

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

These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act"), or the securities laws of any state. Accordingly, these securities may not be offered or sold within the United States of America, its possessions and other areas subject to its jurisdictions or to, or for the account of, a U.S. Person (as defined in Regulation S under the 1933 Act). See "Plan of Distribution".

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the REIT at 7<sup>th</sup> Floor, 5090 Explorer Drive, Mississauga, Ontario, L4W 4T9, telephone 905-206-7100, and are also available electronically at [www.sedar.com](http://www.sedar.com). For the purposes of the Province of Québec, this simplified prospectus contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained without charge from the Secretary of the REIT at the above-mentioned address and telephone number and is also available electronically at [www.sedar.com](http://www.sedar.com).

New Issue

## SHORT FORM PROSPECTUS

July 26, 2007



# INNVEST REAL ESTATE INVESTMENT TRUST

**\$200,008,250**

**16,195,000 Subscription Receipts,**

**each representing the right to receive one trust unit**

**and**

**\$70,000,000**

**5.85% Extendible Convertible Unsecured Subordinated Debentures**

### Subscription Receipts

This short form prospectus qualifies the distribution of 16,195,000 subscription receipts ("Subscription Receipts"), each of which entitles the holder thereof to receive, without any further action on the part of the holder thereof and without payment of additional consideration, one trust unit ("Unit") of InnVest Real Estate Investment Trust (the "REIT") upon closing (the "Bid Closing Time") of the take-over bid (the "Bid") for all of the outstanding units of Legacy Hotels Real Estate Investment Trust ("Legacy"), described in more detail under the heading "The Legacy Acquisition". This prospectus also qualifies for distribution the Units issuable pursuant to the Subscription Receipts. The Subscription Receipts qualified by this prospectus include 485,830 Subscription Receipts to be purchased by Maple Leaf Investment Holdings L.P. ("Maple Leaf"), an affiliate of the manager of the REIT's portfolio. See "Sale to Maple Leaf".

The proceeds from the sale of the Subscription Receipts less one-half of the Underwriters' fee with respect to the Subscription Receipts (the "Escrowed Funds") will be held by Computershare Trust Company of Canada, as Escrow Agent (the "Escrow Agent"), and invested in short-term obligations of, or guaranteed by, the Government of Canada (and other approved investments) pending the earlier of the Bid Closing Time and the occurrence of the Termination Time (as defined below). Upon the Bid Closing Time and satisfaction of the other conditions to the exchange of the Subscription Receipts, the Escrowed Funds will be released to the REIT and one Unit will be issued for each Subscription Receipt. The REIT will utilize the Escrowed Funds to contribute to LGY Acquisition LP (the "Offeror") a portion of the REIT's share of the purchase price payable under the Bid. The Offeror is a limited partnership formed by the REIT, affiliates of Westmont Hospitality Group ("Westmont") (which is affiliated with the manager of the REIT's hotel portfolio) and Cadim Inc. ("Cadim"), a division of the Caisse de dépôt et placement du Québec.

If the Bid Closing Time does not take place on or before 5:00 p.m. (Toronto time) on December 31, 2007 (the "Deadline"), if the Support Agreement (as defined herein) has been terminated or the Bid has been withdrawn, or if the Support Agreement (as defined herein), the arrangements with Cadbridge (as defined herein) with respect to the Bid or the terms of the acquisition of the InnVest Acquisition Properties (as defined herein) are amended in a material adverse respect (in any case, the "Termination Time"), holders of Subscription Receipts shall be entitled to receive an amount equal to the full Subscription Price and their pro rata entitlements to the interest earned on the Escrowed Funds (and interest which would have been earned on the Subscription Receipts Initial Underwriters' Fee Payment (as defined herein) had it been included in the Escrowed Funds) either from the date of the closing of this offering to the Termination Time, to the extent the Termination Time occurs prior to the Interim Payment Date (as defined herein), or from the Interim Payment Date to the Termination Time, to the extent that the Termination Time occurs after the Interim Payment Date (the "Earned Interest").

If the Bid Closing Time or the Termination Time has not occurred within 90 days of the closing of this offering (the "Interim Payment Date"), holders of Subscription Receipts will be entitled to receive an amount per Subscription Receipt equal to the amount per Unit of any cash distributions of the REIT, less applicable withholding taxes, if any, for which record dates have occurred during the period from the date of closing of the offering to the Interim Payment Date.

If the Bid Closing Time occurs on or before the Termination Time and holders of Subscription Receipts become entitled to receive Units, such holders will be entitled to receive an amount per Subscription Receipt equal to the amount per Unit of any cash distributions of the REIT, less applicable withholding taxes, if any, for which record dates have occurred during the period from the date of closing of the offering to the date immediately preceding the date the Units are issued pursuant to the Subscription Receipts, less any payment made on the Interim Payment Date, if applicable. See "Description of Subscription Receipts".

### The Debentures

This short form prospectus also qualifies the distribution of \$70,000,000 aggregate principal amount of 5.85%, extendible convertible unsecured subordinated debentures (the "Debentures" and, together with the Subscription Receipts, the "Securities") of the REIT. The Debentures bear interest at an annual rate of 5.85%, payable semi-annually on August 1 and February 1 in each year commencing February 1, 2008. The Debentures have an initial maturity date of the Termination Time (the "Initial Maturity Date"). If the Bid Closing Time takes place prior to the Termination Time, the maturity date will be automatically extended from the Initial Maturity Date to August 1, 2014 (the "Final Maturity Date"). If the Bid Closing Time does not take place prior to the Termination Time, the Debentures will mature on the Initial Maturity Date. See "Description of the Debentures".

### Debenture Conversion Privilege

Each Debenture will be convertible into freely tradeable Units at the option of the holder of a Debenture at any time after the Initial Maturity Date and prior to the close of business on the Final Maturity Date or, if called for redemption, on the Business Day (as defined herein) immediately preceding the date specified by the REIT for redemption of the Debentures, at a conversion price of \$14.70 per Unit (the "Conversion Price"), subject to adjustment in certain events. Holders converting their Debentures will receive accrued and unpaid interest on such Debentures for the period from the last interest payment date on their Debentures (or the date of issue of their Debentures if no interest has yet been paid by the REIT) to and including the last record date for distributions to Unitholders declared by the REIT prior to such conversion. See "Description of the Debentures — Conversion Rights". Notwithstanding the foregoing, no Debenture may be converted during the five Business Days preceding August 1 and February 1 in each year, as the registers of the Debenture Trustee (as defined herein) will be closed during such periods. Further particulars concerning the conversion privilege, including provisions for the adjustment of the Conversion Price, are set out under "Description of the Debentures — Conversion Rights". A Debentureholder will not be entitled to deferred tax treatment on the conversion, redemption or repayment at maturity of such Debentures. See "Certain Canadian Federal Income Tax Considerations".

(continued on next page)

(continued from cover)

The Debentures are not redeemable prior to August 1, 2010, except upon the satisfaction of certain conditions after a Change in Control (as defined herein). See “Description of the Debentures — Put Right upon a Change of Control”. On or after August 1, 2010 and prior to August 1, 2012, the Debentures may be redeemed by the REIT, in whole or in part, on not more than 60 days’ and not less than 30 days’ prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Units on the Toronto Stock Exchange (the “TSX”) for the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of redemption is given exceeds 125% of the Conversion Price. On or after August 1, 2012, and prior to August 1, 2014, the Debentures may be redeemed by the REIT, in whole or in part, at any time at a redemption price equal to the principal amount thereof plus accrued and unpaid interest.

If the maturity date is extended beyond the Initial Maturity Date, the REIT may, at its option, and subject to applicable regulatory approval, elect to satisfy its obligation to pay, in whole or in part, the principal amount of the Debentures that are to be redeemed or that have matured by issuing Units to Debentureholders. In addition, subject to applicable regulatory approval, Units may be issued to the Debenture Trustee and sold, with the proceeds used to satisfy the obligation to pay interest on the Debentures. See “Description of the Debentures — Method of Payment”.

**There is no market through which the Subscription Receipts or the Debentures may be sold and purchasers may not be able to resell the Securities purchased under this prospectus. This may affect the pricing of the Subscription Receipts and the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of the Subscription Receipts and of the Debentures and the extent of issuer regulation. See “Risk Factors”.** The Units are listed and posted for trading on the TSX under the symbol “INN.UN”. On July 12, 2007, the last trading day prior to the announcement of this offering, the closing price per Unit on the TSX was \$12.69 and on July 25, 2007, the closing price per Unit on the TSX was \$12.36. The TSX has conditionally approved the listing of the Subscription Receipts and Debentures. Listing is subject to the REIT fulfilling all of the requirements of the TSX on or before October 12, 2007.

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**Price: \$12.35 per Subscription Receipt**  
**Price: \$1,000 per Debenture**

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|  | Price to the Public <sup>(1)</sup> | Underwriters’ Fee <sup>(2)</sup> | Net Proceeds to the REIT <sup>(3)</sup> |
|--|------------------------------------|----------------------------------|---|
| Per Subscription Receipt . . . . .                   | \$12.35                            | \$0.494                          | \$11.856                                |
| Total Subscription Receipts <sup>(4)</sup> . . . . . | \$200,008,250                      | \$7,760,330                      | \$192,247,920                           |
| Per Debenture . . . . .                              | \$1,000                            | \$37.50                          | \$962.50                                |
| Total Debentures . . . . .                           | \$70,000,000                       | \$2,625,000                      | \$67,375,000                            |
| Total Subscription Receipts and Debentures . . . . . | \$270,008,250                      | \$10,385,330                     | \$259,622,920                           |

Notes:

- (1) The price of the Securities has been determined by negotiation between the REIT and the Underwriters.
- (2) The Underwriters’ fee with respect to the Subscription Receipts and the Debentures is payable as to 50% upon closing of the offering and 50% at the Bid Closing Time. If the Bid Closing Time has not occurred before the Termination Time, the Underwriters’ fee with respect to the Subscription Receipts and the Debentures will be reduced to the amount payable on closing of the offering.
- (3) Before deducting expenses of the offering which are estimated to be approximately \$1.0 million (which will be paid from the general funds of the REIT) and excluding interest, if any, on the Escrowed Funds.
- (4) The Price to the Public and Net Proceeds to the REIT include the proceeds from the sale of 485,830 Subscription Receipts to Maple Leaf. No Underwriters’ fee will be payable by the REIT in respect of the distribution of these Subscription Receipts. See “Sale to Maple Leaf”.

The Underwriters of this offering are RBC Dominion Securities Inc., Scotia Capital Inc., CIBC World Markets Inc., BMO Nesbitt Burns Inc., TD Securities Inc. and National Bank Financial Inc. (collectively, the “Underwriters”). The Underwriters, as principals, conditionally offer the Subscription Receipts and the Debentures for sale, subject to prior sale, if, as and when issued by the REIT 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 Torys LLP. In accordance with and subject to applicable laws, the Underwriters may effect transactions that stabilize or maintain the market price of the Subscription Receipts and the Debentures. See “Plan of Distribution”.

**RBC Dominion Securities Inc. is an affiliate of a Canadian chartered bank that is a current lender of the REIT under a revolving credit facility and that has agreed to provide bridge financing to the REIT in respect of the Bid. RBC Dominion Securities Inc. has also acted as financial advisor to Legacy in respect of the Bid. As such, the REIT may be considered a “connected issuer” of RBC Dominion Securities Inc. under applicable Canadian securities legislation. See “Plan of Distribution”.**

The REIT is an unincorporated open-ended real estate investment trust governed by the laws of the Province of Ontario. **The REIT is not a trust company and is not registered under applicable legislation governing trust companies as it does not carry on or intend to carry on the business of a trust company. Neither the Subscription Receipts nor the Debentures nor the Units issued pursuant to the Subscription Receipts and upon conversion of the Debentures are “deposits” within the meaning of the Canada Deposit Insurance Corporation Act and are not insured under the provisions of that Act or any other legislation.**

**Although the REIT intends to make distributions of its available cash to Unitholders, these cash distributions are not assured and may be reduced or suspended.** A return on an investment in Units of the REIT is not comparable to the return on an investment in a fixed-income security. The recovery of an investment in Units acquired under the terms of a Subscription Receipt or Debenture is at risk, and the anticipated return on Units of the REIT is based on many performance assumptions. The actual amount of cash distributed will depend on numerous factors, including principal repayments, capital expenditures, seasonal fluctuations in operating results and redemption of Units, if any. In addition, the market value of the Units of the REIT may decline if the REIT is unable to meet its cash distribution targets in the future, and that decline may be significant.

It is important for purchasers to consider the particular risk factors that may affect the industry in which they are investing, and therefore the stability of the distributions that will be received. See, for example, “Real Estate Investment Risks” and “Hotel Industry Risks” at pages 42 and 43 of the REIT’s renewal annual information form for the year ended December 31, 2006. Purchasers should also consider the risks associated with an investment in the Securities, which are discussed under “Risk Factors” in this prospectus. Those sections also describe the REIT’s assessment of those risk factors, as well as the potential consequences to investors if a risk should occur.

The after-tax return from an investment in Units acquired under the terms of a Subscription Receipt or a Debenture by holders subject to Canadian income tax can be made up of both a return on and a return of capital. That composition may change over time, thus affecting a Unitholder’s after-tax return. Returns on capital are generally taxed as ordinary income or as dividends in the hands of a Unitholder. Returns of capital are generally tax-deferred (and reduce the Unitholder’s cost base in the Unit for tax purposes).

Subscriptions will be received subject to rejection or allotment in whole or in part, and the right is reserved to close the subscription books at any time without notice. Book-entry only certificates representing the Securities will be issued in registered form to CDS Clearing and Depository Services Inc. (“CDS”) or its nominee as registered global securities and will be deposited with CDS on the closing date, which is expected to occur on or about August 3, 2007 or such later date as the REIT and the Underwriters may agree, but in any event not later than August 15, 2007.

Securityholders will not, except in limited circumstances, be entitled to receive physical certificates representing their ownership. See “Description of the Debentures — Book-Entry, Delivery and Form” and “Description of Subscription Receipts”.

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### ABOUT THIS PROSPECTUS

**With the exception of the combined financial statements of the InnVest Acquisition Properties, which were prepared for inclusion in this prospectus, the information concerning Legacy and the InnVest Acquisition Properties contained in this short form prospectus is based solely upon publicly available information, has not been independently verified and there can be no assurances regarding the accuracy and completeness of this information.**

In this short form prospectus, unless otherwise specified, all references to “dollars” or “\$” are to Canadian dollars.

For an explanation of certain terms and abbreviations used in this short form prospectus, see “Glossary of Terms”.

### FORWARD-LOOKING STATEMENTS

Certain statements contained in this short form prospectus, and in certain documents incorporated by reference herein, 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”, “plan”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “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 that the expectations reflected in the forward-looking statements contained in this short form prospectus, and in its documents incorporated by reference herein, are reasonable, no assurance can be given that these expectations will prove to be correct, and such forward-looking statements included in, or incorporated by reference in such documents 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 herein, as the case may be. The REIT does not assume any obligation to update the aforementioned forward-looking statements. The REIT’s actual results could differ materially from those anticipated in the aforementioned forward-looking statements, as applicable, including as a result of the risk factors set forth elsewhere in this short form prospectus.

## NON-GAAP FINANCIAL MEASURES

Distributable Income is a non-GAAP measure and there is no standardized measure of Distributable Income. Distributable Income is presented in this short-form prospectus because the REIT believes this non-GAAP measure is a relevant measure of its ability to earn and distribute cash returns to Unitholders. Distributable Income as computed by the REIT may differ from similar computations as reported by other similar entities and, accordingly, may not be comparable to distributable income as reported by such entities.

“Distributable Income” means net income of the REIT as set out in its consolidated financial statements determined in accordance with GAAP, subject to certain adjustments set out in the Declaration of Trust, including the adding back of depreciation and amortization, amortization of fair value debt adjustments and future income tax expenses, excluding any gains or losses on the disposition of real property, and future income tax benefits and deducting the amount calculated for the reserve for replacement of furniture, fixtures and equipment and capital improvements, the interest on convertible debentures that is not included in the computation of net income and any other adjustments determined by the trustees in their discretion.

## DOCUMENTS INCORPORATED BY REFERENCE

**Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada.** Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the REIT, 7<sup>th</sup> Floor, 5090 Explorer Drive, Mississauga, Ontario, L4W 4T9, Telephone: 905-206-7100, and are also available electronically at [www.sedar.com](http://www.sedar.com). For the purpose of the Province of Québec, this simplified prospectus contains information to be completed by consulting the permanent information record. A copy of the documents incorporated herein by reference and of the permanent information record may be obtained without charge from the Secretary of the REIT at the above-mentioned address and telephone number and is also available electronically at [www.sedar.com](http://www.sedar.com).

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

- (a) the renewal annual information form of the REIT dated March 29, 2007;
- (b) the audited consolidated comparative financial statements of the REIT as at and for the years ended December 31, 2005 and 2006, together with the notes thereto and the auditors’ report thereon;
- (c) management’s discussion and analysis of operating results and financial position of the REIT for the year ended December 31, 2006;
- (d) the management information circular of the REIT dated March 29, 2007 in connection with the annual meeting of Unitholders of the REIT held on May 16, 2007;
- (e) the unaudited consolidated comparative financial statements of the REIT as at and for the three months ended March 31, 2006 and 2007, together with the notes thereto;
- (f) management’s discussion and analysis of operating results and financial position of the REIT for the three months ended March 31, 2007;
- (g) the material change report of the REIT dated January 2, 2007 with respect to the REIT’s internal reorganization; and
- (h) the material change report of the REIT dated July 20, 2007 with respect to the Bid and this offering.

**Any documents of the type referred to above and any material change reports (excluding confidential material change reports) filed by the REIT with the securities commissions or similar regulatory authorities in each of the provinces of Canada subsequent to the date of this short form prospectus and prior to the termination of this distribution shall be deemed to be incorporated by reference into 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 which also is or is deemed to be incorporated by reference herein modifies or replaces such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes 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 will not be deemed, except as so modified or superseded, to constitute part of this short form prospectus.

## PROSPECTUS SUMMARY

*The following is a summary only and is qualified in its entirety by the more detailed information appearing elsewhere or incorporated by reference in this short form prospectus.*

### **The REIT**

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 January 1, 2007. The REIT currently holds, directly and indirectly through subsidiaries, a portfolio of 136 Canadian hotel properties, Canada's largest hotel portfolio as measured by number of hotels and by number of guest rooms, and a 50% interest in Choice Canada. Ninety-seven of the 136 hotels in the REIT's existing portfolio are operated under Choice Canada brands, including Comfort Inn®, Quality Hotel®, Quality Suites® and Quality Inn®. The remaining hotels are operated primarily under other international brands, including Holiday Inn®, Travelodge®, Hilton® and Radisson®. See "InnVest Acquisition Properties — Brand Breakdown Assuming Completion of the Bid" for a breakdown of the REIT's hotel brands following the acquisition of the InnVest Acquisition Properties.

### **The Take-Over Bid**

On July 12, 2007, the REIT announced that it had formed LGY Acquisition LP (the "Offeror"), a joint venture with Cadbridge Investors LP ("Cadbridge"). Cadbridge is a limited partnership formed by affiliates of Westmont (an affiliate of the manager of the REIT's hotel portfolio) and Cadim. The Offeror was formed in order to make a take-over bid (the "Bid") for all of the outstanding units of Legacy Hotels Real Estate Investment Trust ("Legacy") at a price of \$12.60 per unit in cash. The REIT, Cadbridge and the Offeror entered into a support agreement with Legacy dated July 12, 2007 (the "Support Agreement") whereby the Offeror agreed to make the Bid and Legacy agreed to support the Bid. See "Principal Agreements — Support Agreement".

On the same date as the Support Agreement was executed, the Offeror entered into a lock-up agreement (the "Lock-Up Agreement") with Fairmont Hotels & Resorts Inc. ("Fairmont") whereby Fairmont agreed to tender to the Bid all of the units of Legacy beneficially owned, directly or indirectly, by it and certain of its affiliates (including units issuable on the exchange or transfer to Legacy of the exchangeable shares beneficially owned by it and certain affiliates in Legacy EF Inc., a subsidiary of Legacy, and units issuable on the exercise of options to purchase units of Legacy held by Fairmont and such affiliates). Fairmont has an approximate 20% ownership interest in Legacy. See "Principal Agreements — Lock-Up Agreement".

Pursuant to arrangements between the REIT and Cadbridge, the REIT and Cadbridge will contribute approximately \$458 million and \$1.12 billion, respectively, of the purchase price for the units of Legacy in respect of the Bid to the Offeror. Following the completion of the Bid, the REIT and Cadbridge will cause the Offeror to reorganize Legacy's assets such that the REIT will own or lease, as the case may be, directly or through subsidiary entities, the following hotel properties currently owned or leased by Legacy: The Fairmont Palliser, Sheraton Suites Calgary Eau Claire, Delta Calgary Airport, Fairmont Hotel Macdonald, Delta Winnipeg Hotel, Delta Ottawa Hotel and Suites, Delta Centre-Ville, Delta Beausejour, Delta Prince Edward, Delta Barrington and the Delta Halifax (collectively, the "InnVest Acquisition Properties"). The remaining 14 hotel properties currently owned by Legacy will be owned, directly or through subsidiary entities, by Cadbridge and the REIT will not have an interest in such 14 hotel properties. This reorganization is expected to take place within 30 days of the completion of the Bid. Until that time, the REIT will own an approximate 26% limited partnership interest in the Offeror, with Cadbridge owning the balance. See "InnVest Acquisition Properties — Cost Sharing Arrangements". The total purchase price to the REIT of the InnVest Acquisition Properties, including the assumption of debt, is approximately \$652 million, prior to closing and transaction costs.

## Rationale for the Acquisition

Management and the Trustees of the REIT believe that the Bid and acquisition of the InnVest Acquisition Properties represent a unique opportunity for the REIT to acquire a large, high quality portfolio of hotels that meets the REIT's objectives of generating sustainable growth and stable distributable cash. Management also believes that the acquisition of the InnVest Acquisition Properties is advantageous for the following reasons:

- **Transformational and Strategic Transaction:** The InnVest Acquisition Properties are a highly sought after portfolio of mid- to upper-class hotels and include some of Legacy's most stable assets based on historical performance. The acquisition of the InnVest Acquisition Properties will further increase the REIT's position as the largest hotel REIT by gross assets in Canada.
- **Attractive Price per Room:** The effective purchase price per room of the InnVest Acquisition Properties, including assumed debt, is below the replacement cost for properties of similar quality and with similar amenities and features.
- **Expansion of Presence in Western Canada:** Approximately 12% of the REIT's guest rooms are located in Western Canada (7.4% in Alberta). Five of the InnVest Acquisition Properties are situated in Western Canada, representing 1,616 rooms. After giving effect to the acquisition of the InnVest Acquisition Properties, approximately 18.5% of the REIT's guest rooms will be located in Western Canada (12.3% in Alberta). The strong economy in Alberta has attracted increased business travel and tourism to Western Canada on which the REIT believes it can capitalize through its acquisition of the InnVest Acquisition Properties.
- **Diversification:** The InnVest Acquisition Properties complement the REIT's existing portfolio by adding mid- to upper-class hotels that feature food and beverage facilities, meeting space and other ancillary services. This will enable the REIT to target a broader customer base.
- **Strong Brands:** Eight of the 11 InnVest Acquisition Properties are Delta-branded hotels. Delta is Canada's largest first-class hotel management company with 40 managed and franchised urban, airport and resort properties across Canada. Two of the InnVest Acquisition Properties are Fairmont-branded and there is one Sheraton-branded hotel. Fairmont is the largest luxury hotel management company in North America and manages more than 50 properties in major city centres and resort destinations throughout the world. Sheraton® is a member of the Starwood Hotels & Resorts group, which is one of the leading hotel companies in the world.
- **New Hotel Properties are in Key Locations:** All of the InnVest Acquisition Properties are located in urban or suburban areas, close to major thoroughfares, businesses, airports and attractions.
- **Continuity of Management:** The InnVest Acquisition Properties will continue to be managed by Fairmont and its affiliates, including Delta Hotels Limited, pursuant to existing management agreements. The REIT believes that this continuity of management reduces acquisition risks by enabling the InnVest Acquisition Properties to continue to be run efficiently after the Bid with minimal disruption.

See "The Legacy Acquisition — Rationale for the Acquisition".

### The Offering

|  |  |
|--|--|
| <b>Issuer:</b>   | InnVest Real Estate Investment Trust   |
| <b>Subscription Receipt Offering:</b>  | 16,195,000 Subscription Receipts (includes 485,830 Subscription Receipts being sold to Maple Leaf)   |
| <b>Subscription Receipt Price:</b>   | \$12.35 per Subscription Receipt   |
| <b>Debenture Offering:</b>   | \$70,000,000 aggregate principal amount  |
| <b>Debenture Price:</b>  | \$1,000 per Debenture  |
| <b>Aggregate Amount of Subscription Receipt Offering and Debenture Offering:</b> | \$270,008,250  |
| <b>Use of Proceeds:</b>  | The estimated total net proceeds to be received by the REIT from this offering will amount to approximately \$258.6 million, after deducting the Underwriters' fee in respect of the Securities issued and sold by the REIT and the estimated expenses of this offering. The entire net proceeds from the sale of the Subscription Receipts (following the release of the Escrowed Funds by the Escrow Agent) and from the sale of the Debentures will be used to contribute to the Offeror a portion of the REIT's share of the purchase price in respect of the Bid. |

### Subscription Receipts

|                            |   |
|----------------------------|---|
| <b>The Escrowed Funds:</b> | The Subscription Receipts will be issued at the closing of this offering pursuant to the Subscription Receipt Agreement. The proceeds from the sale of the Subscription Receipts less the Subscription Receipts Initial Underwriters' Fee Payment will be delivered to and held by the Escrow Agent and invested in short-term obligations of, or guaranteed by, the Government of Canada (or other approved investments) pending the earlier of the Bid Closing Time and the Termination Time. Provided that the Bid Closing Time occurs prior to the Termination Time, the Escrowed Funds will be released to the REIT and the Units underlying the Subscription Receipts will be issued to holders of Subscription Receipts who will receive, without payment of additional consideration, one Unit for each Subscription Receipt held. If the Bid Closing Time does not occur prior to the Termination Time, the Escrowed Funds will be used to repay the holders of Subscription Receipts. |
|----------------------------|---|

|                       |   |
|-----------------------|---|
| <b>Distributions:</b> | If the Bid Closing Time or the Termination Time has not occurred within 90 days of the closing of this offering (the "Interim Payment Date"), holders of Subscription Receipts will be entitled to receive an amount per Subscription Receipt equal to the amount per Unit of any cash distributions, less applicable withholding taxes, if any, for which record dates have occurred during the period from the date of closing of the offering to the Interim Payment Date. |
|-----------------------|---|

If the Bid Closing Time occurs on or before the Termination Time and holders of Subscription Receipts become entitled to receive Units, such holders will be entitled to receive an amount per Subscription Receipt equal to the amount per Unit of any cash distributions, less applicable withholding taxes, if any, for which record dates have occurred during the period from the date of closing the offering to the date immediately preceding the date the Units are issued pursuant to the Subscription Receipts, less any payment



made on the Interim Payment Date, if applicable. See “Description of Subscription Receipts”.

**Completion of the Bid:**

If the Bid Closing Time does not take place on or before 5:00 p.m. (Toronto time) on December 31, 2007 (the “Deadline”), if the Support Agreement has been terminated or the Bid has been withdrawn, or if the Support Agreement, the arrangements with Cadbridge with respect to the Bid or the terms of the acquisition of the InnVest Acquisition Properties are amended in a material adverse respect (in any case, the “Termination Time”), holders of Subscription Receipts shall be entitled to receive an amount equal to the full subscription price therefor and their pro rata entitlements to interest earned on the Escrowed Funds (and interest which would have been earned on the Subscription Receipts Initial Underwriters’ Fee Payment had it been included in the Escrowed Funds) either from the date of the closing of this offering to the Termination Time, to the extent the Termination Time occurs prior to the Interim Payment Date, or from the Interim Payment Date to the Termination Time, to the extent that the Termination Time occurs after the Interim Payment Date (the “Earned Interest”). Since the Subscription Receipts Initial Underwriters’ Fee Payment is paid to the Underwriters from the aggregate subscription price at the closing of this offering, the REIT will be responsible for making up the difference to holders of Subscription Receipts at the Termination Time in respect of the Subscription Receipts Initial Underwriters’ Fee Payment and Earned Interest thereon.

**The Debentures**

**Maturity:**

The Debentures will initially mature on the Termination Time (the “Initial Maturity Date”). If the Bid Closing Time takes place at or before the Termination Time, the maturity date will be automatically extended from the Initial Maturity Date to August 1, 2014 (the “Final Maturity Date”).

**Interest:**

5.85% per annum. Assuming the extension of the maturity of the Debentures to the Final Maturity Date, the interest on the Debentures will be payable semi-annually in arrears on August 1 and February 1 in each year, commencing February 1, 2008. The first interest payment on February 1, 2008 will include interest accrued from and including the date of closing of this offering to but excluding February 1, 2008.

**Conversion:**

Each Debenture will be convertible into freely tradeable Units at the option of the holder of a Debenture at any time after the Initial Maturity Date and prior to 5:00 p.m. on the Final Maturity Date or, if called for redemption, on the Business Day (as defined herein) immediately preceding the date specified by the REIT for redemption of the Debentures, at a conversion price of \$14.70 per Unit (the “Conversion Price”), subject to adjustment in certain events. Holders converting their Debentures will receive accrued and unpaid interest on such Debentures for the period from the last interest payment date on their Debentures (or the date of issue of their Debentures if no interest has yet been paid by the REIT) to and including the last record date for distributions to Unitholders declared by the REIT prior to such conversion. In the event that the REIT has suspended regular distributions, then a Debentureholder, in addition to the applicable number of Units to be received on conversion, will be entitled to receive accrued and unpaid interest for the period from the last interest payment date prior to the date of conversion to the date of conversion. See “Description of the Debentures — Conversion Rights”. Notwithstanding the foregoing, no Debenture may be

converted during the five Business Days preceding August 1 and February 1 in each year as the registers of the Debenture Trustee (as defined herein) will be closed during such periods. Further particulars concerning the conversion privilege, including provisions for the adjustment of the Conversion Price, are set out under “Description of the Debentures — Conversion Rights”. **A holder of Debentures (a “Debentureholder”) will not be entitled to deferred tax treatment on the conversion, redemption or repayment at maturity of such Debentures. See “Certain Canadian Federal Income Tax Considerations”.**

**Redemption:**

The Debentures are not redeemable prior to August 1, 2010, except upon the satisfaction of certain conditions after a Change of Control. On or after August 1, 2010 and prior to August 1, 2012, the Debentures may be redeemed by the REIT, in whole or in part, on not more than 60 days’ and on not less than 30 days’ prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of redemption is given exceeds 125% of the Conversion Price. On or after August 1, 2012 and prior to August 1, 2014, the 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. See “Description of the Debentures — Redemption”.

