

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, 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

New Issue

March 23, 2004



# INNVEST REAL ESTATE INVESTMENT TRUST

**\$46,024,250**

**4,055,000 Units**

**and**

**\$57,500,000**

## **6.25% Convertible Unsecured Subordinated Debentures Units**

InnVest Real Estate Investment Trust (the "REIT") is hereby qualifying for distribution (the "Unit Offering") 4,055,000 units (the "Offered Units") of the REIT at a price of \$11.35 per Offered Unit.

This prospectus also qualifies the distribution of up to 355,000 units (the "Additional Units") of the REIT that Maple Leaf Investment Holdings, L.P. ("Maple Leaf"), an affiliate of the manager of the REIT's portfolio, has, subject to certain conditions, agreed to purchase at a price of \$11.35 per Additional Unit. See "Sale of Additional Units".

The outstanding Units of the REIT are listed on the Toronto Stock Exchange (the "TSX") under the trading symbol "INN.UN". On March 10, 2004, the day on which the REIT announced the Unit Offering, the closing price of the Units on the TSX was \$11.47 per Unit. The TSX has conditionally approved the listing of the Offered Units and the Additional Units. Listing will be subject to the REIT fulfilling all of the listing requirements of the TSX on or before June 9, 2004.

Although the REIT intends to make distributions of available cash to Unitholders, these cash distributions are not assured. The ability of the REIT to make cash distributions and the actual amount distributed will be dependent upon, among other things, the financial performance of the properties in its portfolio, debt covenants and obligations, working capital requirements and future capital requirements. The market value of the Offered Units may deteriorate if the REIT is unable to meet its cash distribution targets in the future and that deterioration may be material.

The after-tax return from an investment in Offered Units to Unitholders subject to Canadian income tax will depend, in part, on the composition for tax purposes of distributions paid by the REIT, portions of which may be fully or partially taxable or may be tax deferred. The adjusted cost base of Units held by a Unitholder generally will be reduced by the non-taxable portion of distributions made to the Unitholder other than the portion thereof attributable to the non-taxable portion of certain capital gains and certain non-taxable dividend distributions. It is expected that a significant proportion of the 2004 distributions will not be tax deferred. The composition for tax purposes of distributions is subject to numerous factors and may change over time, thus affecting the after-tax return to Unitholders. See "Record of Cash Distributions and Distribution Policy".

**PRICE: \$11.35 PER OFFERED UNIT**

### **Series A Debentures**

Concurrently with the Unit Offering, the REIT is hereby further qualifying for distribution (the "Debenture Offering", and together with the Unit Offering, the "Offerings") \$57,500,000 aggregate principal amount of 6.25% convertible unsecured subordinated debentures, Series A, due April 15, 2011 (the "Series A Debentures") of the REIT at a price of \$1,000 per Series A Debenture. The Series A Debentures bear interest at an annual rate of 6.25% payable semi-annually in arrears on April 15 and October 15 in each year commencing October 15, 2004.

#### **Debenture Conversion Privilege**

Each Series A Debenture is convertible into freely-tradeable Units of the REIT at the option of the holder at any time prior to 4:00 p.m. (Toronto time) on the earlier of April 14, 2011 and the last business day immediately preceding the date specified by the REIT for redemption of the Series A Debentures, at a conversion price of \$12.50 per Unit (the "Conversion Price"), being a conversion rate of 80 Units per \$1,000 principal amount of Series A Debentures, subject to adjustment in certain events in accordance with the Indenture (as defined herein). Holders converting their Series A Debentures will receive accrued and unpaid interest on such debentures for the period from the last interest payment date on their Series A Debentures to the date of conversion. Further particulars concerning the conversion privilege, including provisions for the adjustment of the Conversion Price in certain events are set out under "Description of the Series A Debentures — Conversion Rights". **A holder of Series A Debentures will not be entitled to deferred tax treatment on the conversion, redemption or repayment at maturity of such Series A Debentures. See "Certain Canadian Federal Income Tax Considerations".**

The Series A Debentures are not redeemable prior to April 15, 2008. On or after April 15, 2008 to April 14, 2010, the Series A 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 TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of redemption exceeds 125% of the Conversion Price. On or after April 15, 2010, the Series A Debentures may be redeemed by the REIT at any time at a redemption price equal to the principal amount thereof plus accrued and unpaid interest.

The REIT may, at its option, elect to satisfy its obligation to pay the principal amount of the Series A Debentures that are to be redeemed or that have matured by issuing freely-tradeable Units to holders of the Series A Debentures. In addition, subject to regulatory approval, Units may be issued to the Debenture Trustee (as defined herein) and sold, with the proceeds used to satisfy the obligations to pay interest on the Series A Debentures. See "Description of the Series A Debentures — Method of Payment".

**There is currently no market through which the Series A Debentures may be sold and purchasers may not be able to resell the Series A Debentures.** The TSX has conditionally approved the listing of the Series A Debentures and the Units issuable upon conversion of the Series A Debentures. Listing will be subject to the REIT fulfilling all of the listing requirements of the TSX on or before June 9, 2004.

## **PRICE: \$1,000 PER SERIES A DEBENTURE**

**Investing in the Offered Units and the Series A Debentures involves risks. See "Risk Factors".**

	<b>Price to the Public<sup>(1)</sup></b>	<b>Underwriters' Fee</b>	<b>Net Proceeds to the REIT<sup>(2)</sup></b>
Per Offered Unit . . . . .	\$11.35	\$0.454	\$10.896
Total . . . . .	\$46,024,250	\$1,840,970	\$44,183,280
Per Series A Debenture . . . . .	\$1,000	\$37.50	\$962.50
Total <sup>(3)</sup> . . . . .	\$57,500,000	\$2,156,250	\$55,343,750
TOTAL <sup>(4)</sup> . . . . .	\$103,524,250	\$3,997,220	\$99,527,030

- (1) The offering price of the Offered Units and the Series A Debentures has been established through negotiation between the REIT and the Underwriters.
- (2) Before deducting expenses of the Offerings estimated at \$800,000 which, together with the Underwriters' fee, will be paid from the general funds of the REIT.
- (3) The REIT granted to the Underwriters an option (the "Underwriters' Option"), exercisable until 48 hours prior to the closing of the Debenture Offering, to purchase up to an additional \$7,500,000 principal amount of Series A Debentures on the same terms as set forth above. The Underwriters' Option was exercised in full on March 18, 2004. This short form prospectus qualifies the grant of the Underwriters' Option and the Series A Debentures being issued as a result of the exercise thereof. See "Plan of Distribution".
- (4) In addition to the Offerings, the total Price to the Public and Net Proceeds to the REIT from the sale of the Additional Units will be up to \$4,029,250 (\$11.35 per Additional Unit). No underwriters' fee will be payable by the REIT in respect of the distribution of the Additional Units.

The REIT intends to use the net proceeds of the Offerings to partially fund the acquisition by the REIT (or its affiliates) of eight Holiday Inn® hotels and one Quality Hotel®, having a combined total of 1,525 guest rooms, for total consideration of \$111.5 million, subject to adjustments at closing (the "Acquisition"). See "The Acquisition" and "Use of Proceeds". The closing of the Acquisition is subject to conditions and, therefore, there is a risk that the Acquisition may not take place. See "Risk Factors". The closing of the Offerings, and the Acquisition are not mutually conditional, however the closing of the Acquisition and the sale of the Additional Units are mutually conditional. In the event the Acquisition is not completed, the net proceeds of the Offerings will be used to repay indebtedness under the REIT's credit facilities, to fund future acquisitions and for general purposes.

RBC Dominion Securities Inc., CIBC World Markets Inc., Scotia Capital Inc. and TD Securities Inc. (collectively, the "Underwriters"), as principals, conditionally offer the Offered Units and the Series A Debentures, subject to prior sale, if, as and when issued by the REIT and delivered to and accepted by the Underwriters 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 and on behalf of the Underwriters by Osler, Hoskin & Harcourt LLP.

**RBC Dominion Securities Inc. is an affiliate of a Canadian chartered bank that is a current lender to the REIT under a revolving credit facility. A portion of the proceeds of the Offerings (inclusive of the Underwriters' Option) may be used to temporarily reduce indebtedness under the existing credit facility. Consequently, the REIT may be considered a connected issuer of such Underwriter under applicable securities laws in certain Canadian provinces.**

Subscriptions for Offered Units and the Series A 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. Book-entry only certificates representing the Offered Units and the Series A Debentures will be issued in registered form to the Canadian Depository for Securities Limited ("CDS") or its nominee as registered global securities and will be deposited with CDS on the date of issue of the Offered Units and the Series A Debentures, which is expected to occur on or about April 2, 2004 or such later date as the REIT and the Underwriters may agree, but in any event not later than April 15, 2004. The closing of the Unit Offering and the Debenture Offering are mutually conditional. Book-entry only certificates representing the Units issuable upon conversion of the Series A Debentures will be issued in registered form to CDS or its nominee as registered global securities and will be deposited with CDS on the date of issue of the Units. Holders of Offered Units, Series A Debentures and Units will not be entitled to receive physical certificates representing their ownership. See "Description of the Series A Debentures — Book-Entry Only System". Subject to applicable laws, the Underwriters may, in connection with the Offerings, effect transactions that stabilize or maintain the market price of the Units and the Series A Debentures at levels other than those which might otherwise prevail on the open market. See "Plan of Distribution".

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### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this short form prospectus, and in certain documents incorporated by reference into this short form prospectus, constitute forward-looking statements. These statements relate to future events or the REIT's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. While the REIT believes the expectations reflected in those forward-looking statements are reasonable, such forward-looking statements included in, or incorporated by reference into, this short form prospectus should not be unduly relied upon. These statements speak only as of the date of this short form prospectus or as of the date specified in the documents incorporated by reference into this short form prospectus, as the case may be.

