

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "1933 Act"), and accordingly will not be offered, sold or delivered, directly or indirectly within the United States of America, if its possessions and other areas subject to its jurisdiction or to, or for the account or for the benefit of, a U.S. person (as defined in Regulation S under the 1933 Act), except in limited circumstances. See "Plan of Distribution".

SHORT FORM PROSPECTUS

Secondary Offering

September 30, 2003



INNVEST REAL ESTATE INVESTMENT TRUST

\$77,812,500

9.75% Convertible Unsecured Subordinated Debentures, due June 30, 2007

3079928 Nova Scotia Company (the "Selling Debentureholder") is offering for sale 75,000 9.75% convertible unsecured subordinated debentures (the "Debentures") due June 30, 2007 of InnVest Real Estate Investment Trust ("InnVest REIT" or the "REIT") at a price of \$1,037.50 per \$1,000 principal amount of Debentures, plus accrued and unpaid interest from June 30, 2003 to closing of the offering. See "Selling Debentureholder". **The REIT will not receive any proceeds from the sale of the Debentures.**

The Debentures bear interest at an annual rate of 9.75% payable semi-annually on June 30 and December 31 of each year (or the immediately following business day if any interest payment date would not otherwise be a business day). **The effective yield-to-maturity of the Debentures purchased at 103.75% of their principal amount pursuant to the offering is 8.55%.**

Each Debenture is convertible into units (the "Units") of InnVest REIT at the option of the holder at any time prior to 4:00 p.m. (Toronto time) on the earlier of June 29, 2007 and the last business day immediately preceding the date specified by InnVest REIT for redemption of the Debentures, at a conversion price of \$10.75 per Unit (the "Conversion Price"), being a conversion rate of approximately 93.0233 Units per \$1,000 principal amount of Debentures, subject to adjustment in certain events in accordance with the Indenture (as defined herein). Except in limited circumstances, holders converting their Debentures on a day other than an interest payment date will not be entitled to receive any accrued and unpaid interest on such Debentures. **A holder of Debentures will not be entitled to deferred tax treatment on the conversion, redemption or repayment at maturity of such Debentures. See "Certain Canadian Federal Income Tax Considerations".**

The Debentures are not redeemable prior to June 30, 2005. Thereafter, the Debentures may be redeemed by the REIT, in whole or in part, on not more than 60 days' and on not less than 30 days' prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Units on The Toronto Stock Exchange (the "TSX") for the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of redemption is given is not less than 115% of the Conversion Price.

The REIT may, at its option, on not more than 60 days' and not less than 30 days' prior notice, elect to satisfy its obligation to pay the principal amount of the Debentures that are to be redeemed or the principal amount of the Debentures that are to mature by delivering that number of freely-tradeable Units obtained by dividing the principal amount of the Debentures that are to be redeemed or that are to mature, as the case may be, by 95% of the volume-weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date fixed for redemption or maturity, as the case may be. In addition, subject to regulatory approval, Units may be issued to the Debenture Trustee and sold, with the proceeds used to satisfy the obligations to pay interest on the Debentures. Further particulars concerning the attributes of the Debentures are set out under "Details of the Offering".

There is currently no market through which the Debentures may be sold. The TSX has conditionally approved the listing of the Debentures. Listing will be subject to InnVest REIT fulfilling all of the listing requirements of the TSX on or before December 22, 2003. The outstanding Units are listed on the TSX under the symbol INN.UN. On September 18, 2003, the last trading day prior to the announcement of this offering, the closing price per Unit on the TSX was \$9.74.

Investing in the Debentures involves risks. See "Risk Factors".

	<u>Price to the Public⁽¹⁾</u>	<u>Underwriter's Fee</u>	<u>Net Proceeds to Selling Debentureholder⁽¹⁾⁽²⁾</u>
Per Debenture	\$1,037.50	\$38.91	\$998.59
Total Offering	\$77,812,500	\$2,917,969	\$74,894,531

(1) Plus accrued and unpaid interest from June 30, 2003 to closing of the offering. If the closing of this offering occurs on October 8, 2003, the amount of accrued and unpaid interest per Debenture will be \$26.71.

(2) Before deducting expenses of the offering estimated at \$500,000, which, together with the Underwriter's fee, will be paid by the Selling Debentureholder.

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RBC Dominion Securities Inc. (the “Underwriter”), as principal, conditionally offers the Debentures, subject to prior sale, if, as and when delivered by the Selling Debentureholder and accepted by the Underwriter in accordance with the conditions contained in the Underwriting Agreement referred to under “Plan of Distribution” and subject to the approval of certain legal matters on behalf of the REIT by Davies Ward Phillips & Vineberg LLP, on behalf of the Selling Debentureholder by Sullivan & Cromwell, New York, New York, and on behalf of the Underwriter by Osler, Hoskin & Harcourt LLP. In connection with this offering, the Underwriter may effect transactions that stabilize or maintain the market price of the Debentures at levels other than those which might otherwise prevail on the open market. See “Plan of Distribution”. The offering price of the Debentures was determined by negotiation between the Selling Debentureholder and the Underwriter.

Subscriptions will be received subject to rejection or allotment, in whole or in part, and the right is reserved to close the subscription books at any time without notice. Certificates for the aggregate principal amount of the Debentures will be issued in registered form to The Canadian Depository for Securities Limited (“CDS”) or its nominee and will be deposited with CDS on the date of closing, which is expected to occur on October 8, 2003 or such other date as the REIT, the Selling Debentureholder and the Underwriter may agree, but in any event not later than October 31, 2003. Purchasers of Debentures will receive only a customer confirmation from the Underwriter, and will not have the right to receive physical certificates evidencing their ownership.

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DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed with the securities regulatory authority in each of the provinces of Canada are specifically incorporated by reference in, and form an integral part of, this short form prospectus:

- (a) Audited consolidated financial statements of InnVest REIT as at December 31, 2002 and for the period from July 26, 2002 to December 31, 2002, together with the notes thereto and the auditors' report thereon, and management's discussion and analysis of financial condition and results of operations thereon;
- (b) Unaudited interim consolidated financial statements of InnVest REIT as at and for the six months ended June 30, 2003, together with the notes thereto, and management's discussion and analysis of financial condition and results of operations thereon;
- (c) Renewal Annual Information Form of InnVest REIT dated May 20, 2003 (the "AIF");
- (d) Management Information Circular of InnVest REIT dated April 8, 2003 (excluding those portions that, pursuant to National Instrument 44-101 of the Canadian Securities Administrators, are not required to be incorporated by reference herein) distributed in connection with the annual meeting of Unitholders held on May 21, 2003; and
- (e) Material change report of InnVest REIT dated September 29, 2003 filed in connection with the offering.

Any document of the type referred to in the preceding paragraph, material change reports (excluding confidential material change reports) and any interim consolidated financial statements filed by the REIT with a securities regulatory authority after the date of this short form prospectus and prior to the termination of this offering shall be deemed to be incorporated by reference in this short form prospectus.

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

Information has been incorporated by reference in this short form prospectus from documents filed with securities regulatory authorities in Canada. For the purpose of the Province of Québec, this simplified prospectus contains information to be completed by consulting the permanent information record. Copies of the documents incorporated herein by reference and of the permanent information record may be obtained upon request without charge by contacting the Secretary of InnVest REIT at 5090 Explorer Drive, 7th Floor, Mississauga, Ontario L4W 4T9 (telephone: (905) 624-7846; fax: (905) 624-7805), or by accessing the disclosure documents available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) which can be accessed at www.sedar.com.

INNVEST REAL ESTATE INVESTMENT TRUST

InnVest Real Estate Investment Trust is an unincorporated open-ended real estate investment trust created by its amended and restated declaration of trust dated July 18, 2002 (the “Declaration of Trust”) and governed by the laws of the Province of Ontario. The head office of the REIT is located at 5090 Explorer Drive, 7th Floor, Mississauga, Ontario L4W 4T9.

The REIT is principally focused on the ownership and acquisition of limited service hotels, which generally do not have, or have only limited, food and beverage or other ancillary services and substantially all the revenues of which are generated from guest room rentals.

