel operating income margin	**45.6%**	47.9%	(4.8%)	**37.3%**	40.6%	(8.1%)

(1) Unaudited data for the three and nine months ended September 30, 2003 and unaudited data for the comparative periods adjusted to reflect the current management fee arrangement.

Hotel Revenues

Hotel revenues consist primarily of revenue generated from room occupancy. Revenue from food and beverage services and other miscellaneous revenue streams associated with hotel operations such as space leases, vending commissions, movie rentals, parking and telephone are also included and account for 6.4% (2002, 6.5%) of the total revenue of the hotel portfolio for the three months ended September 30, 2003 and 7.2% (2002, 7.2%) for the nine months ended September 30, 2003.

Room revenues for the three months ended September 30, 2003 were $65.8 million, 11.5% lower than the $74.3 million generated for the same period in 2002, primarily reflecting the lingering effects of Severe Acute Respiratory Syndrome ("SARS") and the resulting decrease in tourism and business travel. In the third quarter of 2003, occupancy for the hotel portfolio decreased by 9.9%, while ADR decreased by $1.53 for a RevPAR decrease of 11.5% compared to 2002. A geographical comparison of the room revenue change from the same period in the prior year for the three months ended September 30, 2003 follows:

	Rooms	As a % of total	Room revenue variance for the three months ended September 30, 2003	As a % of total	Variance % over 2002
Greater Toronto Area ("GTA")	1,755	15.2%	$ (3,403)	46.4%	(28.2%)
Ontario Non-GTA	4,115	35.6%	$ (2,553)	34.8%	(9.8%)
Total Ontario	5,870	50.8%	$ (5,956)	81.2%	(15.7%)
Quebec	2,544	22.0%	$ (1,205)	16.4%	(6.9%)
Atlantic	1,315	11.4%	$ (159)	2.2%	(1.6%)
Western(1)	1,822	15.8%	$ (11)	0.2%	(0.1%)
Total(1)	11,551	100.0%	$ (7,331)	100.0%	(9.9%)

(1) After eliminating one-time crew business for our Edmonton properties of approximately $1,187 for three months ended September 30, 2002.

The 11.5% decrease in RevPAR (9.9% when adjusted to remove the one-time crew business experienced in 2002) for the REIT's hotel portfolio for the three months ended September 30, 2003 compares with an 11.2% decrease in RevPAR for the Canadian hotel industry. In the third quarter of 2002 InnVest had approximately $1.2 million of one-time crew business from an oil & gas project in Edmonton, Alberta. This crew business provided significant room revenue to InnVest's Edmonton hotels through the end of the third quarter in 2002.

For the three months ended September 30, 2003, InnVest's Ontario properties, which account for 50.8% of the InnVest portfolio, contributed 81.2% of the adjusted decline in room revenue. Specifically, the Greater Toronto Area alone, which accounts for only 15.2% of the InnVest portfolio, contributed 46.4% or $3.4 million of the overall normalized decline. These results demonstrate the magnitude of the negative lingering effects of SARS on the portfolio, with Ontario and the GTA being most adversely affected. As for Ontario Non-GTA properties, our Ottawa, Oshawa and Windsor properties (12 hotels or 1,396 rooms) accounted for $1.1 million or 44.4% of the $2.6 million decline in revenues within this segment, with the remaining decline being experienced throughout Ontario.

The following chart shows a geographical breakdown of the percentage variance in RevPAR by month comparing 2003 to 2002:

	Rooms	As a % of total	April	May	June	July	August	September
Greater Toronto Area ("GTA")	1,755	15.2%	(25.6%)	(41.4%)	(36.4%)	(38.0%)	(28.8%)	(15.4%)
Ontario Non-GTA	4,115	35.6%	(9.1%)	(9.2%)	(9.8%)	(12.2%)	(9.2%)	(8.2%)
Total Ontario	5,870	50.8%	(14.5%)	(19.6%)	(18.3%)	(20.7%)	(15.5%)	(10.4%)
Quebec	2,544	22.0%	2.2%	(1.6%)	(4.5%)	(7.3%)	(7.1%)	(6.0%)
Atlantic	1,315	11.4%	1.3%	0.5%	3.8%	(1.1%)	(1.6%)	(3.5%)
Western(1)	1,822	15.8%	12.5%	2.2%	(13.5%)	3.4%	0.7%	(6.1%)
Total(1)	11,551	100.0%	(6.3%)	(11.0%)	(11.8%)	(12.1%)	(9.8%)	(8.0%)

(1) After adjusting for one-time crew business in month of prior year.