In particular, this short form prospectus, and the documents incorporated by reference, contain forward-looking statements pertaining to distributable cash and distributions per Unit. The actual results could differ materially from those anticipated in these forward-looking statements as a result of, among other things, the risk factors set out in this short form prospectus or incorporated by reference herein. The REIT does not undertake any obligation to publicly update or revise any forward-looking statements.

Except where expressly noted, all information in this short form prospectus assumes the prior closing of the acquisition of the Holiday Inn Harbourview (a seven storey hotel in Dartmouth, Nova Scotia with 196 rooms), which the REIT had agreed to purchase for a price of \$8.8 million from WWHH Gen-Par, Inc., Maple Leaf Enterprises Inc. and WW Hotel Holdings L.P. pursuant to a purchase agreement dated September 10, 2003. The closing of this transaction, which was scheduled to occur prior to October 31, 2003, was delayed due to damage sustained by the property as a result of Hurricane Juan on September 28 and 29, 2003. The vendors of this property have completed the repairs and the closing of this transaction is expected to occur on or before the closing of the Acquisition.

## DOCUMENTS INCORPORATED BY REFERENCE

**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 the 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](http://www.sedar.com).

The following documents filed by the REIT 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 the 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 nine months ended September 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 the REIT dated May 20, 2003 (the "AIF");
- (d) management information circular of the 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;
- (e) the REIT's press release dated March 5, 2004 announcing the REIT's unaudited results for the year ended December 31, 2003 together with the notes thereto; and
- (f) material change report dated March 22, 2004 relating to the entering into of an agreement to purchase nine mid-market hotels for \$111.5 million and to this public 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 the Offerings 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.**

## INNVEST REAL ESTATE INVESTMENT TRUST

The REIT is an unincorporated open-ended real estate investment trust established under the laws of the Province of Ontario pursuant to an amended and restated declaration of trust dated July 18, 2002 (the “Declaration of Trust”). 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 acquisition and ownership 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. However, the REIT’s broader strategy also encompasses the acquisition and ownership of certain mid-market hotels to complement its limited service hotel portfolio. These mid-market hotels provide food, beverage and other ancillary services to patrons.

The REIT currently owns 115 Canadian hotel properties, Canada’s largest hotel portfolio as measured both by number of hotels and by number of guest rooms (the “Portfolio”). Each of the REIT’s hotels is operated under international brands, with Choice Canada brands, including Comfort Inn®, Quality Hotel®, Quality Suites®, and Quality Inn® making up 78% 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<sup>(1)</sup></u>	<u>% of Total Guest Rooms</u>
Comfort Inn . . . . .	84	6,747	57.5%
Travelodge . . . . .	13	2,118	18.0%
Quality Hotel . . . . .	7	1,297	11.0%
Quality Suites/Quality Inn . . . . .	8	1,096	9.3%
Holiday Inn Express, Holiday Inn and Best Western . . . . .	3	489	4.2%
<b>Total . . . . .</b>	<b><u>115</u></b>	<b><u>11,747</u></b>	<b><u>100%</u></b>

(1) Includes 50% of The Kingston Comfort Inn (Warne Crescent) which has 103 guest rooms and is owned 50% by the REIT.

Geographically, the REIT’s hotels are concentrated in Ontario and Québec (together representing 72% of the guest rooms in the Portfolio), where the majority of Canada’s population and business activity is located, with additional properties in population centres in the Atlantic and Western provinces.

The REIT also owns a 50% 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.

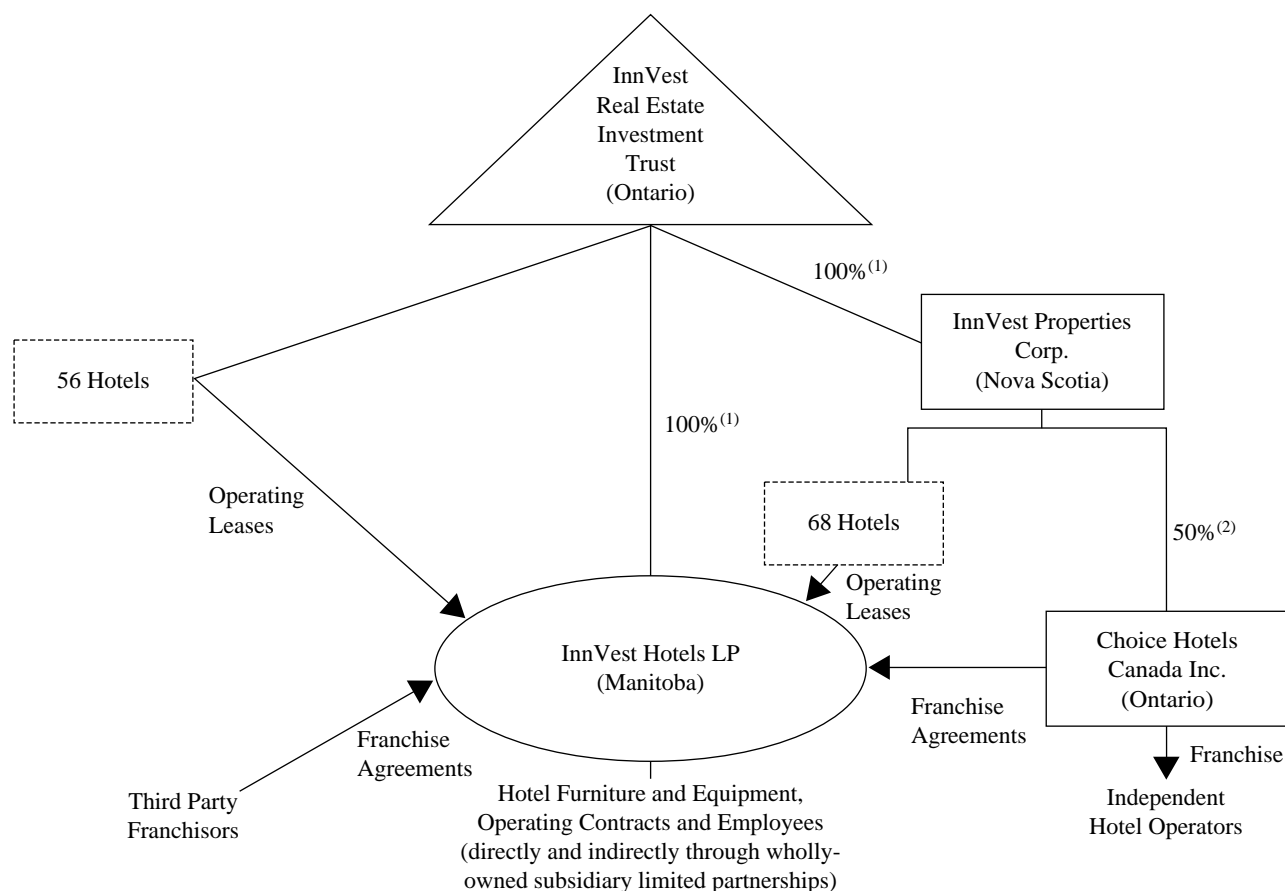
Choice Canada, the Canadian master franchisor of the Choice brands, enjoys a prominent position in the Canadian hospitality market. With approximately 260 locations open or under development and more than 22,000 guest rooms, Choice Canada is the largest franchisor of hotels in Canada as measured by hotels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

The REIT currently owns 47 hotel properties, either directly or through a subsidiary limited partnership, and InnVest Properties Corp., an indirect subsidiary of the REIT, currently owns 68 hotel properties. InnVest Hotels LP, a subsidiary limited partnership of the 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 115 hotels in the Portfolio are operated under franchise agreements with Choice Canada, and the remaining 16 hotels are operated under franchise agreements with other franchisors.

Upon completion of the Acquisition, the REIT will own 56 hotel properties, either directly or through a subsidiary limited partnership, and InnVest Properties Corp., will own 68 hotel properties. The hotel businesses will continue to be owned and operated by InnVest Hotels LP and its subsidiaries.

The following chart illustrates the primary structural and contractual relationships between the REIT and its principal subsidiary entities and certain third parties after taking into account the Acquisition.



(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.

## THE ACQUISITION

### General

On March 10, 2004, the REIT entered into a purchase and sale agreement (the “Purchase Agreement”) with WHWW Realty LP, WHWW Gen-Par, Inc., Trans Canada Enterprises, Inc., WHWW Hotels (Regina) Company, WHWW Hotels (YYZ) Company, WXI/WWH Calgary Holdings Corp., WXI/WWH Guelph Holdings Corp., Kanata CHL Limited Partnership, Commonwealth Hospitality Ltd. and Kingston CHL Inc. (each a “Vendor” and collectively, the “Vendors”). Pursuant to the Purchase Agreement, the REIT or related entities agreed to purchase: (i) eight mid-market hotel properties; and (ii) all the outstanding shares and shareholder indebtedness of WW Hotels (Westor) Company, a company incorporated under the laws of Nova Scotia (the “Company”) that owns a mid-market hotel (the eight mid-market hotel properties owned by the Vendors and the one mid-market hotel owned by the Company being collectively referred to as the “New Hotel Properties”, and the New Hotel Properties and the outstanding shares and shareholder indebtedness of the Company being referred to collectively as the “New Hotel Assets”) from the Vendors (the “Acquisition”) for a purchase price of \$111,500,000 in cash, subject to adjustments which are usual for a transaction of this nature (the “Purchase Price”). The Acquisition is expected to close on or before April 15, 2004, or such earlier date as the REIT and Vendors may mutually agree.