Hotel Portfolio

Upon completion of the REIT’s initial public offering on July 26, 2002, InnVest REIT acquired, directly and indirectly, a portfolio (the “Portfolio”) consisting of 114 Canadian hotel properties operated under international brands. InnVest REIT owns Canada’s largest hotel portfolio, as measured both by number of hotels and by number of guest rooms. Geographically, its principal guest room concentrations are in Ontario and Québec (together representing 73% of guest rooms), where the majority of Canada’s population and business activity is located, with additional properties in population centres in the Atlantic and Western provinces.

Choice Canada brands, including Comfort Inn[®], Quality Hotel[®], Quality Suites[®], and Quality Inn[®] make up 79% of the Portfolio’s guest rooms. Travelodge[®] is the other significant brand, representing 18% of the Portfolio’s guest rooms. Holiday Inn Express[®] and Best Western[®] are also represented, with one location each. Set out below is a summary description of the assets under each flag.

<u>Flag</u>	<u>No. of Hotels</u>	<u>No. of Guest Rooms⁽¹⁾</u>	<u>% of Total Guest Rooms</u>
Comfort Inn	84	6,798	58.6%
Travelodge	13	2,118	18.3%
Quality Hotel	7	1,297	11.2%
Quality Suites/Quality Inn	8	1,096	9.4%
Other	2	293	2.5%
Total	<u>114</u>	<u>11,602</u>	<u>100%</u>

(1) Includes 100% of The Kingston Comfort Inn (Warne Crescent) which is owned 50% by InnVest REIT.

Choice Canada Franchising Business

On July 26, 2002, in addition to the Portfolio, InnVest REIT acquired a 50% indirect interest in Choice Hotels Canada Inc. (“Choice Canada”). The remaining 50% of Choice Canada is owned by Choice Hotels International Inc. (“Choice International”), one of the largest hotel franchise companies in the world with more than 5,000 hotels and resorts (open or under development) in 46 countries under the Comfort Inn, Comfort Suites, Quality Inn, Quality Hotel, Quality Suites, Clarion[®], Sleep Inn[®], Rodeway[®] Inn, Econo Lodge[®] and MainStay[®] Suites brand names.

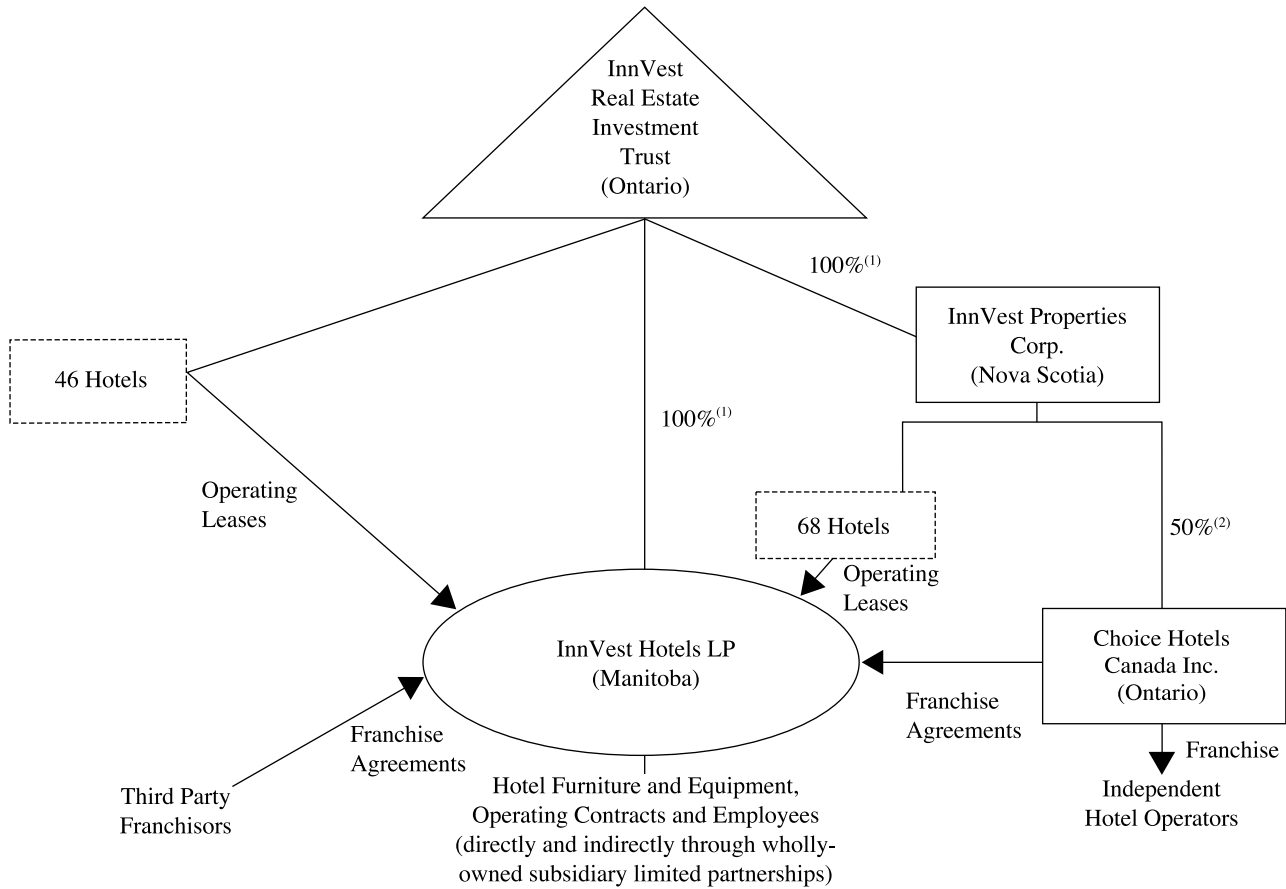
Choice Canada, the Canadian master franchisor of the Choice brands, enjoys a prominent position in the Canadian hospitality market. With approximately 260 locations open or under development and more than 22,000 guest rooms, Choice Canada is the largest franchisor of hotels in Canada as measured by hotels under franchise. The Comfort and Quality brands are well known in the limited service market segment.

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

STRUCTURE OF THE REIT

InnVest REIT owns 46 hotel properties, either directly or through a subsidiary limited partnership, and InnVest Properties Corp., an indirect subsidiary of InnVest REIT, owns 68 hotel properties. InnVest Hotels Limited Partnership, a subsidiary limited partnership of InnVest REIT, together with subsidiaries, owns and operates the hotel businesses and leases the hotel properties (other than certain hotel businesses and hotel properties that are indirectly owned by InnVest Properties Corp.) from the REIT, InnVest Properties Corp. and their subsidiaries. Ninety-nine of the 114 hotels in the Portfolio are operated under franchise agreements with Choice Canada, and the remaining 15 hotels are operated under franchise agreements with other franchisors.

The following chart illustrates the primary structural and contractual relationships between InnVest REIT and its principal subsidiary entities and certain third parties.



(1) Held through wholly-owned direct and indirect subsidiaries (including subsidiary partnerships) of the REIT.

(2) Held through a wholly-owned subsidiary of InnVest Properties Corp.

RECENT DEVELOPMENTS

On September 10, 2003, the REIT entered into an agreement with WWHH Gen-Par, Inc., Maple Leaf Enterprises Inc. and WW Hotel Holdings L.P. (collectively, the “Dartmouth Vendors”) pursuant to which it agreed, subject to certain terms and conditions, to purchase all of the shares of WW Hotels (Dartmouth) Company, the owner of the Holiday Inn Harbourview located in Dartmouth, Nova Scotia, and certain indebtedness of WW Hotels (Dartmouth) Company owing to WW Hotel Holdings L.P. (the “Dartmouth Transaction”). The purchase price is \$8.8 million, subject to adjustments in accordance with the purchase agreement. The closing of the Dartmouth Transaction is expected to occur on or prior to October 31, 2003.