Overall, the portfolio improved on a RevPAR basis during the quarter, going from a 12.1% adjusted decline from July of 2002 to an 8.0% adjusted decline from September 2002. Our Ontario properties went from a 20.7% decline from July of 2002 to a 10.4% decline from September 2002. Within this segment, our GTA properties showed significant improvement, as they went from a 38.0% decline in July to a 15.4% decline in September. Our Quebec and Atlantic properties demonstrated a decrease in RevPAR relative to the prior year in comparing the second quarter months to the third quarter months, as Quebec went from a 2.2% improvement in April to a 6.0% decline in September and our Atlantic properties went from a 1.3% improvement in April to a 3.5% decline in September. Our Western properties, when adjusted for one time crew business, went from a 3.4% improvement in July to a 6.1% decline in September.

For the nine months ended September 30, 2003 room revenues were $161.5 million or 8.7% lower than the $176.9 million generated for the same period in 2002. Occupancy for the hotel portfolio decreased by 8.7% for the first nine months of 2003 and ADR decreased modestly by $0.19 from the prior year for a net RevPAR decrease of 8.9%. A geographical comparison of the room revenue change from the same period in the prior year for the nine months ended September 30, 2003 is as follows:

	Rooms	As a % of total	Room revenue variance for the nine months ended September 30, 2003	As a % of total	Variance % over 2002
Greater Toronto Area ("GTA")	1,755	15.2%	$ (7,248)	62.6%	(24.2%)
Ontario Non-GTA	4,115	35.6%	$ (4,215)	36.4%	(6.7%)
Total Ontario	5,870	50.8%	$ (11,463)	99.0%	(12.3%)
Quebec	2,544	22.0%	$ (928)	8.0%	(2.2%)
Atlantic	1,315	11.4%	$ 596	(5.2%)	3.0%
Western(1)	1,822	15.8%	$ 213	(1.8%)	1.2%
Total(1)	11,551	100.0%	$ (11,582)	100.0%	(6.7%)

(1) After eliminating one-time crew business for our Edmonton properties of $3,805 for the nine months ended September 30, 2002.

The 8.7% decrease in room revenue is 6.7% when adjusted to remove one-time crew business experienced in 2002 for the REIT's hotel portfolio. The one-time crew business from an oil & gas project in Edmonton, Alberta accounted for $3.8 million of business in 2002 that was not repeated in 2003. This crew business provided significant room revenue to InnVest's Edmonton hotels through the end of the third quarter in 2002.

Hotel Expenses

Hotel expenses for the three months ended September 30, 2003 decreased by $3.1 million or 7.5%, from the same period in 2002. Expense savings were realized in all categories, except property taxes and insurance. Direct room expenses were lower by $1.1 million, as a result of the lower occupancy and cost control initiatives implemented by the REIT, while administrative and general expenses were lower by $831 reflecting the cost control initiatives introduced in the last half of 2002 and further measures taken as a result of the negative impact of SARS. Energy costs were under last year by $282 because of the lower occupancy experienced and the resulting decline in consumption. Property taxes and insurance increased, leading to an increase in fixed charges of $265 or 4.7% over 2002 levels.

For the nine months ended September 30, 2003, hotel expenses declined $4.2 million or 3.7% from the same period in 2002. The largest savings were experienced in a $2.1 million reduction in administrative and general expenses reflecting primarily the cumulative effect of cost control initiatives. Increases in property taxes of $729 and insurance of $557 were partially offset by a reduction in operating lease expense of $786, netting out to the $500 increase in fixed charges, an increase of 2.9% over 2002.

The gross operating profit for the nine months ended September 30, 2003 decreased by $11.9 million or 12.6% from last year, as net savings in expenses partially offset the declines in revenues. Savings were realized in all expense categories except energy costs. In the earlier part of the year, there was an overall increase in electricity prices in Ontario and consumption increases in electricity and natural gas from the effects of the colder than normal winter across the country. The resultant cost increases were offset by reduced consumption in the second and third quarters because of lower occupancy.

Hotel Operating Income

Hotel operating income ("HOI") for the three months ended September 30, 2003 declined to $32.0 million from $38.0 million achieved in the third quarter of 2002. This was a result of lower hotel revenues of the portfolio, partially offset by a reduction in hotel expenses.

For the nine months ended September 30, 2003, lower hotel revenues were partially offset by lower hotel expenses, resulting in an HOI decline of $12.4 million, as HOI decreased from $77.3 million achieved in 2002 to $64.9 million.