Some of the investors in the Vendors are affiliates of the Westmont Group. In addition, Westmont Hospitality Management Ltd. (“WHML”), an affiliate of the Westmont Group, is currently the manager of the New Hotel Properties. The Westmont Group is also affiliated with Westmont Hospitality Canada Ltd. (the “Manager”), the manager of the REIT’s Portfolio. Accordingly, the Vendors and the REIT may be considered related parties for purposes of Ontario Securities Commission Rule 61-501 — *Insider Bids, Issuer Bids, Going Private Transactions and Related Party Transactions* (“Rule 61-501”).

Even though the Acquisition may constitute a related party transaction under Rule 61-501, the REIT is exempt from the requirements to obtain minority approval of the Acquisition by its Unitholders and an independent valuation of the New Hotel Properties under Rule 61-501 because the purchase price for the New Hotel Properties is less than 25% of the “market capitalization” of the REIT (as defined in Rule 61-501).

Regardless of the application of Rule 61-501, the Vendors are each considered a Related Party (as defined in the Declaration of Trust) of the REIT under the Declaration of Trust. As a result, the Trustees of the REIT established an independent committee comprised of the REIT’s Independent Trustees (as defined in the Declaration of Trust) to assess the Acquisition. The Independent Trustees, in turn, retained their own counsel for purposes of this assessment.

In compliance with their obligations under the Declaration of Trust, the Independent Trustees retained Colliers International Realty Advisors Inc. (the “Appraiser”) to provide them with an independent valuation of the New Hotel Properties. See “Valuation.” The Independent Trustees also engaged a financial advisor to undertake certain verification procedures with respect to the New Hotel Properties. In addition, they relied on physical evaluations of each of the hotels conducted by an independent professional engineering firm and Phase 1 environmental site assessments conducted by an independent environmental consulting firm. The results of the engineering evaluations indicated that the New Hotel Properties are generally in good condition and well maintained. The environmental assessments did not identify any substantial non-compliance with material environmental laws or regulations. Upon completion of their assessment and review of the independent valuations, the physical evaluations and the environmental assessments, the Independent Trustees recommended the approval of, and the trustees of the REIT (the “Trustees”) unanimously approved, the Acquisition, in accordance with the terms of the Declaration of Trust.

### Rationale for the Acquisition

- **The Acquisition Purchase Price is Advantageous due to the Current Cyclical Downturn in the Hotel Industry:** The REIT believes the Canadian hotel industry is currently recovering from a cyclical downturn caused by a slowdown in the economy and continued fallout from recent medical concerns about traveling in Canada and acts of terrorism in the United States. As a result, the REIT believes that the timing of its acquisition provides it with an opportunity to acquire the New Hotel Properties at a

favourable purchase price of approximately \$73,000 per room. In addition, approximately \$19 million in capital improvements have been made to the New Hotel Properties over the past four years. With demand in the mid-market hotel sector expected to improve in 2004 and 2005, the REIT believes that the acquisition of the New Hotel Properties will position it to benefit from this upturn.

- **Diversification:** The New Hotel Properties being acquired complement the REIT's existing Portfolio by adding mid-market hotels that feature food, beverage and other ancillary services. This will enable the REIT to target a broader customer base. As the hotel industry begins to recover from the downturn in the cycle, the REIT will be better positioned to take advantage of the greater demand for mid-market hotels.
- **Strong Brand:** Eight of the nine New Hotel Properties are Holiday Inn® franchised hotels. With more than 1,500 hotels around the world and over 1,100 in the United States, Holiday Inn offers strong name recognition. In addition, Holiday Inn's offering of high standard, midscale lodging in convenient locations close to major thoroughfares complements the REIT's existing Portfolio of hotels which are operated primarily under Choice® flags.
- **New Hotel Properties are in Key Locations:** All of the New Hotel Properties are located in urban or suburban areas, close to major thoroughfares, businesses and attractions.
- **Knowledge of Assets and Continuity of Management:** The current manager for the New Hotel Properties, WHML, has managed the New Hotel Properties since their acquisition by the Vendors. WHML is an affiliate of Westmont Hospitality Canada Ltd., the manager of the REIT's existing Portfolio and the future manager of the New Hotel Properties. The REIT believes that this continuity of management reduces acquisition risks by enabling the New Hotel Properties to continue to run efficiently after the Acquisition with minimal disruption.

### **The Purchase Agreement**

Pursuant to the Purchase Agreement dated March 10, 2004, the Vendors have agreed to sell, and the REIT has agreed to purchase, either directly or indirectly, the New Hotel Assets on an "as-is, where-is" basis for the Purchase Price. Subject to the possibility of an extended closing date for the Oshawa Holiday Inn property described below, the closing of the Acquisition is expected to occur on or about April 15, 2004 (the "Acquisition Closing Date"), but is subject to several conditions, including obtaining releases from certain licensors of the Vendors from their obligations under certain license agreements and the receipt of all necessary regulatory approvals and other conditions described below. See "— Closing Conditions". An initial deposit of \$2.8 million was paid to the Vendors on March 11, 2004 and a further deposit of \$2.8 million was paid on March 12, 2004.

The following is a summary of other material provisions of the Purchase Agreement. This summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the provisions of the Purchase Agreement.

#### ***Extended Closing Date for the Oshawa Holiday Inn***

In the sole and absolute discretion of the Vendor that is selling the Oshawa Holiday Inn, the closing for the purchase and sale of the Oshawa Holiday Inn can be extended for up to 90 days following the Acquisition Closing Date (the "Extended Closing Date").

If the Vendors elect to extend the closing date for the Oshawa Holiday Inn: (i) the Vendors and the REIT shall nevertheless consummate the Purchase Agreement and complete the closing as it relates to the remainder of the New Hotel Properties on the Acquisition Closing Date (and the balance of the Purchase Price due on the Acquisition Closing Date shall be reduced by the amount of the purchase price allocated to the Oshawa Holiday Inn); (ii) the portion of the purchase price allocated to the Oshawa Holiday Inn shall be subject to adjustments as of the Acquisition Closing Date. In such event, the REIT shall pay to the relevant Vendor on the Extended Closing Date the entire portion of the purchase price allocated to the Oshawa Holiday Inn, as adjusted, together with interest on the Oshawa Holiday Inn purchase price calculated at the rate of 9.6% per annum for the period commencing on the Acquisition Closing Date and ending on the Extended Closing Date; and (iii) the provisions of the Purchase Agreement (including, without limitation, provisions in respect of adjustments, closing



documents, and deliveries on the Acquisition Closing Date) shall apply with equal force and effect to the Oshawa Holiday Inn and the Extended Closing Date. In such event, the REIT shall have the benefit of all cash flows for the Oshawa Holiday Inn from the Acquisition Closing Date.

***Termination of the Sale of the Shares and Indebtedness of the Company (WW Hotels (Westor) Company)***

The Company and the applicable Vendor did not receive before March 20, 2004 a signed irrevocable undertaking from the mortgagee of the Company's New Hotel Property to deliver discharges of its security on the Company's New Hotel Property on or before Closing, in form and substance satisfactory to the applicable Vendor in its sole and absolute discretion. As a result, the applicable Vendor may terminate the Purchase Agreement but only as it relates to the sale of the shares and the indebtedness of the Company. In such event, the remaining Vendors and the Purchaser shall nevertheless consummate the Purchase Agreement and complete the Closing as it relates to the remainder of the New Hotel Properties on the Acquisition Closing Date (and the balance of the Purchase Price due on the Acquisition Closing Date shall be reduced by the amount of the Purchase Price allocated by the parties to the shares and the indebtedness of the Company, and the Purchase Agreement shall be interpreted without reference to the Company, the Company's hotel assets, the shares of the Company, and the indebtedness of the Company). The REIT anticipates that the Company and the applicable Vendor will receive the appropriate undertaking and expects that the sale of the Company will take the place on the Acquisition Closing Date.

***Representations and Warranties***

The Purchase Agreement includes customary representations and warranties for an "as-is, where-is" type of transaction, including representations and warranties as to various matters such as organization and status, power and due authorization, enforceability, absence of conflicting agreements, title to assets and shares, tax matters, permits, licenses and consents, litigation, compliance with all material contracts and leases, employee plans and labour relations, environmental issues, financial information, compliance with laws and licenses, and the fact that no agent or broker was engaged in connection with the Purchase Agreement.

Subject to certain limited exceptions, the representations and warranties in the Purchase Agreement survive for a period of nine months after the Acquisition Closing Date.

***Covenants***

The parties to the Purchase Agreement have made covenants relating to, among other things, the operation of the New Hotel Properties by the Vendors prior to closing and certain events occurring between the signing of the Purchase Agreement and the Acquisition Closing Date. In particular, the parties have agreed that, until the Acquisition Closing Date, the Vendors shall cause the New Hotel Properties to be operated in accordance with the manner in which they are currently being operated. In addition, WHML, the current manager for the New Hotel Properties, may, without the consent or approval of the REIT: (a) enter into any new leases or contracts relating to any of the New Hotel Properties provided that they are assignable to the REIT on the Acquisition Closing Date at no cost; (b) enter into any new leases or agreements relating only to the Company's hotel; (c) amend or otherwise deal with any existing lease or contract; or (d) terminate, or voluntarily accept a surrender of, any lease (other than ground leases) or contract, or release any tenant or other person from its liability under its lease or contract.

***Indemnities***

Subject to certain limitations, the parties to the Purchase Agreement have agreed to indemnify each other with respect to claims or losses relating to, among other matters, the breach of any representation or warranty contained in the Purchase Agreement and the failure by a party to perform any covenant under the Purchase Agreement.