The Holiday Inn Harbourview is a seven-storey building, comprised of 192 guest rooms and four suites, overlooking Halifax harbour. Amenities on the property include a restaurant and lounge, business centre, outdoor swimming pool, exercise room and ten meeting rooms with approximately 11,800 square feet of meeting space.

Under the Declaration of Trust, the Dartmouth Vendors are each considered a Related Party (as defined in the Declaration of Trust) of the REIT. In compliance with its obligations under the Declaration of Trust, the REIT has retained KPMG LLP to provide it with an independent valuation of the hotel property prior to closing the Dartmouth Transaction.

SELLING DEBENTUREHOLDER

The Selling Debentureholder is 3079928 Nova Scotia Company, an unlimited liability company incorporated under the laws of Nova Scotia and a subsidiary of the Whitehall Investors (as defined in the Declaration of Trust).

The Selling Debentureholder is the registered and beneficial holder of all of the outstanding Debentures, all of which are being sold under this offering. The Selling Debentureholder acquired the Debentures on September 23, 2003 from the Whitehall Investors at a price of \$998.59 per Debenture, plus accrued and unpaid interest from June 30, 2003 to the date of acquisition. Upon completion of this offering, the Selling Debentureholder will not own any securities of the REIT.

The Whitehall Investors acquired the Debentures at the time of the REIT’s initial public offering of the Units and the Debentures on July 26, 2002. Upon completion of this offering, the Whitehall Investors and their affiliates will beneficially own, in the aggregate, approximately 8% of the outstanding Units.

USE OF PROCEEDS

InnVest REIT will not receive any proceeds from the sale of the Debentures. The estimated net proceeds to the Selling Debentureholder from the sale of the Debentures will be \$76,397,956 (determined after including accrued and unpaid interest from June 30, 2003 to October 8, 2003 in the amount of \$2,003,425, and deducting the Underwriter’s fee and estimated expenses of this offering).

PRO FORMA EARNINGS COVERAGE

The following *pro forma* consolidated earnings coverage ratio has been calculated for the period from July 26, 2002 to December 31, 2002 and for the period from July 26, 2002 to June 30, 2003.

	July 26, 2002 to December 31, 2002	July 26, 2002 to June 30, 2003
<i>Pro forma</i> interest requirements ⁽¹⁾	\$9.9 million	\$21.1 million
Earnings before interest expense and income tax	\$30.1 million	\$45.4 million
Earnings coverage ⁽¹⁾⁽²⁾	3.04 times	2.15 times

(1) Under Canadian generally accepted accounting principles, the issued and outstanding Debentures are included in Unitholders’ equity and distributions on the Debentures are charged to retained earnings. If the Debentures were recorded as debt, the carrying charges for the Debentures would be included in the calculation of InnVest REIT’s *pro forma* interest obligations. Such carrying charges for the period from July 26, 2002 to December 31, 2002 and for the period from July 26, 2002 to June 30, 2003 would have been \$3.2 million and \$6.8 million, respectively, and InnVest REIT’s *pro forma* earnings coverage for the period from July 26, 2002 to December 31, 2002 and for the period from July 26, 2002 to June 30, 2003 would have been 2.30 and 1.63, respectively.

(2) Earnings coverage is equal to net income before interest and income taxes divided by interest expense on all debt.

DETAILS OF THE OFFERING

The following is a summary of the material attributes and characteristics of the Debentures. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the terms of the Indenture (as defined below) with respect to the Debentures and the Declaration of Trust.

General

The Debentures were issued on July 26, 2002 under a trust indenture dated the same date (the “Indenture”) between InnVest REIT and Computershare Trust Company of Canada (the “Debenture Trustee”), as trustee. The REIT may, from time to time, without the consent of the holders of the Debentures, issue additional debentures of the same series or of a different series under the Indenture. The only outstanding debentures under the Indenture are the Debentures.

The Debentures will mature on June 30, 2007. The Debentures are issuable in denominations of \$1,000 and integral multiples thereof.

The Debentures bear interest from and including the date of issue at 9.75% per annum, payable semi-annually on June 30 and December 31 of each year.

The principal amount of the Debentures is payable in lawful money of Canada or, at the option of the REIT and subject to applicable regulatory approval, by delivery of Units as further described under “— Method of Payment — Payment of Principal on Redemption or at Maturity”. The interest on the Debentures is payable in lawful money of Canada including, at the option of the REIT and subject to applicable regulatory approval, in accordance with the Interest Payment Election as described under “— Method of Payment — Interest Payment Election”.

The Debentures are direct obligations of the REIT and are not to be secured by any mortgage, pledge, hypothec or other charge and will be subordinated to other liabilities of the REIT as described under “Subordination”. The Indenture does not restrict the REIT from incurring additional indebtedness for borrowed money or from mortgaging, pledging or charging its properties to secure any indebtedness.

Subordination

The Indenture provides that the Debentures are subordinated in right of payment to all present and future Senior Indebtedness (as defined herein) of the REIT. No payment of principal (including redemption payments) or interest on the Debentures may be made (1) if any Senior Indebtedness is not paid when due and any applicable grace period with respect to such payment default on Senior Indebtedness has ended and such default has not been cured or waived or ceased to exist, or (2) if the maturity of any Senior Indebtedness has been accelerated because of a default and either such acceleration has not been rescinded or such Senior Indebtedness has not been repaid. Upon any distribution of assets of the REIT to creditors upon any dissolution, winding-up, total liquidation or reorganization of the REIT, whether in bankruptcy, insolvency or receivership proceedings, upon an “assignment for the benefit of creditors”, or otherwise, all principal, premium, if any, and interest due on all Senior Indebtedness of the REIT must be paid in full before the holders of the Debentures are entitled to receive or retain any payment.

The term “Senior Indebtedness” means the principal of, and the interest and premium (or any other amounts payable thereunder), if any, on:

- (i) all indebtedness, liabilities and obligations of the REIT (other than the Debentures), whether outstanding on the date of the Indenture or thereafter created, incurred, assumed or guaranteed in connection with the acquisition by the REIT of any businesses, properties or other assets or for monies borrowed or raised by whatever means (including, without limitation, by means of commercial paper, bankers’ acceptances, letters of credit, debt instruments, bank debt and financial leases, and any liability evidenced by bonds, debentures, notes or similar instruments) or in connection with the acquisition of any businesses, properties or other assets or for monies borrowed or raised by whatever means (including, without limitation, by means of commercial paper, bankers’ acceptances, letters of credit, debt instruments, bank debt and financial leases, and any liability evidenced by bonds,

- debentures, notes or similar instruments) by others including, without limitation, any subsidiary of the REIT for payment of which the REIT is responsible or liable, whether absolutely or contingently; and
- (ii) renewals, extensions, restructurings, refinancings and refundings of any such indebtedness, liabilities or obligations;

unless in each case it is provided by the terms of the instrument creating or evidencing such indebtedness, liabilities or obligations that such indebtedness, liabilities or obligations are not superior in right of payment to Debentures which by their terms are subordinated.

The Debentures are direct unsecured obligations of the REIT. Each Debenture of the same series of Debentures will rank *pari passu* with each other Debenture of the same series (regardless of their actual date or terms of issue) and, subject to statutory preferred exceptions, with all other present and future subordinated and unsecured indebtedness of the REIT except for sinking fund provisions (if any) applicable to different series of Debentures or other similar types of obligations of the REIT.

Conversion Rights

The Debentures are convertible into freely-tradeable Units at a conversion rate of 93.0233 Units per \$1,000 principal amount of Debentures (representing a conversion price of \$10.75 per Unit) subject to anti-dilution adjustments. If all conversion rights attaching to the Debentures were exercised, InnVest REIT would be required to issue 6,976,744 additional Units, subject to anti-dilution adjustments. Upon conversion of Debentures, except as provided below, the holder shall be entitled to receive accrued and unpaid interest in respect thereof up to the Interest Payment Date on or next preceding the date of conversion of Debentures but will not receive any cash payment representing accrued but unpaid interest on the Debentures from the latest Interest Payment Date until the date of conversion. Notwithstanding the foregoing, accrued but unpaid interest will be payable upon any conversion of the Debentures at the option of the holder made after the REIT delivers a redemption notice in respect of the Debentures to be converted. Holders may exercise the conversion rights attaching to the Debentures at any time, including after a redemption notice is received in respect of the Debentures to be converted but prior to the redemption of the Debentures.