A geographical comparison of hotel operating income between the three months ended September 30, 2003 and the three months ended September 30, 2002 is as follows:

	Rooms	As a % of total	HOI variance for the three months ended September 30, 2003	As a % of total	Variance % over 2002
Greater Toronto Area ("GTA")	1,755	15.2%	$ (2,413)	40.2%	(44.7%)
Ontario Non-GTA	4,115	35.6%	$ (1,762)	29.3%	(13.0%)
Total Ontario	5,870	50.8%	$ (4,175)	69.5%	(22.0%)
Quebec	2,544	22.0%	$ (903)	15.0%	(10.0%)
Atlantic	1,315	11.4%	$ (151)	2.5%	(2.5%)
Western	1,822	15.8%	$ (778)	13.0%	(19.2%)
Total	11,551	100.0%	$ (6,007)	100.0%	(15.8%)

Hotel operating income decreased $6.0 million or 15.8% compared to the prior year, with the effect of SARS being the main contributor. The GTA and other Ontario properties accounted for the majority of this decrease, with GTA hotel operating income accounting for 40.2% of the overall decrease from the prior year. Of the other Ontario properties, our Ottawa, Oshawa and Windsor properties (12 hotels or 1,396 rooms) accounted for $713 or 40.5% of the $1.8 million decline in hotel operating income within this segment, with the remaining decline being experienced throughout Ontario.

Our portfolio demonstrated improvement in the third quarter in comparison to the second quarter, as the HOI variance over 2002 went from a 20.7% decline in the three months ended June 30, 2003 to a 15.8% decline in the three months ended September 30, 2003. Our Ontario properties showed significant improvement, as they went from a 30.5% decline in the previous quarter to a 22.0% decline in the current quarter. The significant change within this segment occurred in our GTA properties, as they went from a 66.3% decline to a 44.7% decline. Also, our Western properties improved, going from a 32.0% decline to a 19.2% decline. Again, the geographical diversity of InnVest's portfolio continues to mitigate the impact of the negative environmental conditions occurring throughout this difficult operating period.

A geographical comparison of hotel operating income between the nine months ended September 30, 2003 and the nine months ended September 30, 2002 is as follows:

	Rooms	As a % of total	HOI variance for the nine months ended September 30, 2003	As a % of total	Variance % over 2002
Greater Toronto Area ("GTA")	1,755	15.2%	$ (5,660)	45.7%	(48.4%)
Ontario Non-GTA	4,115	35.6%	$ (3,356)	27.1%	(11.7%)
Total Ontario	5,870	50.8%	$ (9,016)	72.8%	(22.3%)
Quebec	2,544	22.0%	$ (726)	5.9%	(4.0%)
Atlantic	1,315	11.4%	$ 57	(0.5%)	0.6%
Western	1,822	15.8%	$ (2,699)	21.8%	(30.2%)
Total	11,551	100.0%	$ (12,384)	100.0%	(16.0%)

Other Income and Expenses

Other income and expenses consist of interest on mortgages, corporate and administrative costs, capital tax, franchise business income, other income and depreciation and amortization.

The net amount of other income and expenses for the third quarter was $13.9 million or $315 less than the second quarter. This improvement from the previous quarter reflects an increase of $433 in franchise business income, which is normal in the third quarter, partially offset by lower other income and slightly higher depreciation.

For the nine months ended September 30, 2003 the net amount of other income and expenses was $42.7 million.

Income Taxes

Income tax recovery for the three and nine months ended September 30, 2003 was $1.6 million and $2.0 million respectively. This includes the future income tax recovery recorded as a result of the difference between depreciation for accounting purposes and the lesser amount claimed as capital cost allowance for income tax purposes offset by large corporation tax.

Current income taxes include an approximate $350 benefit as the result of income tax losses for the period from July 26, 2002 to December 31, 2002 in a subsidiary of the REIT not previously recognized. Future income taxes include an approximate $1.0 million recovery, as the result of anticipated 2003 income tax losses in a subsidiary of the REIT.

The REIT previously estimated that approximately 21% of the planned level of distributions made in 2003 will not be currently taxable to the Unitholders. As a result of the lower than forecast operating income, the REIT now estimates that the non-taxable portion of the planned distributions to the Unitholders will be in excess of the amount previously estimated.

Net Income

Three months ended September 30, 2003
Net income for the most recent three-month reporting period was $19.7 million or $0.431 per unit – basic (diluted – $0.410).

Nine months ended September 30, 2003
Net income year to date was $24.3 million or $0.446 per unit – basic (diluted – $0.446).

Distributable Income

Three months ended September 30, 2003
Distributable income for the most recent three-month reporting period was $21.3 million or $0.519 per unit – basic (diluted – $0.481). Cash distributions for the three-month period were $11.6 million or $0.2813 per unit, maintaining the distribution program of $0.09375 per unit per month.

Nine months ended September 30, 2003
Distributable income year to date was $32.5 million or $0.790 per unit – basic (diluted – $0.789). Cash distributions for the nine-month period were $34.7 million or $0.8438 per unit.