Indemnification for breaches of such representations and warranties is subject to the following provisions:

- no party will be liable with respect to a claim for indemnification until the aggregate amount otherwise payable exceeds \$500,000;

- neither a Vendor nor the REIT shall have an obligation to indemnify the REIT or such Vendor, respectively, unless the amount of the loss under any claim for indemnification in respect of a particular matter exceeds an amount equal to \$50,000;
- each Vendor's obligation to indemnify the REIT shall be several (and not joint or joint and several) and such several share that is calculated by reference to any liability under the Purchase Agreement or otherwise shall be determined by reference to the Vendor's *pro rata* portion of the Purchase Price;
- the limit on each Vendor's indemnification obligations is its *pro rata* portion of the Purchase Price;
- the maximum aggregate liability of the REIT with respect to any claim for indemnification for losses suffered or incurred by the Vendors shall be limited to the Purchase Price;
- each of the Vendors or the REIT that is required to indemnify shall be given a reasonable opportunity to remedy any breach of representation, warranty or covenant capable of being remedied before any indemnity obligation will arise; and
- the liability of an indemnifying party for a claim for indemnification shall be reduced to the extent of (i) any increase in the amount of any loss resulting from the failure to provide prompt notice of a claim as required by the Purchase Agreement; and (ii) any insurance proceeds received by the indemnified party in respect of such claim.

The REIT has agreed to indemnify and save harmless the Vendors and their affiliates from and against all claims incurred or arising out of the termination of existing license agreements between the Vendors and the licensors of the New Hotel Properties resulting from the Acquisition or any other action by the REIT. The Vendors have agreed to indemnify the REIT and all of its affiliates from and against all claims incurred by the REIT or such affiliates as a result of a breach by the Vendors of the obligations and liabilities of the licensee under such license agreements that accrued, arose or related to the period prior to the Acquisition Closing Date.

The REIT has agreed to indemnify and save harmless the Vendors and all persons, if any, who hold liquor licenses on a Vendor's behalf, with respect to any claims arising from or relating to the failure by the REIT to obtain liquor licenses or necessary consents or approvals for the assignment of the Vendors' existing hotel contracts and permits to the REIT.

In addition, the REIT has agreed to indemnify the Vendors for any claims arising from the failure by the REIT to: (i) pay any federal, provincial or other taxes payable by the REIT in connection with the Acquisition; or (ii) file any returns, certificates or other documents or filings required to be filed by the REIT with any federal, provincial or other taxing authorities in connection with the Acquisition. The Vendors have similarly agreed to indemnify the REIT for any claims arising from the failure of the Vendors to: (i) pay any federal, provincial or other taxes payable by the Vendors in connection with the Acquisition; or (ii) file any returns, certificates or other documents or filings required to be filed by the Vendors with any federal, provincial or other taxing authorities in connection with the Acquisition.

### ***Closing Conditions***

The obligation of each of the parties to the Purchase Agreement is subject to closing conditions including, among others, (i) the accuracy, in all material respects, of the representations and warranties made by the parties in the Purchase Agreement; (ii) compliance, in all material respects, with all of the covenants provided for in the Purchase Agreement; (iii) the allocation of the Purchase Price to the land, building, chattels, goodwill and intangibles for each New Hotel Property; (iv) payment of the Purchase Price by the REIT; (v) compliance with the requirements under the *Competition Act* (Canada); (vi) receipt of consents under certain material contracts on terms satisfactory to the REIT and the Vendors, each acting reasonably; (vii) receipt by the REIT of releases from certain license agreements in a form satisfactory to the Vendors in their sole discretion; (viii) the amalgamations and wind-ups of certain Vendors; (ix) the ability of the Vendors, on the Acquisition Closing Date, to transfer the New Hotel Properties to the REIT free and clear of all encumbrances other than certain permitted encumbrances set out in the Purchase Agreement; (x) adequate title insurance coverage having been obtained by the REIT for the New Hotel Properties; and (xi) agreement as to the transfer of the assets and liabilities relating to employee group RRSP plans, employee savings plans and/or pension plans.

A closing condition that required the REIT to obtain a commitment in respect of adequate financing for the Acquisition by March 20, 2004 has been satisfied.

### ***Termination of the Purchase Agreement***

The Purchase Agreement may be terminated: (a) by either party, if the closing conditions in favour of such party are not satisfied before the Acquisition Closing Date; or (b) by the REIT, if a loss or damage to one or more of the New Hotel Properties occurs prior to the Acquisition Closing Date which is of such a nature and to such an extent that the cost of repair or restoration, in the reasonable opinion of the Vendors' independent architect or engineer, will exceed an amount in aggregate equal to 20% of the Purchase Price.

Subject to the foregoing, no adverse change in the New Hotel Properties or the assets associated therewith entitles the REIT to terminate the Purchase Agreement or to an abatement of the Purchase Price. However, any damage to the New Hotel Properties that shall occur prior to the Acquisition Closing Date shall be at the risk of the Vendors.

If the transaction is not completed for any reason other than the default of the REIT, the deposits described above (together with all interest earned thereon) shall be returned to the REIT. If the Acquisition is not completed as a result of the default of the REIT, the deposits (together with all interest earned thereon) shall be forfeited to the Vendors on a *pro rata* basis.

### **New Hotel Properties**

The New Hotel Properties consist of one Quality Hotel and eight Holiday Inn mid-market hotels. Eight of the New Hotel Properties are freehold interests. The Guelph Holiday Inn is built on lands leased from the University of Guelph, as head landlord, and subleased from an unrelated entity, as sublandlord. The term of the sublease in favour of the subtenant is 20 years ending on September 30, 2018. At the end of the term of the sublease, the subtenant may, at its sole discretion, purchase the leasehold interest of the sublandlord in and to the Guelph lands, as well as the interest of the sublandlord in and to the hotel buildings, and certain other related assets for fair market value less \$12 million, being the principal amount of a mortgage in favour of the subtenant. The term of the lease between the University of Guelph and the sublandlord in respect of the Guelph lands is 49 years and 364 days, ending on December 31, 2022. The tenant under that lease may, at its sole discretion, extend the lease for two 20 year terms at prevailing market rates.

While the Holiday Inn Toronto Airport East is a freehold interest, a portion of its parking lot is used pursuant to a 30 year license agreement entered into with Ontario Hydro on December 2, 1997.

Seven of the Holiday Inn properties are located in Ontario, where the REIT currently has its principal guest room concentration. The remaining Holiday Inn property is located in Alberta while the Quality Hotel is located in Saskatchewan. All of the New Hotel Properties are located in urban and suburban centres and are strategically situated in proximity to major thoroughfares, typically close to demand generators such as business centres, government and manufacturing facilities, universities, airports, shopping malls and tourist attractions.

Over the past four years, approximately \$19 million in capital improvements have been made to the New Hotel Properties. The REIT has allocated \$4.6 million for additional capital improvements to be undertaken with respect to the New Hotel Properties over the next twelve months.

### ***Description of the New Hotel Properties***

The Holiday Inn properties being acquired range in size from 136 to 240 total rooms in interior corridor buildings with four to nine stories. All the Holiday Inn mid-market hotels are equipped to meet the needs of different customer segments. They all provide amenities such as a swimming pool (five indoor, one outdoor and two indoor/outdoor), a fitness centre and a restaurant. All eight hotels provide high speed internet access. Three of the hotels are equipped with saunas and six are equipped with whirlpools. All hotels have meeting room facilities and two of the hotels have full-service business centres.

The Quality Hotel, in downtown Regina, Saskatchewan, is a six storey interior corridor building with 126 guest rooms. It is in close proximity to major banks, offices and shopping. The hotel offers a full-service restaurant with lounge and an exercise room with sauna.

As with the REIT's existing Portfolio, the New Hotel Properties have a diverse customer base, including business travelers, leisure travelers, group organizations and corporate clients. Set out below is a summary description of the New Hotel Properties.

<u>Hotel</u>	<u>Address</u>	<u>Year Built (Renovated)</u>	<u>Rooms</u>
1. Holiday Inn Toronto Airport East . . . . .	600 Dixon Road Toronto, Ontario M9W 1J1	1960's (1997)	191
2. Holiday Inn — Toronto West . . . . .	100 Britannia Road E. Mississauga, Ontario L4Z 2G1	1987 (1999-2001)	138
3. Holiday Inn — Oshawa . . . . .	101 Bloor Street East Oshawa, Ontario L1H 7K6	1971 (2000-2001)	193
4. Holiday Inn Hotel and Suites — Ottawa-Kanata . . . . .	101 Kanata Ave. Kanata, Ontario K2T 1E6	1999	152
5. Holiday Inn — Guelph . . . . .	601 Scottsdale Drive Guelph, Ontario N1G 3E7	1973 (1999-2001)	136
6. Holiday Inn — Burlington . . . . .	3036 South Service Rd. Burlington, Ontario L7N 3E9	1973 (2002-2003)	240
7. Holiday Inn — Kingston . . . . .	2 Princess Street Kingston, Ontario K7L 1A1	1965, 1977 (2001)	197
8. Holiday Inn — Calgary — Macleod Trail South . . . . .	4206 MacLeod Trail S. Calgary, Alberta T2G 2R7	1974 (2001-2002)	152
9. Quality Hotel — Regina . . . . .	1717 Victoria Avenue Regina, Saskatchewan S4P 0P9	1962-1963 (1999)	126
<b>TOTAL</b> . . . . .			<u><u>1,525</u></u>

***Impact of the New Hotel Properties on the REIT's Portfolio***

Currently, the REIT's Portfolio is comprised primarily of three international brands, Comfort, Quality and Travelodge, as measured by number of guest rooms. The REIT's Portfolio also includes a single Best Western, Holiday Inn and Holiday Inn Express hotel. The REIT believes that the acquisition of eight Holiday Inn hotels and one Quality Hotel will add to the already diverse brands offered by the REIT's Portfolio. The addition of

mid-market hotels will also enable the REIT to access a broader customer base. Set out below is a post-Acquisition summary description of the REIT's assets under each flag.