Subject to the provisions thereof, the Indenture provides for the adjustment of the Conversion Price in certain events including: (a) the subdivision or consolidation of the outstanding Units; (b) the distribution of Units to holders of Units by way of distribution or otherwise other than an issue of securities to holders of Units who have elected to receive distributions in securities of the REIT in lieu of receiving cash distributions paid in the ordinary course; (c) the issuance of options, rights or warrants to all or substantially all holders of Units entitling them to acquire Units or other securities convertible into Units at less than 95% of the then current market price (as defined in the Indenture to mean the weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date of the applicable event) of the Units; and (d) the distribution to all or substantially all the holders of Units of (i) units of any class other than Units and other than units distributed to holders of Units who have elected to receive dividends or distributions in the form of such units in lieu of dividends or distributions paid in the ordinary course, (ii) rights, options or warrants (excluding rights, options or warrants entitling the holders thereof for a period of not more than 45 days to subscribe for or purchase Units or securities convertible into Units), (iii) evidences of its indebtedness, or (iv) assets (excluding dividends or distributions paid in the ordinary course). There will be no adjustment of the Conversion Price in respect of any event described above if the holders of the Debentures are allowed to participate as though they had converted their Debentures prior to the applicable record date or effective date, as the case may be, of such event. The REIT will not be required to make adjustments in the Conversion Price unless the cumulative effect of such adjustments would change the Conversion Price by at least 1%.

In the case of any reclassification or capital reorganization (other than a change resulting from consolidation or subdivision) of the Units or in the case of any consolidation, amalgamation, reorganization or merger of the REIT with or into any other entity, or in the case of any sale or conveyance of the property and assets of the REIT as, or substantially as, an entirety to any other entity, or a liquidation, dissolution or winding-up of the REIT, the terms of the conversion privilege shall be adjusted so that each holder of a Debenture shall, after such reclassification, capital reorganization, consolidation, amalgamation, reorganization,

merger, sale, conveyance, liquidation, dissolution or winding-up, be entitled to receive and shall accept the number of Units or other securities or other property that, on the exercise of the conversion right, such holder would be entitled to receive if, on the effective date thereof, it had been the holder of the number of Units into which the Debenture was convertible prior to the effective date of such reclassification, capital reorganization, amalgamation, reorganization, combination, merger, sale, conveyance, liquidation, dissolution or winding-up.

No fractional Units will be issued on any conversion but in lieu thereof, the REIT shall satisfy fractional interests by a cash payment equal to the current market price of fractional interest which would have been issued times the Conversion Price.

Redemption

The Debentures will not be redeemable prior to June 30, 2005, except in the event of the satisfaction of certain conditions after a Change of Control (as defined herein) has occurred. On and after July 1, 2005, the Debentures will be redeemable at the option of InnVest REIT, in whole or in part from time to time, on not more than 60 days' nor less than 30 days' prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 115% of the Conversion Price. Any Debentures redeemed by InnVest REIT will be cancelled and will not be reissued.

In the case of redemption of less than all of the Debentures, the Debentures to be redeemed will be selected by the Debenture Trustee on a *pro rata* basis to the nearest multiple of \$1,000 or by lot in such manner as the Debenture Trustee deems equitable.

Put Right upon a Change of Control

Upon the occurrence of a change of control involving the acquisition, by any person or persons acting jointly or in concert, of voting control or direction over an aggregate of 66 $\frac{2}{3}$ % or more of the outstanding Units of the REIT, or securities convertible into or carrying the right to acquire Units (a "Change of Control"), each holder of Debentures may require the REIT to purchase, on the date which is 30 days following the giving of notice of the Change of Control as set out below (the "Put Date"), all or any part of such holder's Debentures at a price equal to 101% of the principal amount thereof (the "Put Price") plus accrued and unpaid interest up to but excluding the Put Date.

If 90% or more in aggregate principal amount of the Debentures outstanding on the date the REIT provides notice of the Change of Control to the Debenture Trustee has been tendered for purchase on the Put Date, the REIT has the right to redeem all the remaining Debentures on such date at the Put Price. Notice of such redemption must be given to the Debenture Trustee by the REIT prior to the Put Date and as soon as possible thereafter, by the Debenture Trustee to the holders of the Debentures not tendered for purchase.

Method of Payment

Payment of Principal on Redemption or at Maturity

On redemption or at maturity, the REIT will repay the indebtedness represented by the Debentures by paying to the Debenture Trustee in lawful money of Canada an amount required to repay the principal amount of the outstanding Debentures, together with accrued and unpaid interest thereon. The REIT may, at its option, on not more than 60 days' and not less than 30 days' prior notice and subject to applicable regulatory approval, elect to satisfy its obligation to repay all or any portion of the principal amount of the Debentures that are to be redeemed or that are to mature, by issuing and delivering freely-tradeable Units to the holders of the Debentures. The number of Units to be issued in respect of each Debenture will be determined by dividing the principal amount of the Debentures that are to be redeemed or that are to mature, as the case may be, by 95% of the volume-weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date fixed for redemption or maturity, as the case may be. No fractional Units will be issued on redemption but in lieu thereof, the REIT shall satisfy fractional interests by a cash payment equal to the market price of the fractional interest.

Interest Payment Election

Subject to receiving any required regulatory approvals and provided it is not in default under the Indenture, the REIT may elect, from time to time, to satisfy its obligation to pay interest on the Debentures (the “Interest Obligation”) on the date it is payable under the Indenture (an “Interest Payment Date”), by delivering a sufficient number of Units to the Debenture Trustee required to satisfy all or any part of the Interest Obligation in accordance with the Indenture (the “Interest Payment Election”). The Indenture provides that, upon such election, the Debenture Trustee shall (a) accept delivery from the REIT of the Units; (b) accept bids with respect to, and consummate sales of such Units, each as the REIT shall direct in its absolute discretion; (c) invest the proceeds of such sales in government obligations (as defined in the Indenture) that mature prior to the applicable Interest Payment Date, and use the proceeds received from such government securities, together with any proceeds from the sale of Units not invested as aforesaid, to satisfy the Interest Obligation; and (d) perform any other action necessarily incident thereto.

The Indenture sets forth the procedures to be followed by the REIT and the Debenture Trustee in order to effect the Interest Payment Election. If an Interest Payment Election is made, the sole right of a holder of Debentures in respect of interest will be to receive cash from the Debenture Trustee out of the proceeds of the sale of Units (plus any amount received by the Debenture Trustee from the REIT attributable to fractional Units) in full satisfaction of the Interest Obligation, and the holder of such Debentures will have no further recourse to the REIT in respect of the Interest Obligation.

Neither the REIT’s making of the Interest Payment Election nor the consummation of sales of Units will (a) result in the holders of the Debentures not being entitled to receive on the applicable Interest Payment Date cash in an aggregate amount equal to the Interest Obligation payable on such date or (b) entitle such holders to receive any Units in satisfaction of the Interest Obligation.