Changes in Financial Condition

Investing Activities

During the three and nine month reporting periods, hotel properties and licence contracts decreased by $6.4 million and $17.4 million respectively, being the net of capital additions and depreciation.

Other investing activities were limited to capital expenditures as part of the regular refurbishment program and the setting aside of 4% of revenues for the furniture, fixture and equipment reserve ("FF&E reserve") shown as restricted cash in the financial statements. For the three and nine months ended September 30, 2003 a total amount of $1.4 million and $5.6 million respectively was spent on capital items. The FF&E reserve increased by $2.8 million in the third quarter, and $7.0 million for the first three quarters (before capital expenditures).

The normal reserve for replacement of furniture, fixtures and equipment and capital improvements is managed over the longer term. This reserve is maintained to ensure that the properties remain competitive in their markets. During the balance of 2003, approximately $1.8 million will be spent as part of the refurbishment program.

The REIT intends to follow a program of completing a significant amount of its property refurbishing work in the fourth and first quarters in order to minimize the revenue reduction caused by having rooms out of service.

Financing Activities

During the three months ended September 30, 2003 property mortgages on six hotels totaling $14.8 million matured. InnVest refinanced these mortgages along with the mortgages on two hotels that matured in the second quarter for a total of $19.8 million, through the use of a loan facility available to repay mortgages as they mature. Total regular scheduled principal payments during the third quarter were $1.7 million, and the temporary use of cash to repay debt of $719 in the second quarter was advanced as part of the mortgage refinancing for a net principal pay down of $980 in the quarter.

Liquidity and Capital Resources

Liquidity was generated from cash flow from hotel operations, by an available bank operating line and by the ability to finance certain unencumbered or under-leveraged assets. Funds generated from operations before changes in working capital were $26.0 million for the third quarter and $44.9 million for the nine months ended September 30, 2003.

During the nine month reporting period, the REIT distributed $34.7 million or $0.8438 per unit, of which $709 was distributed in units as part of the Distribution Reinvestment Plan, at the rate of $0.09375 per unit per month. A regular monthly distribution of $0.09375 per unit for the month of September 2003 was paid in October 2003.

The REIT had unused operating loan availability of $25.0 million at September 30, 2003 and four hotel properties that remain unencumbered that could generate approximately $6.3 million in mortgage proceeds based on 50% loan to value. The REIT also has an unused acquisition facility of $40 million available to acquire hotel properties and an unused loan facility of $24 million to fund 50% of capital expenditures incurred.

The REIT has a $100 million mortgage loan facility with its main mortgage lender available to repay mortgage debts held by its various other lenders as they mature. The remaining availability of this facility is $74.5 million. Consequently, the REIT has minimal refinancing risk until 2006.

Outlook

The SARS outbreak which occurred late in the first quarter and the second outbreak late in May continued to severely impact tourism and business travel in the Greater Toronto Area and to a lesser extent the rest of Ontario and Canada during the first nine months of 2003.

As a result of InnVest's diverse portfolio of hotels across Canada, InnVest was subject to reduced risk exposure to the SARS outbreak, as it was mainly centred in Ontario and the GTA. Further, with InnVest's concentration in limited service hotels, which inherently have a lower fixed cost structure than mid service and full service hotels, InnVest is subject to lower operational risk relative to other segments of the industry.

We expect the negative monthly variances experienced in the nine months ended September 30, 2003 to decline in the fourth quarter. We view the impact of SARS as short term and not indicative of the longer term stabilized performance of our hotels. As the industry recovers, InnVest is well positioned due to the geographic diversity and limited service nature of its portfolio. In order to deal with the current environment, our priorities continue to be maximizing revenues through room sales and marketing initiatives, maintaining room rates and controlling operating costs.

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)	**September 30, 2003** *(unaudited)*	December 31, 2002
Assets		
Current Assets		
Cash	**$ 9,461**	$ 26,730
Accounts receivable	**10,646**	7,499
Prepaid expenses and other assets	**6,364**	3,865
	26,471	38,094
Restricted cash	**13,390**	12,075
Hotel properties (Note 2)	**833,942**	850,314
Licence contracts (accumulated amortization $1,558 – December 31, 2002 $571)	**24,762**	25,749
Deferred financing costs (accumulated amortization $1,730 – December 31, 2002 $633)	**5,583**	6,680
	$ 904,148	$ 932,912
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 21,713**	$ 18,558
Distributions payable	**3,861**	3,851
Acquisition related liabilities	**1,560**	9,275
Current portion of long-term debt (Note 3)	**7,416**	8,976
	34,550	40,660
Long-term debt (Note 3)	**305,480**	310,486
Future income tax liability	**119,107**	121,733
	459,137	472,879
Equity		
Unitholders' equity	**369,543**	385,033
Convertible debentures (Note 5)	**75,468**	75,000
	445,011	460,033
	$ 904,148	$ 932,912