**Payment upon Redemption or Maturity:**

On redemption or at maturity, the REIT will repay the indebtedness represented by the Debentures by paying to the Debenture Trustee in lawful money of Canada an amount required to repay the principal amount of the outstanding Debentures, together with accrued and unpaid interest thereon. If the maturity date is extended beyond the Initial Maturity Date, the REIT may, at its option, on not more than 60 days’ and not less than 30 days’ prior notice, subject to applicable regulatory approval and provided no Event of Default has occurred and is continuing, elect to satisfy its obligation to repay all or any portion of the principal amount of the Debentures that are to be redeemed or that are to mature, by issuing and delivering Units to the Debentureholders. The number of Units to be issued in respect of each Debenture will be determined by dividing the principal amount of the Debentures that are to be redeemed or that are to mature, as the case may be, by 95% of the volume-weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date fixed for redemption or the maturity date, as the case may be. No fractional Units will be issued on redemption or at maturity but in lieu thereof the REIT shall satisfy fractional interests by a cash payment equal to the market price, as determined above, of the fractional interest. See “Description of the Debentures — Method of Payment”.

**Interest Payment Election:**

If the maturity date is extended beyond the Initial Maturity Date, subject to applicable regulatory approval, Units may be issued to the Debenture Trustee and sold, with the proceeds used to satisfy the obligation to pay interest on the Debentures. See “Description of the Debentures — Method of Payment”.

**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 66⅔% or more of the outstanding Units (a “Change of Control”), each Debentureholder 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 Debentureholder’s Debentures at a price equal to 101% of the principal amount thereof plus accrued and unpaid interest up to but excluding the Put Date. See “Description of the Debentures — Put Right upon a Change of Control”.

**Subordination:**

The Indenture provides that the Debentures are subordinated in right of payment to all present and future Senior Indebtedness of the REIT. No payment of principal (including redemption payments) or interest on the Debentures may be made: (i) 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 (ii) 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 Debentureholders are entitled to receive or retain any payment. See “Description of the Debentures — Subordination”.

**Canadian Federal Income Tax Considerations:**

No gain or loss likely will be realized by a holder of Subscription Receipts on the exchange of a Subscription Receipt for a Unit. Holders of Subscription Receipts likely will be required to include in computing income any amounts that they become entitled to receive based on distributions on Units. Where the Bid Closing Time does not occur prior to the Termination Time, any resulting share of Earned Interest to a holder will be included in income.

A holder of Debentures that converts a Debenture into Units pursuant to the conversion privilege will be considered to have disposed of the Debenture for proceeds of disposition equal to the aggregate of the fair market value of the Units acquired at the time of the conversion and the amount of any cash received in lieu of fractional Units.

Each holder of Units acquired on the exchange of a Subscription Receipt or a conversion of Debentures will be subject to the tax considerations generally applicable to Unitholders.

The SIFT Regime (as defined herein) will significantly change the taxation of income funds and their unitholders. These rules will apply to the REIT and its Unitholders beginning in 2011 (or earlier, if the REIT exceeds “normal growth” guidelines issued by the Department of Finance) unless the REIT can make changes to qualify for an exception from this regime. No assurance can be given that the REIT will so qualify itself. See “Risk Factors — Risks Relating to the Ownership of Securities — Potential Taxation under the SIFT Regime”.

Prospective purchasers of Subscription Receipts and Debentures who are not resident in Canada should consult their tax advisors regarding the Canadian tax implications of an investment in such Securities.

See “Certain Canadian Federal Income Tax Considerations”.

**Risk Factors:**

The REIT will be susceptible to a number of risks arising in its business or relating to the Bid and the acquisition of the InnVest Acquisition Properties, including risks relating to the completion of the Bid and the acquisition of the InnVest Acquisition Properties, existing arrangements with Fairmont, unexpected costs or liabilities related to the InnVest Acquisition Properties or Legacy, and integration related risks.

There are also specific risks related to the ownership of Securities, including risks relating to market price, the structural subordination of the Units and Debentures, credit risk and prior ranking indebtedness, the conversion of the Debentures following certain transactions, the availability of cash flow, Unitholder liability, potential taxation under the SIFT Regime, other tax-related risks, dilution risk, restriction on certain Unitholders, the fact that cash distributions are not guaranteed and the nature of an investment in Units.

**Sources and Uses of Funds:**

The following table illustrates the total sources and uses of funds available to the REIT to fund the acquisition of the InnVest Acquisition Properties assuming, for illustrative purposes, that the Bid Closing Time is August 31, 2007:

|   | <u>Amount<br/>(\$000s)</u> |
|---|----------------------------|
| <b>Sources</b>  |                            |
| Debentures, net of issuance costs <sup>(1)</sup> . . . . .            | \$ 66,875                  |
| Subscription Receipts, net of issuance costs <sup>(1)</sup> . . . . . | 191,748                    |
| Bridge loan <sup>(2)</sup> . . . . .                                  | 211,720                    |
| Assumed long-term debt . . . . .                                      | 194,332                    |
|   | <u>\$664,675</u>           |
| <b>Uses</b>   |                            |
| Purchase price . . . . .  | \$651,825                  |
| Other assets and liabilities <sup>(3)</sup> . . . . .                 | (6,728)                    |
| Transaction costs <sup>(4)</sup> . . . . .                            | 19,578                     |
|   | <u>\$664,675</u>           |

(1) Issuance costs in respect of the Debentures and the Subscription Receipts includes Underwriters' fees to be paid in respect thereof and aggregate offering expenses estimated to be \$1.0 million.

(2) Amount expected to be drawn under the \$215 million bridge loan described under "Pro Forma Consolidated Capitalization of the REIT — Financing Arrangements".

(3) Represents a combination of working capital and the REIT's share of the proceeds from the exercise of options to purchase units of Legacy, to be acquired by the REIT on closing of the Bid.

(4) Transaction costs relating to the Bid, including advisory fees, legal and accounting fees, an acquisition fee to be paid to an affiliate of Westmont, financing fees on the bridge loan and other miscellaneous costs.

## 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 January 1, 2007 (the “Declaration of Trust”). The head office of the REIT is located at 7<sup>th</sup> Floor, 5090 Explorer Drive, Mississauga, Ontario, L4W 4T9.

The REIT achieves its objective of stable cash distributions by owning a portfolio of leading hotel properties diversified by location, brand, customer type and, increasingly, by relative position in its location. If a property is a leading property in its area, it will enjoy both an occupancy and rate advantage over its competitors. Since individual properties can be affected by local events and economic conditions, diversification helps limit the impact of such factors on the overall portfolio.

The REIT currently holds, directly and indirectly through subsidiary partnerships and corporations, a hotel portfolio consisting of 136 Canadian hotel properties, Canada’s largest hotel portfolio as measured by number of hotels and by number of guest rooms, and a 50% interest in Choice Canada. Ninety-seven of the 136 hotels in the REIT’s existing portfolio are operated under Choice Canada brands, including Comfort Inn®, Quality Hotel®, Quality Suites® and Quality Inn®. The remaining hotels are operated primarily under other international brands, including Holiday Inn®, Travelodge®, Hilton® and Radisson®. See “InnVest Acquisition Properties — Brand Breakdown Assuming Completion of the Bid” for a breakdown of the REIT’s hotel brands following the acquisition of the InnVest Acquisition Properties.

The REIT currently owns Canada’s largest hotel portfolio, as measured both by number of hotels and by number of guest rooms. Geographically, its principal guest room concentrations are in Ontario and Québec (together representing approximately 77% of total guest rooms), where the majority of Canada’s population and business activity is located, with additional properties in population centres in the Atlantic and Western provinces. Many of the hotel properties in the existing portfolio are clustered in urban areas thereby providing economies of scale as well as providing the REIT with market intelligence not otherwise available to single asset owners in specific urban areas. The hotels are strategically located near major thoroughfares in urban and suburban areas, typically near demand generators such as office centres, government and manufacturing facilities, universities, airports and tourist attractions. The hotels have a diverse customer base, including business and leisure travellers, groups, organizations and corporate clients.

## THE LEGACY ACQUISITION

### Background to the Take-Over Bid

On March 1, 2007, Legacy issued a press release announcing that it had initiated a process to identify and evaluate strategic alternatives and that it had formed a special committee of trustees. Shortly thereafter, the REIT, Cadim and Westmont (which is an affiliate of the manager of the REIT’s hotel portfolio) decided to form a consortium to explore the possible acquisition of Legacy.

After executing confidentiality and standstill agreements with Legacy, the REIT, Westmont and Cadim, together with their legal and financial advisors, conducted financial due diligence on the assets and operations of Legacy. Westmont, on behalf of itself, the REIT and Cadim, submitted an initial proposal to acquire Legacy in late May 2007 and was subsequently advised that it, together with its consortium partners, was invited to proceed with further due diligence. Westmont, the REIT and Cadim, together with their advisors, proceeded to conduct extensive legal and financial due diligence, including with respect to operations, financial, environmental, property, tax, human resources and regulatory matters.

On July 12, 2007, the REIT announced that it, together with Cadbridge, a limited partnership formed by affiliates of Westmont and Cadim, had formed LGY Acquisition LP (the “Offeror”) in order to make a take-over bid (the “Bid”) for all of the outstanding units of Legacy Hotels Real Estate Investment Trust (“Legacy”) at a price of \$12.60 per unit in cash or approximately \$1.6 billion in total (approximately \$2.5 billion including assumed debt). The REIT, Cadbridge and the Offeror entered into a support agreement with Legacy dated July 12, 2007 (the “Support Agreement”) whereby the Offeror agreed to make the Bid and Legacy agreed to support the Bid. The Offeror also entered into the Lock-Up Agreement with Fairmont pursuant to which Fairmont agreed to tender its approximate 20% ownership interest in Legacy into the Bid.

Pursuant to arrangements between the REIT and Cadbridge, the REIT and Cadbridge will contribute approximately \$458 million and \$1.12 billion, respectively, of the purchase price for the units of Legacy in respect of the Bid to the Offeror. Following completion of the Bid, the REIT and Cadbridge will cause the Offeror to reorganize Legacy's assets such that the REIT will own or lease, as the case may be, directly or through subsidiary entities, the following hotel properties owned or leased by Legacy: the Fairmont Palliser, Sheraton Suites Calgary Eau Claire, Delta Calgary Airport, Fairmont Hotel Macdonald, Delta Winnipeg Hotel, Delta Ottawa Hotel and Suites, Delta Centre-Ville, Delta Beausejour, Delta Prince Edward, Delta Barrington and the Delta Halifax (collectively, the "InnVest Acquisition Properties"). The remaining 14 hotel properties currently owned by Legacy will be owned, directly or through subsidiary entities, by Cadbridge and the REIT will not have an interest in such 14 hotel properties. This reorganization is expected to take place within 30 days of the completion of the Bid. Until that time, the REIT will own an approximate 26% limited partnership interest in the Offeror and Cadbridge will own the remaining approximate 74% limited partnership interest in the Offeror. See "InnVest Acquisition Properties — Cost Sharing Arrangements". The total purchase price to the REIT of the InnVest Acquisition Properties, including the assumption of debt, is approximately \$652 million prior to closing and transaction costs. This total purchase price reflects the fact that two of the InnVest Acquisition Properties are leased pursuant to ground leases that expire within the next ten years. See "InnVest Acquisition Properties — Description of Properties".

### **Rationale for the Acquisition**

Management and the Trustees of the REIT believe that the Bid and acquisition of the InnVest Acquisition Properties represent a unique opportunity for the REIT to acquire a high quality portfolio of hotels that meets the REIT's objectives of generating sustainable growth and stable distributable cash. Management also believes that the acquisition of the InnVest Acquisition Properties is advantageous for the following reasons:

- **Transformational and Strategic Transaction:** The InnVest Acquisition Properties are a highly sought after portfolio of mid- to upper-class hotels and include some of Legacy's most stable assets based on historical performance. The acquisition of the InnVest Acquisition Properties will further increase the REIT's position as the largest hotel REIT by gross assets in Canada.
- **Attractive Price per Room:** The effective purchase price per room of the InnVest Acquisition Properties, including assumed debt, is below the replacement cost for properties of similar quality and with similar amenities and features.
- **Expansion of Presence in Western Canada:** Approximately 12% of the REIT's guest rooms are located in Western Canada (7.4% in Alberta). Five of the InnVest Acquisition Properties are situated in Western Canada, representing 1,616 rooms. After giving effect to the acquisition of the InnVest Acquisition Properties, approximately 18.5% of the REIT's guest rooms will be located in Western Canada (12.3% in Alberta). The strong economy in Alberta has attracted increased business travel and tourism to Western Canada, on which the REIT believes it can capitalize through its acquisition of the InnVest Acquisition Properties.
- **Diversification:** The InnVest Acquisition Properties complement the REIT's existing portfolio by adding mid- to upper-class hotels that feature food and beverage facilities, meeting space and other ancillary services. This will enable the REIT to target a broader customer base.
- **Strong Brands:** Eight of the 11 InnVest Acquisition Properties are Delta-branded hotels. Delta is Canada's largest first-class hotel management company with 40 managed and franchised urban, airport and resort properties across Canada. Two of the InnVest Acquisition Properties are Fairmont-branded and there is one Sheraton-branded hotel. Fairmont is the largest luxury hotel management company in North America and manages more than 50 properties in major city centres and resort destinations throughout the world. Sheraton® is a member of the Starwood Hotels & Resorts group, which is one of the leading hotel companies in the world.
- **New Hotel Properties are in Key Locations:** All of the InnVest Acquisition Properties are located in urban or suburban areas, close to major thoroughfares, businesses, airports and attractions.

- **Continuity of Management:** The InnVest Acquisition Properties will continue to be managed by Fairmont and its affiliates, including Delta Hotels Limited, pursuant to existing management agreements. The REIT believes that this continuity of management reduces acquisition risks by enabling the InnVest Acquisition Properties to continue to be run efficiently after the Bid with minimal disruption.

## INNVEST ACQUISITION PROPERTIES

### Description of Properties

The InnVest Acquisition Properties range in size from 199 to 711 rooms in interior corridor buildings with three to 24 stories. All of the hotels that comprise the InnVest Acquisition Properties have meeting facilities and at least one restaurant or lounge.

As with the REIT's existing hotel portfolio, all of the InnVest Acquisition Properties have a diverse customer base, including business travelers, leisure travellers, group organizations and corporate clients. All of the InnVest Acquisition Properties are located in urban centres or population centres, typically near demand generators such as office centres, government and manufacturing facilities, universities, airports and tourist attractions. Set out below is a summary description of the InnVest Acquisition Properties, followed by a more detailed description of each property.

| <u>Hotel</u>                                 | <u>Address</u>   | <u>Rooms</u> |
|--|--|--------------|
| The Fairmont Palliser . . . . .              | 133 9 <sup>th</sup> Ave SW<br>Calgary, Alberta                         | 405          |
| Sheraton Suites Calgary Eau Claire . . . . . | 255 Barclay Parade SW<br>Calgary, Alberta                              | 323          |
| Delta Calgary Airport . . . . .              | 2001 Airport Rd NE<br>Calgary, Alberta                                 | 296          |
| Fairmont Hotel Macdonald . . . . .           | 10065 100 <sup>th</sup> St NW<br>Edmonton, Alberta                     | 199          |
| Delta Winnipeg Hotel . . . . .               | 350 St. Mary Avenue<br>Winnipeg, Manitoba                              | 393          |
| Delta Ottawa Hotel & Suites . . . . .        | 361 Queen Street<br>Ottawa, Ontario                                    | 328          |
| Delta Centre-Ville . . . . .                 | 777 University Street and<br>726 St-Jacques Street<br>Montréal, Québec | 711          |
| Delta Beausejour . . . . .                   | 740 - 750 Main Street<br>Moncton, New Brunswick                        | 310          |
| Delta Prince Edward . . . . .                | 18 Queen Street<br>Charlottetown, Prince Edward Island                 | 211          |
| Delta Barrington . . . . .                   | 1875 Barrington Street<br>Halifax, Nova Scotia                         | 200          |
| Delta Halifax . . . . .                      | 1990 Barrington Street<br>Halifax, Nova Scotia                         | 296          |

#### *The Fairmont Palliser*

The Fairmont Palliser is located in downtown Calgary. The hotel has approximately 22,700 square feet of meeting space in 14 meeting rooms with capacity for approximately 600 people. The hotel has a health club, laundry service, a gift shop, a work centre and in-room business amenities, a restaurant and a lounge. The 405 guest rooms (which includes 19 suites and 48 Fairmont Gold rooms) generally include bathrobes, cable television with in-room pay movies, coffee/tea maker, high speed internet access and a refreshment bar. The hotel is

managed by Fairmont Hotels Inc. pursuant to a management agreement which expires on December 31, 2047, with unlimited extension terms at the option of the manager.

#### *Sheraton Suites Calgary Eau Claire*

The Sheraton Suites Calgary Eau Claire is located in downtown Calgary. The hotel has approximately 10,000 square feet of meeting space in 12 meeting rooms with capacity for approximately 700 people. The hotel has a business centre, a health club, an indoor pool, two restaurants, a lounge and retail shops. All 323 guest rooms at the hotel are suites ranging in size from 480 to 1,200 square feet and generally include bathrobes, in-room safe, coffee/tea maker, cable television with in-room pay movies and video games, high speed internet access and a refreshment centre. The hotel is managed by Fairmont Hotels Inc. pursuant to a management agreement which expires on December 31, 2023, with two extensions of five years each at the option of the manager. The license to use the Sheraton name expires on May 14, 2017.

#### *Delta Calgary Airport*

The Delta Calgary Airport is located within the Calgary International Airport. The property is currently leased by a subsidiary of Legacy pursuant to a ground lease which expires in November 2017. The Delta Calgary Airport has approximately 13,000 square feet of meeting space in 15 meeting rooms with capacity for approximately 200 people. The hotel has an indoor pool, a business centre, two restaurants and a lounge. The 296 guest rooms (which includes 12 suites) generally include bathrobes, cable television with in-room pay movies and video games and high speed internet access. The hotel is managed by Delta Hotels Limited pursuant to a management agreement that expires on the earlier of the expiry of the ground lease for the property and December 31, 2047.

#### *Fairmont Hotel Macdonald*

The Fairmont Hotel Macdonald is located in Edmonton, Alberta. The hotel has approximately 10,200 square feet of meeting space in seven meeting rooms with capacity for approximately 350 people. The hotel has a state-of-the-art business centre, a health club, a gift shop, a restaurant and a lounge. The 199 guest rooms (which includes 19 suites) generally include bathrobes, cable television with in-room pay movies and video games, coffee/tea maker, high speed internet access and a refreshment centre. The hotel is managed by Fairmont Hotels Inc. pursuant to a management agreement which expires on December 31, 2047, with unlimited extension terms at the option of the manager.

#### *Delta Winnipeg Hotel*

The Delta Winnipeg Hotel is located in downtown Winnipeg and is connected to the Winnipeg Convention Centre. The hotel has approximately 18,100 square feet of meeting space in 17 meeting rooms with capacity for approximately 1,100 people. The hotel has a coffee shop, a gift shop, one restaurant, one pub, a health club and a business centre. The 393 guest rooms (which includes 12 suites) generally include bathrobes, cable television with in-room pay movies and video games, coffee/tea maker, high speed internet access, a refreshment centre and safety deposit boxes. The hotel is managed by Delta Hotels Limited pursuant to a management agreement which expires on December 31, 2011.

#### *Delta Ottawa Hotel & Suites*

The Delta Ottawa Hotel & Suites is located in downtown Ottawa. The property is currently leased by a subsidiary of Legacy pursuant to a ground lease which expires on December 31, 2016. The hotel has approximately 11,600 square feet of meeting space in 13 meeting rooms with capacity for approximately 325 people. The Delta Ottawa Hotel & Suites has an indoor pool and waterslide, an exercise area and lounge. The 328 guest rooms (which includes 52 suites) generally include bathrobes, cable television, coffee/tea maker, and high speed internet access. The hotel is managed by Delta Hotels Limited pursuant to a management agreement that expires on the earlier of December 31, 2010 and the termination of the ground lease.



### *Delta Centre-Ville*

The Delta Centre-Ville is located in downtown Montreal in close proximity to the Montreal Convention Centre and Old Montreal. The hotel has approximately 33,000 square feet of meeting space in 18 meeting rooms with capacity for approximately 1,000 people. The hotel has an indoor pool, a health club, an executive business centre, two restaurants, a gift shop and a lounge. The 711 guest rooms (which includes 24 suites) generally include bathrobes, cable television with in-room pay movies and video games, coffee/tea maker, high speed internet access and a refreshment centre. The hotel is managed by Delta Hotels Limited pursuant to a management agreement that expires on December 31, 2010.

### *Delta Beausejour*

The Delta Beausejour is located in Moncton, New Brunswick. The hotel has approximately 22,500 square feet of meeting space in 14 meeting rooms with capacity for approximately 1,100 people. The hotel has an indoor pool, a health club, three restaurants and a business centre. The 310 guest rooms (which includes 18 suites) generally include bathrobes, cable television with in-room pay movies and video games, coffee/tea maker and high speed internet access. The hotel is managed by Delta Hotels Limited pursuant to a management agreement which expires on December 31, 2016.

### *Delta Prince Edward*

The Delta Prince Edward is located in Charlottetown, adjacent to the shops at Peake's Wharf. The hotel has approximately 24,000 square feet of meeting space in 12 meeting rooms with capacity for approximately 1,650 people. The hotel has an indoor pool, a health club, a restaurant, a lounge and has a partnership with Fox Meadow Golf & Country Club and the Canadian Golf Academy & Teaching Facility. The 211 guest rooms (which includes 10 suites) generally include bathrobes, coffee/tea maker and high speed internet access. The hotel is managed by Delta Hotels Limited pursuant to a management agreement that expires on December 31, 2047, with unlimited 25-year extension terms at the option of the manager.

### *Delta Barrington*

The Delta Barrington is located in the Granville market area of Halifax and is connected by indoor walkway to the Delta Halifax, Casino Nova Scotia, the World Trade and Convention Centre and many shops, boutiques and office towers. The hotel is currently leased by a subsidiary of Legacy pursuant to a ground lease which expires on March 25, 2045. The hotel has approximately 5,000 square feet of meeting space in eight meeting rooms with capacity for approximately 120 people. The hotel has an indoor pool, a health club, a business centre and a restaurant. The 200 guest rooms generally include cable television with in-room pay movies and video games, coffee/tea maker, high speed internet access and a refreshment centre. The hotel is managed by Delta Hotels Limited pursuant to a management agreement which expires on the earlier of the expiry of the ground lease and December 31, 2010, with an option to renew to March 25, 2015.

### *Delta Halifax*

The Delta Halifax is located in Halifax and is connected by indoor walkway to the Delta Barrington, Casino Nova Scotia, the World Trade and Convention Centre and many shops, boutiques and office towers. The hotel is leased by a subsidiary of Legacy pursuant to a ground lease which expires on December 31, 2039. The hotel has approximately 9,000 square feet of meeting space in 13 meeting rooms with capacity for approximately 450 people. The hotel has an indoor pool, a lounge and a safety deposit box. The 296 guest rooms (which includes four suites) generally include bathrobes, cable television with in-room pay movies and video games, coffee/tea maker, and high speed internet access. The hotel is managed by Delta Hotels Limited pursuant to a management agreement which expires on the earlier of December 31, 2047 and the expiry of the ground lease, with unlimited extension terms at the option of the manager.

## **Cost Sharing Arrangements**

The REIT and Cadbridge have agreed that the REIT will be responsible for all costs and expenses of the Bid and any subsequent reorganization that are solely related to the InnVest Acquisition Properties. The REIT

will not be responsible for costs and expenses that are solely related to the other properties currently owned by Legacy. The REIT will also be entitled to approximately 26% of any residual assets (principally working capital) and be responsible for approximately 26% of any other costs and expenses of the Bid and any subsequent reorganization transaction as well as residual Legacy liabilities that are not solely related to a property. As a result, the REIT will be responsible for approximately 26% of the costs relating to the Bid (including fees of legal and financial advisors), due diligence costs and any residual liabilities of Legacy that are not solely property specific (this can include change in control payments to Legacy's executives, any costs relating to the wind-up of Legacy in connection with the separation of assets between the REIT and Cadbridge and any liability under litigation that is not specific to a particular property). See "Risk Factors — Risks Related to the Bid and the Acquisition of the InnVest Acquisition Properties".

The REIT and Cadbridge have also agreed that, until such time as the REIT no longer holds a limited partnership interest in the Offeror, all significant decisions relating to the Offeror (including the Bid and the subsequent reorganization of Legacy's assets) must be determined by the unanimous consent of both the REIT and Cadbridge. Furthermore, the REIT and Cadbridge have agreed to engage an independent accounting firm to determine whether any working capital adjustments between the REIT and Cadbridge are necessary as a result of variations in the working capital at the InnVest Acquisition Properties and the properties that Cadbridge is ultimately acquiring between the date of the Support Agreement and the completion of the Bid.

### **Existing Management Agreements and Sheraton License Agreement**

Each of the InnVest Acquisition Properties is currently managed pursuant to management agreements with affiliates of Fairmont, including Delta Hotels Limited. These agreements will remain in place and the InnVest Acquisition Properties will continue to be managed thereunder following completion of the Bid and the subsequent reorganization of Legacy's assets. The agreements expire at varying times, ranging from December 31, 2010 to December 31, 2047. The shorter term management agreements, which are in respect of certain Delta hotels, generally do not have any renewal options. In the event that the REIT is not able to negotiate a renewal of these agreements or a separate license or franchise agreement to use the Delta name, the REIT may have to re-brand the hotels.

The manager under each of the management agreements is given general authority to operate the hotels and coordinate day-to-day operations. Fees paid to the manager are generally a base fee, which is a percentage of a property's total revenues, typically 2% to 3%. The manager may also earn an incentive fee, based on the operating results of the property. The manager is also paid cost recovery charges for centralized services, such as central reservation, sales and marketing, accounting, employee training and other services.

The management agreements provide that the name of the hotel will be the hotel's proprietary name and that the manager will be able to use the Fairmont or Delta name, as the case may be, as long as it is managing the hotel. The use of the Sheraton name for the Sheraton Suites Calgary Eau Claire is governed by a license agreement which expires on May 14, 2017, unless earlier terminated in accordance with the agreement.

### **Asset Management and Acquisition Fees**

Following completion of the Bid and the subsequent reorganization, the REIT expects to enter into an asset supervisory agreement with Westmont Hospitality Canada Limited (the "Asset Manager"), the manager of the REIT's existing hotel portfolio, pursuant to which the Asset Manager will provide detailed oversight and supervision of the operation of the InnVest Acquisition Properties with a view to maximizing hotel revenues, controlling expenses and implementing capital programs. This will be in addition to property management services provided by Fairmont and its affiliates under the management agreements described above under "— Existing Management Agreements and Sheraton License Agreement".

In consideration for these services, the Asset Manager will receive an annual fee equal to 3.75% of post-reserve hotel operating income at the InnVest Acquisition Properties, subject to an aggregate minimum annual payment of \$1.8 million.

The Asset Manager will also receive a fee of approximately \$6.5 million in connection with the acquisition of the InnVest Acquisition Properties for its assistance in negotiating the transaction and arranging the consortium with Cadim.

The REIT has received an opinion from an independent third party consultant to the effect that the ongoing fees payable to the Asset Manager under the asset supervisory agreement and the fees payable in connection with the acquisition of the InnVest Acquisition Properties are reasonable and consistent with industry practice.

The REIT understands that the Asset Manager will also be providing similar services to Cadbridge with respect to the assets of Legacy to be ultimately acquired by it.

### **Additional Fairmont Arrangements**

Legacy is also currently a party to a number of other agreements and arrangements with Fairmont, which provide the parties with certain rights and obligations. These agreements consist of:

- an advisory agreement between Legacy and Fairmont, pursuant to which Fairmont provides certain advisory and administrative services to Legacy for an annual fee equal to 0.40% of the aggregate value of Legacy's assets. The agreement also provides for acquisition and disposition fees, which are not payable in connection with the Bid or the subsequent reorganization of Legacy's assets described in this prospectus. This agreement is terminable by Legacy on 12 months' notice or payment in lieu thereof. The REIT's share of any such termination payment would be approximately 26% thereof, which is expected to be less than \$2.0 million.
- a strategic alliance agreement between Legacy and Fairmont whereby Fairmont is required to make Legacy aware of certain acquisition opportunities and provide Legacy with a first right to participate in such opportunities. Legacy is also required to give Fairmont the opportunity to manage hotels that Legacy acquires. This agreement may be terminated by Fairmont if the advisory agreement described above is terminated.
- purchase option agreements between Legacy and Fairmont in respect of the Fairmont Palliser Calgary, Fairmont Macdonald Edmonton, Delta Calgary Airport, the Delta Beausejour, the Delta Halifax and the Delta Prince Edward, as well as certain hotels in the Legacy portfolio that the REIT will not ultimately acquire. Pursuant to these agreements, Fairmont must be given the first option to purchase the hotels to which these agreements apply in the event that a sale is contemplated. These agreements do not apply to the Bid or subsequent reorganization of Legacy's assets in the manner described in this prospectus.
- portfolio incentive fee agreement between Legacy and Fairmont pursuant to which Fairmont is paid certain incentive fees based on performance at a group of hotels above a threshold level. The hotels to which this agreement applies include some of the InnVest Acquisition Properties and certain hotels that will ultimately be owned by Cadbridge.

The Offeror and, subsequently the REIT, may become the successor to Legacy under certain of these agreements and arrangements. It is the intention of the REIT, together with Cadbridge, to renegotiate, or negotiate the termination of, these agreements or arrangements following completion of the Bid. The REIT will be responsible for approximately 26% of any termination fees under these agreements (100% in respect of any termination of the purchase option agreements noted above because they relate solely to the InnVest Acquisition Properties). See "Risk Factors — Risks Related to the Bid and the Acquisition of the InnVest Acquisition Properties".

## Brand Breakdown Assuming Completion of the Bid

Assuming the completion of the Bid and the subsequent acquisition of the InnVest Acquisition Properties by the REIT, the following is a breakdown of the REIT's hotel properties under each brand.

| <u>Brand</u>                     | <u>Number of<br/>Hotels</u> | <u>Number of<br/>Guest Rooms</u> | <u>% of<br/>Guest Rooms</u> |
|----------------------------------|-----------------------------|----------------------------------|-----------------------------|
| Comfort Inn . . . . .            | 84                          | 6,780                            | 35.2%                       |
| Holiday Inn . . . . .            | 14                          | 2,456                            | 12.7%                       |
| Delta Hotel . . . . .            | 11                          | 3,327                            | 17.3%                       |
| Travelodge . . . . .             | 10                          | 1,723                            | 9.0%                        |
| Quality Suites/Inn . . . . .     | 8                           | 1,096                            | 5.7%                        |
| Quality Hotel . . . . .          | 5                           | 796                              | 4.1%                        |
| Radisson Hotel/Suites . . . . .  | 4                           | 707                              | 3.7%                        |
| Hilton Hotels . . . . .          | 2                           | 768                              | 4.0%                        |
| Fairmont Hotels . . . . .        | 2                           | 604                              | 3.1%                        |
| Sheraton . . . . .               | 1                           | 323                              | 1.7%                        |
| Best Western . . . . .           | 1                           | 130                              | 0.7%                        |
| Hilton Garden Inn . . . . .      | 1                           | 120                              | 0.6%                        |
| Staybridge Suites . . . . .      | 1                           | 117                              | 0.6%                        |
| Hilton Homewood Suites . . . . . | 1                           | 83                               | 0.4%                        |
| Independent . . . . .            | 2                           | 235                              | 1.2%                        |
|                                  | <u>147</u>                  | <u>19,265</u>                    | <u>100.0%</u>               |

On July 19, 2007, the REIT completed the previously disclosed acquisition of the 117 room Staybridge Suites in London, Ontario. The Staybridge Suites is an all suites hotel, with all rooms containing eat-in kitchens. The hotel also has an indoor pool.

