



**INNVEST REAL ESTATE INVESTMENT TRUST**

**RENEWAL ANNUAL INFORMATION FORM**

**March 4, 2009**

## TABLE OF CONTENTS

INFORMATION ABOUT THIS ANNUAL INFORMATION FORM.....	1
INNVEST REAL ESTATE INVESTMENT TRUST .....	2
GENERAL DEVELOPMENT OF THE BUSINESS.....	3
DESCRIPTION OF THE BUSINESS.....	6
DESCRIPTION OF SECURITIES AND DECLARATION OF TRUST .....	12
INVESTMENT GUIDELINES AND OPERATING POLICIES .....	21
DISTRIBUTION POLICY .....	26
SELECTED FINANCIAL INFORMATION .....	29
MATERIAL DEBT OBLIGATIONS.....	29
MARKET FOR SECURITIES .....	30
REGISTRAR AND TRANSFER AGENT.....	32
MATERIAL CONTRACTS .....	33
MANAGEMENT OF THE REIT.....	34
AUDIT COMMITTEE .....	43
RISK FACTORS .....	44
LEGAL PROCEEDINGS.....	58
INTEREST OF EXPERTS .....	58
ADDITIONAL INFORMATION.....	58
GLOSSARY OF TERMS.....	Appendix A
AUDIT COMMITTEE MANDATE .....	Appendix B

*Capitalized terms that are not otherwise defined in this Annual Information Form have the respective meanings set out in Appendix A – Glossary of Terms.*

## **INFORMATION ABOUT THIS ANNUAL INFORMATION FORM**

### **Forward-Looking Statements**

Some of the statements contained or incorporated by reference herein, including those relating to InnVest Real Estate Investment Trust's ("InnVest", the "Trust" or the "REIT") strategies and other statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" or similar expressions, are forward-looking statements within the meaning of applicable securities laws. Forward-looking statements include, without limitation, the information concerning possible or assumed future results of operations of InnVest as set forth herein. These statements are not historical facts but instead represent only InnVest's expectations, estimates and projections regarding future events.

**THE FORWARD-LOOKING STATEMENTS CONTAINED OR INCORPORATED BY REFERENCE HEREIN ARE NOT GUARANTEES OF FUTURE PERFORMANCE AND INVOLVE CERTAIN RISKS AND UNCERTAINTIES THAT ARE DIFFICULT TO PREDICT. THE FUTURE RESULTS AND UNITHOLDER VALUE OF INNVEST MAY DIFFER MATERIALLY FROM THOSE EXPRESSED IN THE FORWARD LOOKING STATEMENTS CONTAINED OR INCORPORATED BY REFERENCE HEREIN DUE TO, AMONG OTHER FACTORS, THE RISKS AND UNCERTAINTIES DISCUSSED HEREIN, THE MATTERS SET FORTH UNDER "RISK FACTORS" AND THE FACTORS DETAILED IN INNVEST'S FILINGS WITH APPLICABLE SECURITIES REGULATORS, INCLUDING THE FACTORS DETAILED IN INNVEST'S ANNUAL AND INTERIM FINANCIAL STATEMENTS AND THE NOTES THERETO. INNVEST DOES NOT UNDERTAKE ANY OBLIGATION TO UPDATE OR RELEASE ANY REVISIONS TO THESE FORWARD-LOOKING STATEMENTS TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE HEREOF OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS, EXCEPT AS REQUIRED BY LAW.**

### **Use of "Distributable Income"**

Distributable Income is a non-GAAP measure and there is no standardized measure of Distributable Income. Distributable Income is presented in this Annual Information Form because InnVest 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 InnVest 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 is defined as net income as set out in the Trust's consolidated financial statements determined in accordance with GAAP, subject to certain adjustments set out in the Declaration of Trust, including the addition of depreciation and amortization, amortization of fair value debt adjustment and future income tax expense, excluding any gains or losses on the disposition of real property, and future income tax recovery and deducting the amount calculated for the reserve for replacement of furniture, fixtures and equipment and capital improvements, the accretion on convertible debentures that is included in the computation of net income, and any other adjustments determined by the Trustees in their discretion.