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

(in thousands of dollars, except per unit amounts) (Unaudited)	**Three months ended September 30, 2003**	**Nine months ended September 30, 2003**	For the period from July 26 to September 30, 2002
Hotel revenues	**$ 70,306**	**$ 173,929**	$ 57,274
Hotel expenses			
Operating expenses	**29,954**	**85,400**	23,631
Property taxes, rent and insurance	**5,931**	**17,739**	4,081
Management fees	**2,373**	**5,870**	1,937
	38,258	**109,009**	29,649
Hotel operating income	**32,048**	**64,920**	27,625
Other (income) and expenses			
Interest on mortgages	**5,580**	**16,769**	4,194
Corporate and administrative	**772**	**2,282**	472
Capital tax	**495**	**1,485**	366
Franchise business income	**(1,015)**	**(1,814)**	(786)
Other income	**(30)**	**(149)**	(50)
Depreciation and amortization	**8,110**	**24,101**	5,800
	13,912	**42,674**	9,996
Income before income tax expense	**18,136**	**22,246**	17,629
Income tax expense (recovery)			
Current	**(34)**	**600**	231
Future	**(1,542)**	**(2,626)**	(317)
	(1,576)	**(2,026)**	(86)
Net income	**$ 19,712**	**$ 24,272**	$ 17,715
Net income per unit – basic (Note 6)	**$ 0.431**	**$ 0.446**	$ 0.399
– diluted (Note 6)	**$ 0.410**	**$ 0.446**	$ 0.369

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

There are no nine month comparative figures as the REIT began operations on July 26, 2002.

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

(in thousands of dollars) (Unaudited)		**Nine months ended September 30, 2003**		For the period from July 26 to September 30, 2002
Opening balance	**$**	**385,033**	$	–
Original issue of trust units		**–**		387,744
Distribution reinvestment plan units issued (Note 5)		**709**		–
Costs incurred regarding the distribution reinvestment plan (Note 5)		**(19)**		–
Executive and trustee compensation (Note 5)		**186**		30
Net income		**24,272**		17,715
Convertible debentures interest and accretion		**(5,952)**		(1,342)
Unit distributions		**(34,686)**		(4,596)
Closing balance	**$**	**369,543**	$	399,551

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

There are no nine month comparative figures as the REIT began operations on July 26, 2002.

(in thousands of dollars) (Unaudited)	**Three months ended September 30, 2003**	**Nine months ended September 30, 2003**	For the period from July 26 to September 30, 2002
Operating Activities			
Net income	$ 19,712	$ 24,272	$ 17,715
Add (deduct) items not affecting funds from operations			
Depreciation and amortization	7,745	23,004	5,519
Future income tax recovery	(1,542)	(2,626)	(317)
Non-cash executive and trustee compensation	57	201	30
Funds from operations	25,972	44,851	22,947
Amortization of fair value debt adjustment	(360)	(1,042)	(248)
Amortization of deferred financing costs	365	1,097	281
Changes in non-cash working capital	(3,077)	(8,095)	10,810
	22,900	36,811	33,790
Financing Activities			
Repayment of long-term debt	(20,748)	(25,292)	(223,885)
Proceeds from long-term debt	19,768	19,768	211,000
Issue of trust units, net of issue costs	–	–	277,055
Costs incurred regarding the distribution reinvestment plan	–	(19)	–
Unit distributions	(10,991)	(33,977)	(4,596)
Changes in non-cash working capital related to financing activities	(292)	(2,116)	–
Deferred financing costs	–	–	(7,313)
Convertible debentures interest	(1,828)	(5,484)	(1,342)
	(14,091)	(47,120)	250,919
Investing Activities			
Capital expenditures on hotel properties	(1,386)	(5,645)	(361)
Asset acquisitions	–	–	(248,113)
Changes in non-cash working capital related to investing activities	–	–	7,307
Increase in restricted cash	(1,429)	(1,315)	(11,930)
	(2,815)	(6,960)	(253,097)
Increase (decrease) in cash during the period	5,994	(17,269)	31,612
Cash, beginning of period	3,467	26,730	–
Cash, end of period	$ 9,461	$ 9,461	$ 31,612
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 6,016	$ 17,994	$ 3,112
Cash paid for income taxes (including capital tax)	$ 439	$ 2,488	$ 665

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

There are no nine month comparative figures as the REIT began operations on July 26, 2002.