Events of Default and Waiver

The Indenture provides that an event of default (“Event of Default”) in respect of the Debentures will result upon the occurrence of certain events described in the Indenture, including if any one or more of the following events has occurred and is continuing with respect to the Debentures: (a) failure for 15 days to pay the interest on the Debentures when due; (b) failure to pay principal or premium, if any, on the Debentures when due whether at maturity, upon redemption, by declaration or otherwise; (c) failure for 60 days after written notice to the REIT by the Debenture Trustee to comply with any of its agreements in the Debentures or the Indenture or any indenture supplemental hereto (other than those referred to in (a) and (b) above); (d) failure for 10 days to deliver Units (or cash in lieu of fractional Units) in accordance with the terms of the Indenture when such Units (or cash in lieu of fractional Units) are required to be delivered, upon conversion of a Debenture; (e) default under any agreement evidencing indebtedness for money borrowed by the REIT or a subsidiary of the REIT where such indebtedness shall be accelerated so that it shall be or become due or payable prior to the date on which the same would otherwise become due and payable and the aggregate amount thereof so accelerated exceeds \$35 million and such acceleration is not rescinded or annulled within five business days after written notice to the REIT by the Debenture Trustee; (f) certain events of bankruptcy or insolvency affecting the REIT under bankruptcy, insolvency or analogous laws; (g) a decree or court order issuing sequestration or process of execution against all or a substantial portion of the property of the REIT, appointing a receiver of all or a substantial part of the property of the REIT, or ordering the winding-up or liquidation of the affairs of the REIT and any such decree or order continues unstayed and in effect for 60 days; (h) if a resolution is passed for the winding-up or liquidation of the REIT; or (i) if, after the date of the Indenture, any proceedings with respect to the REIT are taken with respect to a compromise or arrangement, with respect to creditors of the REIT generally, under the applicable legislation of any jurisdiction.

The Indenture provides that if an Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and shall, upon the request of holders of not less than 25% of the aggregate principal amount of the Debentures then outstanding, declare the principal, interest on all Debentures then outstanding and all other monies outstanding to be due and payable.

In addition to the powers exercisable by Extraordinary Resolution (as defined herein), the holders of 66⅔% in aggregate principal amount of the Debentures at the time outstanding may waive any existing default and its

consequences provided that if the Event of Default has occurred by reason of the non-observance or non-performance by the REIT of any covenant applicable only to one or more series of Debentures, then the holders of at least 66⅔% of the principal amount of the outstanding Debentures of that series shall be entitled to exercise this power.

The Debenture Trustee, so long as it has not become bound to declare the principal and interest on the Debentures then outstanding to be due and payable, or to obtain or enforce payment of the same, shall have the power to waive any Event of Default if, in the Debenture Trustee's opinion, the default shall have been cured or adequate satisfaction made therefor.

When a default is waived by the Debenture Trustee or holders of Debentures, it is deemed cured and will cease to exist, but that waiver does not extend to any subsequent or other default or impair any consequent right.

Modification

With certain exceptions, the Indenture and the rights of the holders of Debentures may be modified by the REIT with the consent of a majority of the holders of Debentures present and voting at a meeting at which not less than 25% of the principal amount of the Debentures then outstanding are present in person or by proxy (an "Ordinary Resolution").

The Indenture also provides that certain changes, including (a) changes relating to the modification of the terms of the Debentures, or any reduction of the rate of interest or extension of the time of payment of any principal or interest due thereon, (b) the modification, abrogation, alteration, compromise or arrangement of the rights of the holders of Debentures or the Debenture Trustee against the REIT, or (c) the waiver of any default under the Indenture, may be made if authorized by Extraordinary Resolution. The term "Extraordinary Resolution" is defined in the Indenture to mean, in effect, a resolution passed by the affirmative votes of the holders of not less than 66⅔% of the aggregate principal amount of the Debentures represented and voting at a duly constituted meeting of holders of Debentures.

All actions which may be taken by holders of Debentures by Ordinary Resolution and Extraordinary Resolution may also be taken and exercised by an instrument or instruments in writing signed by the holders of not less than 66⅔% in aggregate principal amount of the Debentures then outstanding.

The REIT and the Debenture Trustee may, without the consent or concurrence of the holders of Debentures, by supplemental indenture or otherwise, make any changes or corrections in the Indenture which it shall have been advised by counsel are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provisions or clerical omissions or mistakes or manifest errors contained therein or in any indenture supplemental thereto.

Book-Entry System for Debentures

The Debentures will be issued in "book-entry only" form and must be purchased or transferred through a participant in the depository service of CDS (a "Participant"). On the closing of the offering, the Debenture Trustee will cause the Debentures to be delivered to CDS and registered in the name of its nominee. The Debentures will be evidenced by a single book-entry only certificate. Registration of interests in and transfers of the Debentures will be made only through the depository service of CDS.

Except as described below, a purchaser acquiring a beneficial interest in the Debentures will not be entitled to a certificate or other instrument from the Debenture Trustee or CDS evidencing that purchaser's interest therein, and such purchaser will not be shown on the records maintained by CDS, except through a Participant. Such purchaser will receive a confirmation of purchase from the Underwriters or other registered dealer from whom Debentures are purchased.

As indirect holders of Debentures, investors should be aware that they (subject to the situations described below): (a) may not have Debentures registered in their name; (b) may not have physical certificates representing their interest in the Debentures; (c) may not be able to sell the Debentures to institutions required by law to hold physical certificates for securities they own; and (d) may be unable to pledge Debentures as security.

Limitation on Non-Resident Ownership — Debentures

At no time may more than 49% of the Units (on either a basic or fully-diluted basis) be held for the benefit of non-residents of Canada (within the meaning of the *Income Tax Act* (Canada) (the “Tax Act”). The Debenture Trustee may require declarations as to the jurisdictions in which beneficial owners of Debentures are resident. If the REIT becomes aware that 49% of the Units (on either a basic or fully-diluted basis) then outstanding are held, or may be held, for the benefit of non-residents or that such a situation is imminent, the REIT may make a public announcement thereof and shall notify the Debenture Trustee in writing and the Debenture Trustee shall not accept a subscription for Debentures from or issue or register a transfer of Debentures to a person unless the person provides a declaration that the person is not a non-resident. If, notwithstanding the foregoing, the REIT determines that a majority of the Units (on a fully-diluted basis) are held for the benefit of non-residents, the REIT may send a notice to non-resident holders of Debentures, chosen in inverse order to the order of acquisition or registration or in such manner as the REIT may consider equitable and practicable, requiring them to sell their Debentures or a portion thereof within a specified period of not more than 60 days. If the holders of Debentures receiving such notice have not sold the specified number of Debentures or provided the REIT with satisfactory evidence that they are not non-residents of Canada, the REIT may sell such Debentures on behalf of such holders of Debentures to a person or persons that are not non-residents of Canada and, in the interim, all rights attaching to such Debentures (including any right to receive payments of interest) shall be immediately suspended and the rights of any such holders of Debentures in respect of such Debentures shall be limited to receiving the net proceeds of sale (net of any withholding tax).

DESCRIPTION OF UNITS

General

The beneficial interests of InnVest REIT are divided into a single class of units. The aggregate number of Units which InnVest REIT may issue is unlimited. As of September 26, 2003, 41,179,554 Units were issued and outstanding. The Units are traded on the TSX under the symbol INN.UN.

Units represent a proportionate undivided beneficial interest of a holder of Units (“Unitholder”) in the REIT. No Unit has any preference or priority over another. No Unitholder has or is deemed to have any right of ownership in any of the assets of the REIT. Each Unit confers the right to one vote at any meeting of Unitholders and to participate *pro rata* in any distributions by the REIT and, in the event of termination of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities.

Redemption Right

Units are redeemable at any time on demand by the holders thereof. A Unitholder not otherwise holding a fully registered Unit certificate who wishes to exercise the redemption right is required to obtain a redemption notice form from his or her investment dealer who will be required to deliver the completed redemption notice form to InnVest REIT through CDS. Upon receipt of the redemption notice by InnVest REIT, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Unit equal to the lesser of: (i) 90% of the “market price” (calculated in accordance with the provisions of the Declaration of Trust) of the Units on the principal market on which the Units are quoted for trading during the 10 trading day period commencing immediately subsequent to the date upon which the Units were surrendered for redemption; and (ii) the “closing market price” (calculated in accordance with the provisions of the Declaration of Trust) on the principal market on which the Units are quoted for trading on the redemption date.