### **Date of Annual Information Form**

This Annual Information Form is dated March 4, 2009. Except where otherwise indicated, the information contained in this Annual Information Form is stated as at December 31, 2008 and all dollars amounts are expressed in Canadian dollars.

### **INNVEST REAL ESTATE INVESTMENT TRUST**

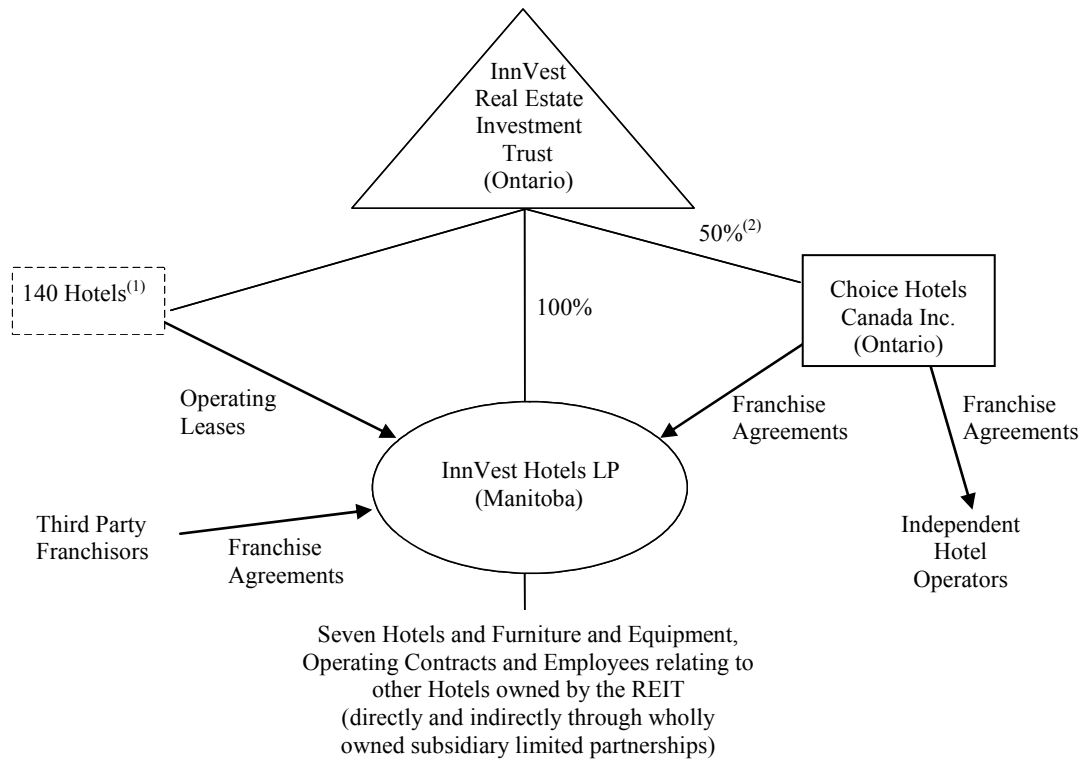
InnVest is an unincorporated open-ended real estate investment trust governed by its second amended and restated declaration of trust dated as of January 1, 2007 (the "Declaration of Trust") and the laws of the Province of Ontario. The REIT is focused on the ownership and acquisition of hotel properties. The REIT also indirectly owns 50% of Choice Canada, the largest franchisor of hotels in Canada, as measured by hotels under franchise.

The head office and the registered office of the REIT are located at 5090 Explorer Drive, 7th Floor, Mississauga, Ontario L4W 4T9.

The REIT is a "mutual fund trust" as defined by the Tax Act, but it is not a "mutual fund" as defined by applicable securities legislation.