As at September 30, 2003 (unaudited) (all dollar amounts are in thousands, except per unit amounts)

1. Basis of Presentation

InnVest Real Estate Investment Trust (the "REIT") is an unincorporated open-ended real estate investment trust governed by the laws of Ontario. The REIT was established pursuant to a declaration of trust dated January 1, 2002. On July 25, 2002, the REIT raised $300,000 (before issue costs) by issuing units on the Toronto Stock Exchange. These proceeds together with the issue of additional units and convertible debentures were utilized to acquire a portfolio of 114 Canadian hotels with 11,602 guest rooms operated under international brands. These consolidated financial statements represent operations for the three and nine months ended September 30, 2003. The REIT began operations on July 26, 2002 therefore the comparative figures shown are for the 67 day period from July 26, 2002 to September 30, 2002.

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The accounting principles used in these financial statements are consistent with those used in the annual consolidated financial statements. They do not include all the information and disclosure required by Canadian GAAP for annual financial statements, and should be read in conjunction with the annual consolidated financial statements.

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 the year.

2. Hotel Properties

	Cost	Accumulated Depreciation	September 30, 2003 Net Book Value	December 31, 2002 Net Book Value
Land	$ 58,801	$ –	$ 58,801	$ 58,801
Buildings	755,175	22,416	732,759	744,798
Furniture and equipment	54,449	12,067	42,382	46,715
	$ 868,425	$ 34,483	$ 833,942	$ 850,314

3. Long-term Debt

	September 30, 2003	December 31, 2002
Mortgages payable	$ 312,896	$ 319,462
Less: current portion	7,416	8,976
Total long-term debt	$ 305,480	$ 310,486

Substantially all of the REIT's assets have been pledged as security under various debt agreements. At September 30, 2003, long-term debt has a weighted average interest rate of 7.5% (December 31, 2002 – 7.6%). The long-term debt is repayable in blended monthly payments of principal and interest totalling $2,528 (December 31, 2002 – $2,610), and matures at various dates from October 1, 2003 to October 1, 2018.

Scheduled repayment of long-term debt is as follows:

2003 (remainder of the year)	$ 2,099
2004	6,847
2005	7,078
2006	138,000
2007	3,300
2008 and thereafter	155,572
	$ 312,896

The current portion of long-term debt on the balance sheet is based on the twelve months ended September 30, 2004, whereas the repayment schedule above reflects the fiscal year.

The estimated fair value of the REIT's long-term debt at September 30, 2003 is approximately $316,077 (December 31, 2002 – $319,119). This estimate was determined by discounting expected cash flows at the interest rates currently being offered to the REIT for debt of the same remaining maturities.

Long-term debt includes $25,662 of mortgages payable which are subject to floating interest rates. Interest expense will increase by $257 for every 1% increase in the base Bankers' Acceptance rate.

The REIT has a $100,000 mortgage loan facility with its main mortgage lender, of which $74,524 is available to repay mortgage debts held by its various other lenders as they mature.

4. Guarantees

Effective January 1, 2003, the REIT is required to disclose its obligations undertaken in issuing certain guarantees on the date the guarantee is issued or modified. Where the REIT expects to make a payment in respect of the guarantee, a liability will be recognized to the extent that one has not yet been recognized.

Other than the following, the REIT has not provided any significant guarantees to third parties:

Trustee and Officer Indemnification Agreements

The REIT has entered into indemnification agreements with its trustees and officers to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the trustees and officers as a result of any lawsuit or any other judicial, administrative proceeding in which the trustees and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of the indemnification agreements prevents the REIT from making a reasonable estimate of the maximum potential amount it could be required to pay to counter parties. The REIT has purchased trustees' and officers' liability insurance. No amount has been recorded in the financial statements with respect to these indemnification agreements.

5. Unitholders' Equity

The REIT was established pursuant to a declaration of trust dated January 1, 2002 when one unit was issued for ten dollars. The REIT is authorized to issue an unlimited number of units, each of which represents an equal undivided beneficial interest in any distributions from the REIT. All units are of the same class with equal rights and privileges.

	Units		Amount
Balance at December 31, 2002	41,075,910	$	387,744
Units issued under trustee compensation plan	6,810		60
Units issued under executive compensation plan	18,483		168
Units issued under distribution reinvestment plan	78,351		709
Balance at September 30, 2003	41,179,554	$	388,681

Trustee Compensation Plan

The members of the Board of Trustees receive 50% of their annual retainer in units (based on the then current market price of the units). The REIT has set aside 100,000 units in reserve for this purpose. As at September 30, 2003 there were 6,810 units issued under the trustee compensation plan.