<u>Flag</u>	<u>No. of Hotels</u>	<u>No. of Guest Rooms<sup>(1)</sup></u>	<u>% of Total Guest Rooms</u>
Comfort Inn . . . . .	84	6,747	50.8%
Travelodge . . . . .	13	2,118	16.0%
Holiday Inn and Holiday Inn Express . . . . .	10	1,758	13.2%
Quality Hotel . . . . .	8	1,423	10.7%
Quality Suites/Quality Inn . . . . .	8	1,096	8.3%
Best Western . . . . .	1	130	1.0%
<b>Total</b> . . . . .	<b>124</b>	<b>13,272</b>	<b>100%</b>

(1) Includes 50% of The Kingston Comfort Inn (Warne Crescent) which has 103 guest rooms and is owned 50% by the REIT.

### ***Acquired Property Performance***

The following table provides comparative operating data for the New Hotel Properties and the existing REIT Portfolio for each of the three years ended December 31, 2003.

<u>Year</u>	<u>New Hotel Properties</u>			<u>Existing REIT Portfolio<sup>(3)</sup></u>		
	<u>ADR<sup>(1)</sup></u>	<u>Occupancy</u>	<u>RevPAR<sup>(2)</sup></u>	<u>ADR<sup>(1)</sup></u>	<u>Occupancy</u>	<u>RevPAR<sup>(2)</sup></u>
2003 . . . . .	\$112.29	62.7%	\$70.46	\$81.77	60.3%	\$49.28
2002 . . . . .	\$112.30	66.8%	\$75.01	\$81.94	65.1%	\$53.37
2001 . . . . .	\$112.09	66.6%	\$74.66	\$82.51	64.3%	\$53.06

(1) "ADR" means average daily room rate determined by dividing gross room revenue measured by the number of occupied room nights in the applicable period.

(2) "RevPAR" means revenue per available room, determined by dividing gross room revenues by available room nights in the applicable period.

(3) Excludes the Holiday Inn Harbourview.

### **Financing Arrangements**

The REIT has signed a commitment letter with a Canadian financial institution for the provision of a ten-year term credit facility in the maximum principal amount of \$61.4 million to assist with the acquisition of the New Hotel Properties. The loans under the credit facility will bear interest at an annual rate of 195 to 200 basis points above the 10 year Government of Canada benchmark bond (currently the 5% June 2014 Government of Canada bond). The REIT will be required to repay the loans in equal monthly payments of interest and principal based on a 25 year amortized period (subject to certain exceptions). The loans under the credit facility will not be prepayable in whole or in part any time prior to the maturity date of the credit facility.

The loans under the credit facility will be borrowed by the new subsidiary limited partnerships formed to acquire the New Hotel Properties and will be secured by, among other things, (i) a first mortgage on the interest of the borrowers in the New Hotel Properties, (ii) a first priority general assignment of all rents and leases relating to each of the New Hotel Properties, (iii) a first priority general security agreement with respect to all personal property relating to the New Hotel Properties and (iv) a guarantee of the REIT and certain subsidiary limited partnerships.

Funding under the credit facility is conditional upon, among other things, the lender's satisfactory completion of due diligence on the borrowers, the REIT and the New Hotel Properties and the entering into of definitive documentation satisfactory to the lender.

As a result of the signing of the commitment letter for the credit facility referred to above, a previously arranged one-year term credit facility with a Canadian chartered bank pursuant to a commitment letter dated March 10, 2004 has been terminated at no additional cost to the REIT.

## VALUATION

The Independent Trustees of the REIT retained the Appraiser to provide an independent estimate of the market value of the New Hotel Properties. Market value is defined as “the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus”.

Caution should be exercised in the use of valuation results. The Valuation is an estimate of current market values; it is not a precise measure of value, but is based on economic, political, stock market and general business conditions prevailing in Canada as at January 29, 2004. Further, the Valuation is based on various assumptions of future expectations and, while the Appraiser’s projection of income is considered to be reasonable at the current time, some of the assumptions may not materialize or may differ from actual experience in the future. A publicly-traded real estate investment trust will not necessarily trade at values determined by reference to the underlying value of its assets. Accordingly, the Units may trade at a discount or a premium to the values implied by the Valuation.

In the Valuation, the Appraiser estimated that the market value of the New Hotel Properties as at January 29, 2004 was in the range of approximately \$108 to 114 million. The market value was determined on an individual property-by-property basis using discounted cash flow, direct capitalization and direct comparison valuation methodologies. Discounted cash flow analysis involves an estimate of the real estate value of an income-producing property by converting projected earnings into an expression of market value. The direct capitalization approach involves an estimate of the real estate value by converting current earnings into an expression of market value. The direct comparison approach values a property on the basis of the cost of acquiring equally desirable and valuable substitute properties, indicated by transactions of comparable properties within the market area.

In conducting the discounted cash flow analysis, the Appraiser applied a discount rate of between 14.0% and 15.0% and a reversionary capitalization rate in the order of 11.5% to 13.0% to the future cash flow projections of the New Hotel Properties. In using the direct capitalization approach to valuation, the Appraiser applied a capitalization rate in the order of 8.75% to 12.5% to adjusted projected 2004 net operating income (operating income less the planned reserve for replacement of furniture, fixtures and equipment and capital expenditures) before debt service to arrive at the estimated fair market value. In its application of the direct comparison approach, the Appraiser assessed a number of transactions involving properties similar to the subject property and factored in: (i) the property rights conveyed; (ii) financing terms; (iii) conditions of sale; (iv) market conditions; (v) location; (vi) physical characteristics of the property; (vii) economic performance of the property versus comparable properties; and (viii) economic use of the property.

In determining the fair market value of the New Hotel Properties, the Appraiser relied on various operating and financial data provided by the Vendors. The Appraiser believes that the Valuation gave appropriate consideration to management’s budgets, projected cash flows and net operating income for each of the New Hotel Properties in terms of market room rates, growth rates, occupancy rates, operating expenses, management fees, ground lease obligations (where applicable) and provisions for required capital improvements. Specifically, for each of the New Hotel Properties, the Appraiser reviewed property and municipal data; reviewed management’s procedures for estimating property taxes; and canvassed mid-market hotel chains with a view to determining the location, size and brand of hotels under construction, or being contemplated within the markets serviced by the individual New Hotel Properties. In addition, the Appraiser toured the New Hotel Properties located in Ontario, Alberta and Saskatchewan. In conducting its Valuation, the Appraiser assumed that title to each of the New Hotel Properties is good and marketable and freehold or leasehold, as applicable, and that each of the New Hotel Properties is free from material environmental contamination.

## PRO FORMA CONSOLIDATED CAPITALIZATION OF THE REIT

The following table sets forth the *pro forma* consolidated capitalization of the REIT as at September 30, 2003 after giving effect to the Offerings (including the exercise of the Underwriters' Option), the issuance of all of the Additional Units and the Acquisition. This table should be read in conjunction with the consolidated financial statements and notes thereto incorporated by reference in this short form prospectus.

	<b>As at September 30, 2003 (Pro Forma)</b>
<b>Debt:</b>	
Long-term debt <sup>(1)</sup> . . . . .	\$374,296,000
<b>Unitholders' Equity:</b>	
Units (Authorized — unlimited) <sup>(2)</sup> . . . . .	417,356,000 (45,590,000 Units)
Initial Debentures <sup>(3)</sup> . . . . .	75,468,000
Series A Debentures <sup>(3)</sup> . . . . .	54,943,750
<b>Total Capitalization</b> . . . . .	<b>\$922,063,750</b>

(1) Assumes \$61,400,000 is drawn under a long term Credit Facility by the REIT.

(2) Does not include Units issuable pursuant to the outstanding 9.75% convertible unsecured subordinated debentures of the REIT due June 30, 2007 (the "Initial Debentures") or the Series A Debentures (collectively, the "Debentures").

(3) Under Canadian generally accepted accounting principles, the Debentures are included in unitholders' equity and distributions on the Debentures are charged to equity.

## PRICE RANGE AND TRADING VOLUME OF THE UNITS

The outstanding Units are traded on the TSX under the trading symbol "INN.UN". The following table sets forth the closing price range and trading volume of the Units as reported by the TSX from January 1, 2003.

<b>Period</b>	<b>High</b>	<b>Low</b>	<b>Volume</b>
<b>2003</b>			
January . . . . .	\$ 9.80	\$ 9.25	1,640,912
February . . . . .	\$ 9.45	\$ 8.76	1,279,996
March . . . . .	\$ 9.10	\$ 8.24	1,348,890
April . . . . .	\$ 8.97	\$ 7.82	1,656,950
May . . . . .	\$ 9.10	\$ 8.55	1,649,353
June . . . . .	\$ 9.50	\$ 8.88	1,131,942
July . . . . .	\$ 9.60	\$ 9.00	2,850,933
August . . . . .	\$ 9.81	\$ 9.05	1,222,094
September . . . . .	\$ 9.78	\$ 9.20	788,727
October . . . . .	\$ 9.80	\$ 9.20	1,425,426
November . . . . .	\$10.70	\$ 9.31	2,378,775
December . . . . .	\$12.00	\$10.25	3,246,397
<b>2004</b>			
January . . . . .	\$11.72	\$10.97	2,177,496
February . . . . .	\$12.25	\$11.32	2,560,107
March (to March 19) . . . . .	\$11.94	\$11.25	3,083,456

On March 10, 2004, the day on which the REIT announced the Offerings and the Acquisition, the closing price for the Units on the TSX was \$11.47. On March 22, 2004, the closing price for the Units was \$11.45.