The REIT holds the Portfolio, directly and indirectly through subsidiary partnerships, corporations, and a trust. The Portfolio consists of 147 Canadian hotel properties operated under international brands along with a 50% interest in Choice Canada. The Operator, a subsidiary limited partnership of the REIT, together with its subsidiaries and certain other subsidiaries of the REIT, operates the Hotel Businesses and leases the Hotel Properties from the REIT and its subsidiaries. Ninety six of the 147 hotels in the Portfolio are operated under franchise agreements with Choice Canada, and 50 of the remaining 51 hotels are operated under franchise agreements with other franchisors.

The following diagram illustrates the primary structural and contractual relationships between the REIT and its principal subsidiary entities and certain third parties:



- (1) Eight hotels are owned by subsidiary corporations and one hotel is owned by a subsidiary trust with the balance of the hotels owned directly by the REIT, or through subsidiary limited partnerships.
- (2) Held through a wholly-owned subsidiary of the REIT.

## GENERAL DEVELOPMENT OF THE BUSINESS

### Three-Year History

The following describes major events that have influenced the general development of the business of the Trust over the last three completed fiscal years.

- In the second quarter of 2006, the REIT, through two separate transactions, acquired four hotels with a total of 540 rooms for a combined purchase price of \$74.5 million plus transaction costs. Two of the hotels are full-service branded Delta hotels. The remaining two hotels are newly built limited-service hotels.
- In September 2006, the REIT acquired the 571-room Hilton Quebec City and the 197-room Hilton Saint John, New Brunswick for \$62.7 million plus transaction costs.
- On January 2, 2007, the REIT largely completed an internal reorganization (the "Reorganization"). The purpose of the Reorganization was to reorganize the REIT and its subsidiaries in order to achieve a more efficient and integrated operational structure that would position the REIT to pursue additional hotel acquisitions in accordance with its long-term objectives. As

part of the Reorganization, InnVest Properties Corp. transferred all of its assets (including hotels forming part of the Portfolio to the REIT) and the declaration of trust governing the REIT was further amended and restated. It is anticipated that the REIT will achieve operating and other cost reductions and a more tax-efficient structure by virtue of the Reorganization.

- In the first quarter of 2007, InnVest entered into a contract to purchase four new build hotels, representing 455 rooms, for \$48.3 million plus closing costs and construction costs of \$14.0 million. Each hotel acquisition is closing as the construction of each hotel is completed. In the third quarter of 2007, two of the hotels were acquired at a combined cost of \$31.5 million plus transaction costs. The REIT financed the acquisitions through the assumption of 10-year first mortgages totalling \$15.4 million, with the balance being funded from cash on hand. The remaining two hotels were acquired in February 2008 and funded through assumed debt and cash on hand.
- In the first quarter of 2007, InnVest sold the Comfort Inn Miramichi, New Brunswick for \$2.4 million. During the second quarter, the Travelodge Burlington, Ontario was sold for \$4.7 million.
- In July 2007, InnVest, in partnership with Cadbridge Investors LP (“Cadbridge”), announced a take-over bid for all of the outstanding units of Legacy Hotels Real Estate Investment Trust (“Legacy”), at a price of \$12.60 per unit.
- In August 2007, the Trust issued 16,195,000 subscription receipts (each representing the right to receive trust Units of the REIT), for gross proceeds of \$200 million, and \$70 million of extendible convertible unsecured subordinated debentures. Proceeds were used to partially fund the acquisition of the Legacy Portfolio.
- On September 17, 2007, the subscription receipts were exchanged for Units of the Trust on a 1:1 basis.
- On September 18, 2007, InnVest, in partnership with Cadbridge, closed its acquisition of all of the outstanding units of Legacy. The acquisition was effected by LGY Acquisition LP, a newly-formed limited partnership, owned by InnVest and Cadbridge. As a result of the acquisition, InnVest became the owner of an approximate 26% interest in the hotels owned by LGY Acquisition LP. Cadbridge is a partnership, the limited partners of which were, as at the date the Legacy transaction was completed, an affiliate of Cadim Inc., a division of the Caisse de Dépôt et placement du Québec, and Westmont Group. As a result of the subsequent reorganization, InnVest became the owner of eleven first-class assets (collectively the “Legacy Portfolio”). The Legacy Portfolio was acquired for an aggregate purchase price of \$652 million prior to closing and transaction costs, and \$679 million inclusive of such costs. The acquisition was partially funded with the \$200 million of equity and \$70 million of convertible extendible unsecured subordinated debentures raised in August 2007. The remainder of the