The aggregate redemption price payable by InnVest REIT in respect of any Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment on the last day of the month following the month in which the Units were tendered for redemption, provided that the entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the limitations that: (i) the total amount payable by InnVest REIT in respect of such Units and all other Units tendered for redemption in the same calendar month shall not exceed \$50,000 (provided that such limitation may be waived at the discretion of the trustees of the REIT (the “Trustees”)); (ii) at the time such Units are tendered for redemption, the outstanding Units are listed for trading on a stock exchange or traded or quoted on another market which the

Trustees consider, in their sole discretion, provides representative fair market value prices for the Units; and (iii) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the redemption date or for more than five trading days during the 10 trading day period commencing immediately after the redemption date.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the foregoing limitations, then each Unit tendered for redemption shall, subject to obtaining all applicable regulatory approvals, be redeemed by way of a transfer *in specie* of notes (the “Notes”) issued by InnVest Properties Corp. and held by the REIT. The aggregate principal amounts of such Notes would equal the redemption price payable by the REIT. The term of such Notes would be 25 years, subject to earlier repayment at the option of InnVest REIT, and they would bear interest equal to the then current prime lending rate, as quoted by the provider of the REIT’s operating facility, plus 1%.

Limitation on Non-Resident Ownership — Units

At no time may more than 49% of the Units (on either a basic or fully-diluted basis) be held for the benefit of non-residents of Canada (within the meaning of the Tax Act). The Trustees may require declarations as to the jurisdictions in which beneficial owners of Units are resident or declarations from holders of Units as to whether such Units are held for the benefit of non-residents. If the Trustees become aware that 49% of the Units (on either a basic or fully-diluted basis) then outstanding are held, or may be held, for the benefit of non-residents or that such a situation is imminent, the Trustees may make a public announcement thereof and shall not accept a subscription for Units from or issue or register a transfer of Units to a person unless the person provides a declaration that the person is not a non-resident. If, notwithstanding the foregoing, the Trustees determine that more than 49% of the Units (on either a basic or fully-diluted basis) are held for the benefit of non-residents, the Trustees may send a notice to non-resident holders of Units, chosen in inverse order to the order of acquisition or registration or in such manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not more than 60 days. If the Unitholders receiving such notice have not sold the specified number of Units or provided the Trustees with satisfactory evidence that they are not non-residents and do not hold their Units for the benefit of non-residents within such period, the Trustees may sell such Units on behalf of such Unitholders and, in the interim, the voting and distribution rights attached to such Units shall be suspended. Upon such sale the affected holders shall cease to be holders of Units and their rights shall be limited to receiving the net proceeds of sale (net of withholding tax).

CHANGE IN OUTSTANDING UNITS AND DISTRIBUTION HISTORY

Since June 30, 2003, InnVest REIT has issued 64,324 Units pursuant to its distribution reinvestment plan.

Since the commencement of its operations on July 26, 2002, in accordance with the Declaration of Trust, the REIT has declared and paid monthly cash distributions in the amount of \$0.09375 per Unit from October 2002 up to and including September 2003. In September 2002, the REIT paid a monthly cash distribution of \$0.1119 per Unit which included a payment of \$0.01815 for the six-day stub period from July 26, 2002 to July 31, 2002 in addition to the monthly distribution of \$0.09375. On September 17, 2003, the REIT declared a distribution of \$0.09375 per Unit to be paid to the Unitholders of record as at the close of business on September 30, 2003.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement (the “Underwriting Agreement”) dated September 23, 2003 between InnVest REIT, the Selling Debentureholder and the Underwriter, the Selling Debentureholder has agreed to sell and the Underwriter has agreed to purchase on the closing of the offering, all but not less than all of the Debentures offered hereby at a price of \$1,037.50 per Debenture, plus accrued and unpaid interest from June 30, 2003 to the date of closing (estimated at \$2,003,425 assuming an October 8, 2003 closing), for total consideration of approximately \$79,815,925 payable in cash against delivery of a certificate representing the Debentures. The Underwriting Agreement provides for the Selling Debentureholder to pay the Underwriter a fee of \$2,917,969 (or 3.75% of the gross proceeds of the offering, excluding the accrued and unpaid interest component) for its services in connection with the offering. The offering price of the Debentures hereunder was determined by negotiation by the Underwriter and the Selling Debentureholder.

The obligations of the Underwriter under the Underwriting Agreement may be terminated upon the occurrence of certain stated events. The Underwriter is, however, obligated to take up and pay for all of the Debentures if any of the Debentures are purchased under the Underwriting Agreement.

Subscriptions for Debentures will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the offering will be held on or about October 8, 2003, or such other date as the REIT, the Selling Debentureholder and the Underwriter may agree upon, but, in any event, not later than October 31, 2003. The Debentures will be issued in “book-entry only” form and must be purchased or transferred through a participant in the depository services of CDS. See “Details of the Offering — Book-Entry System for Debentures”.

The TSX has conditionally approved the listing of the Debentures. Listing will be subject to the REIT fulfilling all the listing requirements of the TSX on or before December 22, 2003.

Pursuant to the terms of the Underwriting Agreement, InnVest REIT and the Selling Debentureholder have each agreed to indemnify the Underwriter and its directors, officers, employees and agents against certain liabilities, including civil liabilities under Canadian securities legislation.

Each of InnVest REIT and the Selling Debentureholder has agreed in the Underwriting Agreement that it will not, without the prior consent of the Underwriter, such consent not to be unreasonably withheld, during the periods set out below, (i) offer, pledge, sell or otherwise transfer or dispose of directly or indirectly, Units or any securities convertible into or exercisable or exchangeable for Units, or (ii) enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of Units or such other securities; provided, however, that the foregoing will not apply to the issuance of Units by the REIT under the terms of the Debentures, employee compensation plans or the REIT’s distribution reinvestment plan. This restriction shall apply to the Selling Debentureholder with respect to all securities of the REIT for a period of 90 days following closing of this offering. This restriction shall apply to the REIT for a period of 30 days following closing of this offering in respect of Units and 90 days following closing of this offering in respect of the Debentures.

Pursuant to policy statements of the Ontario Securities Commission and the Commission des valeurs mobilières du Québec, the Underwriter may not, throughout the period of distribution, bid for or purchase Debentures. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase was not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Debentures. Such exceptions include (i) a bid or purchase permitted under the by-laws and rules of the TSX relating to market stabilization and passive market-making activities and (ii) a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of the distribution. In connection with this offering, the Underwriter may over-allot or effect transactions which stabilize or maintain the market price of the Debentures at levels other than those which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

The Debentures and the Units issuable upon conversion, redemption, repurchase or maturity of the Debentures or to fund interest thereon have not been and will not be registered under the 1933 Act and, subject to certain exceptions, may not be offered or sold in the United States. The Underwriter has agreed that it will not offer or sell any Debentures within the United States of America or to, or for the account or benefit of, a

U.S. person (as defined in Regulation S under the 1933 Act), except in accordance with the Underwriting Agreement pursuant to an exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. This prospectus does not constitute an offer to sell or solicitation of an offer to buy any of the Debentures in the United States. In addition, until 40 days after the commencement of the offering of the Debentures pursuant to this short form prospectus, an offer or sale of Debentures within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in compliance with Rule 144A.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to InnVest REIT, and Osler, Hoskin & Harcourt LLP, counsel to the Underwriter, the following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable under the Tax Act to the acquisition, holding and disposition of Debentures by a holder who acquires Debentures pursuant to this offering. This summary is applicable to a holder who, for purposes of the Tax Act, is resident in Canada, deals at arm's length with InnVest REIT and the Selling Debentureholder and holds the Debentures and any Units acquired under the terms of the Debentures (collectively, the "Securities") as capital property. Generally, the Securities will be considered to be capital property to a holder provided that the holder does not hold the Securities in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain holders who might not otherwise be considered to hold their Securities as capital property may, in certain circumstances, be entitled to have them treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Such holders should consult their own tax advisors regarding their particular circumstances.

This summary is not applicable to (a) a holder that is a "financial institution", as defined in the Tax Act for purposes of the mark-to-market rules, (b) a holder that is a "specified financial institution", as defined in the Tax Act or (c) a holder an interest in which would be a "tax shelter investment" as defined in the Tax Act. Such holders should consult their own tax advisors to determine the tax consequences to them of the acquisition, holding and disposition of Securities acquired pursuant to this offering.