## PRINCIPAL AGREEMENTS

### Support Agreement

On July 12, 2007, the REIT announced that it, together with Cadbridge, a limited partnership formed by affiliates of Westmont and Cadim, had formed the Offeror, in order to make the Bid for all of the outstanding units of Legacy at a price of \$12.60 per unit in cash or approximately \$1.6 billion in total (approximately \$2.5 billion including assumed debt). The REIT, Cadbridge and the Offeror entered into the Support Agreement whereby the Offeror agreed to make the Bid and Legacy agreed to support the Bid. The REIT and Cadbridge have severally, but not jointly, agreed to guarantee the performance of the Offeror's obligations under the Support Agreement. The REIT owns an approximate 26% interest in the Offeror and Cadbridge owns an approximate 74% interest in the Offeror. The REIT's obligation to guarantee the Offeror's agreement to pay the purchase price in respect of the Bid is limited to its share of the purchase price for the units of Legacy under the Bid, which is approximately \$458 million and Cadbridge's obligation in this regard is limited to the balance of the purchase price for the units of Legacy under the Bid, which is approximately \$1.12 billion.

The material terms and provisions of the Support Agreement are summarized below. This summary is qualified in its entirety by the terms of the Support Agreement, a copy of which has been filed on SEDAR.

### *Support of the Offer*

Legacy represented to the Offeror, the REIT and Cadbridge that (i) each of Morgan Stanley & Co. Incorporated, RBC Dominion Securities Inc. and BMO Nesbitt Burns Inc. has been retained and has delivered the Fairness Opinions to the board of trustees of Legacy; (ii) the board of trustees of Legacy has determined that the Bid is in the best interests of Legacy and the Legacy Unitholders and, accordingly, approved the Support Agreement and will recommend that the Legacy Unitholders accept the Offer; and (iii) after reasonable inquiry, the board of trustees of Legacy has been advised and believes that each trustee and officer of Legacy intends to tender or cause to be tendered all units of Legacy (including units issuable upon the exercise of "in the money"

options held by such person) of which he or she, whether directly or through holding companies or trusts for his or her benefit, is the beneficial owner.

#### *Distributions*

Legacy has agreed that, until the Effective Time, it will not declare or pay any distributions with respect to units of Legacy except for regular quarterly distributions in an amount of up to \$0.08 per unit and a *pro rata* distribution for the period from the last regular quarterly distribution to the Effective Time. As required by the terms of the Support Agreement, Legacy will suspend its distribution reinvestment plan.

#### *Trustees*

Promptly upon the take-up by the Offeror of at least 66⅔% of the outstanding units of Legacy at the Expiry Time and from time to time thereafter, the Offeror shall be entitled, subject to the declaration of trust of Legacy, to designate members of the board of trustees of Legacy and any committees in a proportionate number to the percentage of the outstanding units of Legacy held by or on behalf of the Offeror and Legacy has agreed to cooperate with the Offeror, subject to applicable laws, in this respect, including by increasing the size of the board of trustees and/or securing the resignations of trustees as is necessary. Under Legacy's declaration of trust, Fairmont will be entitled to appoint one trustee to the board of trustees of Legacy for so long as it manages at least 2,800 rooms in Legacy's hotel portfolio. It is expected that, as part of a reorganization to be completed following completion of the Bid, Legacy will ultimately be wound up.

The REIT and Cadbridge have agreed to cause Legacy or its successor to keep current indemnity agreements in place for current and former trustees, directors and officers of Legacy and to indemnify the trustees, directors and officers of Legacy to the fullest extent permitted from all claims in connection with Legacy and transactions contemplated under the Support Agreement, for a maximum period of six (6) years following the completion of the Bid.

The REIT and Cadbridge have agreed for a period of six years after the Expiry Time on a "trailing" or "run-off" basis to maintain the current and former trustees' and officers' liability insurance policy, or an equivalent policy, for the present and former trustees, directors and officers of Legacy covering all claims made prior to or within six years of the Expiry Time; provided such insurance is available at a cost of not more than \$0.8 million. If a trailing policy is not available at such cost, then the Offeror, the REIT and Cadbridge are to maintain that amount of such insurance as can be purchased for \$0.8 million. After the expiration of the six-year period, the Offeror, the REIT and Cadbridge will cause the then current trustees, directors and officers of Legacy to be covered under their then existing policies, if any.

#### *No Solicitation*

Legacy has agreed not to, directly or indirectly, through any officer, trustee, director, employee, advisor, representative or agent of Legacy or any of the Legacy Subsidiaries: (i) solicit, initiate, encourage or otherwise facilitate the initiation of any inquiries from or submissions of proposals or offers which would constitute an Acquisition Proposal; (ii) participate in any discussions or negotiations in furtherance of such inquiries, submissions, proposals or offers or regarding an actual or potential Acquisition Proposal; (iii) withhold, withdraw, modify, change or qualify the board of trustees' recommendation of the Bid in a manner adverse to the Offeror; or (iv) approve, recommend or remain neutral with respect to any Acquisition Proposal or enter into any agreement related to any Acquisition Proposal made by a third party; provided that the foregoing shall not prevent the board of Legacy from considering and accepting a Superior Acquisition Proposal in accordance with the terms of the Support Agreement and further provided that the foregoing is subject to the board's fiduciary duties.

Legacy has agreed to: (i) immediately cease and cause to be terminated any existing solicitations, encouragements, activities, discussions or negotiations with any parties (other than the Offeror) with respect to any potential Acquisition Proposal; and (ii) to immediately cease to provide any other party with access to information concerning Legacy and the Legacy Subsidiaries and to request the return or destruction of all information provided to any third party that has entered into a confidentiality agreement with Legacy relating to any potential Acquisition Proposal to use reasonable efforts to ensure requests are honoured. Nothing in the Support Agreement will prevent Legacy from considering, accepting or granting any release, waiver of

forbearance to any third party from the enforcement of any confidentiality or standstill agreement or agreeing to an amendment thereof in respect of any Acquisition Proposal that might be made by any such third party if Legacy is otherwise in compliance, in all material respects, with its remaining non-solicitation covenants.

#### *Superior Proposals and Right to Match*

Notwithstanding the foregoing, if Legacy receives a written Acquisition Proposal (that was not solicited in contravention of the above), the board of trustees of Legacy may contact the party making such Acquisition Proposal in order to determine if such proposal is, or is reasonably likely to lead to, a Superior Acquisition Proposal. If the board of trustees of Legacy, acting in good faith and after receiving advice from its outside legal advisors, determines that the Acquisition Proposal would be reasonably likely, if consummated in accordance with its terms, to result in a Superior Acquisition Proposal, and that the failure to take such action would be inconsistent with its fiduciary duties, Legacy may: (i) provide information to such party provided (A) such party enters into an acceptable confidentiality agreement, and (B) Legacy advises the Offeror of, and provides the Offeror with, all non-public information delivered to such party; and (ii) consider and/or participate in discussions or negotiations with such party regarding such Acquisition Proposal. As soon as practicable and in any event within 24 hours of receipt, Legacy is required to give notice to the Offeror of any Acquisition Proposal or request for non-public information in connection therewith or access to the properties, books or records of Legacy or the Legacy Subsidiaries from a person that is considering making, or has made, an Acquisition Proposal.

Legacy is permitted to enter into an agreement (“Proposed Agreement”) with a third party providing for or to facilitate another Acquisition Proposal, if such Acquisition Proposal is, or would be, if consummated in accordance with its terms, a Superior Acquisition Proposal; provided that Legacy may do so only after it has provided the Offeror with written notice that the board of trustees of Legacy has determined that it has received a Superior Acquisition Proposal, identified the party making the Superior Acquisition Proposal and provided the Offeror with a copy of any Proposed Agreement and any other related documents executed by the party making such Superior Acquisition Proposal not less than five business days prior to its proposed execution by Legacy.

During the five business day period, the Offeror shall have the opportunity, but not the obligation, to offer to amend the terms of the Bid (including increasing or modifying the consideration to be received by the Legacy Unitholders) in order to provide for financial terms at least equivalent to those provided for in the Proposed Agreement from the third party. If the Offeror does so, then the board of trustees of Legacy is required to review any such proposal by the Offeror to determine (acting in good faith and in accordance with its fiduciary duties) whether the Acquisition Proposal to which the Offeror is responding would continue to be a Superior Acquisition Proposal when assessed against the amended offer as proposed by the Offeror. If the board of trustees of Legacy determines that the Acquisition Proposal would thereby cease to be a Superior Acquisition Proposal, it will cause Legacy to enter into an amendment to the Support Agreement reflecting the offer by the Offeror to amend the terms of the Bid and will further agree not to enter into any Proposed Agreement with respect to such Acquisition Proposal.

The board of trustees of Legacy is required to promptly reaffirm its recommendation of the Bid by press release if (i) it determines that any Acquisition Proposal that was publicly announced or made is not a Superior Acquisition Proposal, or (ii) the Offeror’s revised offer following receipt of an Acquisition Proposal that would be a Superior Acquisition Proposal results in such Acquisition Proposal no longer being superior.

If the Offeror does not offer to amend the terms of the Bid within the five business day period or if the board of trustees of Legacy determines acting in good faith and in the proper discharge of its fiduciary duties (after consultation with its financial advisors and after receiving advice from its outside legal counsel) that the Acquisition Proposal would nonetheless remain a Superior Acquisition Proposal with respect to the Offeror’s proposal to amend the Bid, and therefore rejects the Offeror’s offer to amend the Bid and the Support Agreement, Legacy is entitled to terminate the Support Agreement and enter into the Proposed Agreement upon payment to the Offeror of a termination fee. See “— Termination Fee”.

#### *Conditions*

Subject to the provisions of the Support Agreement, the Offeror shall have the right to withdraw or terminate the Bid (or extend the Bid to postpone taking up and paying for any Units deposited under the Bid)

and shall not be required to accept for payment, take up, purchase or pay for any Units deposited under the Bid, unless all of the following conditions are satisfied or waived by the Offeror at or prior to the Expiry Time:

- (a) there shall have been validly deposited under the Bid and not withdrawn that number of units of Legacy which together with the units of Legacy owned by the Offeror and any of its affiliates constitute at least 66 $\frac{2}{3}$ % of the units of Legacy outstanding at the Expiry Time (the “Minimum Tender Condition”);
- (b) there shall not be in effect at the Expiry Time, any temporary restraining order, preliminary or permanent injunction, statute, rule, regulation, order or decree enacted, entered, promulgated, issued or enforced by any governmental authority which prohibits, restricts or makes illegal the taking-up and paying for units of Legacy deposited under the Bid or completion of any Compulsory Acquisition or Subsequent Acquisition Transaction;
- (c) there shall not be pending any suit, action or proceeding before or by any governmental authority, nor shall any such suit, action or proceeding be threatened in writing:
  - (i) (A) seeking to prohibit or restrict the acquisition by the Offeror of any units of Legacy, (B) seeking to restrain or prohibit the take-up and payment for units of Legacy or the completion of any Compulsory Acquisition or Subsequent Acquisition Transaction, or (C) seeking to obtain from the Offeror or Legacy or their respective subsidiaries any damages that would have a Material Adverse Effect;
  - (ii) seeking to prohibit or limit the ownership, control or operation by the Offeror of any material portion of the business or assets of Legacy and the Legacy Subsidiaries, taken as a whole, or to compel Legacy or any of the Legacy Subsidiaries to dispose of or hold separate any material portion of the business or assets of Legacy and the Legacy Subsidiaries, taken as a whole; or
  - (iii) seeking to impose material limitations on the ability of the Offeror to acquire or hold, or exercise full rights of ownership of, any units of Legacy, including the right to vote the units of Legacy to be acquired by the Offeror on all matters properly presented to the Legacy Unitholders including with respect to any Compulsory Acquisition Transaction or Subsequent Acquisition Transaction;
- (d) there shall not have occurred after the date of the Bid (or, if there does exist or shall have previously occurred, there shall not have been disclosed after the date of the Bid, generally by way of press release and material change report or to the Offeror in writing) any change, effect, event, circumstance, fact or occurrence which, individually or in the aggregate, has had or would reasonably be expected to have, a Material Adverse Effect;
- (e) the Support Agreement shall not have been terminated by either the Offeror or Legacy in accordance with its terms;
- (f) the Lock-Up Agreement shall not have been breached in any material respect by Fairmont nor shall it have been terminated;
- (g) the board of trustees of Legacy or any committee thereof shall not have withdrawn any recommendation made by it that Legacy Unitholders accept the Bid or modified, changed or qualified any such recommendation in a manner adverse to the Offeror or issued a recommendation that Legacy Unitholders not accept the Bid;
- (h) Legacy shall not have entered into a Proposed Agreement;
- (i) (A) The Competition Commissioner shall have issued an advance ruling certificate pursuant to section 102 of the Competition Act in respect of the transactions contemplated by the Support Agreement; or (B) all waiting periods under the Competition Act shall have expired, been terminated or waived and the Competition Commissioner shall have advised the Offeror, in writing, on terms satisfactory to the Offeror, acting reasonably, that she has confirmed that grounds do not then exist to initiate proceedings before the Competition Tribunal under the merger provisions of the Competition Act with respect to the transactions contemplated by the Support Agreement;
- (j) all applicable waiting periods under the HSR Act (including any voluntarily agreed extensions) shall have expired or been terminated early;

- (k) (i) the representations and warranties of Legacy in the Support Agreement as to organization and qualification, subsidiaries, capitalization, authority and enforceability, certain financial statement representations and warranties shall be true and correct in all respects, and (ii) all other representations and warranties of Legacy in the Support Agreement (without regard to materiality or Material Adverse Effect qualifiers) shall be true and correct in all material respects, unless the failure of such representations and warranties to be so true and correct in all material respects would not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect, and the Offeror shall have received a certificate, in form and substance satisfactory to the Offeror, acting reasonably, of the Chief Executive Officer of Legacy (without personal liability) addressed to the Offeror and dated as of the Expiry Time confirming the same; and
- (l) Legacy shall have complied with all covenants in all material respects that are to be complied with by it under the Support Agreement and at or before the Expiry Time, and the Offeror shall have received a certificate, in form and substance satisfactory to the Offeror, acting reasonably, of the Chief Executive Officer of Legacy (without personal liability) addressed to the Offeror and dated as of the Expiry Time confirming the same.

#### *Termination of the Support Agreement*

The Support Agreement may be terminated by notice in writing at any time prior to the Effective Time (unless otherwise stated):

- (a) by mutual consent of the Offeror and Legacy;
- (b) by Legacy:
  - (i) if Cadbridge, the REIT or the Offeror breaches or is in default of any covenant or obligation under the Support Agreement (if qualified by materiality, in any respect, and for all other covenants or obligations, in any material respect) or if any representation or warranty of the Offeror, the REIT or Cadbridge qualified by materiality under the Support Agreement is untrue or incorrect in any respect, or if not so qualified, is untrue or incorrect in any material respect provided such default or breach shall not have been cured at the earlier of the Expiry Time and the close of business on the fifteenth (15<sup>th</sup>) day after the delivery of written notice of such default;
  - (ii) if the Offeror has not taken up and paid for the units of Legacy within 90 days of mailing the Bid documents, otherwise than as a result of the breach by Legacy of any material covenant or obligation under the Support Agreement or as a result of any representation or warranty of Legacy under Support Agreement being untrue or incorrect in any material respect (provided that this 90 day period may be extended to 120 days to contest certain regulatory actions or injunctions or 150 days to obtain Competition Act approvals); or
  - (iii) to enter into an agreement in respect of a Superior Acquisition Proposal (provided Legacy has not breached its non-solicitation covenant);
- (c) by the Offeror:
  - (i) if Legacy breaches or is in default of, in any material respect, any covenant or obligation, under the Support Agreement, or (A) if the representations and warranties of Legacy as to organization and qualification, subsidiaries, capitalization, authority and enforceability, and certain financial statement representations and warranties shall not be true and correct in all respects, or (B) all other representations and warranties of Legacy (without regard to materiality or Material Adverse Effect qualifiers) shall not be true and correct in all material respects unless the failure of such representations and warranties to be so true and correct in all material respects would not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect, provided such default or breach shall not have been cured at the earlier of the Expiry Time and the close of business on the fifteenth (15<sup>th</sup>) day after the delivery of written notice to Legacy;
  - (ii) if, prior to the Expiry Time, (A) the board of trustees of Legacy withdraws, qualifies, modifies or changes in a manner adverse to the Offeror its recommendation of the Bid, (B) the board of trustees of Legacy approves, recommends, accepts or enters into an Acquisition Proposal or an agreement in respect thereof, (C) Legacy breaches its non-solicitation covenant in any material



- respect, or (D) the Offeror requests that the board of trustees of Legacy reaffirm its recommendation of the Bid and they have not done so by the third business day following receipt of such request; or
- (iii) if the Offeror has not taken up and paid for the units of Legacy within 90 days of the mailing of the Bid documents, otherwise than as a result of a breach by the Offeror of any material covenant or obligation under the Support Agreement or as a result of any representation or warranty of the Offeror in the Support Agreement being untrue or incorrect in any material respect (provided that this 90 day period may be extended to 120 days to contest certain regulatory actions and injunctions or 150 days to obtain Competition Act approvals); or
  - (d) by the Offeror or Legacy if the Bid expires or is withdrawn without the Offeror having purchased any units of Legacy pursuant to the Bid as a result of the failure of any of the conditions of the Bid not being satisfied at the Expiry Time (unless the party wishing to terminate materially contributed to the failure of the condition).

#### *Termination Fee*

Legacy is obligated to pay the Offeror a termination fee of \$46.0 million (the “Termination Fee”) if:

- (a) the Support Agreement is terminated by Legacy pursuant to paragraph (b)(iii) set out above under “— Termination of the Support Agreement”;
- (b) the Support Agreement is terminated by the Offeror pursuant to paragraph (c)(ii) set out above under “— Termination of the Support Agreement”; or
- (c) prior to the Expiry Time, an Acquisition Proposal in respect of Legacy is publicly announced and has not expired, been withdrawn or been publicly abandoned and: (A) the Bid is not completed as a result of the Minimum Tender Condition not having been satisfied or waived; and (B) such Acquisition Proposal is completed within 12 months from the termination of the Support Agreement;

and provided in each case that the Offeror is not in material default in the performance of any of its obligations under the Support Agreement. The Termination Fee is due contemporaneously with termination, in the case of (a) or (b) above, and within five business days of the completion of the Acquisition Proposal in the case of subparagraph (c) above.

#### *Fees and Expenses*

Legacy must pay the Offeror’s reasonable costs and expenses in connection with the Bid, up to \$5.0 million (the “Expense Reimbursement Amount”), if:

- (a) the Offeror terminates the Support Agreement pursuant to paragraph (c)(i) set out above under “— Termination of the Support Agreement” and the Offeror is not in breach in any material respect of its representations, warranties or covenants under the Support Agreement; or
- (b) the Bid is not completed as a result of the Minimum Tender Condition not having been satisfied, provided that all other conditions to the Bid have been satisfied,

in which case the Expense Reimbursement Amount must be paid on the first business day following the termination of the Support Agreement. The Expense Reimbursement Amount is not payable if the Termination Fee is payable and any Expense Reimbursement Amount paid is creditable against any future Termination Fee payment.

The Offeror has also agreed to reimburse Legacy for its reasonable and documented out-of-pocket expenses incurred in connection with the Bid, up to a maximum of \$5.0 million if the Support Agreement is terminated by Legacy pursuant to paragraph (b)(i) or (b)(ii) set out above under “— Termination of the Support Agreement”.

#### *Trustees’ Circular*

Legacy agreed to prepare and make available for distribution with the Offeror’s take-over bid circular, a trustees’ circular, containing the recommendation of the board of trustees of Legacy that the Legacy Unitholders accept the Bid and a copy of the Fairness Opinions.

### *Unit Options*

Subject to receipt of any necessary regulatory approvals, Legacy has agreed to amend its unit option plan and take all such other steps as may be necessary or desirable, to allow all holders of options who may do so under applicable laws to exercise their options on an accelerated vesting basis solely for the purpose of tendering under the Bid all such units issued in connection with such exercise, conditional upon the Offeror agreeing to take up such units. Legacy will also cause the cancellation, without payment, of any “out-of-the-money” options.

### *Compulsory Acquisition/Subsequent Acquisition Transaction*

If the Offeror takes up and pays for the Legacy units pursuant to the Bid, it has agreed to use all commercially reasonable efforts to complete a Compulsory Acquisition or Subsequent Acquisition Transaction as soon as practicable but in any event within 120 days of completion of the Bid for cash consideration equal to the Bid price and Legacy has agreed it will use reasonable commercial efforts to assist the Offeror in completing any Compulsory Acquisition or Subsequent Acquisition Transaction.

### *Representations and Warranties of Legacy*

Legacy made certain representations and warranties to the Offeror which are customary for transactions of this type, including as to (i) real property matters, (ii) intellectual property matters, (iii) employee matters, (iv) labour matters, (v) litigation, (vi) environmental matters and (vii) tax matters.

### *Representations and Warranties of the Offeror, the REIT and Cadbridge*

The Offeror, the REIT and Cadbridge made certain representations and warranties to Legacy with respect to, among other matters: (i) consents and approvals; (ii) financing arrangements; and (iii) ownership of units of Legacy.

### *Conduct of Business*

Prior to the Effective Time, Legacy has agreed that it will conduct its activities and maintain its properties and assets in the ordinary course of business consistent with past practice and that it will not and will cause the Legacy Subsidiaries not to take certain types of restrictive actions specified in the Support Agreement, including it will not pay any distributions with respect to the units of Legacy other than the regular quarterly distributions in the amount of up to \$0.08 per unit and a *pro rata* distribution for the period between the last regular quarterly distribution and the Effective Time and will not incur capital expenditures over certain amounts, unless the Offeror otherwise agrees or unless expressly contemplated by the Support Agreement.

### *Amendment of Offer*

The Offeror has agreed not to modify any term or condition of the Bid without the prior written consent of Legacy (not to be unreasonably withheld); however, the Offeror may, without the consent of Legacy: (i) increase the consideration per unit of Legacy; (ii) add the option of Legacy Unitholders to choose one or more alternative forms of consideration in addition to (but not instead of) cash; or (iii) waive any condition of the Bid other than the Minimum Tender Condition.

### **Lock-Up Agreement**

On the same date as the Support Agreement was executed, the Offeror entered into a lock-up agreement (the “Lock-Up Agreement”) with Fairmont Hotels & Resorts Inc. (“Fairmont”) whereby Fairmont agreed to tender to the Bid all of the units of Legacy beneficially owned, directly or indirectly, by it and certain of its affiliates (including units issuable on the exchange or transfer to Legacy of the exchangeable shares beneficially owned by it and certain affiliates in Legacy EF Inc., a subsidiary of Legacy, and units issuable on the exercise of options to purchase units of Legacy held by Fairmont and such affiliates). Fairmont has an approximate 20% ownership interest in Legacy.

Under the Lock-Up Agreement, Fairmont is entitled to tender its units of Legacy in favour of a Superior Acquisition Proposal if the Support Agreement has been terminated and the Termination Fee has been paid thereunder.

## PRO FORMA CONSOLIDATED CAPITALIZATION OF THE REIT

The following table sets forth the consolidated capitalization of the REIT as at March 31, 2007 as well as the *pro forma* consolidated capitalization of the REIT as at March 31, 2007 after giving effect to the offering, the issuance of all of the Debentures and the Units underlying the Subscription Receipts. This table should be read in conjunction with the consolidated financial statements and notes thereto incorporated by reference in this short form prospectus and the *pro forma* financial statements and notes thereto included in this prospectus.

|   | As at<br>March 31, 2007 | As at<br>March 31, 2007<br>( <i>Pro Forma</i> ) |
|---|-------------------------|---|
|   | (thousands)             |   |
| <b>Debt:</b>  |                         |   |
| Bank indebtedness . . . . .                             | \$ 22,000               | \$ 227,145                                      |
| Long term debt . . . . .                                | \$ 497,733              | \$ 696,918                                      |
| Convertible debentures . . . . .                        | \$ 117,488              | \$ 180,863                                      |
|   | \$ 637,221              | \$1,104,926                                     |
| <b>Unitholders' Equity:</b>                             |                         |   |
| Units (Authorized — unlimited) <sup>(1)</sup> . . . . . | \$ 515,898              | \$ 711,146                                      |
|   | (55,611,910 Units)      | (71,806,910 Units)                              |
| <b>Total Capitalization:</b> . . . . .                  | <b>\$1,153,119</b>      | <b>\$1,816,072</b>                              |

(1) Does not include Units issuable pursuant to the Existing Debentures outstanding as at March 31, 2007 or the Debentures issued pursuant to this offering. Includes Units issuable pursuant to the Subscription Receipts.

### *Short Term Debt*

The REIT has a \$25 million operating facility with a Canadian chartered bank (an affiliate of RBC Dominion Securities Inc.), which renews on an annual basis and bears interest at the bankers' acceptance rate plus 1.5%. Security for this facility consists of first charges on nine of the REIT's hotel properties. As of December 31, 2006 and March 31, 2007, respectively, borrowings under this facility were \$3.3 million and \$22.0 million.

### *Borrowing*

Pursuant to the Declaration of Trust, the REIT may grant or assume a mortgage on any of its real property, provided that the aggregate of the total indebtedness of the REIT and the amount of indebtedness proposed to be incurred or assumed, does not exceed 50%, excluding convertible debentures, and 60%, including convertible debentures, of the aggregate amount of the total assets of the REIT plus accumulated depreciation and amortization less the future income tax liability recorded in the books of the REIT (the "Gross Book Value"). The debt-to-Gross Book Value of the REIT as at March 31, 2007 was 37.7% and 46.8%, excluding and including convertible debentures, respectively. The *pro forma* debt-to-Gross Book Value of the REIT, after giving effect to this offering and the acquisition of the InnVest Acquisition Properties, will be approximately 44.6% and 54.1%, excluding and including convertible debentures, respectively.

Commencing in the second quarter of 2007 and in accordance with industry practice, it is expected that the REIT will make certain accounting adjustments to reflect the impact of the SIFT Regime (as defined herein). The impact thereof is expected to result in an increase in the REIT's *pro forma* debt-to-Gross Book Value by approximately 3-4%.

### **Financing Arrangements**

The REIT has obtained a commitment from a Canadian chartered bank (an affiliate of RBC Dominion Securities Inc.) to provide the REIT with a loan of up to \$215 million to partially fund the REIT's contribution to the Offeror in respect of the payment of the purchase price under the Bid. The financing commitment is conditional upon the entering into of a definitive credit agreement and security documents on terms satisfactory to the lender, acting reasonably. The REIT will be obligated to repay such financing within six months of closing of the Bid, subject to a 90 day extension right. As security for the loan, the REIT will provide the lender with, amongst other things, first mortgages on five of the InnVest Acquisition Properties, a pledge of the REIT's limited partnership interest in the Offeror and a guarantee from the REIT. The foregoing financing will be considered Senior Indebtedness under the Indenture.

## EARNINGS COVERAGE RATIO

The REIT's interest requirements for the year ended December 31, 2006 and the twelve months ended March 31, 2007 amounted to approximately \$39.9 million and approximately \$41.2 million, respectively. The REIT's earnings before interest expense and income tax for the year ended December 31, 2006 and the twelve months ended March 31, 2007 were approximately \$63.4 million and approximately \$61.9 million respectively, which was 1.59 times and 1.49 times the REIT's interest requirements for these periods, respectively.

The REIT's interest requirements, after giving effect to the issue of the Debentures, for the year ended December 31, 2006 and the twelve months ended March 31, 2007 amounted to approximately \$72.4 million and approximately \$74.6 million, respectively. The REIT's earnings before interest expense and income tax for the year ended December 31, 2006 and the twelve months ended March 31, 2007 were approximately \$85.4 million and approximately \$85.5 million, respectively, which was 1.18 times and 1.15 times the REIT's interest requirements for these periods, respectively.

The following *pro forma* earnings coverage rates have been calculated for the year ended December 31, 2006 and the twelve months ended March 31, 2007 after giving effect to this offering, the issuance of the Debentures, the Subscription Receipts and the Units issuable pursuant thereto, the completion of the Bid and the acquisition of the InnVest Acquisition Properties as follows:

|   | Year ended<br>December 31,<br>2006 | Twelve Months<br>ended March 31,<br>2007 |
|---|------------------------------------|--|
|   | (in thousands)                     |  |
| <i>Pro forma</i> interest requirements <sup>(1)</sup> . . . . . | \$ 72,357                          | \$ 74,606                                |
| Earnings before interest expense and income tax . . . . .       | \$ 85,426                          | \$ 85,519                                |
| Earnings coverage . . . . .                                     | 1.18 times                         | 1.15 times                               |

(1) Including interest expense on the Debentures.

## RECORD OF CASH DISTRIBUTIONS AND DISTRIBUTION POLICY

The REIT will distribute, to the extent possible, equal monthly cash distributions to Unitholders, on or about the 15th day of each month (with the January 15th distribution being payable as of the preceding December 31st), constituting not less than 80% of the REIT's Distributable Income, based on the estimated Distributable Income for the calendar year.

Distributions to Unitholders are approved on a monthly basis by the REIT's trustees. In exercising their discretion to approve the level of distributions, the trustees utilize internal forecasts prepared by management and other financial information to determine if sufficient cash flow will be available to fund distributions. Such financial information is subject to continual change due to the nature of the Canadian hotel industry, which is difficult to predict even in the short term.

Distributable Income is determined after deduction of a reserve for replacement of furniture, fixtures and equipment and capital improvements. The reserve on the REIT's existing portfolio has initially been set, and is expected to remain constant, at 4% of the REIT's gross revenues, except in 2008 and 2009, when management of the REIT anticipates increasing this reserve to 5.5% to fund planned additional refurbishments of significant capital items. Under the existing management agreements for the InnVest Acquisition Properties, the reserve that will be required in respect of such properties is 4% to 5% of gross revenues per property.

Distributions paid in cash for the period from July 26, 2002 to December 31, 2002 totalled \$0.4869 per Unit. In each of 2003 through 2006, distributions paid in cash and by Units issued under the REIT's Distribution Reinvestment Plan in 2003, 2004, 2005 and 2006 totalled \$1.1250 per Unit.

Although the REIT intends to make distributions of available cash to its Unitholders, these cash distributions may be reduced or suspended. The actual amount distributed will depend on numerous factors including principal repayments, capital expenditures, seasonal fluctuations in operating results and redemption of Units, if any. In addition, the market value of the Units of the REIT may decline if the REIT is unable to meet its cash distribution targets in the future, and that decline may be significant. See "Risk Factors".

The adjusted cost base of Units held by a Unitholder will generally be reduced by the non-taxable portion of distributions made to the Unitholder (other than the non-taxable portion of certain capital gains). A Unitholder will generally realize a capital gain to the extent that the adjusted cost base of the Unitholder's Units would otherwise be a negative amount. The non-taxable portion of distributions for any year may be adjusted following any reassessment by the CRA for that year. In 2003, 2004, 2005 and 2006 the non-taxable portion of distributions made to Unitholders was 52.5%, 46.02%, 47.23% and 40.50% respectively.