## RECORD OF CASH DISTRIBUTIONS AND DISTRIBUTION POLICY

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 up to and including February 2004. 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.

Although the REIT intends to make distributions of available cash to Unitholders, these cash distributions are not assured. The ability of the REIT to make cash distributions and the actual amount distributed will be dependent upon, among other things, the financial performance of the properties in its portfolio, debt covenants and obligations, working capital requirements and future capital requirements. The market value of the Offered Units may deteriorate if the REIT is unable to meet its cash distribution targets in the future and that deterioration may be material. See "Risk Factors".

The after-tax return from an investment in Offered Units to Unitholders subject to Canadian income tax will depend, in part, on the composition for tax purposes of distributions paid by the REIT, portions of which may be fully or partially taxable or may be tax deferred. The adjusted cost base of Units held by a Unitholder generally will be reduced by the non-taxable portion of distributions made to the Unitholder other than the portion thereof attributable to the non-taxable portion of certain capital gains and certain non-taxable dividend distributions. It is expected that a significant proportion of the 2004 distributions will not be tax deferred. The composition for tax purposes of distributions is subject to numerous factors and may change over time, thus affecting the after-tax return to Unitholders. See "Risk factors".

## 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 October 1, 2002 to September 30, 2003 after giving effect to the Offerings (including the exercise of the Underwriters' Option), the issuance of all of the Additional Units and the Acquisition.

	<u>July 26, 2002 to December 31, 2002</u>	<u>October 1, 2002 to September 30, 2003</u>
<i>Pro forma</i> interest requirements <sup>(1)</sup> . . . . .	\$ 9.9 million	\$22.5 million
Earnings before interest expense and income tax . . . . .	\$30.1 million	\$47.3 million
Earnings coverage <sup>(1)(2)</sup> . . . . .	3.04 times	2.10 times

(1) Under Canadian generally accepted accounting principles, the issued and outstanding Debentures are included in Unitholders' equity and interest on the Debentures is charged to retained earnings. If the Debentures were recorded as debt (as will be required by CICA guidelines as of January 1, 2005), the interest on the Debentures would be included in the calculation of the REIT's *pro forma* interest obligations. Such interest charges for the period from July 26, 2002 to December 31, 2002 and for the period from October 1, 2002 to September 30, 2003 would have been \$4.7 million and \$10.9 million, respectively and the REIT's *pro forma* earnings coverage for the period from July 26, 2002 to December 31, 2002 and for the period from October 1, 2002 to September 30, 2003 would have been 2.06 and 1.42, respectively.

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

## USE OF PROCEEDS

The net proceeds to the REIT from the Offerings, after deducting the Underwriters' fee and the estimated expenses of the Offerings, will be approximately \$98,727,030. The REIT intends to use the net proceeds of the Offerings (inclusive of the Underwriters' Option which was exercised on March 18, 2004) and, if applicable, the net proceeds from the issue of Additional Units, to finance the Acquisition and related expenses, with any amounts remaining being used to repay indebtedness under the REIT's credit facilities, to fund future acquisitions and for general purposes.

In the event the Acquisition is not completed, the net proceeds of the Offerings will be used to repay indebtedness under the REIT's credit facilities, to fund future acquisitions and for general purposes.



## DESCRIPTION OF THE UNITS

The following is a summary of the material attributes and characteristics of the Units. 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 Declaration of Trust.

### **General**

An unlimited number of Units may be issued pursuant to the Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distribution from the REIT, whether of net income, net realized capital gains or other amounts, and in the net assets of the REIT in the event of termination or winding-up of the REIT. All Units are of the same class with equal rights and privileges. The Units are not subject to future calls or assessments, and entitle the holder thereof to one vote for each whole Unit held at meetings of Unitholders.

Except as set out under “— Redemption Right” below, the Units have no conversion, retraction, redemption or pre-emptive rights.

As at March 22, 2004, there were 41,295,065 Units outstanding.

### **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 the REIT through CDS. Upon receipt of the redemption notice by the 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 the 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 the 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); (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 the 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**

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 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).

### **DESCRIPTION OF THE SERIES A DEBENTURES**

The following is a summary of the material attributes and characteristics of the Series A 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).

#### ***General***

The Series A Debentures will be issued as a new series under the trust indenture dated July 26, 2002 and a supplement thereto to be dated as of the closing of the Offerings (collectively, the “Indenture”) between the REIT and Computershare Trust Company of Canada (the “Debenture Trustee”), as trustee.

The Series A Debentures to be issued will be in the aggregate principal amount of \$57,500,000. The REIT may, from time to time, without the consent of the holders of the Series A Debentures, issue additional debentures of the same series or of a different series under the Indenture, in addition to the Series A Debentures offered hereby.

The Series A Debentures will be dated as of the closing of the Offerings and will mature on April 15, 2011. The Series A Debentures will be issuable only in denominations of \$1,000 and integral multiples thereof and will bear interest from and including the date of issue at 6.25% per annum, which will be payable semi-annually in arrears on April 15 and October 15 in each year, commencing with October 15, 2004. The first interest payment will include interest accrued from the date of the closing to, but excluding, October 15, 2004. The only other outstanding debentures are the Initial Debentures of which there was approximately \$74,975,000 principal amount outstanding as at February 29, 2004.

The principal amount of the Series A 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 Series A 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 Series A 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 Series A 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 Series A 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 Series A Debentures are entitled to receive or retain any payment.

Neither the Indenture nor the Series A Debentures will limit the ability of the REIT to incur additional indebtedness, including indebtedness that ranks senior to the Series A Debentures, or from mortgaging, pledging or charging its properties to secure any indebtedness.

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 Initial Debentures and the Series A 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 Series A Debentures which by their terms are subordinated.

The Series A Debentures are direct unsecured obligations of the REIT. Each Series A Debenture 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 (including the Initial Debentures) except for sinking fund provisions (if any) applicable to different series of Debentures or other similar types of obligations of the REIT.

### ***Conversion Rights***

Each Series A Debenture is convertible into freely-tradeable Units of the REIT, at the option of the holder, at any time prior to 4:00 p.m. (Toronto time) on the earlier of April 14, 2011 and the last business day immediately preceding the date specified by the REIT for redemption of the Series A Debentures, at a conversion price of \$12.50 per Unit (the “Conversion Price”), being a conversion rate of 80 Units per \$1,000 principal amount of Series A Debentures, subject to adjustment upon the occurrence of certain events in accordance with the Indenture. If all conversion rights attaching to the Series A Debentures are exercised, the REIT will be required to issue 4,600,000 additional Units, subject to anti-dilution adjustments. No adjustment will be made for distributions on Units issuable upon conversion or for interest accrued on Series A Debentures surrendered for conversion; however, holders converting their Series A Debentures will be entitled to receive, in addition to the applicable number of Units, accrued and unpaid interest in respect thereof for the period from the latest interest payment date, up to, but excluding, the date of conversion.

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 Series A Debentures are allowed to participate as though they had converted their Series A 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 Series 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 Series A 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 Series A Debentures will not be redeemable prior to April 15, 2008, except in the event of the satisfaction of certain conditions after a Change of Control (as defined herein) has occurred. On or after April 15, 2008 to April 14, 2010, the Series A Debentures will be redeemable at the option of the 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 exceeds 125% of the Conversion Price. On or after April 15, 2010, the Series A Debentures will be redeemable at the option of the REIT, in whole or in part and from time to time, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest. Any Series A Debentures redeemed by the REIT will be cancelled and will not be reissued.

In the case of redemption of less than all of the Series A Debentures, the Series A 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 Series A Debentures may require the REIT to purchase, on the date which is 30 days following the giving of notice of a Change of Control as set out below (the "Put Date"), all or any part of such holder's

Series A 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 Series A Debentures outstanding on the date the REIT provides notice of a Change of Control to the Debenture Trustee have been tendered for purchase on the Put Date, the REIT has the right to redeem all the remaining Series A 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 Series A 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 Series A Debentures by paying to the Debenture Trustee in lawful money of Canada an amount required to repay the principal amount of the outstanding Series A 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 Series A Debentures that are to be redeemed or that are to mature, by issuing and delivering freely-tradeable Units to the holders of the Series A Debentures. The number of Units to be issued in respect of each Series A Debenture will be determined by dividing the principal amount of the Series A 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 Series A 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 Canadian 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 Series A 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 Series A 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 Series A 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 Series A 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 thereto (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.

If the business to be transacted at any meeting by Extraordinary Resolution or otherwise, especially affects the rights of holders of Debentures of one or more series in a manner or to an extent differing in any material way from that in or to which the rights of holders of Debentures of any other series are affected, then the holders of at least 66⅔% of the principal amount of the outstanding Debentures of that specially affected series

shall be entitled to vote separately at a meeting at which not less than 25% of the principal amount of the Debentures of that series then outstanding are present in person or by proxy.

All actions which may be taken by holders of Debentures by Ordinary Resolution and Extraordinary Resolution and all actions requiring the approval of at least 66⅔% of a series of Debentures 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 or series of Debentures then outstanding, as the case may be.

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 Only System***

The Series A 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 Series A Debentures to be delivered to CDS and registered in the name of its nominee. The Series A Debentures will be evidenced by a single book-entry only certificate. Registration of interests in and transfers of the Series A Debentures will be made only through the depository service of CDS.