This summary assumes that InnVest REIT does and will continue to qualify as a "mutual fund trust" under the provisions of the Tax Act while the Debentures and Units remain outstanding. See "— Status of the REIT".

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

This summary is not exhaustive of all possible Canadian federal tax considerations applicable to an investment in Securities. Moreover, the income and other tax consequences of acquiring, holding or disposing of Securities will vary depending on the holder's particular circumstances. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any prospective purchaser of Securities. Consequently, a prospective holder should consult the holder's own tax advisor for advice with respect to the tax consequences of an investment in Securities based on the prospective holder's particular circumstances.

Taxation of Holders of Securities

Debentures

Interest on Debentures

A holder of Debentures that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on the Debentures that accrues (or is deemed to accrue) to it to the end of the particular taxation year (or until the disposition in the year of the Debentures) or that has become receivable by or is received by the holder before the end of that taxation year, including on a conversion, redemption or repayment on maturity, except to the extent that such interest was included in computing the holder's income for a preceding taxation year and excluding any interest that accrued prior to the time of the acquisition of the Debenture by the holder.

Any other holder will be required to include in computing income for a taxation year all interest on the Debentures that is received or receivable by the holder in that taxation year (depending upon the method regularly followed by the holder in computing income), including on a conversion, redemption or repayment on maturity, except to the extent that the interest was included in the holder's income for a preceding taxation year and excluding any interest that accrued prior to the time of the acquisition of the Debenture by the holder. In addition, if at any time a Debenture should become an "investment contract", as defined in the Tax Act, in relation to a holder, such holder will be required to include in computing income for a taxation year any interest that accrues to the holder on the Debenture up to any "anniversary day", as defined in the Tax Act, in that year to the extent such interest was not otherwise included in the holder's income for that year or a preceding year.

A holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % on investment income, including amounts in respect of interest.

Exercise of Conversion Privilege

A holder of a Debenture who converts the Debenture into Units pursuant to the conversion privilege will be considered to have disposed of the Debenture for proceeds of disposition equal to the aggregate of the fair market value of the Units so acquired at the time of the exchange and the amount of any cash received in lieu of fractional units. The holder will realize a capital gain or capital loss computed as described below under "— Dispositions of Debentures". The cost to the holder of the Units so acquired will also be equal to their fair market value at the time of acquisition, and must be averaged with the adjusted cost base of all other Units held as capital property by the holder for the purposes of calculating the adjusted cost base of such Units.

Redemption or Repayment of Debentures

If InnVest REIT redeems a Debenture prior to maturity or repays a Debenture upon maturity and the holder does not exercise the conversion privilege prior to such redemption or repayment, the holder will be considered to have disposed of the Debenture for proceeds of disposition equal to the amount received by the holder (other than the amount received on account of interest) on such redemption or repayment. If the holder receives Units on redemption or repayment, the holder will be considered to have proceeds of disposition equal to the aggregate of the fair market value of the Units so received and the amount of any cash received in lieu of fractional units. The holder may realize a capital gain or capital loss computed as described below under "— Dispositions of Debentures". The cost to the holder of the Units so received will also be equal to their fair market value at the time of acquisition, and must be averaged with the adjusted cost base of all other Units held as capital property by the holder for the purpose of calculating the adjusted cost base of such Units.

Dispositions of Debentures

A disposition or deemed disposition by a holder of a Debenture will generally result in the holder realizing a capital gain (or capital loss) equal to the amount by which the proceeds of disposition (adjusted as described below) are greater (or less) than the aggregate of the holder's adjusted cost base thereof and any reasonable costs of disposition. A holder's adjusted cost base of a Debenture will generally be equal to the excess of the amount paid for the Debenture over the interest accrued on the Debenture at the time of acquisition. Any such

capital gain or capital loss will be treated, for tax purposes, in the same manner as capital gains and capital losses arising from a disposition of Units which treatment is discussed below under “— Units”.

Upon such a disposition or deemed disposition of a Debenture, interest accrued thereon to the date of disposition and not yet due will be included in computing the holder's income, except to the extent such amount was otherwise included in the holder's income, and will be excluded in computing the holder's proceeds of disposition of the Debenture.

A capital gain realized by a holder who is an individual may give rise to a liability for alternative minimum tax. A Canadian-controlled private corporation that disposes of Debentures may be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % on investment income, including taxable capital gains.

Units

A holder will generally be required to include in income for a particular taxation year the portion of the net income of InnVest REIT for a taxation year, including net realized taxable capital gains, that is paid or payable to the Unitholder in the particular taxation year, whether or not those amounts are reinvested in additional Units pursuant to the REIT's distribution reinvestment plan.

The non-taxable portion of any net realized capital gains of InnVest REIT paid or payable to a holder of Units in a taxation year will not be included in computing the holder's income for the year.

The Declaration of Trust requires InnVest REIT to claim the maximum amount of capital cost allowance available to it in computing its income for tax purposes, unless the Trustees determine otherwise. Based on InnVest REIT's distribution policy, the amount distributed to holders of Units in a year may exceed the income of InnVest REIT for tax purposes for that year. Distributions in excess of InnVest REIT's taxable income in a year, including the 3% additional bonus distribution of Units acquired pursuant to the distribution reinvestment plan, will not generally be included in the holder's income for the year. However, such amount will reduce the adjusted cost base of the Units held by the holder and the holder will realize a capital gain in the year to the extent the adjusted cost base of the Units would otherwise be a negative amount.

InnVest REIT will designate, to the extent permitted by the Tax Act, the portion of the taxable income distributed to holders of Units as may reasonably be considered to consist of net taxable capital gains of InnVest REIT. Any such designated amount will be deemed for tax purposes to be received by holders in the year as a taxable capital gain and will be subject to the general rules relating to the taxation of capital gains described below. InnVest REIT will also designate, to the extent permitted by the Tax Act, the portion of taxable dividends received by the REIT from subsidiaries as may reasonably be considered to be an amount included in the income of the holders of Units. Any such designated amount will be deemed for purposes of the Tax Act, other than non-resident withholding purposes, to be received by the holders of Units as a taxable dividend and will be subject to the general rules regarding the taxation of taxable dividends paid by taxable Canadian corporations.

The cost of Units acquired by reinvestment of distributions pursuant to the REIT's distribution reinvestment plan will be the amount of such reinvestment. There will be no net increase or decrease in the adjusted cost base of all of a holder's Units as a result of the receipt of bonus Units under the distribution reinvestment plan. However, the receipt of bonus Units under the Plan will result in a per Unit reduction of adjusted cost base to the holder.

On the disposition or deemed disposition of a Unit, the holder will realize a capital gain (or capital loss) equal to the amount by which the holder's proceeds of disposition exceed (or are less than) the aggregate of the adjusted cost base of the Unit and any reasonable costs of disposition. Proceeds of disposition will not include an amount that is otherwise required to be included in the holder's income. Where a holder of Units that is a corporation or a trust (other than a mutual fund trust) disposes of a Unit, any capital loss from the disposition will be reduced by amounts designated as taxable dividends distributed by InnVest REIT to the holder to the extent and under the circumstances prescribed in the Tax Act. Analogous rules apply where a corporation or trust (other than a mutual fund trust) is a member of a partnership that disposes of Units.

Where Units are redeemed by the transfer of Notes to the holder of Units, the proceeds of disposition to the holder of the Units will be equal to the fair market value of the Notes so distributed.

The cost of any Notes transferred by InnVest REIT to a holder of Units upon a redemption of Units will be equal to the fair market value of the Notes at the time of the distribution.

One-half of any capital gains realized by a holder of Units and the amount of any net taxable capital gains designated by InnVest REIT in respect of a holder of Units will be included in the holder's income as a taxable capital gain. One-half of any capital loss realized by a holder of Units may generally be deducted only from taxable capital gains in accordance with the provisions of the Tax Act.