### USE OF PROCEEDS

Assuming the Bid Closing Time occurs prior to the Termination Time, the estimated total net proceeds to be received by the REIT from this offering will amount to approximately \$258.6 million, after deducting the Underwriters' fee in respect of the Securities issued and sold by the REIT and the estimated expenses of the offering. The entire net proceeds from the sale of the Subscription Receipts (following the release of the Escrowed Funds) and from the sale of the Debentures will be used to contribute to the Offeror a portion of the REIT's share of the purchase price in respect of the Bid.

### Sources and Uses of Funds

The following table illustrates the total sources and uses of funds available to the REIT to fund the acquisition of the InnVest Acquisition Properties assuming, for illustrative purposes, that the Bid Closing Time is August 31, 2007:

|   | <u>Amount<br/>(\$000s)</u> |
|---|----------------------------|
| <b>Sources</b>  |                            |
| Debentures, net of issuance costs <sup>(1)</sup> . . . . .            | \$ 66,875                  |
| Subscription Receipts, net of issuance costs <sup>(1)</sup> . . . . . | 191,748                    |
| Bridge loan <sup>(2)</sup> . . . . .                                  | 211,720                    |
| Assumed long-term debt . . . . .                                      | <u>194,332</u>             |
|   | <u>\$664,675</u>           |
| <b>Uses</b>   |                            |
| Purchase price . . . . .  | \$651,825                  |
| Other assets and liabilities <sup>(3)</sup> . . . . .                 | (6,728)                    |
| Transaction costs <sup>(4)</sup> . . . . .                            | <u>19,578</u>              |
|   | <u>\$664,675</u>           |

(1) Issuance costs in respect of the Debentures and the Subscription Receipts includes Underwriters' fees to be paid in respect thereof and aggregate offering expenses estimated to be \$1.0 million.

(2) Amount expected to be drawn under the \$215 million bridge loan described under "Pro Forma Consolidated Capitalization of the REIT — Financing Arrangements".

(3) Represents a combination of working capital and the REIT's share of the proceeds from the exercise of options to purchase units of Legacy, to be acquired by the REIT on closing of the Bid.

(4) Transaction costs relating to the Bid including advisory fees, legal and accounting fees, an acquisition fee to be paid to an affiliate of Westmont, financing fees on the bridge loan and other miscellaneous costs.

### DESCRIPTION OF SUBSCRIPTION RECEIPTS

The following is a summary of the material attributes and characteristics of the Subscription Receipts. This summary does not purport to be complete and is subject to, and qualified in its entirety by, reference to the terms of the Subscription Receipt Agreement.

The Subscription Receipts will be issued at the closing of this offering pursuant to the Subscription Receipt Agreement. The proceeds from the issuance of the Subscription Receipts less the Subscription Receipts Initial Underwriters' Fee Payment will be delivered to and held by the Escrow Agent and invested in short-term obligations of, or guaranteed by, the Government of Canada or other approved investments pending the earlier of the Bid Closing Time and the Termination Time. Provided that the Bid Closing Time occurs on or before the

Termination Time, the Escrowed Funds will be released to the REIT and the Units underlying the Subscription Receipts will be issued to holders of Subscription Receipts who will receive, without payment of additional consideration, one Unit for each Subscription Receipt held.

At the Expiry Time, assuming all of the conditions to the Bid have been satisfied or waived by the Offeror, the REIT will execute and deliver to the Escrow Agent, RBC Dominion Securities Inc. (on its own behalf and for and on behalf of the Underwriters) and the Transfer Agent a notice thereof, and will issue and deliver the Units underlying the Subscription Receipts to the Escrow Agent for delivery to holders of the Subscription Receipts at the Bid Closing Time. Contemporaneously with the delivery of such notice, the REIT will issue a press release specifying that the Expiry Time has occurred, the conditions to the Bid have been satisfied, the Offeror is obligated to take up and pay for the units of Legacy under the Bid and that the Units underlying the Subscription Receipts have been issued to the Escrow Agent for delivery to holders of Subscription Receipts at the Bid Closing Time.

If the Bid Closing Time does not occur on or before the Termination Time, holders of Subscription Receipts shall be entitled to receive an amount equal to the full Subscription Price and their pro rata entitlements to the Earned Interest (which is the interest earned on the Escrowed Funds (and interest which would have been earned on the Subscription Receipts Initial Underwriters' Fee Payment had it been included in the Escrowed Funds) either from the date of the closing of this offering to the Termination Time, to the extent the Termination Time occurs prior to the Interim Payment Date, or from the Interim Payment Date to the Termination Time, to the extent that the Termination Time occurs after the Interim Payment Date). Since the Subscription Receipts Initial Underwriters' Fee Payment is paid to the Underwriters from the aggregate proceeds from the issuance of the Subscription Receipts at the closing of this offering, the REIT will be responsible for making up the difference to holders of Subscription Receipts at the Termination Time in respect of the Subscription Receipts Initial Underwriters' Fee Payment and Earned Interest thereon. The obligation to make the payment of the amounts specified above shall be satisfied by mailing payment by cheque payable to the holders of Subscription Receipts at such holder's registered address or by making a wire transfer for the account of such holder through CDS. Upon the mailing or delivery of a cheque or the making of any wire transfer as provided above (and provided such cheque has been honoured for payment, if presented for payment within six months of the date thereof, as the case may be) all rights evidenced by the Subscription Receipts relating thereto shall be satisfied and such Subscription Receipts shall be void and of no value or effect.

If the Bid Closing Time or Termination Time has not occurred within 90 days of the closing of this offering (the "Interim Payment Date"), holders of Subscription Receipts will be entitled to receive an amount per Subscription Receipt equal to the amount per Unit of any cash distributions, less applicable withholding taxes, if any, for which record dates have occurred during the period from the date of closing of the offering to the Interim Payment Date.

If the Bid Closing Time occurs on or before the Termination Time and holders of Subscription Receipts become entitled to receive Units pursuant to the Subscription Receipt Agreement, such holders will also be entitled to receive an amount per Subscription Receipt equal to the amount per Unit of any cash distributions, less applicable withholding taxes, if any, for which record dates have occurred during the period from the date of closing of this offering to the date immediately preceding the date the Units are issued pursuant to the Subscription Receipts, less any payment made on the Interim Payment Date, as applicable. In addition, in such event, Earned Interest shall be for the benefit of the REIT.

**Holders of Subscription Receipts are not Unitholders. Holders of Subscription Receipts are entitled only to receive Units on surrender of their Subscription Receipts to the Escrow Agent or to a return of the Subscription Price for the Subscription Receipts together with any payments in lieu of interest or distributions, in each case as applicable, as described above.**

The Subscription Receipts will be issued in "book-entry only" form and must be purchased or transferred through a CDS Participant. On the closing date of this offering, a certificate representing the Subscription Receipts will be issued in registered form to CDS or its nominee, CDS & Co., and will be deposited with CDS pursuant to the book-entry system.

Unless the book-entry only system is terminated as described below, a purchaser acquiring a beneficial interest in the Subscription Receipts (a "Subscription Receipt Beneficial Owner"), will not be entitled to receive

a certificate for Subscription Receipts, or for the Units issuable pursuant to the Subscription Receipts, other than those issued in the United States. Purchasers of Subscription Receipts will not be shown on the records maintained by CDS, except through a CDS Participant.

Beneficial interests in Subscription Receipts will be represented solely through the book-entry only system and such interests will be evidenced by customer confirmations of purchase from the registered dealer from which the Subscription Receipts are purchased in accordance with the practices and procedures of that registered dealer. In addition, registration of interests in and transfers of the Subscription Receipts will be made only through the depository service of CDS.

As indirect holders of Subscription Receipts, investors should be aware that they (subject to the situations described below): (i) may not have Subscription Receipts registered in their name; (ii) may not have physical certificates representing their interest in the Subscription Receipts; (iii) may not be able to sell the Subscription Receipts to institutions required by law to hold physical certificates for securities they own; and (iv) may be unable to hypothecate or pledge Subscription Receipts as security.

The Subscription Receipts will be issued to beneficial owners thereof in fully registered and certificated form (the "Subscription Receipt Certificates") only if: (i) the REIT, at its option, decides to terminate the use of the book-entry only system through CDS; (ii) the REIT is required to do so by applicable law; (iii) the book-entry only system ceases to exist; or (iv) the REIT or CDS advises the Escrow Agent that CDS is no longer able or willing to properly discharge its responsibilities as depository with respect to the Subscription Receipts and the REIT (and/or the Escrow Agent) is unable to locate a qualified replacement.

Upon the occurrence of any of the events described in the immediately preceding paragraph, the Escrow Agent must notify CDS, for and on behalf of CDS Participants and Subscription Receipt Beneficial Owners, of the availability through CDS of Subscription Receipt Certificates. Upon surrender by CDS of the global certificates representing the Subscription Receipts and receipt of instructions from CDS for the new registrations, the Escrow Agent will deliver the Subscription Receipts in the form of Subscription Receipt Certificates and thereafter the REIT will recognize the holders of such Subscription Receipt Certificates as Subscription Receipt holders under the Subscription Receipt Agreement.

Neither the REIT nor the Underwriters will assume any liability for: (i) any aspect of the records relating to the beneficial ownership of the Subscription Receipts held by CDS or any payments relating thereto; (ii) maintaining, supervising or reviewing any records relating to the Subscription Receipts; or (iii) any advice or representation made by or with respect to CDS and contained in this short form prospectus and relating to the rules governing CDS or any action to be taken by CDS or at the direction of a CDS Participant. The rules governing CDS provide that it acts as the agent and depository for the CDS Participants. As a result, CDS Participants must look solely to CDS and Subscription Receipt Beneficial Owners must look solely to CDS Participants for any payments relating to the Subscription Receipts paid by or on behalf of the REIT to CDS.

## **DESCRIPTION OF THE DEBENTURES**

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

### **General**

The Debentures will be issued under the Indenture. The Debenture Trustee is the trustee under the Indenture, as well as the REIT's transfer agent and the Escrow Agent. The Indenture does not limit the aggregate principal amount of Debentures that may be outstanding from time to time.

The Debentures to be issued will be in the aggregate principal amount of \$70,000,000. The REIT may, from time to time, without the consent of the Debentureholders, issue additional debentures of a different series under the Indenture, in addition to the Debentures offered hereby.

The Debentures will be dated as of the closing of this offering and will have an initial maturity date of the Termination Time (the "Initial Maturity Date"). If the Bid Closing Time takes place prior to the Termination Time, the maturity date will be automatically extended from the Initial Maturity Date to August 1, 2014 (the "Final Maturity Date"). If the Bid Closing Time does not take place by the Termination Time, the

Debentures will mature on the Initial Maturity Date. The 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 5.85% per annum, which will be payable semi-annually in arrears on August 1 and February 1 in each year, commencing on February 1, 2008. The first interest payment will include interest accrued from the date of the closing of this offering to February 1, 2008 (unless the Debentures are repaid in full on the Initial Maturity Date).

The principal amount of the Debentures is payable in lawful money of Canada or, if the maturity date is extended beyond the Initial Maturity Date, at the option of the REIT and subject to applicable regulatory approval, by delivery of fully paid, non-assessable and freely tradeable Units as further described under “— Method of Payment — Payment of Principal on Redemption or at Maturity”. The interest on the Debentures is payable in lawful money of Canada including, at the option of the REIT and subject to applicable regulatory approval, in accordance with the Interest Payment Election as described under “— Method of Payment — Interest Payment Election”.

The Debentures are direct obligations of the REIT and will not be secured by any mortgage, pledge, hypothec or other charge and will be subordinated to other liabilities of the REIT as described under “Description of the Debentures — Subordination”.

### **Subordination**

The Indenture provides that the Debentures are subordinated in right of payment to all present and future Senior Indebtedness (as defined herein) of the REIT. No payment of principal (including redemption payments) or interest on the Debentures may be made: (i) 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 (ii) 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 Debentureholders are entitled to receive or retain any payment.

Neither the Indenture nor the Debentures will limit the ability of the REIT to incur additional indebtedness, including indebtedness that ranks senior to the 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:

- (a) all indebtedness, liabilities and obligations of the REIT (other than the Debentures and the Existing 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, 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
- (b) renewals, extensions, restructurings, refinancings and refundings of any such indebtedness, liabilities or obligations;

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



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

### **Conversion Rights**

Each Debenture is convertible into Units of the REIT, at the option of the Debentureholder, at any time after the Initial Maturity Date and prior to 5:00 p.m. (Toronto time) on the earlier of August 1, 2014 and the last Business Day immediately preceding the date specified by the REIT for redemption of the Debentures, at a conversion price of \$14.70 per Unit (the "Conversion Price"), being a conversion rate of approximately 68.0272 Units per \$1,000 principal amount of Debentures, subject to adjustment upon the occurrence of certain events in accordance with the Indenture. If all conversion rights attaching to the Debentures are exercised, the REIT will be required to issue 4,761,904 additional fully paid, non-assessable and freely tradeable Units, subject to anti-dilution adjustments. No adjustment will be made for distributions on Units issuable upon conversion or for interest accrued on Debentures surrendered for conversion; however, Debentureholders converting their Debentures will receive accrued and unpaid interest on such Debentures for the period from the last interest payment date on their Debentures (or the date of issue of their Debentures if no interest has yet been paid by the REIT) to and including the last record date for distributions to Unitholders declared by the REIT prior to such conversion. In the event that the REIT has suspended regular distributions, then a Debentureholder, in addition to the applicable number of Units to be received on conversion, will be entitled to receive accrued and unpaid interest for the period from the last interest payment date prior to the date of conversion to the date of conversion.

Subject to the provisions thereof, the Indenture provides for the adjustment of the Conversion Price in certain events including: (i) the subdivision or consolidation of the outstanding Units; (ii) the distribution of Units to Unitholders by way of distribution or otherwise other than an issue of securities to Unitholders who have elected to receive distributions in securities of the REIT in lieu of receiving cash distributions paid in the ordinary course; (iii) the issuance of options, rights or warrants to all or substantially all Unitholders 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 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 of the applicable event) of the Units; and (iv) the distribution to all or substantially all the Unitholders of (A) units of any class other than Units and other than Units distributed to Unitholders 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, (B) 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), (C) evidences of the REIT's indebtedness, or (D) 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 Debentureholders are allowed to participate as though they had converted their Debentures prior to the applicable record date or effective date, as the case may be, of such event. The REIT will not be required to make adjustments in the Conversion Price unless the cumulative effect of such adjustments would change the Conversion Price by at least 1%.

In the case of any reclassification or capital reorganization (other than a change resulting from consolidation or subdivision) of the Units or in the case of any consolidation, amalgamation, reorganization or merger of the REIT with or into any other entity, or in the case of any sale or conveyance of the property and assets of the REIT as, or substantially as, an entirety to any other entity, or a liquidation, dissolution or winding-up of the REIT, the terms of the conversion privilege shall be adjusted so that each Debentureholder 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 Debentureholder would be entitled to receive if, on the effective date thereof, it had been the holder of the number of Units into which the Debenture was convertible prior to the effective date of such reclassification, capital reorganization, amalgamation, reorganization, combination, merger, sale, conveyance, liquidation, dissolution or winding-up.

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

### **Redemption**

The Debentures will not be redeemable prior to August 1, 2010, except upon the satisfaction of certain conditions after a Change of Control has occurred. On or after August 1, 2010, and prior to August 1, 2012, the Debentures will be redeemable at the option of the REIT, in whole or in part and 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 August 1, 2012, and prior to August 1, 2014, the 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 Debentures redeemed by the REIT will be cancelled and will not be reissued.

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

### **Put Right upon a Change of Control**

Upon the occurrence of a change of control involving the acquisition, by any person or persons acting jointly or in concert, of voting control or direction over an aggregate of 66<sup>2</sup>/<sub>3</sub>% or more of the outstanding Units (a "Change of Control"), each Debentureholder 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 Debentureholder's Debentures at a price equal to 101% of the principal amount thereof (the "Put Price") plus accrued and unpaid interest up to but excluding the Put Date.

If 90% or more in aggregate principal amount of the Debentures outstanding on the date the REIT provides notice of 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 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 Debentureholders whose Debentures have not been tendered for purchase.

### **Method of Payment**

#### *Payment of Principal on Redemption or at Maturity*

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

#### *Interest Payment Election*

If the maturity date is extended beyond the Initial Maturity Date, subject to receiving any required regulatory approvals, provided it is not in default under the Indenture, the REIT may elect, from time to time,

to satisfy its obligation to pay interest on the Debentures (the “Interest Obligation”) on the date it is payable under the Indenture (an “Interest Payment Date”), by delivering a sufficient number of Units to the Debenture Trustee required to satisfy all or any part of the Interest Obligation in accordance with the Indenture (the “Interest Payment Election”). The Indenture provides that, upon such election, the Debenture Trustee shall: (i) accept delivery from the REIT of the Units; (ii) accept bids with respect to, and consummate sales of such Units, each as the REIT shall direct in its absolute discretion; (iii) 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 (iv) 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 Debentureholder in respect of interest will be to receive cash from the Debenture Trustee out of the proceeds of the sale of Units (plus any amount received by the Debenture Trustee from the REIT attributable to fractional Units) in full satisfaction of the Interest Obligation, and the holder of such Debentures will have no further recourse to the REIT in respect of the Interest Obligation.

Neither the REIT’s making of the Interest Payment Election nor the consummation of sales of Units will (i) result in the Debentureholders 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 (ii) entitle such Debentureholders to receive any Units in satisfaction of the Interest Obligation.

#### **Events of Default and Waiver**

The Indenture provides that an event of default (“Event of Default”) in respect of the Debentures will result upon the occurrence of certain events described in the Indenture, including if any one or more of the following events has occurred and is continuing with respect to the Debentures: (i) failure for 15 days to pay the interest on the Debentures when due; (ii) failure to pay principal or premium, if any, on the Debentures when due whether at maturity, upon redemption, by declaration or otherwise; (iii) 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 (i) and (ii) above); (iv) 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; (v) default under any agreement evidencing indebtedness for money borrowed by 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; (vi) certain events of bankruptcy or insolvency affecting the REIT under bankruptcy, insolvency or analogous laws; (vii) 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 substantially all 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; (viii) if a resolution is passed for the winding-up or liquidation of the REIT; or (ix) 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 applicable insolvency or bankruptcy legislation.

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 under the Indenture, declare the principal, interest on all debentures then outstanding under the Indenture 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 66 $\frac{2}{3}$ % in aggregate principal amount of the debentures at the time outstanding under the Indenture 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 under the Indenture 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 provision made therefor.

When a default is waived by the Debenture Trustee or holders of debentures under the Indenture, 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 under the Indenture may be modified by the REIT with the consent of a majority of the holders of debentures under the Indenture present and voting at a meeting at which not less than 25% of the principal amount of the debentures then outstanding under the Indenture are present in person or by proxy, unless a poll is to be taken, in which case questions submitted shall be decided by the votes of the holders of a majority in principal amount of the debentures represented at the meeting and voting (an "Ordinary Resolution").

The Indenture also provides that certain changes, including: (i) 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; (ii) the modification, abrogation, alteration, compromise or arrangement of the rights of the debentureholders or the Debenture Trustee against the REIT; or (iii) 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 outstanding under the Indenture represented and voting at a duly constituted meeting of holders of debentures under the Indenture.

If the business to be transacted at any meeting by Extraordinary Resolution or otherwise, especially affects the rights of holders of debentures under the Indenture 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 under the Indenture of any other series are affected, then the holders 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 and such matter must be passed by a resolution adopted by the affirmative vote of the holders of not less than 66⅔% of the aggregate principal amount of the debentures of that series represented and voting at such meeting.

All actions which may be taken by holders of debentures under the Indenture 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 under the Indenture, as the case may be.

The REIT and the Debenture Trustee may, without the consent or concurrence of the holders of debentures under the Indenture, 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.

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

No Units may be issued pursuant to the conversion of all or part of the Debentures, no Debentures will be issued, no payment of interest or principal (whether upon maturity, redemption, or otherwise) will be made by the issuance of Units, and no Units will be issued in connection with the retraction of all or part of the Debentures upon a Change of Control, if any such issuance of Units or Debentures would result in persons who are non-residents of Canada for the purpose of the Tax Act holding or beneficially owning more than 49% of the Units (on either a basic or fully-diluted basis).

In addition, the Debenture Trustee may require declarations as to the jurisdictions in which holders or 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 will 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 of Canada. 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 Debentureholders, 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 Debentureholders 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 of Canada within such period, the REIT may sell such Debentures on behalf of such Debentureholders 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) will be immediately suspended and the rights of any such Debentureholders in respect of such Debentures will be limited to receiving the net proceeds of sale (net of any withholding tax).

### **Book-Entry, Delivery and Form**

Debentures will be issued in the form of one or more global Debentures (the “Global Debentures”) held by, or on behalf of, CDS or its successor (the “Depository”) as custodian for its participants.

All Debentures will be represented in the form of Global Debentures registered in the name of the Depository or its nominee. Purchasers of Debentures represented by Global Debentures will not receive Debentures in definitive form. Rather, the Debentures will be represented only in “book-entry only” form (unless the REIT, in its sole discretion, elects to prepare and deliver definitive Debentures in fully-registered form). Interests in the Global Debentures will be represented through book-entry accounts of institutions (including the Underwriters) acting on behalf of holders of interests, as direct and indirect participants of the Depository (the “participants”).

Each purchaser of a Debenture represented by a Global Debenture will receive a customer confirmation of purchase from the Underwriter or Underwriters from whom the Debenture is purchased in accordance with the practices and procedures of the selling Underwriter or Underwriters. The practices of the Underwriters may vary but generally, customer confirmations are issued promptly after execution of a customer order. The Depository will be responsible for establishing and maintaining book-entry accounts for its participants having interest in Global Debentures.

If the Depository notifies the REIT that it is unwilling or unable to continue as depository in connection with the Global Debentures, or if at any time the Depository ceases to be a clearing agency or otherwise ceases to be eligible to be a depository and the REIT and the Debenture Trustee are unable to locate a qualified successor, or if the REIT elects, in its sole discretion, to terminate the use of the book-entry system, with the consent of the Debenture Trustee, beneficial owners of Debentures represented by Global Debentures at such time will receive Debentures in registered and definitive form (the “Definitive Debentures”).

### **Transfer and Exchange of Debentures**

Transfers of interests in Debentures represented by Global Debentures will be effected through records maintained by the Depository for such Global Debentures or its nominees (with respect to interests of participants) and on the records of participants (with respect to interests of persons other than participants). Unless the REIT elects, in its sole discretion, to prepare and deliver Definitive Debentures, beneficial owners who are not participants in the Depository’s book-entry system, but who desire to purchase, sell or otherwise transfer ownership of or other interest in Global Debentures, may do so only through participants in the Depository’s book-entry system.

The ability of a holder of an interest in a Debenture represented by a Global Debenture to pledge the Debenture or otherwise take action with respect to such owner's interest in a Debenture represented by a Global Debenture (other than through a participant) may be limited due to the lack of a physical certificate.

Registered holders of Definitive Debentures may transfer such Debentures upon payment of taxes or other charges incidental thereto, if any, by executing and delivering a form of transfer together with the Debentures to the registrar for the Debentures at its principal offices in Toronto, Ontario, or such other city or cities as may from time to time be designated by the REIT whereupon new Debentures will be issued in authorized denominations in the same aggregate principal amount as the Debentures so transferred, registered in the names of the transferees. No transfer or exchange of a Debenture will be registered during the period from the date of any selection by the Debenture Trustee of any Debentures to be redeemed or during the 15 preceding days or thereafter until the close of business on the date upon which notice of redemption of such Debentures is given. In addition, no transfer or exchange of any Debentures which have been selected or called for redemption will be registered.

### **Reports to Debentureholders**

The REIT will file with the Debenture Trustee, within 15 days after the filing thereof with the applicable Canadian securities regulatory authorities, copies of the REIT's annual report and the information, documents and other reports that the REIT is required to file with the applicable Canadian securities regulatory authorities and deliver to its Unitholders. Notwithstanding that the REIT may not be required to remain subject to the reporting requirements of the Canadian securities regulatory authorities, the REIT shall provide to the Debenture Trustee (i) within 90 days after the end of each fiscal year, annual financial statements, and (ii) within 45 days after the end of the first three fiscal quarters of each fiscal year, interim financial statements which shall, at a minimum, contain such information as is required to be provided in quarterly reports under the laws of Canada or any province thereof to security holders of an entity with securities listed on the TSX, whether or not the REIT has any of its securities so listed. Each of such reports will be prepared in accordance with applicable Canadian disclosure requirements and generally accepted accounting principles. The REIT will provide copies of such information, documents and reports to Debentureholders upon request.

## **DESCRIPTION OF UNITS**

### *General*

An unlimited number of Units may be issued pursuant to the Declaration of Trust. Each Unit represents an equal undivided beneficial interest in any distributions 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 the termination or winding-up of the REIT. All Units are of the same class with equal rights and privileges. Each Unit entitles the holder thereof to one vote for each whole Unit held at all meetings of Unitholders.

### *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 distribution *in specie* of Notes issued by InnVest Hotels L.P. (or other subsidiary entity). 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 revolving credit facility, plus 1%.

It is anticipated that the redemption right described above will not be the primary mechanism for Unitholders to dispose of their Units.

#### *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 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 more than 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 determined that a majority of the Units 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 attaching 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.

### **PLAN OF DISTRIBUTION**

Pursuant to the Underwriting Agreement, the REIT has agreed to issue and sell and the Underwriters have agreed to purchase on the closing of the offering, being August 3, 2007 or any other date as may be agreed upon by the REIT and the Underwriters, but in any event not later than August 15, 2007, subject to the conditions stipulated in the Underwriting Agreement, all but not less than all of the 15,709,170 Subscription Receipts offered hereby at a price of \$12.35 per Subscription Receipt for total gross consideration of \$194,008,250 and all but not less than all of the \$70,000,000 principal amount of Debentures offered hereby at a price of \$1,000 per Debenture, payable in cash to the Escrow Agent in the case of the Subscription Receipts and to the REIT in the case of the Debentures against delivery by the REIT of certificate(s) evidencing the Subscription Receipts and the Debentures. The prospectus also qualifies for distribution the Units issuable pursuant to the Subscription Receipts and the Debentures. The Subscription Receipts qualified by this prospectus include 485,830 Subscription Receipts to be purchased by Maple Leaf, an affiliate of the manager of the REIT's portfolio, as described under "Sale to Maple Leaf". The Securities (other than the Subscription Receipts being sold to Maple Leaf) are being offered to the public in all of the provinces of Canada. The offering price of the Securities (other

than the Subscription Receipts being sold to Maple Leaf) was determined by negotiations between the REIT and the Underwriters and no third party valuation has been obtained for the offering price. The Underwriting Agreement provides that the REIT will pay the Underwriters' fee of \$0.494 per Subscription Receipt for Subscription Receipts issued and sold by the REIT, other than the Subscription Receipts sold to Maple Leaf, and \$37.50 per Debenture for Debentures issued and sold by the REIT, for an aggregate fee payable by the REIT of \$10,385,330, in consideration for their services in connection with this offering. The Underwriters' fee in respect of the Subscription Receipts and Debentures is payable as to 50% upon closing of the offering and 50% upon the Bid Closing Time. If the Bid Closing Time has not occurred before the Termination Time, the Underwriters' fee in respect of the Subscription Receipts and Debentures will be reduced to the amount payable upon closing of the offering.

The obligations of the Underwriters under the Underwriting Agreement are several and not joint and may be terminated at their discretion upon the occurrence of certain stated events. The obligations of the REIT and the Underwriters under the Underwriting Agreement to complete the purchase and sale of the Subscription Receipts and Debentures will terminate automatically if the Bid is terminated or withdrawn or the Support Agreement, the arrangements with Cadbridge with respect to the Bid or the terms of the acquisition of the InnVest Acquisition Properties are amended in a material adverse respect. If an Underwriter fails to purchase the Securities which it has agreed to purchase, the other Underwriters may, but are not obligated to, purchase any such Securities. The Underwriters are, however, obligated to take up and pay for all Securities if any Securities are purchased under the Underwriting Agreement.

RBC Dominion Securities Inc. is an affiliate of a Canadian chartered bank (the "Bank") that is a current lender to the REIT under a revolving credit facility that is secured by first mortgages on nine of the REIT's existing hotel properties. As at June 30, 2007, approximately \$100,000 was outstanding under this credit facility, and the REIT was in compliance in all material respects with such facility and no breaches thereunder have been waived by the Bank. The proceeds of this offering will not be used to repay debt under the revolving credit facility. The Bank has agreed to provide bridge financing in respect of the Bid as described under "Pro Forma Consolidated Capitalization of the REIT — Financing Arrangements". The offering price of the Subscription Receipts and Debentures and other terms and conditions of this offering were established through negotiations with the REIT and the Underwriters, without involvement of the Bank. Furthermore, RBC Dominion Securities Inc. has acted as financial advisor to Legacy in respect of the Bid and has provided one of the Fairness Opinions to Legacy. As such, the REIT may be considered a "connected issuer" of RBC Dominion Securities Inc. under applicable Canadian securities legislation.

The REIT has been advised by the Underwriters that, in connection with offerings and subject to applicable laws, the Underwriters may effect transactions that stabilize or maintain the market price of the Units, Subscription Receipts and Debentures at levels other than those which might otherwise prevail on the open market. **There is currently no market through which the Subscription Receipts and Debentures may be sold and purchasers may not be able to resell the Subscription Receipts and Debentures.**

Pursuant to policy statements of the Ontario Securities Commission and the Autorité des marchés financiers, the Underwriters may not, throughout the period of distribution, bid for or purchase Subscription Receipts or Debentures. The foregoing restriction is subject to certain exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Subscription Receipts or the Debentures. These exceptions include: (i) a bid or purchase permitted under the by-laws and rules of the TSX relating to market stabilization and passive market making activities; and (ii) a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of the distribution. Such transactions, if commenced, may be discontinued at any time.

The Securities offered by this short form prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act"), or the securities laws of any state, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. The Underwriters have agreed that they will not offer or sell the Securities within the United States, its territories or possessions or other areas subject to its jurisdiction or to, or for the account or benefit of, a U.S. Person (as such term is defined under the 1933 Act).



Under the Underwriting Agreement, the REIT has agreed to indemnify and hold harmless the Underwriters and their respective officers, directors, employees and agents against certain liabilities on a joint basis.

The TSX has conditionally approved the listing of the Subscription Receipts and Debentures. Listing is subject to the REIT fulfilling all of the requirements of the TSX on or before October 12, 2007.

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 offering without the consent of the Underwriters, which consent may not be unreasonably withheld.

#### **SALE TO MAPLE LEAF**

Pursuant to an agreement with Maple Leaf, the REIT has agreed to issue and sell an aggregate of 485,830 Subscription Receipts to Maple Leaf, and Maple Leaf has agreed to purchase from the REIT such Subscription Receipts at the closing of this offering at a price of \$12.35 per Subscription Receipt for gross proceeds of \$6,000,000. Although qualified for distribution hereunder, the Subscription Receipts sold to Maple Leaf are not being underwritten by the Underwriters and no commission is payable by the REIT to the Underwriters with respect thereto. Maple Leaf and its affiliates will have no rights of action against the Underwriters in respect of the distribution of the Subscription Receipts sold to Maple Leaf. Upon completion of this sale, Maple Leaf and its affiliates will beneficially own 5.8% of the outstanding Units of the REIT, assuming the exchange of all Subscription Receipts for Units (5.4% after giving effect to the conversion of all Existing Debentures and the Debentures).