Executive Compensation Plan

The senior executives participate in the executive compensation plan under which units are granted by the Board of Trustees from time to time. The REIT has reserved a maximum of 1,000,000 units for issuance under the plan. 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 REIT units. The payment will be satisfied through the issuance of units.

On July 17, 2002, the Board of Trustees approved the granting of 49,500 units to the senior executives for services rendered. The units granted on July 17, 2002 vest equally over a three year period on each annual anniversary date of grant. On July 17, 2003, 16,500 of the originally granted units along with 1,983 units accumulated from distributions, vested.

The following table summarizes the status of the executive compensation plan at September 30, 2003:

Date	Unvested Executive Units	Units Accumulated from Distributions	Total Units
July 17, 2002	49,500	6,688	56,188
July 17, 2003 – units vested	(16,500)	(1,983)	(18,483)
	33,000	4,705	37,705

Convertible Debentures

The convertible debentures bear interest at the rate of 9.75% per annum payable semi-annually in arrears and mature on June 30, 2007. Each $1 principal amount of convertible debentures is convertible at the option of the holder into 93.0233 units (representing a conversion price of $10.75 per unit). The convertible debentures are redeemable, in whole or from time to time in part, on and after July 1, 2005 at the option of the REIT, provided that the volume-weighted average trading price of the units for a stipulated period prior to the date on which the notice of redemption is given exceeds 115% of the conversion price. The REIT has the option to satisfy its obligation to pay the principal amount of the convertible debentures due at maturity or upon redemption, in whole or in part, by issuing the number of units equal to the principal amount of convertible debentures then outstanding divided by 95% of the volume-weighted average trading price of the units for a stipulated period prior to the date of redemption or maturity, as applicable.

In accordance with Canadian GAAP, the holder conversion option was valued separately from the convertible debentures at $2,850, being the estimated fair market value of the option on the date the security was issued. The debenture discount equal to the value of the option is being accreted to Unitholders' equity over the term of the convertible debentures.

The convertible debentures balance has been recorded as equity as the REIT has the ability to satisfy its obligations (principal and interest) under the terms of such instrument through the issue of units.

Distribution Reinvestment Plan ("DRIP")

The REIT has a DRIP whereby eligible Canadian unitholders may elect to have their distributions of income from the REIT automatically reinvested in additional units. Unitholders who so elect will receive a further bonus distribution of units equal in value to 3% of each distribution that was reinvested.

6. Per Unit Information

Net income per unit calculations are based on the following:

	Three months ended September 30, 2003			Nine months ended September 30, 2003			For the period from July 26 to September 30, 2002		
			Weighted Average Units			Weighted Average Units			Weighted Average Units
Net income	$	19,712	41,140,075	$	24,272	41,102,677	$	17,715	41,075,910
Convertible debentures interest and accretion		(1,984)	–		(5,952)	–		(1,342)	–
Net income – basic		17,728	41,140,075		18,320	41,102,677		16,373	41,075,910
Convertible debentures interest and accretion		1,984	6,976,744		–	–		1,342	6,976,744
Dilutive effect of executive compensation plan		–	8,095		–	8,095		–	5,640
Net income – diluted	$	19,712	48,124,914	$	18,320	41,110,772	$	17,715	48,058,294

Distributable income per unit calculations are based on the following (Note 7):

	Three months ended September 30, 2003		Nine months ended September 30, 2003		For the period from July 26 to September 30, 2002	
		Weighted Average Units		Weighted Average Units		Weighted Average Units
Distributable income	$ 21,337	41,140,075	$ 32,465	41,102,677	$ 19,347	41,075,910
Convertible debentures interest and accretion	1,828	6,976,744	5,484	6,976,744	1,342	6,976,744
Dilutive effect of executive compensation plan	–	8,095	–	8,095	–	5,640
Distributable income – diluted	$ 23,165	48,124,914	$ 37,949	48,087,516	$ 20,689	48,058,294

The convertible debentures have been excluded from certain diluted calculations because the impact of this conversion would not be dilutive.

7. Distributable Income

Distributions to Unitholders are computed based on distributable income as defined by the Declaration of Trust.

Distributable income means net income in accordance with Canadian generally accepted accounting principles, subject to certain adjustments as set out in the Declaration of Trust, including adding back depreciation and amortization, amortization of fair value debt adjustment and future income tax recovery, excluding any gains or losses on the disposition of real property and future income taxes, deducting the amount calculated, at 4% of hotel revenues, for the reserve for the replacement of furniture, fixtures and equipment and capital improvements, and the interest on convertible debentures that is not included in the computation of net income, and making any other adjustments determined by the trustees of the REIT in their discretion.