Except as described below, a purchaser acquiring a beneficial interest in the Series A 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 Series A Debentures are purchased.

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

### ***Limitation on Non-Resident Ownership***

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 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 more than 49% of the Units (on either a basic or 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 and do not hold their Debentures for the benefit of non-residents within such period, 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).

## PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement (the "Underwriting Agreement") dated March 12, 2004 between the REIT and Underwriters, the REIT has agreed to issue and sell an aggregate of 4,055,000 Units and an aggregate of \$50,000,000 principal amount of Series A Debentures to the Underwriters (excluding the Series A Debentures issuable upon the exercise of the Underwriter's Option, described below), and the Underwriters have severally agreed to purchase from the REIT, as principals, such Offered Units and Series A Debentures on April 2, 2004, or on such later date as the REIT and the Underwriters may agree, but in any event not later than April 15, 2004. Delivery of the Offered Units and the Series A Debentures is conditional upon payment on closing by the Underwriters to the REIT of \$11.35 per Offered Unit and \$1,000 per Series A Debenture for a total consideration of \$96,024,250. The Underwriting Agreement provides that the REIT will pay or cause to be paid to the Underwriters a fee of \$1,840,970 (\$0.454 per Offered Unit) in consideration of their services in connection with the Unit Offering and a fee of \$1,875,000 (\$37.50 per Series A Debenture) in consideration of their services in connection with the Debenture Offering.

The REIT has also granted to the Underwriters the Underwriters' Option exercisable in whole or in part at any time until 48 hours prior to the closing of the Debenture Offering, to purchase up to an additional \$7,500,000 principal amount of Series A Debentures on the same terms as set out above. The REIT has agreed to pay to the Underwriters a fee of \$37.50 per Series A Debenture with respect to Series A Debentures issued upon exercise of the Underwriters' Option. The Underwriters' Option was exercised in full on March 18, 2004. This short form prospectus qualifies the grant of the Underwriters' Option and the Series A Debentures being issued as a result of the exercise thereof.

The obligations of the Underwriters under the Underwriting Agreement are several and may be terminated at their discretion upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all Offered Units and all Series A Debentures if any securities are purchased under the Underwriting Agreement. The Underwriting Agreement also provides that the REIT will indemnify the Underwriters and their directors, officers, agents, shareholders and employees against certain liabilities and expenses.

RBC Dominion Securities Inc. is an affiliate of a Canadian chartered bank (the "Bank") that is a lender to the REIT under a revolving credit facility. As at February 29, 2004, approximately \$8.5 million was outstanding under the REIT's existing credit facility, and the REIT is in compliance in all material respects with the terms thereof. A portion of the proceeds of the Offerings (inclusive of the Underwriters' Option which was exercised on March 18, 2004) or from the sale of the Additional Units may be used to temporarily reduce indebtedness under the existing credit facility. Consequently, the REIT may be considered a connected issuer of such Underwriter under applicable securities laws in certain Canadian provinces. The offering price terms and conditions of the Offerings were established through negotiation between the REIT and the Underwriters without involvement of the Bank.

The REIT has been advised by the Underwriters that, in connection with the Offerings and subject to applicable laws, the Underwriters may effect transactions that stabilize or maintain the market price of the Offered Units and the Series A Debentures at levels other than those which might otherwise prevail on the open market.

The REIT has agreed, subject to certain exceptions, not to offer or issue, or enter into an agreement to offer or issue, Units or any securities convertible or exchangeable for Units for a period of 90 days subsequent to the closing of the Offerings without the consent of the Underwriters, which consent may not be unreasonably withheld.

**There is currently no market through which the Series A Debentures may be sold and purchasers may not be able to resell the Series A Debentures.** The TSX has conditionally approved the listing of the Offered Units, the Additional Units, the Series A Debentures and the Units issuable on conversion of the Series A Debentures. Listing will be subject to the REIT fulfilling all the listing requirements of the TSX on or before June 9, 2004.

The Offered Units, Series A Debentures and the Units issuable upon conversion, redemption, repurchase or maturity of the Series A 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



Underwriters have agreed that they will not offer or sell any Offered Units or Series A Debentures within the United States of America, its possessions and other areas subject to its jurisdiction 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 Offered Units or Series A Debentures in the United States. In addition, until 40 days after the commencement of the offering of the Offered Units or Series A Debentures pursuant to this short form prospectus, an offer or sale of Offered Units or Series A 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.

### **SALE OF ADDITIONAL UNITS**

The Vendors affiliated with the Westmont Group have agreed to reinvest up to \$4,029,250 of the proceeds received from the Acquisition in the REIT. Pursuant to such agreement, the REIT has agreed to issue and sell an aggregate of 355,000 Units to Maple Leaf, and Maple Leaf has agreed to purchase from the REIT such Additional Units on the Acquisition Closing Date at a price of \$11.35 per Additional Unit; provided, however, that (i) the purchase and sale of the portion of the Additional Units to be financed from the proceeds of sale from the Oshawa Holiday Inn will be delayed until the Extended Closing Date, if applicable, and (ii) the number of Additional Units to be purchased by Maple Leaf will be reduced in the event the purchase and sale of the shares and indebtedness of the Company is terminated in accordance with the Purchase Agreement. Although qualified for distribution hereunder, the Additional Units are not being underwritten by the Underwriters and no commission is payable by the REIT to the Underwriters with respect to such Additional Units. Upon completion of this sale, Maple Leaf and its affiliates will beneficially own 8.0% of the outstanding Units of the REIT (6.5% after giving effect to the conversion of all of the Debentures).

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

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the REIT, and Osler, Hoskin & Harcourt LLP, counsel to the Underwriters, 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 Offered Units or Series A Debentures by a holder who acquires such Offered Units or Series A Debentures pursuant to the Offerings. This summary is applicable to a holder who, for purposes of the Tax Act, is resident in Canada, deals at arm's length with the REIT and holds Offered Units, Series A Debentures and any Units acquired under the terms of the Series A Debentures (collectively, the "Securities") as capital property. Generally, the Securities will be considered to be capital property to a holder provided 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 the REIT does and will continue to qualify as a "mutual fund trust" under the Tax Act while the Series A 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 administrative and assessing practices of the Canada Revenue Agency ("CRA") published in writing prior to the date hereof. 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 CRA 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**

### *Units*

#### *Distributions on Units*

A holder of Units (whether they be Offered Units or Units acquired under the terms of a Series A Debenture) will generally be required to include in income for a particular taxation year of the holder the portion of the net income of the REIT for the taxation year of the REIT ending in that particular taxation year of the holder, including net realized taxable capital gains, that is paid or payable to the holder in such taxation year of the REIT, whether or not those amounts are paid or payable in cash or are reinvested in additional Units pursuant to the REIT's distribution reinvestment plan.

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

The Declaration of Trust requires the 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 the REIT's distribution policy, the amount distributed to holders of Units in a year may exceed the income of the REIT for tax purposes for that year. Distributions in excess of the REIT's income in a year, including the 3% additional bonus distribution of Units acquired pursuant to the distribution reinvestment plan and amounts that may reasonably be considered to be distributions of any non-taxable dividends received by the REIT ("non-taxable dividend distributions"), will not generally be included in the holder's income. However, a holder is required to reduce the adjusted cost base of the holder's Units by the portion of any amount paid or payable to the holder by the REIT (other than the non-taxable portion of certain capital gains and certain non-taxable dividend distributions) that was not included in the holder's income and the holder will realize a capital gain to the extent the adjusted cost base of the Units would otherwise be a negative amount.

The 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 the REIT. Any such designated amount will be deemed for tax purposes to be received by holders as a taxable capital gain and will be subject to the general rules relating to the taxation of capital gains described below. The REIT will also designate, to the extent permitted by the Tax Act, the portion of taxable dividends received by the REIT from subsidiaries that are taxable Canadian corporations 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.

### *Dispositions of Units*

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 the 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. Similar rules also may apply to reduce the amount of capital losses otherwise realized by most taxpayers (including corporations, individuals, and most trusts but not mutual fund trusts) as a result of a disposition of Units by them or a partnership of which they are a member where the REIT has made non-taxable dividend distributions.

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 the 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 the 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.

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 taxable capital gains.

In general terms, net income of the 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.

### ***Series A Debentures***

#### *Interest on Series A Debentures*

A holder of Series A 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 Series A Debentures that accrues (or is deemed to accrue) to it to the end of the particular taxation year (or if the holder disposes of the Series A Debentures in the year, that accrues or is deemed to accrue to it until the time of disposition) 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.

Any other holder will be required to include in computing income for a taxation year all interest on the Series A 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.

A 1% premium paid by the REIT to a holder of Series A Debentures on a Put Date will generally be deemed to be interest received at that time by the holder if such premium is paid by the REIT because of the repayment by it of the Series A Debentures before their maturity and to the extent that such premium can reasonably be considered to relate to, and does not exceed the value on the Put Date, of the interest that would have been paid or payable by the REIT on the Series A Debentures for taxation years of the REIT ending after the Put Date.

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 Series A Debenture who converts the Series A Debenture into Units pursuant to the conversion privilege will be considered to have disposed of the Series A 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 Series A 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 (including Offered Units) held as capital property by the holder for the purposes of calculating the adjusted cost base of such Units.

### *Redemption or Repayment of Series A Debentures*

If the REIT redeems a Series A Debenture prior to maturity or repays a Series 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 Series A 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 Series A 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 (including Offered Units) held as capital property by the holder for the purpose of calculating the adjusted cost base of such Units.

### *Dispositions of Series A Debentures*

A disposition or deemed disposition by a holder of a Series 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. 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 above under “Units — Dispositions of Units”.