#### **LEGAL MATTERS**

Certain legal matters in connection with the issuance of the Subscription Receipts, the Debentures and the Units issuable pursuant to the Subscription Receipts and upon conversion of the Debentures offered hereby will be passed upon on behalf of the REIT by Davies Ward Phillips & Vineberg LLP, and on behalf of the Underwriters by Torys LLP. As of the date of this short form prospectus, partners and associates of Davies Ward Phillips & Vineberg LLP, as a group, and partners and associates of Torys LLP, as a group, each owned, beneficially or of record, less than 1% of the outstanding Units.

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

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the REIT, and Torys 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 Subscription Receipts or Debentures by a holder who acquires Subscription Receipts or Debentures pursuant to this offering. This summary is applicable to a holder who, for purposes of the Tax Act, is resident in Canada, deals at arm's length and is not affiliated with the REIT and holds the Subscription Receipts or Debentures and any Units acquired under the terms of the Subscription Receipts or Debentures (collectively, the "Securities") as capital property (a "Holder"). Generally, Securities will be considered to be capital property to a Holder provided that the Holder does not hold the Securities in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure or concern 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 Holder that is a "financial institution", as defined in the Tax Act for purposes of the mark-to-market rules, a "specified financial institution" or a Holder an interest in which is a "tax shelter investment" (within the meaning of 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. In addition, this summary does not address the deductibility of interest by an investor who has borrowed money to acquire Subscription Receipts or Debentures under this offering.

This summary is based upon the facts set out in this short form prospectus, in the REIT's renewal annual information form dated March 29, 2007 and in its audited 2006 financial statements, information provided by the REIT's management ("Management"), the current provisions of the Tax Act and the regulations thereunder and counsel's understanding of the current published administrative policies and assessing practices of the CRA. This summary takes into account all specific proposals to amend the Tax Act and the regulations thereunder publicly announced by or on behalf of the Minister of Finance (Canada) 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 policies and assessing practices. With respect to opinions and views based on representations and statements of Management as to matters of fact, counsel has assumed the accuracy of such representations and statements in giving such opinions and views.

This summary assumes that the REIT does and will continue to qualify as a "mutual fund trust" under the Tax Act while the Debentures and Units remain outstanding. This assumption is based upon a certificate of the REIT as to certain factual matters. If the REIT does not qualify as a mutual fund trust, the income tax considerations described below would in some respects be materially different. See "— Status of the REIT".

**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.**

**This summary does not address any Canadian federal income tax considerations applicable to non-residents of Canada, and non-residents should consult their own tax advisors regarding the tax consequences of acquiring, holding and disposing of Subscription Receipts, Debentures or Units. Distributions on Subscription Receipts, Debentures or Units or amounts paid in respect thereof and all payments to non-residents of interest (or amounts deemed to be interest under the Tax Act) whether paid in cash or Units, will be paid net of any applicable withholding tax.**

## **Taxation of Holders of Subscription Receipts**

### *Exchange of Subscription Receipts*

No gain or loss will be realized by a Holder on the exchange of a Subscription Receipt for Units. This opinion is based upon the interpretation of counsel that a Subscription Receipt is an agreement to acquire Units on the satisfaction of certain conditions. This position has not, to the knowledge of counsel, been the subject of a judicial determination in Canada and counsel have not applied for advance income tax rulings from the CRA in respect of this offering. The cost of any Units acquired must be averaged with the adjusted cost base of all other Units held by the Holder for the purpose of calculating the adjusted cost base of such Units to the Holder.

### *Dispositions of Subscription Receipts*

A disposition or deemed disposition by a Holder of a Subscription Receipt will generally result in the Holder realizing a capital gain (or capital loss) equal to the amount by which the proceeds of disposition 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 below under "Taxation of Holders of Debentures — Dispositions of Debentures".

### *Amounts Received by Holder of Subscription Receipts*

Any amount representing distributions declared and paid between the closing of this offering and the Bid Closing Time or the Termination Time that a Holder of a Subscription Receipt becomes entitled to receive (see “Description of Subscription Receipts”) must in the view of counsel be included in the Holder’s income.

### *Repayment of Subscription Price and Earned Interest*

Where the Bid Closing Time does not occur on or before the Termination Time, a Holder of a Subscription Receipt generally will be entitled to receive an amount equal to the full Subscription Price and a pro rata amount of Earned Interest (as more fully described under “Description of Subscription Receipts”). The Holder will not generally realize any income, gain or loss on the repayment to the Holder of the full Subscription Price.

A Holder that is a corporation, partnership, unit trust or any other trust of which a corporation or a partnership is a beneficiary who is entitled to receive the Holder’s share of Earned Interest will be required to include in computing income for a taxation year any such share that accrues to the Holder to the end of that Holder’s taxation year, or that is receivable or received by the Holder before the end of that taxation year, except to the extent that such share was included in computing the Holder’s income for a preceding taxation year. Any other Holder that is entitled to receive such share will be required to include in computing income for a taxation year all of such share that is received or receivable by the Holder in that taxation year (depending on the method regularly followed by the Holder in computing income).

### **Taxation of Holders of Debentures**

#### *Interest on Debentures*

A Holder of Debentures that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on the Debentures that accrues (or is deemed to accrue) to it to the end of the particular taxation year (or if the Holder of Debentures disposes of the 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 of Debentures 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 of Debentures’ income for a preceding taxation year.

Any other Holder of Debentures will be required to include in computing income for a taxation year all interest on the Debentures that is received or receivable by such Holder in that taxation year (depending upon the method regularly followed by the Holder of Debentures in computing income), including on a conversion, redemption or repayment on maturity, except to the extent that the interest was included in the Holder of Debentures’ income for a preceding taxation year. However, such a Holder may be required to include in computing the Holder’s income for a taxation year all interest (not otherwise required to be included in income) that accrues or is deemed to accrue on the Holder’s Debentures to the end of any “anniversary day” (as defined in the Tax Act) in that year where payments under those Debentures are deferred as described under “Description of the Debentures — Subordination”.

The fair market value of the premium paid by the REIT to a Holder of Debentures on a Put Date will generally be deemed to be interest received at that time by such Holder if such premium is paid by the REIT because of the repayment by it to the Holder of 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 Debentures for taxation years of the REIT ending after the Put Date.

A Holder of Debentures 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 certain investment income for the year including interest.

### *Exercise of Conversion Privilege*

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

### *Redemption or Repayment of Debentures*

If the REIT redeems a Debenture prior to maturity or repays a Debenture upon maturity and the Holder of Debentures does not exercise the conversion privilege prior to such redemption or repayment, the Holder of Debentures will be considered to have disposed of the Debenture for proceeds of disposition equal to the amount received by the Holder of Debentures (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 of Debentures may realize a capital gain or capital loss computed as described below under “Dispositions of Debentures”. The cost to the Holder of the Units so received will also be equal to their fair market value at the time of acquisition, and must be averaged with the adjusted cost base of all other Units held as capital property by the Holder of Units for the purpose of calculating the adjusted cost base of such Units.

### *Dispositions of Debentures*

A disposition or deemed disposition by a Holder of Debentures will generally result in the Holder of Debentures 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 of Debentures’ adjusted cost base thereof and any reasonable costs of disposition.

One-half of any capital gain realized by the Holder will be included in the Holder’s income under the Tax Act for the year of disposition as a taxable capital gain. One-half of any capital loss realized on a disposition of a Debenture may be generally deducted only from taxable capital gains realized by the Holder in the year of disposition, in the three preceding taxation years or in any subsequent taxation year, to the extent and under the circumstances described in the Tax Act. A capital gain realized by a Holder who is an individual or trust (other than certain trusts) may give rise to a liability for alternative minimum tax. 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 certain investment income for the year including taxable capital gains.

Upon such a disposition or deemed disposition of a Debenture, interest accrued thereon to the date of disposition and not yet due will be included in computing the Holder of Debentures’ income, except to the extent such amount was otherwise included in the Holder of Debentures’ income, and will be excluded in computing the Holder of Debentures’ proceeds of disposition of the Debenture. A Holder of a Debenture who has overaccrued interest income will generally be entitled to a deduction in computing the Holder’s income for a taxation year in which a Debenture is disposed of (including on conversion) for an amount equal to such overaccrued income.

A capital gain realized by a Holder who is an individual may give rise to a liability for alternative minimum tax.

A “Canadian-controlled private corporation” (as defined in the Tax Act) that disposes of Debentures may be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % on certain investment income for the year including taxable capital gains.

## **Taxation of Holders of Units**

### *Trust Distributions*

A Holder of Units 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 (determined for purposes of the Tax Act), that is paid or payable, or deemed to be paid or payable, to the Holder in such taxation year of the REIT, whether or not those amounts are reinvested in additional Units pursuant to the REIT's distribution reinvestment plan.

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

The Declaration of Trust generally requires the REIT to claim the maximum amount of capital cost allowance available to it in computing its income for tax purposes. Based on the REIT's distribution policy, the amount distributed to Unitholders in a year may exceed the net income of the REIT for tax purposes for that year. Distributions in excess of the REIT's net income for tax purposes in a year, including the three percent additional bonus distribution of Units acquired pursuant to the REIT's distribution reinvestment plan and amounts that may reasonably be considered to be distributions of any non-taxable dividends received by the REIT and designated by it in respect of the Holder ("non-taxable dividend distributions"), will not generally be included in the Holder of Units' income for the year. However, a Holder of Units 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 the taxable portion of which was designated by the REIT for the year as described in the paragraph immediately below and certain non-taxable dividend distributions) that was not included in the Holder's income, and the Holder will realize a capital gain in the year to the extent the adjusted cost base of the Units would otherwise be a negative amount.

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 of Units in the year as a taxable capital gain and will be subject to the general rules relating to the taxation of capital gains described below. The REIT will also designate, to the extent permitted by the Tax Act, the portion of taxable dividends received by the REIT from any taxable Canadian corporation owned by the REIT as may reasonably be considered to be an amount included in the income of Holders of Units. Any such designated amount will be deemed for purposes of the Tax Act, other than non-resident withholding tax 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. Thus, to the extent that amounts are designated as taxable dividends from any taxable Canadian corporation owned by the REIT, they will be subject, *inter alia*, to the gross-up and dividend tax credit provisions in respect of Holders of Units who are individuals, to the refundable tax under Part IV of the Tax Act in respect of Holders of Units that are private corporations and certain other corporations controlled directly or indirectly by or for the benefit of an individual (other than a trust) or related group of individuals (other than trusts), and to the deduction in computing taxable income in respect of Holders of Units that are corporations. A Holder of Units which is a Canadian-controlled private corporation (as defined in the Tax Act) may also be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % on certain investment income, including taxable capital gains. Holders of Units should consult their own tax advisors for advice with respect to the potential application of these provisions.

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 REIT's distribution reinvestment plan. However, the receipt of bonus Units under the REIT's distribution reinvestment plan will result in a per Unit reduction of adjusted cost base to the Holder of Units.

For the purposes of determining the adjusted cost base to a Holder of Units, when a Unit is acquired, whether as a Unit acquired pursuant to the REIT's distribution reinvestment plan or otherwise, the cost of the

newly-acquired Unit will be averaged with the adjusted cost base of all of the Units owned by the Holder of Units as capital property immediately before that time.

Certain taxable dividends received by individuals from a corporation resident in Canada will be eligible for an enhanced dividend tax credit to the extent certain conditions are met and designations are made, such as the dividend being sourced out of income that is subject to tax at the general corporate income tax rate. This could apply to distributions made by the REIT that have as their sources eligible taxable dividends received from a corporation resident in Canada, to the extent the REIT makes the appropriate designation to have such eligible taxable dividend deemed received by the Holder of Units and provided that the corporate dividend payer makes the required designation to treat such taxable dividend as an eligible dividend.

If the REIT should become subject to tax under the SIFT Regime (see “— Taxation of the REIT” below), the pro rata share of a Holder of Units of amounts paid or payable by the REIT which it is not entitled to deduct in computing its income by virtue of the SIFT Regime will be deemed to be a taxable dividend and an eligible dividend received by the Holder.

### *Dispositions of Units*

On the disposition or deemed disposition of a Unit, the Holder of Units will realize a capital gain (or capital loss) equal to the amount by which the Holder of Units' 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 of Units' 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 (of InnVest Hotels LP) to the Holder of the Units, the Holder will be considered to have disposed of the Units for proceeds of disposition to the Holder 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 disposition.

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 of Units' 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 realized by the Holder in the year of disposition, in the three preceding taxation years or in any subsequent taxation year, to the extent and under the circumstances described in the Tax Act.

A Holder of Units that is a “Canadian-controlled private corporation” as deemed in the Tax Act may be liable to pay an additional refundable tax of 6<sup>2</sup>/<sub>3</sub>% on certain investment income for the year, including taxable capital gains.

In general terms, net income of the REIT paid or payable to a Holder of Units who is an individual or certain types of trusts, 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 of Units' liability for alternative minimum tax.

### **Status of the REIT**

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 Debentures and Units remain outstanding.

As a “mutual fund trust”, the REIT must remain a “unit trust” and must, among other matters, restrict its undertaking to: (i) the investing of its funds in property (other than real property or an interest in real property); and (ii) the acquiring, holding, maintaining, improving, leasing or managing of any real property (or interest in real property) that is capital property of the REIT; or (iii) any combination of the activities described in (i) and (ii). The REIT must also meet certain prescribed conditions, which currently are that the REIT must have at least 150 Unitholders holding not less than one block of Units (100 Units, if the fair market value of a Unit is less than \$25) of the REIT which are qualified for distribution to the public and each of such Unitholders must hold Units which have an aggregate fair market value of not less than \$500. In addition, the REIT cannot at any time reasonably be considered to be established or maintained primarily for the benefit of persons who are not resident in Canada.

If the REIT were not to qualify as a “mutual fund trust”, the income tax considerations as described herein would, in some respects, be materially and adversely different, including potentially material liabilities for tax under Part XII.2 of the Tax Act.

## **Taxation of the REIT**

### *New SIFT Regime*

The Tax Act has been amended to alter the taxation regime applicable to specified investment flow-through trusts or partnerships (“SIFTs”) and investors in SIFTs. If the REIT were to become subject to this regime (the “SIFT Regime”), it would no longer be able to deduct any part of the amounts payable to Unitholders in respect of its “non-portfolio earnings”, which include: (i) income from its “non-portfolio properties” (in excess of any losses for the taxation year from non-portfolio properties); and (ii) taxable capital gains from dispositions of non-portfolio properties (exceeding allowable capital losses from the disposition of such properties). For this purpose, “non-portfolio properties” include: (i) the Canadian real and immovable properties (or resource properties) of the REIT if their total fair market value is greater than 50% of the equity value of the REIT; (ii) a property that the REIT (or a person or partnership with which it does not deal at arm’s length) uses in the course of carrying on a business in Canada; and (iii) securities of a “subject entity” if the REIT hold securities of the subject entity that have a total fair market value that is greater than 10% of the subject entity’s equity value or if the REIT holds securities of the subject entity which, together with all securities held by it in entities affiliated with the subject entity, have a total fair market value that is greater than 50% of the REIT’s equity value. A “subject entity” includes corporations resident in Canada, trusts resident in Canada, and “Canadian resident partnerships”. “Securities” are broadly defined.

Most of the property of the REIT comprises Canadian hotels that it leases to subsidiary limited partnerships, and securities of subsidiary partnerships and corporations which carry on Canadian hotel or other business operations or hold Canadian hotels used in hotel operations carried on by them or non-arm’s length persons. Accordingly, most of the property of the REIT is non-portfolio property.

Income which the REIT is unable to deduct by virtue of the SIFT Regime would be taxed under the SIFT Regime at the federal general corporate tax rate, plus 13% on account of provincial tax. The application of the SIFT Regime to the REIT would not change the treatment under the Tax Act of distributions in a year that are in excess of the REIT’s net income for the year.

### *Effective Dates for SIFT Regime*

The SIFT Regime is contemplated to apply beginning with the 2007 taxation year of a trust unless the trust would have been a SIFT trust on October 31, 2006, if the definition “SIFT trust” had been in force on that date and applied to the trust on that date (the “Existing Trust Exception”). For trusts that meet the Existing Trust Exception, the SIFT Regime will apply commencing with the 2011 taxation year. However, the SIFT Regime will apply immediately in any taxation year ending after 2006 if the SIFT does not comply with the “normal growth” guidelines issued by the Department of Finance on December 15, 2006, as amended from time to time (the “Growth Guidelines”) unless the growth arises as a result of a prescribed transaction. To date, no amendments have been made to the Growth Guidelines as issued on December 15, 2006.

The Growth Guidelines provide that a SIFT will not be considered to have exceeded “normal growth” if its equity capital were to grow as a result of issuances of new equity, in any of the intervening periods described below, by an amount that does not exceed the greater of \$50 million and an objective “safe harbour”. The Growth Guidelines indicate that the safe harbour amount is measured by reference to a SIFT’s market capitalization as at the end of trading on October 31, 2006 which, in turn, is measured in terms of a SIFT’s issued and outstanding publicly-traded units (the “Market Capitalization”). For the period from November 1, 2006 to the end of 2007 (the “Initial Safe Harbour Period”), a SIFT’s safe harbour is 40% of the Market Capitalization. A SIFT’s safe harbour for each of the 2008 through 2010 calendar years is 20% of the Market Capitalization. The annual safe harbour amounts are cumulative, whereas the \$50 million amounts are not cumulative. New equity for these purposes includes units and debt that is convertible into units but will generally not include new non-convertible debt or the replacement of debt outstanding on October 31, 2006 with equity.

For purposes of determining the amount of the increase in the equity of the REIT for the foregoing purposes as a result of the issuance by it of the Subscription Receipts, such increase should in the opinion of counsel be based on the price under this offering for the Subscription Receipts, and not the value of Units at the time they are acquired in exchange for Subscription Receipts.

Management has advised that it has calculated that the issuance pursuant to this offering of the Subscription Receipts (and their exchange for Units) and of the Debentures will not by itself result in the REIT exceeding “normal growth” under the Growth Guidelines, and that Management does not currently anticipate that the REIT will (before 2011) exceed normal growth under the Growth Guidelines unless it first qualifies under the REIT Exception described immediately below. It is assumed for the purposes of this summary that the REIT will not currently be subject to the SIFT Regime. However, if the REIT issues additional Units or convertible debentures (or other equity substitutes) on or before 2011, the REIT may become subject to the SIFT Regime prior to its 2011 taxation year. Management has advised that the REIT’s Market Capitalization was approximately \$714 million as at October 31, 2006.

#### *REIT Exception*

The SIFT Regime is not applicable to real estate investment trusts (“REITs”) that meet certain specified criteria relating to the nature of their income and investments. In particular, to qualify for the exception under the SIFT Regime applicable to REITs (the “REIT Exception”) in a particular taxation year (i) the REIT must, at no time in the taxation year, hold “non-portfolio property” other than “qualified REIT properties”, (ii) not less than 95% of the REIT’s revenues for the taxation year must be derived from one or more of the following: “rent from real or immovable properties”; interest; capital gains from dispositions of “real or immovable properties”; dividends; and royalties; (iii) not less than 75% of the REIT’s revenues for the taxation year must be derived from one or more of the following: “rent from real or immovable properties”, to the extent that it is derived from “real or immovable properties” situated in Canada; interest from mortgages, or hypothecs, on “real or immovable properties” situated in Canada; and capital gains from dispositions of “real or immovable properties” situated in Canada; and (iv) at no time in the taxation year may the total fair market value of all properties held by the REIT, each of which is a “real or immovable property” situated in Canada, cash, or, generally, a debt obligation of a government in Canada or certain other public bodies, be less than 75% of the equity value of the REIT at that time. The definition of “qualified REIT property” includes property held by the REIT that is: “real or immovable property” situated in Canada; a security of a “subject entity” that is a nominee holder of legal title of real or immovable property; and property that is ancillary to the earning by the REIT of (A) rent from “real or immovable property” or (B) capital gains from the disposition of such properties. In addition, under a look-through rule, securities of a subsidiary limited partnership or corporation of the REIT could qualify as “qualified REIT property” if the subsidiary itself satisfies the four tests listed above for the REIT to qualify for the REIT Exception. For the foregoing purposes, “rent from real or immovable properties” excludes among other things rent based on profits and payments for the occupation or use of a hotel room.

#### *Potential Impact of SIFT Regime on the REIT Commencing in 2011*

Based on the information in the Annual Information Form for the REIT and on its audited financial statements for the year ended December 31, 2006, most of the income of the REIT for that year would have been “non-portfolio earnings” if the SIFT Regime had applied to the REIT in that year. Accordingly, unless the



REIT Exception is applicable to the REIT or there is a fundamental change in the operations of the REIT and its subsidiary partnerships and corporations, the SIFT Regime likely would, commencing in 2011 (or sooner if the REIT exceeds “normal growth” as described in the Growth Guidelines), adversely impact the level of cash distributions which would otherwise be made by the REIT.

The REIT does not currently qualify under the REIT Exception. In order for it to so qualify, it would be necessary for the REIT and various of its subsidiary limited partnerships and corporations to dispose of assets and operations that cause the REIT not to so qualify, and to thereafter restrict the nature of their assets and operations.

#### *Non-SIFT Rules Applicable to Taxation of the REIT*

The taxation year of the REIT is the calendar year. In each taxation year, the REIT is subject to tax under the Tax Act on its income for the year, including net realized taxable capital gains, computed in accordance with the detailed provisions of the Tax Act, less 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 Unitholders. (As noted above under “— New SIFT Regime”, the REIT will not generally be entitled to deduct amounts that are paid or payable by it out of non-portfolio earnings if it should become subject to taxation under the SIFT Regime.) An amount will be considered to be payable to a Unitholder in a taxation year if it is paid to the Unitholder in the year by the REIT or if the Unitholder 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 provided that it does not become subject to tax under the SIFT Regime. Counsel can provide no assurances in this regard. 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.

The income for purposes of the Tax Act of the REIT may include income realized from the rental of its rental properties; taxable capital gains, recapture of capital cost allowance or other income allocated to it by partnerships of which it is a member; dividends received from corporations in which it holds shares; and any taxable capital gains or recapture of capital cost allowance arising from dispositions by it of properties.

In computing its income for purposes of the Tax Act, the REIT may deduct reasonable administrative costs, interest and other expenses incurred by it for the purpose of earning income. The REIT may also deduct from its income for the year a portion of any reasonable expenses incurred by the REIT to issue Debentures or Units. The portion of such issue expenses deductible by the REIT in a taxation year is 20% of such issue expenses pro rated for a taxation year of the REIT that is less than 365 days.

In the event 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, the Part XII.2 tax, on the designated income (including income from Canadian real property and taxable capital gains from dispositions of taxable Canadian 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 trust fund throughout a taxation year, it will not be subject to the special tax for such taxation year.

## RISK FACTORS

An investment in the Debentures, Subscription Receipts (and, therefore, Units) involves a number of risks. Before investing, prospective investors should carefully consider, in light of their own financial circumstances, the factors set out below as well as the risks disclosed in the REIT's renewal annual information form dated March 29, 2007, which is incorporated by reference in this short form prospectus.

### **Risks Related to the Bid and the Acquisition of the InnVest Acquisition Properties**

#### *Completion of the Bid and the Acquisition of the InnVest Acquisition Properties*

The completion of the Bid is subject to the satisfaction or waiver of certain conditions, including the Minimum Tender Condition. The Bid is also subject to certain regulatory approvals which are beyond the control of the REIT. A substantial delay in obtaining regulatory approvals, the failure to do so or the imposition of unfavourable terms or conditions could have a material adverse effect on the Bid.

Certain consents of mortgage lenders and other third parties are required in connection with the Bid and the subsequent reorganization pursuant to which the REIT will become the beneficial owner of the InnVest Acquisition Properties, either directly or through subsidiary entities. There is no assurance that such consents will be obtained.

#### *Fairmont Arrangements*

Legacy is currently a party to a number of agreements with Fairmont which apply to Legacy, its entire portfolio or specific hotels, which will need to be wound down or renegotiated following completion of the Bid and the separation of Legacy's assets between the REIT and Cadbridge. These arrangements are described under "InnVest Acquisition Properties — Additional Fairmont Arrangements". To the extent that the REIT and Fairmont are not able to negotiate the amendment or termination of these agreements on terms acceptable to the REIT, the obligations the REIT may be required to assume under these agreements could have a material adverse effect on the REIT and its ability to carry on its activities as currently conducted.

#### *Unexpected Costs or Liabilities Related to the InnVest Acquisition Properties or Legacy*

Although the REIT has conducted what it believes to be a prudent and thorough level of due diligence in connection with the Bid and the InnVest Acquisition Properties, there can be no assurance that there are no undisclosed or unknown liabilities of, or issues concerning, the InnVest Acquisition Properties or Legacy. Following the Bid and subsequent reorganization, the REIT may discover that it has acquired substantial undisclosed liabilities. The REIT will not be able to make any claim for indemnification in respect of any such liabilities. The existence of any such undisclosed liabilities and the REIT's inability to claim indemnification in respect thereof could have a material adverse effect on the REIT. The REIT will also be responsible for its share of any claims against Legacy that are not specific to the InnVest Acquisition Properties or the hotels Cadbridge is ultimately acquiring. Legacy has been named in a claim filed by Menkes Residences Inc. against Fairmont in the amount of \$21 million. Legacy is accused of intentionally interfering with an agreement Menkes alleges that it had with Fairmont with respect to the sale of land that Menkes proposed to use for development purposes, including a hotel component. Legacy exercised its right of first refusal to buy the property that Menkes was negotiating to buy. Legacy has filed a notice of motion for an order striking out the plaintiff's claim as disclosing no reasonable cause of action. There can be no assurance that Legacy will be successful in defending this lawsuit and, if it is not, the REIT would be responsible for approximately 26% of any damages that Legacy is required to pay.

The information concerning Legacy and the InnVest Acquisition Properties contained in this short form prospectus is based solely upon publicly available information, has not been independently verified and there can be no assurances regarding the accuracy and completeness of such information.

#### *Integration Related Risks*

Although the InnVest Acquisition Properties will continue to be managed by affiliates of Fairmont pursuant to existing management agreements, the REIT will be required to expend time and resources to effectively

integrate these properties into its existing portfolio. This may require substantial attention of the REIT's management team. This diversion of management's attention, as well as any other difficulties the REIT may encounter in completing the transition and integration process, could have a material adverse impact on the REIT. There can be no assurances that the REIT will be successful in integrating the InnVest Acquisition Properties, or that the expected benefits of the acquisition thereof will be realized.

## **Risks Relating to the Ownership of Securities**

### *Market Price*

There is currently no trading market for the Subscription Receipts or Debentures. The REIT has applied to have the Subscription Receipts, the Debentures and the Units issuable pursuant to the Subscription Receipts and upon conversion of the Debentures listed on the TSX. Listing will be subject to the REIT fulfilling all the listing requirements of the TSX. No assurance can be given that an active or liquid trading market for the Subscription Receipts or the Debentures will develop or be sustained. If an active or liquid market for the Subscription Receipts or Debentures fails to develop or be sustained, the prices at which the Subscription Receipts or Debentures trade may be adversely affected.

A publicly traded real estate investment trust will not necessarily trade at values determined solely by reference to the underlying value of its real estate assets. Accordingly, the Units may trade at a premium or a discount to values implied by the initial appraisal of the value of its properties or the value of such properties from time to time.

Whether or not the Debentures will trade at lower prices depends on many factors, including liquidity of the 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.

Although the REIT intends to make distributions of its available cash to Unitholders, these cash distributions are not assured. The actual amount distributed will depend on numerous factors including, but not limited to, the REIT's financial performance, debt covenants and obligations, working capital requirements and future capital requirements. The market price of the Units may deteriorate if the REIT is unable to meet its cash distribution targets in the future.

The after-tax return from an investment in 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 constitute non-taxable returns of capital). The composition for tax purposes of those distributions may change over time, thus affecting the after-tax return to Unitholders.

One of the factors that may influence the market price of the Units is the annual yield on the Units. Accordingly, an increase in market interest rates may lead purchasers of Units to demand a higher annual yield which could adversely affect the market price of the Units. Unlike fixed-income securities, there is no obligation of the REIT to distribute to Unitholders any fixed amount and reductions in, or suspensions of, distributions may occur that would reduce yield based on the market price of the Units. In addition, the market price for the Units may be affected by changes in general market conditions, fluctuations in the markets for equity securities, changes in the economic environment and numerous other factors beyond the control of the REIT.

### *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 \$1.0 billion. The REIT and its subsidiaries will be limited in their ability to incur additional secured or unsecured indebtedness in accordance with the terms of the Declaration of Trust.

### *Credit Risk And Prior Ranking Indebtedness; Structural Subordination of Debentures*

The likelihood that Debentureholders will receive payments owing to them under the terms of the Debentures will depend on the financial health of the REIT and its creditworthiness. In addition, the Debentures are unsecured obligations of the REIT and are subordinate in right of payment to all the REIT's existing and future Senior Indebtedness. Therefore, if the REIT becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, the REIT's assets will be available to pay its obligations with respect to the Debentures only after it has paid all of its senior and secured indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Debentures then outstanding. The Debentures are also effectively subordinate to claims of creditors of the REIT's subsidiaries except to the extent 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 (as defined in the Indenture) has occurred and such default has not been cured or waived. The Indenture does not contain any provision specifically intended to protect Debentureholders in the event of a future leveraged transaction involving the REIT.

### *Conversion of the Debentures Following Certain Transactions*

In the case of certain transactions, each Debenture will become convertible into the securities, cash or property receivable by a Unitholder in the kind and amount of securities, cash or property into which the Debenture was convertible immediately prior to the transaction. This change could substantially lessen or eliminate the value of the conversion privilege associated with the Debentures in the future. For example, if the REIT were acquired in a cash merger, each Debenture would become convertible solely into cash and would no longer be convertible into securities whose value would vary depending on the REIT's future prospects and other factors. Debentureholders would, however, be entitled to exercise their put right in certain circumstances as described under "Description of Debentures — Put Right upon a Change of Control".

### *Availability of Cash Flow*

Distributable Income may exceed actual cash available to the REIT from time to time because of items such as principal repayments, tenant allowances, leasing commissions and capital expenditures. The REIT may be required to use part of its debt capacity or to reduce distributions in order to accommodate such items.

The REIT may need to refinance its debt obligations from time to time, including upon expiration of its debt. There could be a negative impact on distributable income if debt obligations of the REIT are replaced with debt that has less favourable terms or if the REIT is unable to refinance its debt. In addition, loan and credit agreements with respect to debt obligations of the REIT include, and may include in the future, certain covenants with respect to the operations and financial condition of the REIT and distributable income may be restricted if the REIT is unable to maintain any such covenants.

### *Unitholder Liability*

Recourse for any liability of the REIT is intended to be limited to its assets. The Declaration of Trust provides that no Unitholder or annuitant under a plan of which a Unitholder acts as trustee or carrier (an "annuitant") will be held to have any personal liability as such, and that no resort shall be had to the private property of any Unitholder or annuitant to satisfy any obligation or claim arising out of or in connection with any contract, obligation or liability of the REIT or of the trustees.