purchase price was satisfied with the assumption of \$194 million in mortgage debt secured by the properties and \$215 million of bridge financing from a Canadian chartered bank.

- In February 2008, the Trust entered into \$350 million of mortgage debt on certain of the hotels acquired as part of the Legacy Portfolio. The average interest rate on this financing is 5.6% per annum with an average term of just under five years. Proceeds were used to repay the Trust's outstanding bridge facility.
- During the first quarter of 2008, the Trust acquired the newly built 120-room Staybridge Suites located in Guelph, Ontario for \$17.4 million, and completed the development and opened the 105-room Staybridge Suites located in Oakville, Ontario.
- During the third quarter, InnVest sold two hotels. The Travelodge Toronto East (155 rooms) was sold for \$6.7 million less closing costs. The Quality Inn Downtown Montreal (96 rooms) was sold for \$6.2 million less closing costs. These assets had been classified as held for sale since the fourth quarter of 2007.
- On September 15, 2008, InnVest exercised the first five-year extension term on the Master Hotel Management Agreement with the Manager, extending the expiration date of this agreement to July 25, 2017. InnVest's independent trustees approved the extension following a review by third party hospitality consulting firms in Canada.
- On October 8, 2008, the REIT adopted a Unitholder rights plan (the "Plan"), which will be in effect for a maximum of 180 days, following which it will expire automatically. InnVest did not adopt the Plan in response to any specific take-over proposal, nor has it been made aware of any such proposal. The Plan is intended to ensure that Unitholders receive fair treatment in the event of an unsolicited attempt to gain control of InnVest and, in such event, to ensure Unitholders receive full value and that the Board of Trustees has time to consider alternatives to maximize Unitholder value. The Board believes that the implementation of the Plan was important given the volatility in the capital markets and the Board's view that InnVest's Units were significantly undervalued.
- The Board of Trustees is proposing to amend and restate the Plan to extend the effectiveness of the Plan for an additional three-year period. See "Description of Securities and Declaration of Trust – Units – Unitholder Rights Plan".
- In November 2008, the Trust implemented a normal course issuer bid to enable it to purchase up to 5,924,617 of the Trust's Units over a twelve-month period ending November 10, 2009. Purchases will be made at the prevailing market price at the time. All Units purchased pursuant to the normal course issuer bid will be cancelled by the Trust.

- In November 2008, the REIT adjusted its monthly distribution to \$0.0625 per unit. The adjusted distribution represented a one-third reduction from monthly distributions of \$0.09375 which had been paid since the Trust's inception. The reduction was implemented in light of the uncertain economic conditions which existed at the time and the Board of Trustee's desire to take a prudent approach to distributions in order to enhance InnVest's balance sheet and liquidity.
- On December 8, 2008, the REIT received from Royal Host Real Estate Investment Trust ("Royal Host"), a holder of more than 5.0% of InnVest's Units, a requisition for a special meeting of unitholders of InnVest. The stated purpose of the special meeting was to consider the removal of the four independent Trustees of InnVest and their replacement by four individuals nominated by Royal Host.
- On December 29, 2008, the REIT called an annual meeting of unitholders to be held on April 14, 2009. Though InnVest typically conducts its annual meeting in mid-May, the Board of Trustees has moved the annual meeting to an earlier date in response to Royal Host's meeting requisition nominating candidates for election to the Board.
- During the fourth quarter of 2008, InnVest sold the Travelodge Oshawa (120 rooms) for \$4.8 million less closing costs. This asset had been classified as held for sale since the fourth quarter of 2007.