	Three months ended September 30, 2003	Nine months ended September 30, 2003	Period from July 26 to September 30, 2002
Net income	$ 19,712	$ 24,272	$ 17,715
Add (deduct)			
Depreciation and amortization	8,110	24,101	5,800
Amortization of fair value debt adjustment	(360)	(1,042)	(248)
Future income tax recovery	(1,542)	(2,626)	(317)
Reserve for replacement of furniture, fixtures and equipment and capital improvements	(2,812)	(6,957)	(2,291)
Non-cash executive and trustee compensation	57	201	30
Convertible debentures interest	(1,828)	(5,484)	(1,342)
	1,625	8,193	1,632
Distributable income	$ 21,337	$ 32,465	$ 19,347
Distributable income per unit – basic	$ 0.519	$ 0.790	$ 0.471
– diluted	$ 0.481	$ 0.789	$ 0.430

Distributable income is a measure of cash flow that is not required under Canadian generally accepted accounting principles, and accordingly, may not be comparable to similar measures used by other issuers. Distributable income per unit has been calculated on a basis consistent with that prescribed by Canadian generally accepted accounting principles for calculating earnings per unit.

8. Management Agreements

On July 26, 2002, the REIT entered into a Management Agreement for hotel management and accounting services and an Administrative Services Agreement ("the Agreements") with Westmont Hospitality Management Canada Limited ("Westmont"). Westmont is controlled by a minority Unitholder of the REIT. The Agreements have an initial term of 10 years with two successive five-year renewal terms, subject to the consent of Westmont and approval by the REIT. The Agreements will expire on July 25, 2012. The Agreements provide for the payment of an annual management fee to Westmont in an amount equal to 3.375% of gross revenues during the term of the Agreements, including renewal periods. In addition, Westmont may receive an annual incentive fee if the REIT achieves distributable income in excess of $1.21 per unit. No management incentive fees were earned in the period.

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

During the three and nine months ended September 30, 2003 and the period from July 26, 2002 to September 30, 2002, the fees charged to the REIT pursuant to the Agreements were as follows:

	Three months ended September 30, 2003	Nine months ended September 30, 2003	Period from July 26 to September 30, 2002
Management fees	$ 2,373	$ 5,870	$ 1,937
Accounting services (included in hotel operating expenses)	427	1,281	314
Administrative services (included in corporate and administrative expenses)	127	408	91
Project management and general contractor service fees (capitalized in hotel properties)	24	160	5
	$ 2,951	$ 7,719	$ 2,347

In addition, salaries of REIT employees paid by Westmont and reimbursed by the REIT, for the nine months ended September 30, 2003 were $194 (period from July 26 to September 30, 2002 – $77). Included in accounts payable and accrued liabilities are amounts payable to Westmont at September 30, 2003 totalling $954 (December 31, 2002 – $722).

9. Segmented Financial Information

The REIT operates hotel properties throughout Canada. Information related to these properties by geographic segment is presented below. The accounting policies used in the preparation of the segmented information are the same as those described for the REIT in the annual consolidated financial statements. The REIT primarily evaluates operating performance based on hotel operating income. All key financing, investing and capital allocation decisions are centrally managed.

	Western	Ontario	Quebec	Atlantic	Total
Three months ended September 30, 2003					
Hotel revenues	$ 8,266	$ 34,506	$ 17,529	$ 10,005	$ 70,306
Hotel expenses	4,988	19,739	9,374	4,157	38,258
Hotel operating income	$ 3,278	$ 14,767	$ 8,155	$ 5,848	$ 32,048
Nine months ended September 30, 2003					
Hotel revenues	$ 20,262	$ 88,932	$ 43,693	$ 21,042	$ 173,929
Hotel expenes	14,023	57,564	26,348	11,074	109,009
Hotel operating income	$ 6,239	$ 31,368	$ 17,345	$ 9,968	$ 64,920
Period from July 26 to September 30, 2002					
Hotel revenues	$ 6,659	$ 29,683	$ 13,611	$ 7,321	$ 57,274
Hotel expenses	3,847	15,853	6,946	3,003	29,649
Hotel operating income	$ 2,812	$ 13,830	$ 6,665	$ 4,318	$ 27,625
Capital expenditures					
Three months ended September 30, 2003	$ 94	$ 746	$ 390	$ 156	$ 1,386
Nine months ended September 30, 2003	$ 581	$ 3,642	$ 1,144	$ 278	$ 5,645
Period from July 26 to September 30, 2002	$ 30	$ 263	$ 45	$ 23	$ 361
Hotel properties					
September 30, 2003	$ 69,886	$ 473,801	$ 194,300	$ 95,955	$ 833,942
December 31, 2002	$ 67,686	$ 483,537	$ 195,492	$ 103,599	$ 850,314

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