On December 16, 2004, the Trust Beneficiaries' Liability Act, 2004 (Ontario) came into effect. This statute protects annuitants and Unitholders of the REIT, in their capacity as beneficiaries, from liability for any act, default, obligation or liability of the REIT or any of its trustees arising on or after December 16, 2004. However, because of uncertainties in the law relating to investment trusts prior to December 16, 2004, there is a risk (which is considered by counsel to be remote in the circumstances) that a Unitholder or annuitant could be held personally liable for obligations of the REIT (to the extent that claims are not satisfied by the REIT) in respect of breaches of contracts that the REIT entered into and for certain liabilities arising other than out of contract including claims in tort, claims for taxes, and possibly certain other statutory liabilities that arose prior to

December 16, 2004. The trustees have caused the REIT's operations to be conducted in such a way as to minimize any such risk, including by obtaining appropriate insurance and, where feasible, attempting to have every material written contract or commitment of the REIT contain an express disavowal of liability against the Unitholders (which in the opinion of the REIT's counsel will be effective). However, in conducting its affairs, the REIT has acquired real property investments, which may be subject to existing contractual obligations, including under leases. Where possible, the REIT has used reasonable efforts to have any of these obligations modified so as not to be binding on any of the Unitholders or annuitants personally.

#### *Potential Taxation under the SIFT Regime*

As discussed under "Certain Canadian Federal Income Tax Considerations — Taxation of the REIT", the new rules under the Tax Act that are applicable to most income funds (the SIFT Regime), could impose corporate rates of taxation on the REIT's income no later than 2011. The SIFT Regime in general and the REIT Exception in particular do not fully accommodate the current business structures used by many Canadian real estate investment trusts and contain a number of technical tests that many Canadian real estate investment trusts, including the REIT, may find difficult to satisfy. In addition, there is uncertainty with respect to the manner in which some of the relevant statutory rules are to be interpreted and applied.

Based on the information in the renewal annual information form for the REIT dated March 29, 2007 and on its audited financial statements for the year ended December 31, 2006, most of the income of the REIT for that year would have been "non-portfolio earnings" if the SIFT Regime had applied to the REIT in that year. Accordingly, unless the REIT Exception is applicable to the REIT or there is a fundamental change in the operations of the REIT and its subsidiary partnerships and corporations, the SIFT Regime likely would, commencing in 2011 (or sooner if the REIT exceeds "normal growth" as described in the Growth Guidelines of the Department of Finance), adversely impact the level of cash distributions which would otherwise be made by the REIT. However, if the REIT disposes of various assets and operations so as to qualify under an exception (the REIT Exception) from the application of the SIFT Regime for qualifying REITs and it does not exceed "normal growth" before that time, it may remain exempt from the SIFT Regime beyond 2010. Furthermore, if before 2011 the REIT exceeds "normal growth" as described in the Growth Guidelines of the Department of Finance (see "Certain Canadian Federal Income Tax Considerations — Taxation of the REIT — Effective Dates for SIFT Regime") it will become subject to taxation under the SIFT Regime in the year in which this occurs, unless it previously has become a qualifying REIT under the REIT Exception.

Although management has calculated that the REIT (including after giving effect to this offering and the acquisition of the InnVest Acquisition Properties) has not exceeded "normal growth" as described in the Growth Guidelines, there can be no assurance that the REIT (inadvertently or otherwise) will not exceed these guidelines before 2011, thereby resulting in taxation under the SIFT Regime before 2011.

The REIT has not yet determined whether it will at any time in the future qualify for the REIT Exception. The REIT will consider reorganizing its assets and operations in order to qualify for the REIT Exception, provided such a reorganization is feasible and in the best interest of Unitholders. There can be no certainty as to whether the REIT will have the ability to restructure or reorganize its assets and operations to satisfy these objectives at all or in a way that would not materially and adversely affect the amount of income available to distribute to Unitholders and the net after-tax cash position of Unitholders. If no such reorganization is implemented, the SIFT Regime will become applicable to the REIT on January 1, 2011 or on an earlier date if the REIT exceeds certain "normal growth" guidelines. See "Certain Canadian Federal Income Tax Considerations — Taxation of the REIT — New SIFT Regime".

It is not possible at this point to provide any assurance that the trustees of the REIT will determine that it is appropriate to advance a reorganization or other transaction that will qualify the REIT under the REIT Exception or that, if they were to make such a determination, that no major impediment would be identified to implementing such a transaction. Significant regulatory approvals or rulings, Unitholder affirmative votes or lender consents would be required.

### *Other Tax-Related Risks*

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, interest and other available deductions. In addition, the extent to which any corporate subsidiary of the REIT 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. Furthermore, hotels that are held by such subsidiaries may have a low cost amount for Canadian income tax purposes with the consequence that their sale likely would give rise to a gain for income tax purposes even if the sale price did not exceed their value on the date of the formation of the REIT. As a result, disposing of these properties may be unattractive to the REIT, even if the Trustees were to determine that the disposition would otherwise be in the best interests of the REIT.

There can be no assurance that the laws and regulations and the administrative policies and assessing practices of the CRA respecting the treatment of mutual fund trusts or the deductibility of interest will not be changed in a manner which adversely affects Unitholders. If the REIT ceases to qualify as a mutual fund trust under the Tax Act, the Units will cease to be qualified investments for Deferred Income Plans, and the tax considerations to Subscription Receipt Holders, Debentureholders and Unitholders may be materially different than as set out under the heading “Certain Canadian Federal Income Tax Considerations”. The REIT will endeavour to ensure that the Units continue to be qualified investments for Deferred Income Plans. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments and there is no assurance that the conditions prescribed for such investments will be adhered to at any particular time.

On October 31, 2003, the Department of Finance released for public comment Tax Proposals (the “Deductibility Amendments”) that relate to the deductibility of interest and other expenses for income tax purposes for taxation years commencing after 2004. In general, the Deductibility Amendments would 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. As part of the 2005 federal budget, the Minister of Finance (Canada) announced that an alternative proposal to reflect the Deductibility Amendments would be released for comment at an early opportunity. No such proposal has been released to date.

On September 16, 2004, the Minister of Finance (Canada) released Tax Proposals (the “MFT Amendments”) under which a trust would lose its status as a mutual fund trust if the aggregate fair market value of all units issued by the trust held by one or more non-resident persons or partnerships that are not “Canadian partnerships” (as defined in the Tax Act) is more than 50% of the aggregate fair market value of all the units issued by the trust where more than 10% (based on fair market value) of the trust’s property is “taxable Canadian property” (as defined in the Tax Act) or certain other types of property. If the MFT Amendments are enacted as proposed, and if, at any time, more than 50% of the aggregate fair market value of the Units are held by non-residents and partnerships other than Canadian partnerships, the REIT would thereafter cease to qualify as a mutual fund trust. If the REIT ceases to qualify as a mutual fund trust under the Tax Act, then the income tax considerations described under “Certain Canadian Federal Income Tax Considerations” would be materially and adversely different in certain respects. The MFT Amendments do not provide any means of rectifying a loss of mutual fund trust status. On December 6, 2004, the Department of Finance tabled a Notice of Ways and Means Motion which did not include these proposed changes. The Department of Finance has suspended implementation of the proposed changes pending further consultation with interested parties.

### *Dilution*

As at July 17, 2007, 56,340,689 Units were outstanding (65,035,366 Units after giving effect to the conversion of all outstanding convertible debentures). Westmont and its affiliates own 6.6% of the Units (5.7% of the Units after giving effect to the conversion of all convertible debentures). All of the currently outstanding Units are eligible for sale in the public market, subject to any applicable restrictions under securities laws. Westmont and its affiliates may sell any or all of the securities of the REIT that they own. There is no assurance that Westmont will not dispose of the securities of the REIT that they own or that the strategic relationships between the REIT and The Westmont Group will be maintained in the future.

Sales of a substantial number of Units in the public market could adversely affect the prevailing market price of the Units and could impair the REIT's ability to raise additional capital through an offering of its equity securities.

The number of Units the REIT is authorized to issue is unlimited. The trustees have the discretion to issue additional Units in other circumstances. Additional Units may also be issued pursuant to the REIT's distribution reinvestment plan, the REIT's Unit option plan and any other incentive plan of the REIT, and upon conversion of the Debentures and Units issuable to the Debenture Trustee (as defined in the Indenture) in payment of interest on Debentures. Any issuance of Units may have a dilutive effect on the Unitholders.

#### *Restrictions On Certain Unitholders*

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.

#### *Cash Distributions Are Not Guaranteed*

There can be no assurance regarding the amount of income to be generated by the REIT's properties. The ability of the REIT to make cash distributions, and the actual amount distributed, will be entirely dependent on the operations and assets of the REIT and its subsidiaries, and will be subject to various factors including financial performance, obligations under applicable credit facilities, fluctuations in working capital, and capital expenditure requirements. The market value of the Units will deteriorate if the REIT is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, the composition of cash distributions for tax purposes may change over time and may affect the after-tax return for investors.

#### *Nature Of Investment*

A holder of a Unit does not hold a share of a body corporate. As holders of Units, the Unitholders will not have statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The rights of Unitholders are based primarily on the Declaration of Trust. There is no statute governing the affairs of the REIT equivalent to the Canada Business Corporations Act which sets out the rights and entitlements of shareholders of corporation in various circumstances.

### **ELIGIBILITY FOR INVESTMENT**

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the REIT, and Torys LLP, counsel to the Underwriters, provided that at the date of closing of this offering the REIT qualifies under the Tax Act as a "mutual fund trust" and the Units are listed on a prescribed stock exchange in Canada, then on that date:

- (a) the Debentures will be qualified investments for Deferred Income Plans; and
- (b) the Subscription Receipts will be qualified investments for Deferred Income Plans (but only for plans whereby the REIT deals at arm's length with each person who is an annuitant, a beneficiary, an employer or a subscriber under the governing plan of the plan trust).

Units acquired upon exchange of the Subscription Receipts will be, provided the REIT qualifies as a "mutual fund trust" under the Tax Act at that time, qualified investments under the Tax Act and the regulations thereunder for Deferred Income Plans.

The foregoing opinions assume that prior to the closing of this offering there will be no change in the applicable provisions of the Tax Act, or any administrative practices and assessing policies of CRA which would have an impact on the foregoing opinions.

## **MATERIAL CONTRACTS**

The material contracts entered into or to be entered into by the REIT and/or its affiliates in connection with the offering and the Bid are as follows:

- (a) the Underwriting Agreement referred to under “Plan of Distribution”;
- (b) the Subscription Receipt Agreement referred to under “Description of Subscription Receipts”;
- (c) the Indenture referred to under “Description of the Debentures”; and
- (d) the Support Agreement referred to under “Principal Agreements — Support Agreement”.

Copies of each of the foregoing agreements may be inspected during regular business hours at the offices of the REIT, at 7th Floor, 5090 Explorer Drive, Mississauga, Ontario, L4W 4T9.

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

The auditors of the REIT are Deloitte & Touche LLP at their principal offices in Toronto, Ontario.

The registrar and transfer agent for the Units is in Computershare Investor Services Inc. at its principal offices in Toronto, Ontario.

The Debenture Trustee and Escrow Agent is Computershare Trust Company of Canada, at its principal offices in Toronto, Ontario

## **PURCHASERS' STATUTORY RIGHTS**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. The right may be exercised within two Business Days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a 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 or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.



### **AUDITORS' CONSENT**

We have read the short form prospectus of InnVest Real Estate Investment Trust (the "REIT") dated July 26, 2007 qualifying the distribution of subscription receipts, units and convertible extendible unsecured subordinated debentures 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 prospectus of our report to the trustees of the REIT on the consolidated balance sheets of the REIT as at December 31, 2006 and 2005 and the consolidated statements of net income, unitholders' equity and cash flows for each of the years in the two-year period ended December 31, 2006. Our report is dated March 7, 2007 (except as to note 14 which is as of March 29, 2007).

(Signed) DELOITTE & TOUCHE LLP  
Chartered Accountants  
Licensed Public Accountants

Toronto, Ontario  
July 26, 2007

### **AUDITORS' CONSENT**

We have read the short form prospectus of InnVest Real Estate Investment Trust (the "REIT") dated July 26, 2007 relating to the issue and sale of Subscription Receipts and Debentures. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the trustees of Legacy Hotels Real Estate Investment Trust ("Legacy") on the combined balance sheet of the InnVest Acquisition Properties (or the "Hotel Portfolio") as at December 31, 2006 and the combined statements of operations and cash flows for the year then ended. Our report is dated July 16, 2007.

Toronto, Ontario  
July 26, 2007

(Signed) PRICEWATERHOUSECOOPERS LLP  
Chartered Accountants

## GLOSSARY OF TERMS

“**Acquisition Proposal**” means (a) any merger, amalgamation, arrangement, business combination, liquidation, dissolution, recapitalization, take-over bid, or issuer bid, tender offer, securities exchange, redemption of units, or other similar transaction involving Legacy; (b) the acquisition, in any manner, directly or indirectly, in a single transaction or a series of related transactions, of any assets representing greater than 20% of the consolidated assets of Legacy and the Legacy Subsidiaries (or any lease, exchange, mortgage, pledge, transfer, or other arrangement having similar economic effect to a purchase of assets); (c) the acquisition, in any manner, directly or indirectly, in a single transaction or a series of related transactions, of beneficial or registered ownership of or an economic interest in 20% or more of the equity securities of Legacy or the Legacy Subsidiaries (or rights thereto); (d) any other transaction with a third party having substantially the same effect as the transactions described in (a), (b) or (c); or (e) a written proposal or offer or public announcement of an intention to do any of (a), (b), (c) or (d) excluding the Bid and the transactions permitted pursuant to the Support Agreement.

“**Bid**” means the take-over bid for all of the outstanding units of Legacy by the Offeror, a limited partnership formed by the REIT and Cadbridge, as limited partners, and 6800289 Canada Inc., as general partner.

“**Bid Closing Time**” means 4:00 p.m. (Toronto time) on the Business Day following the date upon which each of the following has occurred: (i) the Expiry Time has occurred; (ii) all of the conditions to the Bid have been satisfied or waived by the Offeror; and (iii) the REIT has delivered a notice to the Escrow Agent that the Offeror is required to take up and pay for the units of Legacy pursuant to the Bid within three Business Days following the Expiry Time.

“**Book-Entry System**” means the book-based system administered by CDS.

“**Business Day**” means any day other than a Saturday or a Sunday on which Schedule I Canadian chartered banks are open for business in Toronto, Ontario.

“**Cadbridge**” means Cadbridge Investors LP, a limited partnership formed under the laws of the Province of Manitoba by 0796264 B.C. Ltd., an affiliate of Westmont, as general partner, and 9153-3539 Québec Inc., a subsidiary of Cadim, as initial limited partner.

“**Cadim**” means Cadim Inc., a division of the Caisse de dépôt et placement du Québec.

“**Choice Canada**” means Choice Hotels Canada Inc.

“**Competition Act**” means the *Competition Act* (Canada) and the regulations promulgated thereunder, as amended from time to time.

“**Competition Commissioner**” means the Commissioner of Competition appointed pursuant to the Competition Act.

“**Compulsory Acquisition**” means a compulsory acquisition pursuant to the compulsory acquisition provisions contained in Section 13.02 of the declaration of trust of Legacy;

“**Conversion Price**” means the price at which holders of Debentures may, at the holder’s option, convert the Debentures into fully-paid units at any time after the Initial Maturity Date and prior to the close of business on the Final Maturity Date or, if called for redemption, on the Business Day immediately preceding the date specified by the REIT for redemption of Debentures, being a price of \$14.70 per Unit, subject to adjustment or the occurrence of certain events.

“**CDS**” means CDS Clearing and Depository Services Inc.

“**CDS Participant**” means a participant in the CDS depository service.

“**CRA**” means Canada Revenue Agency.

“**Deadline**” means 5:00 p.m. (Toronto time) on December 31, 2007.

“**Debentures**” means the 5.85% extendible convertible unsecured subordinated debentures of the REIT issued pursuant to the Indenture as of the date of the closing of the offering and the “**Debenture**” means one of them.

“**Debentureholders**” means the holders of the Debentures and “**Debentureholder**” means one of them.

“**Debenture Trustee**” means Computershare Trust Company of Canada, the trustee under the Indenture or its successor.

“**Declaration of Trust**” means the amended and restated declaration of trust of the REIT dated as of January 1, 2007, as the same may be amended, supplemented or restated from time to time.

“**Deferred Income Plans**” means, collectively, trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, each as defined in the Tax Act.

“**Earned Interest**” means (i) if the Termination Time occurs prior to the Interim Payment Date, the interest or other income actually earned on the investment of the Escrowed Funds (and the interest or other income that would have been earned on the Subscription Receipts Initial Underwriters’ Fee Payment had it been included in the Escrowed Funds) from the closing of this offering to, but not including, the Termination Time, and (ii) if the Termination Time occurs after the Interim Payment Date, the interest or other income actually earned on the investment of the Escrowed Funds (and the interest or other income that would have been earned on the Subscription Receipts Initial Underwriters’ Fee Payment had it been included in the Escrowed Funds) from the Interim Payment Date to, but not including, the Termination Time.

“**Effective Time**” means the earlier of (i) the appointment or election to the board of trustees of Legacy of persons designated by the Offeror who represent a majority of the trustees of Legacy, and (ii) the termination of the Support Agreement.

“**Escrow Agent**” means Computershare Trust Company of Canada, or its successor entity under the Subscription Receipt Agreement.

“**Escrowed Funds**” means the proceeds from the sale of the Subscription Receipts less the amount of the Subscription Receipts Initial Underwriters’ Fee Payment.

“**Event of Default**” has the meaning ascribed thereto under “Description of Debentures — Events of Default and Waiver”.

“**Existing Debentures**” means the 6.25% convertible unsecured subordinated Series A debentures of the REIT due April 15, 2011 and the 6.00% convertible unsecured subordinated debentures of the REIT due May 31, 2013.

“**Expiry Date**” means the date that the Bid expires, which is expected to be on or about September 10, 2007, or such later date or dates as may be fixed by the Offeror from time to time in accordance with the Support Agreement.

“**Expiry Time**” means 5:00 p.m. (Toronto time) on the Expiry Date, or such later time as may be fixed by the Offeror from time to time in accordance with the Support Agreement.

“**Fairmont**” means Fairmont Hotels & Resorts Inc.

“**Fairness Opinions**” means the opinions of each of Morgan Stanley & Co. Incorporated, RBC Dominion Securities Inc. and BMO Nesbitt Burns Inc. to the trustees of Legacy to the effect that the consideration under the Bid is fair, from a financial point of view, to the Legacy Unitholders.

“**Final Maturity Date**” means the date by which the Debentures will mature if the Bid Closing Time occurs before the Termination Time, being August 1, 2014.

“**GAAP**” means Canadian generally accepted accounting principles.

“**HSR Act**” means the *Hart-Scott-Rodino Antitrust Improvement Act of 1976*, as amended.

“**Indenture**” means the trust indenture dated July 26, 2002 as supplemented by the first supplemental indenture dated April 2, 2004 and the second supplemental indenture dated May 16, 2006, together with the supplemental indenture dated as of the closing of the offering between the REIT and the Debenture Trustee that governs the terms of the Debentures.

“**Initial Maturity Date**” means the Termination Time.

**“InnVest Acquisition Properties”** means the hotel properties of Legacy to be owned, directly or through subsidiary entities, by the REIT following completion of the Bid and the reorganization of Legacy’s assets, consisting of The Fairmont Palliser, Sheraton Suites Calgary Eau Claire, Delta Calgary Airport, Fairmont Hotel Macdonald, Delta Winnipeg Hotel, Delta Ottawa Hotel and Suites, Delta Centre-Ville, Delta Beausejour, Delta Prince Edward, Delta Barrington and the Delta Halifax. For the purposes of the audited combined financial statements and unaudited *pro forma* consolidated financial statements included in this prospectus, the InnVest Acquisition Properties are referred to as the **“Hotel Portfolio”**.

**“Interim Payment Date”** means the date that is 90 days after the closing of the offering.

**“Legacy”** means Legacy Hotels Real Estate Investment Trust, an unincorporated closed-end real estate investment trust existing under the laws of the Province of Alberta.

**“Legacy Unitholders”** means the unitholders of Legacy.

**“Legacy Subsidiary”** means a person of which either: (a) Legacy or any other Legacy Subsidiary is a general partner, managing member or functional equivalent; (b) voting power to elect a majority of the board of directors or trustees or others performing a similar function with respect to such organization is held by Legacy or by any one or more of Legacy’s Subsidiaries; or (c) at least 50% of the equity interest is controlled, directly or indirectly, by Legacy.

**“Lock-up Agreement”** means the lock-up agreement dated July 12, 2007 between the Offeror and Fairmont whereby Fairmont has agreed to tender its units in Legacy into the Bid (including units issuable on the exchange or transfer to Legacy of the exchangeable shares in Legacy EF Inc. held by it and units issuable on the exercise of options of Legacy held by it).

**“Maple Leaf”** means Maple Leaf Investment Holdings L.P., an affiliate of Westmont.

**“Material Adverse Effect”** means a change, effect, event, circumstance, fact or occurrence which, individually or together with any other change, effect, event, circumstance, fact or occurrence, (i) has or would reasonably be expected to have a material adverse effect on the financial condition, business, properties, assets, liabilities (including contingent liabilities) or financial results of operations of Legacy and the Legacy Subsidiaries, taken as a whole, (ii) would reasonably be expected to prevent or materially impair the ability of Legacy to qualify as a “mutual fund trust” for the purposes of the *Income Tax Act* (Canada), or (iii) that would reasonably be expected to cause Legacy or the Legacy Subsidiaries to become subject to tax under Part XII.2 of the *Income Tax Act* (Canada), provided, however, in each case, that any change, effect, event, circumstance, fact or occurrence (a) relating to general political, economic or financial conditions, (b) relating to the state of securities or commodities markets in general, (c) relating to the industries in which Legacy and its Legacy Subsidiaries operate in general and not to Legacy or its Legacy Subsidiaries in any specific manner, (d) relating to changes or proposed changes in law, regulatory conditions, policies or government programs or the interpretation, application or non-application of laws, conditions, policies or programs by any governmental authority, (e) relating to changes in GAAP, (f) attributable to the negotiation, execution, announcement or performance of the Support Agreement or the transactions contemplated thereby or the consummation of the transactions contemplated by the Support Agreement, whether contractual (including change of control provisions or contained in any financing, loan or other documents relating to Indebtedness of Legacy and/or the Legacy Subsidiaries) or otherwise, with suppliers, lenders, creditors, competitors, customers, property owners, lessees, investors, venture partners, vendors or employees, (g) relating to any suit, claim, action or proceeding brought, asserted or threatened by or on behalf of any holder or holders of units in Legacy, arising out of or relating to the Support Agreement or the transactions contemplated by the Support Agreement, (h) relating to changes in currency rates, or (i) relating to, or arising from, any action taken by Legacy or the Legacy Subsidiaries at the written request or with the written consent of the Offeror, shall be deemed not to constitute a “Material Adverse Effect” and shall not be considered in determining whether a “Material Adverse Effect” has occurred provided that in the case of (a), (b), (c), (d), (e) or (h), such change, effect, event, circumstance, fact or occurrence does not affect Legacy in a manner that is disproportionate to others in the industry in which Legacy operates. The mere fact of a decrease in the market price of the units of Legacy or any short term or seasonal fluctuation in the financial condition, business, properties, assets, liabilities (including contingent liabilities) or financial results of operations of Legacy and the Legacy Subsidiaries, taken as a whole, shall not, as the case may be, in and of itself,

constitute a Material Adverse Effect, but any change, effect, event, circumstance, fact or occurrence (but for greater certainty, excluding those specified in (a) to (h) above) that was the cause of such decrease shall be considered in determining whether there has been a Material Adverse Effect.

“**Minimum Tender Condition**” has the meaning ascribed thereto under “Principal Agreements — Support Agreement — Conditions to the Bid”.

“**Offeror**” means LGY Acquisition LP, a limited partnership existing under the laws of the Province of Ontario.

“**person**” means any individual, sole proprietorship, partnership, firm, entity, unincorporated association, unincorporated syndicate, unincorporated organization, trust, body corporate, governmental authority, and where the context requires, any of the foregoing when they are acting as trustee, executor, administrator or other legal representative.

“**Proposed Agreement**” has the meaning ascribed thereto under “Principal Agreements — Support Agreement”.

“**Put Date**” has the meaning ascribed thereto under “Description of the Debentures — Put Right upon a Change of Control”.

“**Put Price**” has the meaning ascribed thereto under “Description of the Debentures — Put Right upon a Change of Control”.

“**REIT**” means InnVest Real Estate Investment Trust, an unincorporated open-ended trust existing under the laws of the Province of Ontario pursuant to the Declaration of Trust.

“**Securities**” means, collectively, the Subscription Receipts and the Debentures.

“**Senior Indebtedness**” has the meaning ascribed thereto under “Description of the Debentures — Subordination”.

“**Subscription Receipt Agreement**” means the agreement to be dated the date of closing of the offering among the REIT, the Underwriters and the Escrow Agent governing the terms of the Subscription Receipts.

“**Subscription Receipts**” means the subscription receipts of the REIT offered pursuant to this short form prospectus.

“**Subscription Receipts Initial Underwriters’ Fee Payment**” means 50% of the fee payable to the Underwriters in respect of the issuance of the Subscription Receipts to the public pursuant to the Underwriting Agreement.

“**Subsequent Acquisition Transaction**” means a transaction to acquire all of the units of Legacy not tendered to the Bid involving Legacy and/or the Legacy Subsidiaries and the Offeror and/or an Affiliate of the Offeror which could include, (a) the redemption or acquisition of all of the outstanding units of Legacy at the Bid price, (b) amendments to the declaration of trust of Legacy to facilitate the implementation of such transactions and consequential matters (including amendments to permit or provide for the compulsory acquisition by the Offeror of the units of Legacy and/or the redemption of the units of Legacy) and (c) a meeting and/or written resolution of Legacy Unitholders to approve such transactions, the amendments to the declaration of trust of Legacy and consequential matters and which may be effected by way of arrangement, amalgamation, merger, reorganization, consolidation, recapitalization or other transaction involving the Legacy, the Legacy Subsidiaries and the Offeror or an Affiliate of the Offeror.

“**Superior Acquisition Proposal**” means any written Acquisition Proposal made after the date of the Support Agreement by a third party (other than the Offeror and its affiliates), that was not solicited after the date of the Support Agreement in contravention of the non-solicitation covenants in the Support Agreement and that, in the good faith determination of the board of Legacy (based upon advice from its financial advisors and outside legal counsel): (a) would, if consummated in accordance with its terms, result in a transaction more favourable to the Legacy Unitholders (other than the Offeror and its Affiliates, if applicable) from a financial point of view (including financing terms, any termination fee or expense reimbursement) than the Bid contemplated by the Support Agreement; (b) in respect of which the financing is then committed or confirmation is provided from the sources of financing to be used to complete the transaction contemplated by such Acquisition Proposal that such financing is available, (such financing to be adequate as understood for the purposes of Section 96 of the *Securities Act* (Ontario)); and (c) is not subject to a due diligence condition and is otherwise reasonably capable

of completion in accordance with its terms taking into account all legal, financial, regulatory and other aspects of such Acquisition Proposal (including the conditions to such Acquisition Proposal); provided, however, for the purposes of this definition references in the definition of “Acquisition Proposal” to “20%” shall be deemed to be references to “100%”.

“**Support Agreement**” means the support agreement dated July 12, 2007 between the Offeror, the REIT, Cadbridge and Legacy whereby the Offeror has agreed to make the Bid and Legacy has agreed to support the Bid, as the same may be amended, supplemented or restated from time to time.

“**Tax Act**” means the *Income Tax Act* (Canada), as amended.

“**Termination Time**” means the earliest of (i) the Deadline, (ii) the date upon which the Support Agreement has been terminated or the Bid has been withdrawn, or (iii) the date the Support Agreement, the arrangements with Cadbridge with respect to the Bid or the terms of the acquisition of the InnVest Acquisition Properties are amended in a material adverse respect.

“**TSX**” means the Toronto Stock Exchange.

“**Underwriters**” means, collectively, RBC Dominion Securities Inc., Scotia Capital Inc., CIBC World Markets Inc., BMO Nesbitt Burns Inc., TD Securities Inc. and National Bank Financial Inc.

“**Underwriting Agreement**” means the agreement dated July 18, 2007 between the REIT and the Underwriters in respect of the offering.

“**Units**” means the trust units of the REIT, each unit representing an equal undivided beneficial interest therein.

“**Unitholders**” means the holders from time to time of Units and includes, while the Units are registered in the Book-Entry System, the beneficial owners of Units.

“**Westmont**” means Westmont Hospitality Group.