## **DESCRIPTION OF THE BUSINESS**

### **Canadian Hotel Market Overview**

The Canadian lodging industry consists of both private and public entities, which operate in an extremely diversified market under a variety of brand names. The lodging industry has several key participants:

- Owners – these participants (which include the Trust) own hotel properties and enter into agreements with third party managers (such as Westmont, Hilton, Fairmont or Delta) to manage the hotels as franchisee. The branding of the hotels may be under the manager's own brand or under a franchise agreement. Alternatively, the properties may be operated as an independent hotel (unaffiliated with any brand).
- Owners/Managers – these participants own hotels and operate their properties with their own management team. The branding of the hotels may be under the manager's own brand or under a franchise agreement. Alternatively, the properties may be operated as an independent hotel (unaffiliated with any brand).
- Brands/Managers – these participants (which include Westmont, Hilton, Fairmont and Delta) operate hotels on behalf of owners.



- Franchisors – these participants (which include, among others, Choice Hotels’ Comfort Inn and Quality Inn brands) own a brand and strive to grow their revenues by expanding the number of hotels in their franchise system. Franchisors provide their branded hotels with brand recognition, marketing support and centralized reservation systems.

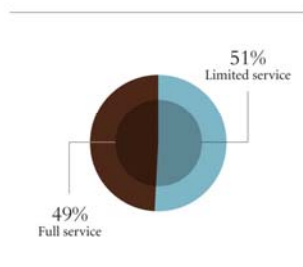
There are more than 8,400 hotel properties with almost 450,000 guest rooms generating annual revenues in excess of \$18 billion in the Canadian hotel industry. The Canadian hotel industry includes various levels of service offerings and price points. The properties range from small, independently owned and operated hotels and motels to large, full service branded hotels. Limited service hotel properties, which are properties that generally provide only limited food and beverage or other ancillary services, generate substantially all revenues from guest room rentals and tend to target more price sensitive segments of the market. A typical limited service property features a low-rise building that does not offer recreation facilities, large meeting spaces or extensive food and beverage facilities. These hotels are typically located in close proximity to major thoroughfares and to restaurants or other service providers. Other market sectors include various types of full-service hotels which can be categorized as: mid-scale hotels, which generally target the traveller seeking some ancillary services such as a restaurant, recreation facilities or meeting space; upscale hotels, which target the traveller seeking a higher-end hotel with a full range of services available and include luxury hotels, which target the traveller demanding an upscale hotel or resort. Within these varied levels of service, hotel ownership is significantly fragmented, with the majority of Canadian hotels, resorts and motels being family owned and operated.

## **InnVest’s Assets**

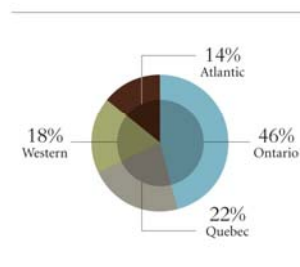
### *Hotel Portfolio*

InnVest owns Canada’s largest hotel portfolio, as measured both by number of hotels and by number of guest rooms. The Portfolio ranges from limited service to full service hotels and operates under 15 internationally recognized brands. The Portfolio of 147 hotel properties and 19,235 guest rooms is geographically diversified across all provinces and most major urban areas. The portfolio is further diversified by brand and customer thereby broadening the Trust’s market reach and mitigating risk.

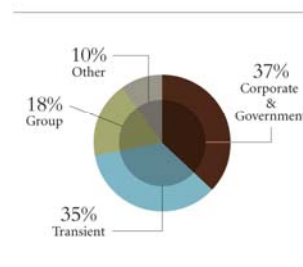
ROOMS BY SERVICE CATEGORY



ROOMS BY GEOGRAPHY



ROOM REVENUES BY CUSTOMER



Many of the hotel properties in the 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.