Upon such a disposition or deemed disposition of a Series 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 Series A Debenture.

## **Status of the REIT**

### *Mutual Fund Trust*

The 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 also assumes that the REIT does and will continue to qualify as a “mutual fund trust” under the provisions of the Tax Act while the Series A Debentures and Units remain outstanding. In order to qualify as a “mutual fund trust” at any particular time, the 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 interests therein), or acquiring, holding, maintaining, improving, leasing or managing any real property (or interests in real property) that is capital property of the REIT, or a combination of these activities.

**If the 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 that the REIT is a mutual fund trust within the meaning of the Tax Act and (respecting the qualification of the Series A Debentures) the Units are listed on a prescribed stock exchange in Canada, the Offered Units and the Series A 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 the REIT ceases to qualify as a mutual fund trust, the Series A Debentures and Offered Units will cease to be qualified investments for Deferred Income Plans and RESP; and the Series A Debentures will also cease to be qualified investments for Deferred Income Plans and RESP if the Units cease to be listed on a prescribed stock exchange.

### *Foreign Property*

Based on representations of the REIT as to its activities and assets and provided that the REIT qualifies as a mutual fund trust within the meaning of the Tax Act on the date of closing, the Offered Units and the Series A 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 the REIT is the calendar year. In each taxation year, the 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 the REIT or if the holder is entitled in that year to enforce payment of the amount.

Counsel has been advised that the 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 the REIT will generally not be liable in such year for income tax under Part I of the Tax Act. Losses incurred by the 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 the REIT is otherwise liable for tax on its net realized taxable capital gains for a taxation year, it will be entitled for such taxation year to reduce (or receive a refund in respect of) its liability for such tax by an amount determined under the Tax Act based on the redemption of Units during the year (the “Capital Gains Refund”). In certain circumstances, the Capital Gains Refund in a particular taxation year may not completely offset the REIT’s tax liability for such taxation year arising as a result of the distribution of Notes in connection with the redemption of Units. Thus, the Declaration of Trust provides that any capital gains realized by the REIT as a result of such redemption may be allocated to the 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 the REIT qualifies as a “mutual fund trust” throughout a taxation year, it will not be subject to the special tax for such taxation year.

### **RISK FACTORS**

An investment in the Offered Units and the Series A Debentures involves a number of risks. In addition to those risk factors described under “Special Note Regarding Forward-Looking Statements” and listed at pages 26 to 34 of the AIF, as well as other information contained in this short form prospectus, investors should carefully consider the following risks before investing in the Units or the Series A Debentures.

#### **Acquisition Risk**

The Acquisition is subject to other commercial risks and enumerated closing conditions such that there is a risk that it may not close on the terms negotiated or at all. If the Acquisition does not close and the REIT does

not utilize the proceeds of the Offerings to fund additional acquisitions or capital expenditures in a timely manner, the issuance of the Offered Units, the Additional Units and the Series A Debentures pursuant to the Offerings may be dilutive to future cash distributions.

#### **“As-Is, Where-Is” Transaction**

Although the Manager of the REIT’s Portfolio has significant working knowledge of the New Hotel Properties, the assets are being purchased on an “as-is, where-is” basis and the Purchase Agreement contains limited representations, warranties and indemnities in favour of the REIT.

#### **Unpredictability and Volatility of Unit Price**

The Units of the REIT will not necessarily trade at values determined by reference to the underlying value of the REIT’s business. The prices at which the Units will trade cannot be predicted. The market price of the Units could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. The annual yield on the Units as compared to the annual yield on other financial instruments may also influence the price of Units in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the Units.

#### **Restrictions on Certain Unitholders and Liquidity of Units**

The Declaration of Trust imposes restrictions on non-resident Unitholders who are prohibited from beneficially owning more than 49% of the Units. This restriction may limit the rights of certain Unitholders, including non-residents of Canada, to acquire Units, to exercise their rights as Unitholders and to initiate and complete take-over bids in respect of the Units. As a result, these restrictions may limit the demand for Units from certain Unitholders and thereby adversely affect the liquidity and market value of the Units held by the public.

#### **Structural Subordination of Units**

In the event of a bankruptcy, liquidation or reorganization of the REIT or any of its subsidiaries, holders of certain of their indebtedness and certain trade creditors will generally be entitled to payment of their claims from the assets of the REIT and those subsidiaries before any assets are made available for distribution to the Unitholders. The Units will be effectively subordinated to most of the indebtedness and other liabilities of the REIT and its subsidiaries, expected to be approximately \$362.9 million upon the closing of the transactions contemplated by this prospectus. Neither the REIT nor any of its subsidiaries will be limited in its ability to incur additional secured or unsecured indebtedness.

#### **Matters Affecting Trading Prices for the Series A Debentures**

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

#### **Tax-Related Risks**

There can be no assurance that the Units and the Series A Debentures will continue to be qualified investments for Deferred Income Plans and RESPs or that Units and Series A Debentures will not be foreign property under the Tax Act. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments and on excess holdings of foreign property. See “Eligibility for Investment” and “Certain Canadian Federal Income Tax Considerations”.

There can be no assurance that the laws and regulations and the administrative and assessing practices of the CRA respecting the treatment of mutual fund trusts will not be changed in a manner that adversely affects the holders of Units or Series A Debentures. If the REIT ceases to qualify as a mutual fund trust under the Tax Act, the income tax considerations described under “Certain Canadian Income Tax Considerations” and “Eligibility for Investment” above would be materially and adversely different in certain respects.

The extent to which distributions will be tax deferred in the future will depend on the extent that the REIT can shelter its taxable income by claiming capital cost allowances and other available deductions. InnVest Properties Corp. is a taxable Canadian corporation. The extent to which InnVest Properties Corp. will be able to shelter its taxable income will depend on the extent to which it can claim capital cost allowances, interest and other available deductions. There can be no assurance that the taxation authorities will not seek to challenge the amount of expenses deducted. On October 31, 2003, the Department of Finance released, for public comment, proposed amendments to the Tax Act that relate to the deductibility of interest and other expenses for income tax purposes for taxation years commencing after 2004. In general, the proposed amendments may deny the realization of losses in respect of a business or property in a year if, in that year, it is not reasonable to expect that the taxpayer will realize a cumulative profit from that business or property for the period in which the taxpayer has carried on, and can reasonably be expected to carry on, that business, or has held, and can reasonably be expected to hold, that property. Management believes that it is reasonable to expect that the REIT and its subsidiaries will realize a cumulative profit from their respective properties and businesses, as the case may be.

#### **Credit Risk and Prior Ranking Indebtedness; Absence of Covenant Protection**

The likelihood that purchasers of the Series A Debentures will receive payments owing to them under the terms of the Series A Debentures will depend on the financial health of the REIT and its creditworthiness. In addition, the Series A 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 Series A 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 Series A Debentures then outstanding. The Series A Debentures are also effectively subordinate to claims of creditors of the REIT’s subsidiaries except to the extent the 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 Series A Debentures in the event of a future leveraged transaction involving the REIT.

#### **Conversion Following Certain Transactions**

In the case of certain transactions, each Series A 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 Series A Debenture was convertible immediately prior to the transaction. This change could substantially lessen or eliminate the value of the conversion privilege associated with the Series A Debentures in the future. For example, if the REIT were acquired in a cash merger, each Series A 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 “Description of the Series A Debentures — Conversion Rights”.

#### **ELIGIBILITY FOR INVESTMENT**

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the REIT, and Osler, Hoskin & Harcourt LLP, counsel to the Underwriters, provided that the REIT qualifies as a mutual fund trust for the purposes of the Tax Act and (respecting the qualification of the Series A Debentures) the Units are listed on a prescribed stock exchange in Canada on the date of closing, the Offered Units and Series A 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 the 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 Offered Units and Series A 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”.

#### **INTEREST OF EXPERTS**

Certain legal matters in connection with the Offerings will be passed upon for the REIT by Davies Ward Phillips & Vineberg LLP and for the Underwriters by Osler, Hoskin & Harcourt LLP. As of the date hereof, the partners and associates of each of the foregoing firms, own beneficially, directly or indirectly, less than one percent of any securities of the REIT.

As of the date hereof, the Appraiser owns beneficially, directly or indirectly, less than one percent of any securities of the REIT.

#### **AUDITORS, TRANSFER AGENT AND REGISTRAR**

The auditors of the 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 Series A Debentures is Computershare Trust Company of Canada at its principal office in Toronto, Ontario.

#### **PURCHASERS' 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.

#### **AUDITORS' CONSENT**

We have read the short form prospectus of InnVest Real Estate Investment Trust (the “REIT”) dated March 23, 2004 qualifying for distribution units and 6.25% convertible unsecured subordinated debentures due April 15, 2011 of the REIT. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the unitholders of the REIT on the consolidated balance sheet of the REIT as at December 31, 2002 and the consolidated statements of net income, unitholders' equity and cash flows for the period from July 26, 2002 to December 31, 2002. Our report is dated February 28, 2003.

Toronto, Ontario  
March 23, 2004

(Signed) DELOITTE & TOUCHE LLP  
Chartered Accountants



## CERTIFICATE OF THE REIT

Dated: March 23, 2004

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 UNDERWRITERS

Dated: March 23, 2004

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

CIBC WORLD MARKETS INC.

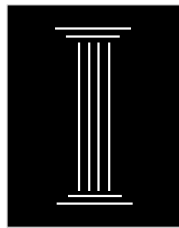
By: (Signed) ALLAN S. KIMBERLEY

SCOTIA CAPITAL INC.

By: (Signed) STEPHEN SENDER

TD SECURITIES INC.

By: (Signed) ANDREW G. PHILLIPS



# InnVest

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