## INDEX TO FINANCIAL STATEMENTS

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**INNVEST REAL ESTATE INVESTMENT TRUST  
PRO FORMA CONSOLIDATED BALANCE SHEET**

**As at March 31, 2007  
(in thousands of dollars)  
(Unaudited)**

|   | <b>InnVest<br/>Real Estate<br/>Investment<br/>Trust</b> | <b>Hotel<br/>Portfolio</b> | <b>Notes</b> | <b>Pro forma<br/>adjustments</b> | <b>Pro forma<br/>Total</b> |
|---|---|----------------------------|--------------|----------------------------------|----------------------------|
| <b>ASSETS</b>                                     |   |                            |              |                                  |                            |
| <b>Current Assets</b>                             |   |                            |              |                                  |                            |
| Cash . . . . .                                    | \$ 5,319  | \$ 4,258                   | 2 (a)        | \$ —                             | \$ 9,577                   |
| Accounts receivable . . . . .                     | 13,274  | 11,633                     |              | —                                | 24,907                     |
| Prepaid expenses and other assets . . . . .       | 12,037  | 3,517                      |              | —                                | 15,554                     |
| Assets held for sale . . . . .                    | 49  | —                          |              | —                                | 49                         |
|   | <u>30,679</u>   | <u>19,408</u>              |              | <u>—</u>                         | <u>50,087</u>              |
| Restricted cash . . . . .                         | 2,373   | 454                        |              | —                                | 2,827                      |
| Hotel properties . . . . .                        | 1,130,887   | 327,837                    | 2 (b)        | 307,480                          | 1,766,204                  |
| Other real estate properties . . . . .            | 16,842  | —                          |              | —                                | 16,842                     |
| Licence contracts . . . . .                       | 20,156  | —                          |              | —                                | 20,156                     |
| Other assets . . . . .                            | 10,902  | 329                        | 2 (b)(c)     | 30,298                           | 41,529                     |
| Assets held for sale . . . . .                    | 4,125   | —                          |              | —                                | 4,125                      |
|   | <u>\$1,215,964</u>                                      | <u>\$348,028</u>           |              | <u>\$337,778</u>                 | <u>\$1,901,770</u>         |
| <b>LIABILITIES</b>                                |   |                            |              |                                  |                            |
| <b>Current liabilities</b>                        |   |                            |              |                                  |                            |
| Bank indebtedness . . . . .                       | \$ 22,000   | \$ —                       | 2 (d)        | \$205,145                        | \$ 227,145                 |
| Accounts payable and accrued liabilities . . .    | 43,556  | 22,464                     |              | —                                | 66,020                     |
| Distributions payable . . . . .                   | 5,214   | —                          |              | —                                | 5,214                      |
| Current portion of long-term debt . . . . .       | 11,352  | 3,885                      | 2 (e)        | 612                              | 15,849                     |
| Liabilities related to assets held for sale . . . | 394   | —                          |              | —                                | 394                        |
|   | <u>82,516</u>   | <u>26,349</u>              |              | <u>205,757</u>                   | <u>314,622</u>             |
| Long-term debt . . . . .                          | 485,210   | 189,761                    | 2 (e)        | 4,927                            | 679,898                    |
| Other long-term obligations . . . . .             | 4,458   | 389                        |              | —                                | 4,847                      |
| Convertible debentures . . . . .                  | 117,488   | —                          | 2 (a)(b)     | 63,375                           | 180,863                    |
| Future income tax liability . . . . .             | 9,223   | —                          | 5            | —                                | 9,223                      |
| Long-term debt related to assets held for sale    | 1,171   | —                          |              | —                                | 1,171                      |
|   | <u>700,066</u>  | <u>216,499</u>             |              | <u>274,059</u>                   | <u>1,190,624</u>           |
| <b>EQUITY</b>                                     |   |                            |              |                                  |                            |
| Unitholders' equity . . . . .                     | 515,898   | 131,529                    | 2 (a)(b)     | 63,719                           | 711,146                    |
|   | <u>\$1,215,964</u>                                      | <u>\$348,028</u>           |              | <u>\$337,778</u>                 | <u>\$1,901,770</u>         |

*The accompanying notes are an integral part of these unaudited pro forma consolidated financial statements.*



**INNVEST REAL ESTATE INVESTMENT TRUST**  
**PRO FORMA CONSOLIDATED STATEMENT OF NET INCOME (LOSS) AND**  
**COMPREHENSIVE INCOME (LOSS)**

**Three Months Ended March 31, 2007**

**(in thousands of dollars)**

**(Unaudited)**

|   | <u>InnVest<br/>Real Estate<br/>Investment<br/>Trust</u> | <u>Hotel<br/>Portfolio</u> | <u>Notes</u> | <u>Pro forma<br/>adjustments</u> | <u>Pro forma<br/>Total</u> |
|---|---|----------------------------|--------------|----------------------------------|----------------------------|
| <b>Total revenues (reference only) . . . . .</b>        | \$ 92,081   | \$50,002                   |              | \$ —                             | \$ 142,083                 |
| Hotel revenues . . . . .                                | \$ 90,026   | \$50,002                   |              | \$ —                             | \$ 140,028                 |
| Hotel expenses  |   |                            |              |                                  |                            |
| Operating expenses . . . . .                            | 59,888  | 35,071                     |              | —                                | 94,959                     |
| Property taxes, rent and insurance . . . . .            | 9,471   | 4,550                      | 3 (a)        | (248)                            | 13,773                     |
| Management fees . . . . .                               | 3,044   | 1,919                      |              | —                                | 4,963                      |
|   | <u>72,403</u>   | <u>41,540</u>              |              | <u>(248)</u>                     | <u>113,695</u>             |
| Hotel operating income . . . . .                        | 17,623  | 8,462                      |              | 248                              | 26,333                     |
| Other (income) and expenses                             |   |                            |              |                                  |                            |
| Interest on mortgages . . . . .                         | 8,804   | 3,399                      | 3 (b)        | 3,483                            | 15,686                     |
| Convertible debentures interest and accretion . . . . . | 2,427   | —                          | 3 (c)        | 1,241                            | 3,668                      |
| Corporate and administrative . . . . .                  | 2,567   | 1,051                      |              | —                                | 3,618                      |
| Capital tax . . . . .                                   | 24  | 36                         | 3 (d)        | (36)                             | 24                         |
| Other business income, net . . . . .                    | (1,048)   | —                          |              | —                                | (1,048)                    |
| Other income . . . . .                                  | (57)  | —                          | 3 (b)        | (37)                             | (94)                       |
| Depreciation, amortization and accretion . . . . .      | 13,750  | 4,892                      | 3 (e)        | 2,401                            | 21,043                     |
|   | <u>26,467</u>   | <u>9,378</u>               |              | <u>7,052</u>                     | <u>42,897</u>              |
| Loss before income tax (recovery) expense . . . . .     | (8,844)   | (916)                      |              | (6,804)                          | (16,564)                   |
| Income tax (recovery) expense                           |   |                            |              |                                  |                            |
| Current . . . . .                                       | —   | —                          |              | —                                | —                          |
| Future . . . . .  | (115,536)   | —                          |              | —                                | (115,536)                  |
|   | <u>(115,536)</u>  | <u>—</u>                   |              | <u>—</u>                         | <u>(115,536)</u>           |
| Net income from continuing operations . . . . .         | 106,692   | (916)                      |              | (6,804)                          | 98,972                     |
| Loss from discontinued operations . . . . .             | (19)  | —                          |              | —                                | (19)                       |
| Gain on sale of assets held for sale . . . . .          | 659   | —                          |              | —                                | 659                        |
| Net income (loss) and comprehensive income (loss) . .   | <u>\$ 107,332</u>                                       | <u>\$ (916)</u>            |              | <u>\$(6,804)</u>                 | <u>\$ 99,612</u>           |
| Net income from continuing operations, per unit         |   |                            |              |                                  |                            |
| — basic . . . . .                                       | \$ 1.931  |                            | 4            |                                  | \$ 1.385                   |
| — diluted . . . . .                                     | \$ 1.686  |                            |              |                                  | \$ 1.198                   |
| Net income per unit                                     |   |                            |              |                                  |                            |
| — basic . . . . .                                       | \$ 1.943  |                            | 4            |                                  | \$ 1.394                   |
| — diluted . . . . .                                     | \$ 1.696  |                            |              |                                  | \$ 1.205                   |
| Net income from discontinued operations, per unit       |   |                            |              |                                  |                            |
| — basic . . . . .                                       | \$ 0.012  |                            | 4            |                                  | \$ 0.009                   |
| — diluted . . . . .                                     | \$ 0.010  |                            |              |                                  | \$ 0.007                   |

*The accompanying notes are an integral part of these unaudited pro forma consolidated financial statements.*

**INNVEST REAL ESTATE INVESTMENT TRUST**  
**PRO FORMA CONSOLIDATED STATEMENT OF NET INCOME**

**Year Ended December 31, 2006**  
**(in thousands of dollars)**  
**(Unaudited)**

|   | <u>InnVest<br/>Real Estate<br/>Investment<br/>Trust</u> | <u>Hotel<br/>Portfolio</u> | <u>Notes</u> | <u>Pro forma<br/>adjustments</u> | <u>Pro forma<br/>Total</u> |
|---|---|----------------------------|--------------|----------------------------------|----------------------------|
| <b>Total revenues (reference only)</b> . . . . .        | \$397,370   | \$226,517                  |              | \$ —                             | \$623,887                  |
| Hotel revenues . . . . .                                | \$389,649   | \$226,517                  |              | \$ —                             | \$616,166                  |
| Hotel expenses  |   |                            |              |                                  |                            |
| Operating expenses . . . . .                            | 223,524   | 146,020                    |              | —                                | 369,544                    |
| Property taxes, rent and insurance . . . . .            | 35,542  | 18,185                     | 3 (a)        | (1,699)                          | 52,028                     |
| Management fees . . . . .                               | 13,094  | 9,173                      |              | —                                | 22,267                     |
|   | <u>272,160</u>  | <u>173,378</u>             |              | <u>(1,699)</u>                   | <u>443,839</u>             |
| Hotel operating income . . . . .                        | 117,489   | 53,139                     |              | 1,699                            | 172,327                    |
| Other (income) and expenses                             |   |                            |              |                                  |                            |
| Interest on mortgages and other debt . . . . .          | 30,403  | 12,845                     | 3 (b)        | 15,069                           | 58,317                     |
| Convertible debentures interest and accretion . . . . . | 9,445   | —                          | 3 (c)        | 4,595                            | 14,040                     |
| Corporate and administrative . . . . .                  | 5,384   | 3,121                      |              | —                                | 8,505                      |
| Capital tax . . . . .                                   | 1,523   | 145                        | 3 (d)        | (145)                            | 1,523                      |
| Other business income, net . . . . .                    | (4,850)   | —                          |              | —                                | (4,850)                    |
| Other income . . . . .                                  | (310)   | —                          | 3 (b)        | (108)                            | (418)                      |
| Depreciation and amortization . . . . .                 | 52,359  | 18,481                     | 3 (e)        | 11,301                           | 82,141                     |
|   | <u>93,954</u>   | <u>34,592</u>              |              | <u>30,712</u>                    | <u>159,258</u>             |
| Income before income tax (recovery) expense . . . . .   | 23,535  | 18,547                     |              | (29,013)                         | 13,069                     |
| Income tax (recovery) expense                           |   |                            |              |                                  |                            |
| Current . . . . .                                       | (392)   | —                          |              | —                                | (392)                      |
| Future . . . . .  | (15,473)  | —                          |              | —                                | (15,473)                   |
|   | <u>(15,865)</u>   | <u>—</u>                   |              | <u>—</u>                         | <u>(15,865)</u>            |
| Net income from continuing operations . . . . .         | 39,400  | 18,547                     |              | (29,013)                         | 28,934                     |
| Income from discontinued operations . . . . .           | 196   | —                          |              | —                                | 196                        |
| Write down of assets held for sale . . . . .            | (1,000)   | —                          |              | —                                | (1,000)                    |
| Net income . . . . .                                    | <u>\$ 38,596</u>  | <u>\$ 18,547</u>           |              | <u>\$(29,013)</u>                | <u>\$ 28,130</u>           |
| Net income from continuing operations, per unit         |   |                            |              |                                  |                            |
| — basic . . . . .                                       | \$ 0.750  |                            | 4            |                                  | \$ 0.421                   |
| — diluted . . . . .                                     | \$ 0.749  |                            |              |                                  | \$ 0.421                   |
| Net income per unit                                     |   |                            |              |                                  |                            |
| — basic . . . . .                                       | \$ 0.734  |                            | 4            |                                  | \$ 0.409                   |
| — diluted . . . . .                                     | \$ 0.734  |                            |              |                                  | \$ 0.409                   |
| Net loss from discontinued operations, per unit         |   |                            |              |                                  |                            |
| — basic . . . . .                                       | \$ (0.016)  |                            | 4            |                                  | \$ (0.012)                 |
| — diluted . . . . .                                     | \$ (0.016)  |                            |              |                                  | \$ (0.012)                 |

*The accompanying notes are an integral part of these unaudited pro forma consolidated financial statements.*

**INNVEST REAL ESTATE INVESTMENT TRUST**  
**NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**As at and for the three months ended March 31, 2007**  
**And for the year ended December 31, 2006**  
**(all dollar amounts in thousands, except per unit amounts or as indicated)**

**1. BASIS OF PRESENTATION**

InnVest Real Estate Investment Trust (the “REIT”) is an unincorporated open-end real estate investment trust governed by the laws of Ontario. The REIT began operations on July 26, 2002.

These unaudited pro forma consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) for inclusion in a short-form prospectus dated July 26, 2007 (the “Prospectus”) for the proposed offering (see note 2(a)). These pro forma consolidated financial statements do not include all the information and disclosures required by GAAP for annual financial statements, and have been prepared from and should be read in conjunction with the following and the description of the transaction in the Prospectus:

- the audited consolidated financial statements of the REIT for the year ended December 31, 2006;
- the unaudited interim consolidated financial statements of the REIT for the three months ended March 31, 2007;
- the unaudited combined financial statements of the Hotel Portfolio (defined below) for three months ended March 31, 2007, which are included in the Prospectus; and
- the audited combined financial statements of the Hotel Portfolio for the year ended December 31, 2006, which are included in the Prospectus.

The unaudited pro forma consolidated balance sheet gives effect to the transactions described in Note 2 as if they had occurred on March 31, 2007. The unaudited pro forma consolidated statement of net income (loss) and comprehensive income (loss) for the three months ended March 31, 2007 and the unaudited pro forma consolidated statement of net income for the year ended December 31, 2006 give effect to the transactions in Note 2 and Note 3 as if they had occurred on January 1, 2006.

The accounting policies used in these financial statements are consistent with those used in the unaudited interim consolidated financial statements of the REIT for the three months ended March 31, 2007 and the audited consolidated financial statements of the REIT for the year ended December 31, 2006. In preparing the pro forma consolidated financial statements a review was undertaken to identify any accounting policy differences where the impact was potentially material and could be reasonably estimated. Further accounting policy differences may be identified after consummation of the proposed transaction.

The unaudited pro forma consolidated financial statements are not necessarily indicative of the results that would have actually occurred had the transactions been consummated on the dates indicated, nor are they necessarily indicative of future operating results or the financial position of the REIT.

**2. PRO FORMA CONSOLIDATED BALANCE SHEET ASSUMPTIONS AND ADJUSTMENTS**

*(a) Public offering*

On July 18, 2007, the REIT entered into an underwriting agreement whereby the REIT will raise gross proceeds of \$264,000 pursuant to a public offering, of which \$194,000 (net proceeds of \$185,740) will be raised through the issuance of 15,709,170 subscription receipts (“Subscription Receipts”) at a price of \$12.35 per Subscription Receipt and \$70,000 (net proceeds of \$66,875) will be raised through the issuance of extendible convertible unsecured subordinated debentures (“Debentures”). Maple Leaf Investment Holdings L.P. (“Maple Leaf”) has also agreed to purchase 485,830 Subscription Receipts at a price of \$12.35 per Subscription Receipt for gross proceeds of \$6,000. No underwriters’ fee will be paid on the sale of Subscription Receipts to Maple Leaf. The offering of the Subscription Receipts (including to Maple Leaf) and Debentures is referred to as the “Offering”.

The net proceeds of the Offering will be used to contribute to LGY Acquisition L.P. (the “Offeror”) the REIT’s share of the purchase price for a take-over bid (the “Bid”) that the Offeror has made for the units of Legacy Hotels Real Estate Investment Trust (“Legacy”). Upon completion of the Bid, holders of Subscription Receipts will be entitled to receive one trust unit (“Unit”) of the REIT for each Subscription Receipt held, without payment of any further consideration.

The Debentures have an initial maturity date (the “Initial Maturity Date”) of the Termination Time (which is the earliest to occur of (i) December 31, 2007, (ii) the date that the support agreement in respect of the Bid is terminated or the Bid is withdrawn, or (iii) the date that the support agreement in respect of the Bid, the arrangements between the REIT and Cadbridge Investors LP (“Cadbridge”) with respect to the Bid, or the terms of the acquisition of the Hotel Portfolio (see note 2(b)) are amended in a material adverse respect). If the Bid is completed before the Termination Time, the maturity date of the Debentures will automatically be extended to August 1, 2014.

**INNVEST REAL ESTATE INVESTMENT TRUST**

**NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

**As at and for the three months ended March 31, 2007**

**And for the year ended December 31, 2006**

**(all dollar amounts in thousands, except per unit amounts or as indicated)**

**2. PRO FORMA CONSOLIDATED BALANCE SHEET ASSUMPTIONS AND ADJUSTMENTS (Continued)**

The Debentures are convertible into Units on or after the Initial Maturity Date at a conversion price of \$14.70 per Unit.

The Debentures bear interest at a rate of 5.85% per annum and interest is paid semi-annually on each of August 1 and February 1 in each year, commencing on February 1, 2008. The Debentures are not redeemable prior to August 1, 2010 except upon satisfaction of certain conditions after a change in control of the REIT. On or after August 1, 2010 and prior to August 1, 2012, the Debentures may be redeemed, in whole or in part, on not more than 60 days' and not less than 30 days' prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Units on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of redemption is given exceeds 125% of the conversion price. On or after August 1, 2012, the Debentures may be redeemed, in whole or in part, at any time at a redemption price equal to the principal amount thereof plus accrued and unpaid interest. Provided that there is not a current event of default, the REIT will have the option to satisfy its obligation to pay the principal amount of the convertible debentures due at maturity or upon redemption, in whole or in part, by issuing the number of units equal to the principal amount of the Debentures then outstanding divided by 95% of the volume-weighted average trading price of the units for stipulated period prior to the date of redemption or maturity, as applicable.

The REIT will also have the option to pay interest on any interest payment date by selling units and applying the proceeds to satisfy its interest obligation.

The holder conversion option was estimated separately from the convertible debentures at \$3,500. The holder conversion option is being accreted over the term of the debentures and is reflected in unitholders' equity.

*(b) Asset acquisition*

On July 12, 2007, the REIT announced that it had formed a consortium with Cadbridge, a limited partnership formed by affiliates of Westmont and Cadim Inc. to form the Offeror in order to make the Bid for all of the outstanding units of Legacy at a price of \$12.60 per unit in cash.

Pursuant to arrangements between the REIT and Cadbridge, following the completion of the Bid, the REIT and Cadbridge will cause the Offeror to reorganize Legacy's assets such that REIT will own, directly or through subsidiary entities, the following hotel properties currently owned by Legacy: The Fairmont Palliser, Sheraton Suites Calgary Eau Claire, Delta Calgary Airport, Fairmont Hotel Macdonald, Delta Winnipeg Hotel, Delta Ottawa Hotel and Suites, Delta Centre-Ville, Delta Beausejour, Delta Prince Edward, Delta Barrington and the Delta Halifax (collectively, the "Hotel Portfolio"). This reorganization is expected to take place within 30 days of the completion of the Bid. Until that time, the REIT will own an approximate 26% limited partnership interest in the Offeror.

After the successful completion of the reorganization, the net assets of the Hotel Portfolio transferred from the Offeror will consist of the following:

Net assets acquired:

|  |            |
|--|------------|
| Cash . . . . .   | \$ 4,258   |
| Current assets . . . . .                                     | 15,150     |
| Restricted cash . . . . .                                    | 454        |
| Other assets (note 2(c)) . . . . .                           | 30,627     |
| Hotel properties (note 2(f)) . . . . .                       | 635,317    |
|  | 685,806    |
| Assumption of existing long-term debt (note 2 (e)) . . . . . | (199,185)  |
| Current liabilities . . . . .                                | (22,464)   |
| Other liabilities . . . . .                                  | (389)      |
|  | \$ 463,768 |

**INNVEST REAL ESTATE INVESTMENT TRUST**  
**NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**As at and for the three months ended March 31, 2007**  
**And for the year ended December 31, 2006**  
**(all dollar amounts in thousands, except per unit amounts or as indicated)**

**2. PRO FORMA CONSOLIDATED BALANCE SHEET ASSUMPTIONS AND ADJUSTMENTS (Continued)**

The cost of the net assets acquired will be satisfied, net of issuance costs, as follows:

|   |                   |
|---|-------------------|
| Bank indebtedness (note 2(d)) . . . . .             | \$ 205,145        |
| Subscription Receipts (Units) (note 2(a)) . . . . . | 191,748           |
| Debentures (note 2(a)) . . . . .                    | 66,875            |
|   | <u>\$ 463,768</u> |

Management expects that the actual purchase price allocation will include land, building, furniture, fixtures and equipment and potential intangible assets and liabilities relating to franchise costs, franchise rights, customer relationships, tenant relationships, in-place leases and above or below market value leases. The actual amounts will vary from the pro forma amounts and the variances may be material, which could also have a material impact on pro forma depreciation, amortization and accretion expense.

On a preliminary basis, the purchase price has been allocated within the Hotel Properties as follows:

|   |                  |
|---|------------------|
| Land . . . . .                              | \$ 74,639        |
| Buildings . . . . .                         | 537,346          |
| Furniture, fixtures and equipment . . . . . | 23,332           |
|   | <u>\$635,317</u> |

*(c) Other assets*

Other assets were decreased by \$329 at March 31, 2007 to eliminate the Hotel Properties' other assets not assumed by the REIT.

Other assets include a preliminary estimate for franchise fee costs, franchise rights, customer and tenant relationships, in-place leases, above or below market value leases and franchise rights recognized upon acquisition of the Hotel Portfolio.

*(d) Bank indebtedness*

The pro forma financial statements assume that bridge financing (the "New Debt") in the amount of \$206,145 has been arranged, bearing interest at an interest rate of 6.5%. The pro forma financial statements assume that \$1,000 of costs are incurred as a result of placing this debt.

*(e) Long-term debt*

The REIT will assume the existing long-term debt, including the current portion, on the Hotel Portfolio in the amount of \$193,646 (face amount — \$196,165) which bears interest at a weighted average interest rate of 7.1%. Long-term debt assumed is recorded at the estimated fair value at March 31, 2007, including the current portion, of \$199,185. The difference between the fair value and the face value of the long-term debt is being amortized to interest expense on a straight-line basis over the average remaining period until maturity. The mortgages are secured by certain hotel properties and related assets within the Hotel Portfolio.

*(f) Leasehold Interests*

Hotel properties include leasehold interests in four Hotel Portfolio properties of approximately \$101,096. The assets associated with these leasehold interests are depreciated and amortized on a basis consistent with other hotel property assets acquired in accordance with the REIT's accounting policies.

**3. PRO FORMA CONSOLIDATED NET INCOME ASSUMPTIONS AND ADJUSTMENTS**

*(a) Hotel expenses — Property taxes, rent and insurance*

Land lease payments of \$248 for the three months ended March 31, 2007 and \$1,699 for the year ended December 31, 2006 have been reversed for the Delta Beausejour land lease in order to reflect that no lease payments will be required by the REIT pursuant to Legacy's acquisition of the remaining interests in the property effective March 1, 2007.

**INNVEST REAL ESTATE INVESTMENT TRUST**  
**NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**As at and for the three months ended March 31, 2007**  
**And for the year ended December 31, 2006**  
**(all dollar amounts in thousands, except per unit amounts or as indicated)**

**3. PRO FORMA CONSOLIDATED NET INCOME ASSUMPTIONS AND ADJUSTMENTS (Continued)**

*(b) Interest on mortgages and other debt*

Interest expense has been increased by \$3,483 for the three months ended March 31, 2007 and \$15,069 for the year ended December 31, 2006, as follows:

|   | <b>Three Months<br/>Ended<br/>March 31, 2007</b> | <b>Year ended<br/>December 31, 2006</b> |
|---|--|---|
| Bridge loan interest . . . . .  | \$3,345  | \$13,379                                |
| Amortization of fair value adjustment of Hotel Portfolio debt assumed . . . . . | 137  | 549                                     |
| Hotel Portfolio   |  |   |
| Mortgage financing Delta Beausejour . . . . .                                   | 256  | 1,538                                   |
| Bank loan interest and other . . . . .  | (45)   | (242)                                   |
| Amortization of debt discount and issuance expenses . . . . .                   | (247)  | (263)                                   |
| Interest income reallocated . . . . .   | 37   | 108                                     |
|   | <b>\$3,483</b>                                   | <b>\$15,069</b>                         |

*(c) Debentures interest and accretion*

Interest expense has been increased by \$1,241 for the three months ended March 31, 2007 and \$4,595 for the year ended December 31, 2006 to reflect the new Debentures issued of \$70,000 and the related accretion.

*(d) Capital taxes*

Pro forma adjustments have been made to reverse the Hotel Portfolio capital taxes to reflect the tax status of the REIT.

*(e) Depreciation and amortization*

Depreciation and amortization expense has been increased by \$2,401 for the three months ended March 31, 2007 and \$11,301 for the year ended December 31, 2006 to reflect the excess purchase price of the assets over the net book value at January 1, 2006 and the amortization of all assets in accordance with policies of the REIT. The year ended December 31, 2006 also includes the amortization of the deferred financing costs related to the New Debt of \$162.

**4. NET INCOME PER UNIT**

Net income per unit has been calculated based upon 71,448,435 units outstanding at March 31, 2007 (December 31, 2006 — 68,753,268). Diluted per unit calculations assume the principal on the Debentures was repaid at the beginning of each period based on the respective conversion price of each Series of debentures.

**5. SUBSEQUENT EVENT**

In June 2007, the proposal for the taxation of publicly traded trusts, among other things, was enacted. The REIT, providing it does not undergo “undue expansion”, will be subject to tax starting January 1, 2011 and onward. On January 1, 2011, the tax rate applied to the REIT is an aggregate of the federal general corporate income tax rate, which was reduced from 19% to 18.5%, and a general provincial tax rate of 13%. As a result, the REIT will recognize a significant future income tax liability resulting from temporary differences which are expected to reverse subsequent to January 1, 2011. The REIT is in the process of ascertaining the amount of the future income tax liability.

## AUDITOR'S REPORT

To the Board of Trustees of  
Legacy Hotels Real Estate Investment Trust

We have audited the combined balance sheet of the Hotel Portfolio of Legacy Hotels Real Estate Investment Trust ("Legacy") as at December 31, 2006 and the combined statements of operations and cash flows for the year then ended. These combined financial statements are the responsibility of Legacy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these combined financial statements present fairly, in all material respects, the financial position of the Hotel Portfolio as at December 31, 2006 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario  
July 16, 2007

(Signed) PRICEWATERHOUSECOOPERS LLP  
Chartered Accountants, Licenced Public Accountants

**HOTEL PORTFOLIO**  
**COMBINED BALANCE SHEETS**  
(in thousands of Canadian dollars)

|  | <u>March 31</u><br><u>2007</u><br>(unaudited) | <u>March 31</u><br><u>2006</u><br>(unaudited) | <u>December 31</u><br><u>2006</u> | <u>December 31</u><br><u>2005</u><br>(unaudited) |
|--|---|---|-----------------------------------|--|
| <b>Assets</b>  |   |   |                                   |  |
| <b>Current assets</b>  |   |   |                                   |  |
| Cash and cash equivalents . . . . .                          | \$ 4,258                                      | 3,481   | \$ 2,300                          | \$ 1,521   |
| Restricted cash (note 4) . . . . .                           | 454   | 954   | 842                               | 784  |
| Accounts receivable . . . . .                                | 11,633  | 8,996   | 12,287                            | 9,112  |
| Inventory . . . . .  | 1,152   | 994   | 1,114                             | 1,007  |
| Prepaid expenses . . . . .                                   | <u>2,365</u>                                  | <u>2,150</u>                                  | <u>1,299</u>                      | <u>1,275</u>                                     |
|  | 19,862  | 16,575  | 17,842                            | 13,699   |
| <b>Property and equipment</b> (note 5) . . . . .             | 327,837                                       | 315,937                                       | 308,268                           | 317,982  |
| <b>Other assets</b> (notes 2 and 6) . . . . .                | <u>329</u>                                    | <u>3,044</u>                                  | <u>2,283</u>                      | <u>3,248</u>                                     |
|  | <u>\$348,028</u>                              | <u>335,556</u>                                | <u>\$328,393</u>                  | <u>\$334,929</u>                                 |
| <b>Liabilities</b>   |   |   |                                   |  |
| <b>Current liabilities</b>                                   |   |   |                                   |  |
| Accounts payable and accrued liabilities (note 11) . . . . . | \$ 22,464                                     | 20,970  | \$ 23,595                         | \$ 17,375  |
| Current portion of long-term debt (note 7) . . . . .         | <u>3,885</u>                                  | <u>4,174</u>                                  | <u>4,414</u>                      | <u>4,098</u>                                     |
|  | 26,349  | 25,144  | 28,009                            | 21,473   |
| <b>Long-term debt</b> (note 7) . . . . .                     | 189,761                                       | 171,166                                       | 167,825                           | 172,239  |
| <b>Other liabilities</b> (note 11) . . . . .                 | <u>389</u>                                    | <u>2,222</u>                                  | <u>2,324</u>                      | <u>2,222</u>                                     |
|  | 216,499                                       | 198,532                                       | 198,158                           | 195,934  |
| <b>Net investment by Legacy</b> (note 1) . . . . .           | <u>131,529</u>                                | <u>137,024</u>                                | <u>130,235</u>                    | <u>138,995</u>                                   |
|  | <u>\$348,028</u>                              | <u>335,556</u>                                | <u>\$328,393</u>                  | <u>\$334,929</u>                                 |
| <b>Commitments and contingencies</b> (note 14)               |   |   |                                   |  |

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



**HOTEL PORTFOLIO**  
**COMBINED STATEMENTS OF OPERATIONS**  
(in thousands of Canadian dollars)

|   | Three months<br>ended<br>March 31<br>2007 | Three months<br>ended<br>March 31<br>2006 | Year ended<br>December 31<br>2006 | Year ended<br>December 31<br>2005 |
|---|---|---|-----------------------------------|-----------------------------------|
|   | (unaudited)                               | (unaudited)                               |                                   | (unaudited)                       |
| <b>Revenues</b>   |   |   |                                   |                                   |
| Room . . . . .  | \$31,573                                  | 28,866                                    | \$144,071                         | \$133,803                         |
| Food and beverage . . . . .   | 15,922                                    | 14,343                                    | 70,810                            | 66,271                            |
| Other . . . . .   | 2,507                                     | 2,568                                     | 11,636                            | 11,200                            |
|   | <u>50,002</u>                             | <u>45,777</u>                             | <u>226,517</u>                    | <u>211,274</u>                    |
| <b>Operating expenses</b> . . . . .   | <u>35,071</u>                             | <u>33,219</u>                             | <u>146,020</u>                    | <u>140,557</u>                    |
| <b>Gross operating profit</b> . . . . .   | 14,931                                    | 12,558                                    | 80,497                            | 70,717                            |
| <b>Hotel management fees</b> (notes 10 and 11) . . . . .                            | 1,919                                     | 1,592                                     | 9,173                             | 7,654                             |
| <b>Property taxes, rent and insurance</b> . . . . .                                 | <u>4,550</u>                              | <u>4,595</u>                              | <u>18,185</u>                     | <u>18,788</u>                     |
| <b>Operating income from hotel operations before<br/>undernoted items</b> . . . . . | 8,462                                     | 6,371                                     | 53,139                            | 44,275                            |
| <b>Other expenses</b>   |   |   |                                   |                                   |
| Amortization of property and equipment . . . . .                                    | 4,892                                     | 4,601                                     | 18,481                            | 17,508                            |
| General and administration (note 11) . . . . .                                      | 1,087                                     | 704                                       | 3,266                             | 2,795                             |
|   | <u>5,979</u>                              | <u>5,305</u>                              | <u>21,747</u>                     | <u>20,303</u>                     |
| <b>Income before interest expense</b> . . . . .                                     | 2,483                                     | 1,066                                     | 31,392                            | 23,972                            |
| <b>Interest expense, net</b> (note 8) . . . . .                                     | <u>3,399</u>                              | <u>3,186</u>                              | <u>12,845</u>                     | <u>13,330</u>                     |
| <b>Net income (loss) for the period</b> . . . . .                                   | <u>\$ (916)</u>                           | <u>(2,120)</u>                            | <u>\$ 18,547</u>                  | <u>\$ 10,642</u>                  |

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

**HOTEL PORTFOLIO**  
**COMBINED STATEMENTS OF CASH FLOWS**  
(in thousands of Canadian dollars)

|  | Three months<br>ended<br>March 31<br>2007 | Three months<br>ended<br>March 31<br>2006 | Year ended<br>December 31<br>2006 | Year ended<br>December 31<br>2005 |
|--|---|---|-----------------------------------|-----------------------------------|
|  | (unaudited)                               | (unaudited)                               | (unaudited)                       | (unaudited)                       |
| <b>Cash provided by (used in)</b>  |   |   |                                   |                                   |
| <b>Operating activities</b>  |   |   |                                   |                                   |
| Net income (loss) for the period . . . . .                                   | \$ (916)                                  | (2,120)                                   | \$ 18,547                         | \$ 10,642                         |
| Items not affecting cash   |   |   |                                   |                                   |
| Amortization of property and equipment . . . . .                             | 4,892                                     | 4,601                                     | 18,481                            | 17,508                            |
| Other . . . . .  | 171                                       | (226)                                     | 784                               | 497                               |
| Changes in non-cash working capital (note 9) . . . . .                       | <u>(1,134)</u>                            | <u>2,748</u>                              | <u>2,315</u>                      | <u>1,127</u>                      |
|  | <u>3,013</u>                              | <u>5,003</u>                              | <u>40,127</u>                     | <u>29,774</u>                     |
| <b>Investing activities</b>  |   |   |                                   |                                   |
| Acquisition of property (note 3) . . . . .                                   | (21,935)                                  | —   | —                                 | —                                 |
| Additions to property and equipment . . . . .                                | (2,969)                                   | (2,423)                                   | (8,061)                           | (7,207)                           |
| Proceeds from sale of property and equipment . . . . .                       | —   | 1   | 14                                | 7                                 |
| Decrease (increase) in restricted cash . . . . .                             | 388                                       | (170)                                     | (58)                              | (784)                             |
| Decrease (increase) in other assets . . . . .                                | <u>(50)</u>                               | <u>429</u>                                | <u>183</u>                        | <u>(171)</u>                      |
|  | <u>(24,566)</u>                           | <u>(2,163)</u>                            | <u>(7,922)</u>                    | <u>(8,155)</u>                    |
| <b>Financing activities</b>  |   |   |                                   |                                   |
| Net proceeds from mortgage (note 3) . . . . .                                | 25,000                                    | —   | —                                 | —                                 |
| Mortgage principal payments . . . . .  | (1,072)                                   | (996)                                     | (4,098)                           | (3,741)                           |
| Net funding (to) from Legacy (note 1) . . . . .                              | 1,518                                     | 149                                       | (27,308)                          | (17,962)                          |
| Other . . . . .  | <u>(1,935)</u>                            | <u>(33)</u>                               | <u>(20)</u>                       | <u>676</u>                        |
|  | <u>23,511</u>                             | <u>(880)</u>                              | <u>(31,426)</u>                   | <u>(21,027)</u>                   |
| <b>Increase in cash and cash equivalents during the<br/>period . . . . .</b> | <b>1,958</b>                              | <b>1,960</b>                              | <b>779</b>                        | <b>592</b>                        |
| <b>Cash and cash equivalents — beginning of period . . . .</b>               | <b>2,300</b>                              | <b>1,521</b>                              | <b>1,521</b>                      | <b>929</b>                        |
| <b>Cash and cash equivalents — end of period . . . . .</b>                   | <b><u>\$ 4,258</u></b>                    | <b><u>3,481</u></b>                       | <b><u>\$ 2,300</u></b>            | <b><u>\$ 1,521</u></b>            |

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

**HOTEL PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**March 31, 2007 and 2006 (Unaudited),**  
**December 31, 2006 and December 31, 2005 (Unaudited)**  
**(in thousands of Canadian dollars)**

**1. BASIS OF PRESENTATION**

These combined financial statements have been prepared pursuant to a support agreement between Legacy Hotels Real Estate Investment Trust (“Legacy” or the “Trust”) and InnVest Real Estate Investment Trust, Cadbridge Investors LP, and LGY Acquisition LP, dated July 12, 2007 and represent a combination of 11 Legacy properties (the “Hotel Portfolio”) located in eight Canadian cities throughout seven provinces. The Hotel Portfolio properties are indirectly owned by Legacy except for Delta Calgary Airport, Delta Halifax, Delta Barrington and Delta Ottawa Hotel and Suites, in which Legacy holds long-term leasehold interests.