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

Status of the REIT

Mutual Fund Trust

InnVest REIT currently qualifies as a "unit trust" as defined in the Tax Act, and this summary assumes that the REIT will continue to so qualify at all times. This summary assumes that InnVest REIT does and will continue to qualify as a "mutual fund trust" under the provisions of the Tax Act while the Debentures and Units remain outstanding. In order to qualify as a "mutual fund trust" at any particular time, InnVest REIT must be a unit trust and there must be at least 150 holders of Units, each of whom owns not less than one "block" of Units and each of whom owns Units having a fair market value of not less than \$500. A block of Units means 100 Units where the fair market value of one Unit is less than \$25. In addition, the REIT may not at any time reasonably be considered to be established or maintained primarily for the benefit of persons who are not resident in Canada. Lastly, the only undertaking of the REIT must be the investing of its funds in property (other than real property or interest therein), or acquiring, holding, maintaining, improving, leasing or managing any real property (or interest in real property) that is capital property of the REIT, or a combination of these activities.

If InnVest REIT were not to qualify as a mutual fund trust, the income tax considerations described herein would, in some respects, be materially different.

Qualified Investment

Provided InnVest REIT is a mutual fund trust within the meaning of the Tax Act and the Units are listed on a prescribed stock exchange in Canada, the Debentures will, on the date of the closing of this offering, be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans (collectively, "Deferred Income Plans") and registered education savings plans ("RESPs"). If InnVest REIT ceases to qualify as a mutual fund trust or the Units cease to be listed on a prescribed stock exchange, the Debentures will cease to be qualified investments for Deferred Income Plans and RESPs.

Foreign Property

Based on representations of InnVest REIT as to its activities and provided that the REIT qualifies as a mutual fund trust within the meaning of the Tax Act on the date of closing, counsel is of the opinion that the Debentures at the date of closing will not constitute foreign property for Deferred Income Plans, registered pension plans or other persons subject to tax under Part XI of the Tax Act. RESPs are not liable for such tax.

Taxation of the REIT

The taxation year of InnVest REIT is the calendar year. In each taxation year, InnVest REIT will be subject to tax under the Tax Act on its income for the year, including net realized taxable capital gains, computed in accordance with the detailed provisions of the Tax Act, less the portion thereof that it deducts in respect of the amounts paid or payable or deemed to be paid or payable in the year to holders of Units. An amount will be considered to be payable to a holder of Units in a taxation year if it is paid to the holder in the year by InnVest REIT or if the holder is entitled in that year to enforce payment of the amount.

Counsel has been advised that InnVest REIT intends to make distributions in each year that are not less than its income for purposes of the Tax Act, including net realized capital gains, so that InnVest REIT will generally not be liable in such year for income tax under Part I of the Tax Act. Losses incurred by InnVest REIT cannot be allocated to holders of Units, but may be deducted by the REIT in future years in accordance with the Tax Act.

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

The Tax Act provides for a special tax on the designated income (including income from Canadian real property) of certain trusts which have designated beneficiaries (including non-resident persons and certain tax-exempt persons). This special tax does not apply to a trust for a taxation year if the trust is a mutual fund trust throughout such year. Accordingly, provided InnVest REIT qualifies as a “mutual fund trust” throughout a taxation year, it will not be subject to the special tax for such taxation year.

RISK FACTORS

An investment in the Debentures involves a number of risks. In addition to those risk factors listed at pages 26 to 34 of the AIF, and other information contained in this short form prospectus, investors should carefully consider the following risks before investing in the Debentures.

Matters Affecting Trading Prices for the Debentures

There is currently no trading market for the Debentures. Although the TSX has conditionally approved the listing of the Debentures, no assurance can be given that an active or liquid trading market for the Debentures will develop or be sustained. If an active or liquid market for the Debentures fails to develop or be sustained, the prices at which the Debentures trade may be adversely affected. Whether or not the Debentures will trade at lower prices depends on many factors, including liquidity of the Debentures, prevailing interest rates and the market for similar securities, the market price of the Units, general economic conditions and the REIT’s financial condition, historic financial performance and future prospects.

Credit Risk and Prior Ranking Indebtedness; Absence of Covenant Protection

The likelihood that purchasers of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the financial health of the REIT and its creditworthiness. In addition, the Debentures are unsecured obligations of the REIT and are subordinate in right of payment to all the REIT’s existing and future Senior Indebtedness. Therefore, if the REIT becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, the REIT’s assets will be available to pay its obligations with respect to the Debentures only after it has paid all of its senior and secured indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Debentures then outstanding. The Debentures are also effectively subordinate to claims of creditors of the REIT’s subsidiaries except to the extent InnVest REIT is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors. The Indenture does not prohibit or limit the ability of the REIT or its subsidiaries to incur additional debt or liabilities (including Senior Indebtedness) or to make distributions, except, in respect of distributions, where an Event of Default has occurred and such default has not been cured or waived. The Indenture does not contain any provision specifically intended to protect holders of Debentures in the event of a future leveraged transaction involving the REIT.

Conversion Following Certain Transactions

In the case of certain transactions, each Debenture will become convertible into the securities, cash or property receivable by a holder of Units in the kind and amount of securities, cash or property into which the Debenture was convertible immediately prior to the transaction. This change could substantially lessen or eliminate the value of the conversion privilege associated with the Debentures in the future. For example, if the REIT were acquired in a cash merger, each Debenture would become convertible solely into cash and would no longer be convertible into securities whose value would vary depending on the REIT's future prospects and other factors. See "Details of the Offering — Conversion Rights".

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to InnVest REIT, and Osler, Hoskin & Harcourt LLP, counsel to the Underwriter, provided that the REIT qualifies as a mutual fund trust for the purposes of the Tax Act and the Units are listed on a prescribed stock exchange in Canada on the date of closing, the Debentures, as at that date, will be qualified investments under the Tax Act and the Regulations for Deferred Income Plans and RESPs. Based on representations of InnVest REIT and provided that the REIT qualifies as a mutual fund trust within the meaning of the Tax Act on the date of closing, in the opinion of such counsel, the Debentures will not, at the date of closing, constitute foreign property for Deferred Income Plans, registered pension plans or other persons subject to tax under Part XI of the Tax Act. See "Certain Canadian Federal Income Tax Considerations".

LEGAL MATTERS

Certain legal matters in connection with this offering will be passed upon on behalf of InnVest REIT by Davies Ward Phillips & Vineberg LLP, on behalf of the Selling Debentureholder by Sullivan & Cromwell, New York, New York, and on behalf of the Underwriter by Osler, Hoskin & Harcourt LLP. As of the date hereof, the partners and associates, as a group, of each of the foregoing firms, beneficially owned, directly or indirectly, less than 1% of any outstanding securities of the REIT.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of InnVest REIT are Deloitte & Touche LLP, Chartered Accountants, BCE Place, 181 Bay Street, Suite 1400, Toronto, Ontario M5J 2V1.

The transfer agent and registrar for the Units and the Debentures is Computershare Trust Company of Canada at its principal office in Toronto, Ontario.

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment thereto. In several of the provinces, securities legislation further provides the purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for particulars of these rights or consult with a legal advisor.

CERTIFICATE OF INNVEST REIT

Dated: September 30, 2003

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of all of the provinces of Canada. For the purpose of the Province of Québec, this simplified prospectus, as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

(Signed) KENNETH D. GIBSON
President and Chief Executive Officer

(Signed) TAMARA LAWSON
Chief Financial Officer

On behalf of the Board of Trustees

(Signed) FRANK ANDERSON
Trustee

(Signed) MICHAEL P. KITT
Trustee

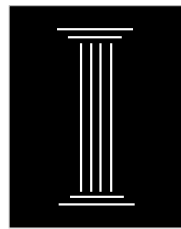
CERTIFICATE OF THE UNDERWRITER

Dated: September 30, 2003

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of all of the provinces of Canada. For the purpose of the Province of Québec, to our knowledge, this simplified prospectus, as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

RBC DOMINION SECURITIES INC.

By: (Signed) RICHARD N. MATHESON



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