The properties included in the Hotel Portfolio and combined in these financial statements are as follows:

|                                    |                        |
|------------------------------------|------------------------|
| The Fairmont Hotel Macdonald       | Edmonton, Alberta      |
| The Fairmont Palliser              | Calgary, Alberta       |
| Sheraton Suites Calgary Eau Claire | Calgary, Alberta       |
| Delta Calgary Airport              | Calgary, Alberta       |
| Delta Winnipeg                     | Winnipeg, Manitoba     |
| Delta Ottawa Hotel and Suites      | Ottawa, Ontario        |
| Delta Centre-Ville                 | Montreal, Quebec       |
| Delta Beausejour                   | Moncton, New Brunswick |
| Delta Halifax                      | Halifax, Nova Scotia   |
| Delta Barrington                   | Halifax, Nova Scotia   |
| Delta Prince Edward                | Charlottetown, P.E.I.  |

All of the Hotel Portfolio properties are managed by subsidiaries of Fairmont Hotels and Resorts Inc. (“FHR”) under management agreements. All transactions under such agreements are described in note 11.

These combined financial statements have been prepared on the following basis and incorporating the following assumptions:

**Working Capital**

Working capital balances, including cash and cash equivalents, consist primarily of balances maintained at each of the properties as part of their operations. Accounts payable and accrued liabilities include property-related accruals and reclassifications normally performed upon Legacy’s consolidation.

**Property and equipment**

Property and equipment balances are comprised of assets and leasehold interests applicable to each property.

**Other assets**

As at December 31, 2006 and 2005, other assets include net deferred mortgage financing costs (see note 2). These costs have been allocated to the properties which secure the corresponding mortgages.

Net deferred charges relating to Legacy’s revolving credit facility have been allocated to secured properties based on the ratio of the bank-determined value of the security they provide to the overall facility.

**Long-term debt**

Current and long-term portions of the principal amounts of mortgages payable and corresponding net deferred mortgage financing costs (see note 2) have been allocated to the properties which secure the corresponding mortgages.

**Other liabilities**

Other liabilities include the non-current portion of incentive fees payable (see note 10) by Legacy. These liabilities have been allocated to the properties to which they relate.

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**1. BASIS OF PRESENTATION (Continued)**

**Net investment by Legacy**

As these financial statements are a combination of select balances within several of Legacy's subsidiaries, there is no formal equity in the form of share capital or units. The equity balance represents the combined equity investment of Legacy in each property, based on the allocation of assets and liabilities to the properties.

**Taxes**

These combined financial statements do not include any income taxes payable or receivable, or any income tax provisions, because the income of the properties is distributed by Legacy to its unitholders and taxed at the unitholder level. Tax balances in the accounts of Legacy are not applicable to the 11 properties in the Hotel Portfolio.

**Operating revenues and expenses**

Operating revenues and expenses consist primarily of the operating activities of each individual hotel property. Legacy's capital tax and other administrative and general expenses have been apportioned to each property based on the ratio of hotel property cost of assets to total cost of assets of Legacy.

**Interest expense**

Mortgage interest expense and amortization of corresponding deferred mortgage financing charges have been allocated to the properties which secure the mortgages. Charges relating to Legacy's revolving credit facility, including interest expense on amounts drawn on the facility, standby fees and amortization of the deferred financing charges have been apportioned to the properties which secure the facility based on the ratio of the bank-determined lending value of the security that such properties provide.

**Related party transactions**

Advisory fees paid to a subsidiary of FHR have been allocated to each property based on the ratio of hotel property cost of assets to total cost of assets of Legacy.

Management fees (both base and incentive) paid by Legacy to subsidiaries of FHR and the acquisition fee paid by Legacy to FHR have been allocated to the properties to which they apply.

Related party transactions also include charges to the hotel properties by subsidiaries of FHR for central reservations, sales and marketing, central purchasing, accounting, management information, employee training and other services.

**Employee future benefits**

Expenses for defined benefit pension plans and other post-retirement benefits have been accounted for in a manner similar to defined contribution plans. These financial statements reflect expenses equivalent to funding contributions made by Legacy for current and retired employees of the properties in the Hotel Portfolio.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies reflected in these combined financial statements are consistent with Legacy's. These combined financial statements have been prepared on the basis of accounting described in the preceding note with the following significant accounting policies:

**Financial instruments**

Legacy may use derivative products from time to time to hedge its exposure to interest rate movements on underlying debt. Management designates its interest rate instruments as hedges of the interest expense on the underlying debt. Interest expense on the underlying debt is adjusted to include the payments made or received under the interest rate instruments.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Use of estimates**

The preparation of combined financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the combined financial statements and revenues and expenses for the reporting period.

Estimates are based on historical experience and on other assumptions that are believed at the time to be reasonable under the circumstances. The actual results may differ from those previously estimated. Estimates are used when accounting for items and matters such as amortization, long-lived asset impairment assessment and contingencies.

**Cash and cash equivalents**

Cash equivalents consist of short-term investments that are highly liquid and have initial terms to maturity of three months or less.

**Inventory**

Inventory, comprised of operating supplies including food and beverage, is valued at the lower of cost, determined on a first-in, first-out basis, and replacement cost.

**Property and equipment**

Property and equipment are recorded at cost. Major renewals and replacements and interest incurred during the renovation period of major renovations are capitalized to existing facilities. Interest is capitalized based on the borrowing rate of debt for the project or if no specific financing is obtained, Legacy's average cost of borrowing. Maintenance, repairs and minor renewals and replacements are charged against income when incurred.

Amortization is provided on a straight-line basis at rates designed to write off the assets over their estimated economic lives, except for buildings on leased land, which are amortized over the lesser of the term of the lease, including reasonably assured renewal options, and the economic life of the building.

The annual rates of amortization are as follows:

|   |  |
|---|--|
| Buildings . . . . .                         | 40 years   |
| Furniture, fixtures and equipment . . . . . | 5 - 17 years   |
| Leasehold interests . . . . .               | over the term of the leases (including reasonably assured renewal options) |

Long-lived assets, consisting of property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. Long-lived assets are reviewed at the individual hotel level, the lowest level for which identifiable cash flows are largely independent, when testing for and measuring impairment. A two-step process is used to assess the impairment of long-lived assets held for use, with the first step determining when impairment is recognized and the second step measuring the amount of the impairment. Impairment losses are recognized when the carrying amount of long-lived assets exceeds the sum of the undiscounted cash flows expected to result from their use and eventual disposition and are measured as the amount by which the long-lived asset's carrying amount exceeds its fair value.

**Debt discount and other issuance expenses**

Debt discount and other issuance expenses are capitalized. As at December 31, 2006 and 2005, these were included in other assets and amortized to interest expense over the terms of the related debt. Effective January 1, 2007, the unamortized portion of these costs was reclassified and netted against the corresponding principal amounts of current and long-term debt as described in "Financial Instruments", below.

**Revenue recognition**

Revenues are generated primarily from room occupancy and food and beverage services. Other revenues include revenues from parking facilities, laundry services and retail stores rental. Revenues are recognized when services are provided and ultimate collection is reasonably assured.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Changes in accounting policies**

**Financial Instruments**

Effective January 1, 2007, the Hotel Portfolio adopted The Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1530, *Comprehensive Income*; Section 1651, *Foreign Currency Translation*; Section 3251, *Equity*; Section 3855, *Financial Instruments- Recognition and Measurement*; Section 3861, *Financial Instruments- Disclosure and Presentation* and Section 3865, *Hedges*. The prospective adoption of these new standards resulted in changes in the accounting and presentation for financial instruments as well as the recognition of certain transition adjustments that were recorded in opening equity as described below. The principal changes due to the adoption of these accounting standards are described below.

Upon transition to the new standards on January 1, 2007, the Hotel Portfolio reclassified deferred financing charges totalling \$2,502, net of accumulated amortization previously included in other assets on Legacy’s balance sheet, to reduce the corresponding principal amounts of current and long-term portions of long-term debt by \$561 and \$1,941, respectively. Amortization was recalculated for each debt instrument using the effective interest rate method from inception of the debt and an adjustment was made to the opening equity in the amount of \$692. In accordance with these standards, these changes were applied as an adjustment to opening equity, and prior period balances have not been restated.

The following table summarizes the transitional impact of adopting these standards as at January 1, 2007.

|   | <b>As at<br/>December 31<br/>2006</b> | <b>Adjustment<br/>upon adoption<br/>of new<br/>standards</b> | <b>As at<br/>January 1,<br/>2007</b> |
|---|---------------------------------------|--|--------------------------------------|
| <b>ASSETS</b>                                     |                                       |  |                                      |
| <b>Other assets</b>                               |                                       |  |                                      |
| Net deferred mortgage financing charges . . . . . | \$ 1,810                              | \$(1,810)  | \$ —                                 |
| Other . . . . .                                   | 473                                   | —  | 473                                  |
|   | <u>\$ 2,283</u>                       | <u>\$(1,810)</u>   | <u>\$ 473</u>                        |
| <b>LIABILITIES</b>                                |                                       |  |                                      |
| Current portion of long-term debt . . . . .       | \$ 4,414                              | \$ (561)   | \$ 3,853                             |
| Long-term debt . . . . .                          | <u>\$167,825</u>                      | <u>\$(1,941)</u>   | <u>\$165,884</u>                     |
| <b>NET INVESTMENT BY LEGACY . . . . .</b>         | <u>\$130,235</u>                      | <u>\$ 692</u>  | <u>\$130,927</u>                     |

The following summarizes the revised CICA Handbook sections noted above.

**Section 1530, Comprehensive Income**

Section 1530 introduces comprehensive income, which consists of net income and other comprehensive income (“OCI”). OCI is a new requirement to temporarily present certain gains and losses from changes in fair value outside of net income. For the three month period ended March 31, 2007, comprehensive income is equal to net income and has not been presented separately.

**Section 3251, Equity**

Section 3251 describes disclosure requirements for equity and changes in equity as a result of the new requirements of Section 1530, including the changes in equity arising from OCI. Accumulated changes in OCI are included in accumulated other comprehensive income (“AOCI”) which, for the periods presented in these financial statements is \$nil and is included in equity.

**Section 3855, Financial Instruments — Recognition and Measurement and Section 3861, Financial Instruments — Disclosure and Presentation**

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and management’s designation of such instruments.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The standards require that all financial assets be classified either as held-for-trading, available-for-sale, held-to-maturity or loans and receivables. The standards require that all financial assets, including all derivatives, be measured at fair value with the exception of loans and receivables, debt securities classified as held-to-maturity and available-for-sale financial assets that do not have quoted market prices in an active market. Settlement date accounting continues to be used for all financial assets, except changes in fair value between the trade date and settlement date are reflected in the statement of operations for held-for-trading financial assets, while changes in fair value between trade date and settlement date are reflected in OCI for available-for-sale financial assets.

Financial liabilities can be classified as either held-for-trading or other liabilities. After initial recognition, an entity should measure all financial liabilities at amortized cost using the effective interest method, except for financial liabilities that are classified as held-for-trading, including derivatives, which should be measured at their fair values.

Held-for-trading

Held-for-trading assets and liabilities are measured at fair value at the balance sheet date. Interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses from market fluctuations are included in interest income or expense. Speculative financial assets or liabilities, other than loans or receivables, and derivative instruments are accounted for as held-for-trading financial assets or liabilities unless the derivative is linked to, and must be settled with equity instruments of another entity when fair value cannot be reliably measured. In addition, if the fair value of a non-derivative instrument is reliably measurable, the Hotel Portfolio may elect to designate it as held-for-trading at the time of its initial recognition. The designation for this instrument is irrevocable.

Financial liabilities designated at fair value are those non-derivative financial liabilities that management elects to designate on initial recognition as instruments that it will measure at fair value through the statement of operations. These are accounted for in the same manner as held-for-trading financial assets. Management has not designated any non-derivative financial liabilities as fair value financial liabilities. The Hotel Portfolio has no held-for-trading assets or speculative assets as at March 31, 2007, December 31, 2006 and December 31, 2005.

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or held-for-trading. Available-for-sale financial assets are carried at fair value with unrealized gains and losses, included in OCI until realized when the cumulative gain or loss is recorded in the statement of operations. Management has not designated any financial assets as available-for-sale.

Held-to-maturity

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, that an entity has the positive intention and ability to hold to maturity. After initial recognition at fair value, these financial assets are measured at amortized cost.

Loans and receivables

Loans and receivables are non-derivative financial assets that are initially recognized at fair value and thereafter are accounted for at cost or amortized cost.

Other liabilities

Other liabilities are non-derivative financial liabilities that are initially recognized at fair value and thereafter are recorded at amortized cost.

The following is a summary of the accounting model management has elected to apply to each of its significant categories of financial instruments outstanding as of January 1, 2007:

Held-for-trading

- Cash and cash equivalents and restricted cash are classified as held-for-trading. Changes in fair value for the period are recorded in earnings as interest income.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Loans and receivables

- Accounts receivable are classified as loans and receivables.
- Amounts due from related parties are accounted for on recognition in accordance Section 3840, Related Party Transactions and subsequently classified as loans and receivables.

Other liabilities

- Amounts due to related parties are accounted for on recognition in accordance with Section 3840, Related Party Transactions and subsequently classified as other liabilities.
- Long-term debt is accounted for as other liabilities at amortized cost.

Derivatives

Derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. The change in fair value during the period is recorded in earnings. There are outstanding derivatives relating to the prepayment options on the Hotel Portfolio's mortgages, the fair value of which is nominal.

Embedded derivatives

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivatives are the same as those of a free-standing derivative, and the combined instrument or contract is not measured at fair value, with changes in fair value recognized in the statement of operations. These embedded derivatives are measured at fair value with changes therein recognized in the statement of operations.

Transaction costs

Transaction costs, debt premiums or discounts and financing costs are netted against the carrying value of the associated liability and then amortized over the expected life of the instrument using the effective interest method.

Determination of fair value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. For certain derivatives, fair values may be determined in whole or in part from valuation techniques using non-observable market data or transaction prices. A number of factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when values are calculated using valuation techniques.

Section 3865, Hedges

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges and cash flow hedges. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

Hotel Portfolio does not have any outstanding hedging contracts as at March 31, 2007 and December 31, 2006.



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**3. ACQUISITION**

In February 2007, Legacy entered into a purchase and sale agreement to acquire the remaining interest of the Delta Beausejour in Moncton, New Brunswick. Legacy previously held the leasehold interest in the property until 2015. Effective March 1, 2007, Legacy acquired the assets and remaining interests in the property for a purchase price of \$21,935, including transaction costs. The purchase was satisfied with cash on hand and proceeds from the existing credit facility. Legacy subsequently refinanced the property with a \$25,000 floating rate mortgage, maturing April 1, 2010. A portion of the proceeds from the mortgage was used to repay Legacy's bank line credit facility which was used to fund the acquisition.

The purchase price of the acquisition was allocated to the identifiable assets acquired on the basis of their respective estimated fair value on the acquisition date as follows:

|                              |                 |
|------------------------------|-----------------|
| Land . . . . .               | \$ 4,387        |
| Building . . . . .           | 17,548          |
| Cash consideration . . . . . | <u>\$21,935</u> |

**4. RESTRICTED CASH**

|                        | <u>December 31<br/>2006</u> | <u>December 31<br/>2005</u><br>(unaudited) |
|------------------------|-----------------------------|--|
| Cash balance . . . . . | <u>\$842</u>                | <u>\$784</u>                               |

Restricted cash represents capital expenditure reserves pursuant to a mortgage agreement.

**5. PROPERTY AND EQUIPMENT**

|   | <u>December 31, 2006</u> |                                     |                  |
|---|--------------------------|-------------------------------------|------------------|
|   | <u>Cost</u>              | <u>Accumulated<br/>amortization</u> | <u>Net</u>       |
| Land . . . . .                              | \$ 28,987                | \$ —                                | \$ 28,987        |
| Buildings . . . . .                         | 280,853                  | (42,615)                            | 238,238          |
| Furniture, fixtures and equipment . . . . . | 76,469                   | (50,266)                            | 26,203           |
| Leasehold interests . . . . .               | 25,768                   | (10,928)                            | 14,840           |
|   | <u>\$412,077</u>         | <u>\$(103,809)</u>                  | <u>\$308,268</u> |

  

|   | <u>December 31, 2005</u> |  |                  |
|---|--------------------------|--|------------------|
|   | <u>Cost</u>              | <u>Accumulated<br/>amortization</u><br>(unaudited) | <u>Net</u>       |
| Land . . . . .                              | \$ 28,987                | \$ —   | \$ 28,987        |
| Buildings . . . . .                         | 278,837                  | (34,022)   | 244,815          |
| Furniture, fixtures and equipment . . . . . | 70,138                   | (41,877)   | 28,261           |
| Leasehold interests . . . . .               | 25,348                   | (9,429)  | 15,919           |
|   | <u>\$403,310</u>         | <u>\$(85,328)</u>                                  | <u>\$317,982</u> |

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**6. OTHER ASSETS**

|                                    | <b>December 31<br/>2006</b> | <b>December 31<br/>2005</b> |
|------------------------------------|-----------------------------|-----------------------------|
|                                    |                             | (unaudited)                 |
| Deferred financing costs . . . . . | \$2,002                     | \$3,054                     |
| Other . . . . .                    | 281                         | 194                         |
|                                    | <u>\$2,283</u>              | <u>\$3,248</u>              |

Deferred financing costs consist primarily of debt issuance costs. On January 1, 2007, net amortized deferred financing costs relating to mortgage financings were reclassified and netted against the corresponding principal amounts of current and long-term debt as described in note 2. The remaining deferred financing costs relate to Legacy's revolving credit facility discussed in note 8.

**7. LONG-TERM DEBT**

|  | <b>December 31<br/>2006</b> | <b>December 31<br/>2005</b> |
|--|-----------------------------|-----------------------------|
|  |                             | (unaudited)                 |
| Mortgages payable, secured by the assets of certain hotel properties, with a weighted average rate of 7.2% and 7.2% as at December 31, 2006 and 2005, respectively, maturing between 2009 and 2014 . . . . . | \$172,239                   | \$176,337                   |
| Less: Current portion of long-term debt . . . . .  | 4,414                       | 4,098                       |
|  | <u>\$167,825</u>            | <u>\$172,239</u>            |

As at December 31, 2006, long-term debt is repayable over the next five years and thereafter as follows:

|                      |                  |
|----------------------|------------------|
| 2007 . . . . .       | \$ 4,414         |
| 2008 . . . . .       | 4,757            |
| 2009 . . . . .       | 45,768           |
| 2010 . . . . .       | 52,236           |
| 2011 . . . . .       | 2,060            |
| Thereafter . . . . . | 63,004           |
|                      | <u>\$172,239</u> |

**Bank loans**

Legacy has a secured, revolving credit facility designed to provide financing for operations, acquisitions and other capital investments. The credit facility, maturing December 2007, is secured by nine properties as at December 31, 2006 (2005 — seven), five (2005 — four) of which are included in the Hotel Portfolio. The ability to utilize the full amount of the facility may be impacted by the cash flows generated by the secured properties. As at December 31, 2006 and 2005, no amount was drawn on this facility.

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**8. INTEREST EXPENSE, NET**

|   | <u>Year ended<br/>December 31<br/>2006</u> | <u>Year ended<br/>December 31<br/>2005</u> |
|---|--|--|
|   |  | (unaudited)                                |
| Mortgage interest . . . . .                                   | \$12,456                                   | \$12,751                                   |
| Bank loans interest and other . . . . .                       | 242  | 317  |
| Amortization of debt discount and issuance expenses . . . . . | 263  | 312  |
|   | <u>\$12,961</u>                            | <u>\$13,380</u>                            |
| Less  |  |  |
| Interest capitalized . . . . .                                | 8  | 15   |
| Interest income . . . . .                                     | 108  | 35   |
|   | <u>116</u>                                 | <u>50</u>                                  |
|   | <u>\$12,845</u>                            | <u>\$13,330</u>                            |

**9. CHANGES IN NON-CASH WORKING CAPITAL**

|   | <u>March 31<br/>2007</u> | <u>March 31<br/>2006</u> | <u>December 31<br/>2006</u> | <u>December 31<br/>2005</u> |
|---|--------------------------|--------------------------|-----------------------------|-----------------------------|
|   | (unaudited)              | (unaudited)              |                             | (unaudited)                 |
| Decrease (increase) in accounts receivable . . . . .                      | \$ 654                   | 116                      | \$(3,175)                   | \$ (798)                    |
| Decrease (increase) in inventory . . . . .                                | (38)                     | 13                       | (107)                       | 409                         |
| Decrease (increase) in prepaid expenses . . . . .                         | (1,066)                  | (875)                    | (24)                        | 132                         |
| Increase (decrease) in accounts payable and accrued liabilities . . . . . | (684)                    | 3,494                    | 5,621                       | 1,384                       |
|   | <u>\$(1,134)</u>         | <u>\$ 2,748</u>          | <u>\$ 2,315</u>             | <u>\$1,127</u>              |

**10. MANAGEMENT AGREEMENTS**

Legacy entered into long-term management agreements in November 1997 with Canadian Pacific Hotels Management Corporation (“CPHMC”), a subsidiary of FHR, to manage an Initial Hotel Portfolio (“IHP”) of Legacy properties with an initial term of 50 years and renewal periods of 25 years, exercisable at the option of CPHMC. Six hotels in the IHP are included in the Hotel Portfolio.

Delta Hotels Limited (“Delta”), a subsidiary of FHR, provides management services for four of the hotels in the Hotel Portfolio from the IHP and four other Delta branded hotels under separate management agreements.

Fairmont Hotels Inc. (“Fairmont”), a subsidiary of FHR, provides management services for the two Fairmont branded hotels from the IHP. In addition, Fairmont provides management services to CPHMC for the Sheraton Suites Calgary Eau Claire.

Pursuant to these management agreements, CPHMC, Fairmont and Delta are entitled to a base management fee and an incentive management fee. The base management fee ranges from 2% to 3% of total hotel revenues. For the hotels included in the IHP, the incentive fee is based on both the profitability of each of the hotels and the overall profitability of the IHP. The incentive fee is calculated based on net operating income from hotel operations plus amortization less the capital replacement reserve, in excess of a threshold amount. In the event that the overall profitability of the IHP does not exceed that target, the aggregate incentive fee determined on the profitability of each hotel that would otherwise be payable may be deferred. Such deferred incentive fee may become payable in a future year. For the five Hotel Portfolio properties not included in the IHP, the incentive fee is based on the profitability of each hotel and is calculated on a basis similar to the incentive fee calculation for the IHP.

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**11. RELATED PARTY TRANSACTIONS**

Fees charged to the Hotel Portfolio by CPHMC, Fairmont and Delta during the period were as follows:

|                           | <b>Year ended<br/>December 31<br/>2006</b> | <b>Year ended<br/>December 31<br/>2005</b> |
|---------------------------|--|--|
|                           |  | (unaudited)                                |
| Advisory fees . . . . .   | \$ 1,312                                   | \$1,388                                    |
| Management fees . . . . . | <u>9,173</u>                               | <u>7,654</u>                               |
|                           | <u>\$10,485</u>                            | <u>\$9,042</u>                             |

Included in general and administration expense is an allocation of advisory fees payable to Fairmont for services provided pursuant to an Advisory Agreement between Legacy and Fairmont.

In addition, CPHMC, Fairmont and Delta provide central reservations, sales and marketing, central purchasing, accounting, management information, employee training and other services for which they are reimbursed on a cost recovery basis in accordance with management agreements. In 2006, the total amount charged to Legacy for the Hotel Portfolio by CPHMC, Fairmont and Delta was \$6,374 (2005 — \$6,070). Included in accounts payable and accrued liabilities as at December 31, 2006 is \$3,677 (2005 — \$1,443) owing to Fairmont and Delta. Included in other long-term liabilities as at December 31, 2006 is \$2,324 (2005 — \$2,222) owing to Fairmont and Delta for deferred incentive fees not yet due since certain targets as described in note 10 were not met.

All related party transactions were recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**12. EMPLOYEE FUTURE BENEFITS**

On January 1, 2005, Legacy assumed sponsorship and administration of a defined benefit pension plan and a supplemental defined pension plan from FHR. The defined benefit pension plan is a funded plan whereas the supplemental pension plan is not funded. Legacy also provides other post-retirement benefits, primarily life insurance and health care coverage.

Only nominal amounts have been reflected as pension expense or other post-retirement expense in these financial statements because there was no funding by Legacy to these plans for the periods presented.

**13. FINANCIAL INSTRUMENTS**

**Fair values**

The fair values of accounts receivable, accounts payable and accrued liabilities, and amounts due to and from FHR approximate their carrying values, due to the relatively short periods to maturity of these instruments.

Management has estimated the fair value of the long-term debt of the Hotel Portfolio to be \$182,900 as at December 31, 2006 (2005 — \$186,300) based on rates currently available to Legacy for long-term borrowings with similar terms and conditions.

**Interest rate risk management**

All long-term debt as at December 31, 2006 bears a fixed rate of interest.

**Credit risk management**

Credit risk relates to cash, short-term investments and account receivable balances, and results from the possibility that a counterparty may default on its contractual obligation to Legacy. This risk is minimized by Legacy dealing with banks having an appropriate credit rating and by Legacy performing ongoing credit evaluations of customers and maintaining allowances for potential credit losses.

**HOTEL PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
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**(in thousands of Canadian dollars)**

**14. COMMITMENTS AND CONTINGENCIES**

As at December 31, 2006, minimum rentals for hotel and equipment operating leases are as follows:

|                      |                 |
|----------------------|-----------------|
| 2007 . . . . .       | \$ 7,253        |
| 2008 . . . . .       | 3,880           |
| 2009 . . . . .       | 3,624           |
| 2010 . . . . .       | 760             |
| 2011 . . . . .       | 278             |
| Thereafter . . . . . | <u>6,134</u>    |
|                      | <u>\$21,929</u> |

Certain land and building leases are subject to additional rent based on a percentage of operating revenues, which is treated as contingent rent. In accordance with hotel management agreements, the manager is entitled to reserve 3% to 5% of annual operating revenues as a capital replacement reserve to fund ongoing capital expenditures at the properties. As at December 31, 2006 and 2005, no such reserves were necessary in accordance with hotel management agreements. Contractual commitments in respect of future capital projects totalled \$2,989 as at December 31, 2006 (2005 — \$2,880).

## **CERTIFICATE OF THE REIT**

Dated: July 26, 2007

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 prospectus as required by the securities legislation of each of the provinces of Canada. For the purposes of the Province of Québec, this simplified prospectus, together with documents incorporated herein by reference and 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  
Chief Executive Officer

(Signed) TAMARA L. LAWSON  
Chief Financial Officer

### **On behalf of the Board of Trustees**

(Signed) MAJID MANGALJI  
Trustee

(Signed) FRANK ANDERSON  
Trustee

## CERTIFICATE OF THE UNDERWRITERS

Dated: July 26, 2007

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 prospectus as required by the securities legislation of each of the provinces of Canada. For the purposes of the Province of Québec, to our knowledge, this simplified prospectus, together with documents incorporated herein by reference and 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.

SCOTIA CAPITAL INC.

By: (Signed) IAN MACLURE

By: (Signed) STEPHEN SENDER

CIBC WORLD MARKETS INC.

By: (Signed) ALLAN S. KIMBERLEY

BMO NESBITT BURNS INC.

TD SECURITIES INC.

By: (Signed) GLENN P. GATCLIFFE

By: (Signed) KURSAT KACIRA

NATIONAL BANK FINANCIAL INC.

By: (Signed) CRAIG J. SHANNON



# InnVest

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