InnVest's hotels are managed by four hotel management companies. Refer to "Management of the REIT – Master Hotel Management Agreement" and "Management of the REIT - Other Management Agreements". A listing of each of the hotels in the Portfolio can be found in the Trust's 2008 Annual Report which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

The following table highlights the Portfolio's brand diversity. Each brand brings name recognition, central reservation systems, marketing and customer loyalty programs and quality standards. Choice Canada brands, including Comfort Inn®, Quality Hotel®, Quality Suites®, and Quality Inn® make up approximately 45% of the Portfolio's guest rooms.

<b>BRAND</b>	<b>No. of Hotels</b>	<b>No. of Guest Rooms</b>	<b>% of Guest Rooms</b>
Comfort Inn	84	6,780	35.3%
Delta Hotels	11	3,327	17.3%
Holiday Inn	16	2,724	14.1%
Travelodge	8	1,448	7.6%
Quality Suites/Inn	7	1,000	5.2%
Quality Hotel	5	796	4.1%
Hilton Hotel	2	768	4.0%
Radisson Hotel/Suites	4	707	3.7%
Fairmont Hotels & Resorts	2	604	3.1%
Staybridge Suites	3	342	1.8%
Sheraton Suites	1	323	1.7%
Best Western	1	130	0.7%
Hilton Garden Inn	1	120	0.6%
Hilton Homewood Suites	1	83	0.4%
Independent	1	83	0.4%
	147	19,235	100.0%

The following provides a brief description of each brand represented in the Portfolio:

- **Comfort Inn:** Comfort Inn is Canada's leading mid-scale limited service hotel brand as measured by number of locations, with over 140 locations (open or under development) in Canada and more than 2,200 locations worldwide. InnVest is the largest owner of Comfort Inn hotels in Canada, with over 55% of the brand's hotels. The Comfort Inns owned by InnVest are typically two-storey, interior corridor buildings located in suburban areas with easy access to primary highways. They generally range in size from 60 to 150 guest rooms.

- Quality Suites/Quality Inn and Quality Hotel: Focused on the limited-service sector, Quality® brands include over 60 hotels in Canada and more than 1,000 locations worldwide. The Quality branded hotels in the Portfolio are typically located in urban downtown locations, airport locations or in suburban areas with easy access to primary highways. The Quality branded hotels in the Portfolio range in size from 100 to over 200 guest rooms.
- Delta: Canada's leading first-class hotel management company, Delta manages and/or franchises 40 city centre, airport and resort properties in Canada. The Delta hotels in the Portfolio range in size from 150 to over 700 guest rooms.
- Holiday Inn/ Holiday Inn Express/ Holiday Inn Select: Holiday Inn Hotels & Resorts is part of the InterContinental Hotels Group family of brands. With more than 1,300 properties worldwide, Holiday Inn is the most recognized lodging brand in the world. With nearly 1,900 locations around the globe, Holiday Inn Express is the modern hotel for value-oriented travelers. The Holiday Inn branded hotels in the Portfolio are located principally in population centres in Ontario generally ranging in size from 135 to 240 guest rooms.
- Travelodge: Travelodge is one of Canada's largest hotel chains with over 115 locations across Canada. Travelodge is a mid-market brand catering to the corporate, leisure and senior traveler. The Travelodge branded hotels owned by InnVest range in size from 100 to over 250 guest rooms.
- Hilton/ Hilton Garden Inn/ Homewood Suites: Hilton Hotels, operates, manages and franchises hotels and resorts worldwide. There are more than 500 Hilton hotels around the world. The Hilton Garden Inn brand, focused on the mid-scale service category, has over 260 hotels open across North America. Homewood Suites by Hilton® is an upscale all-suite brand of residential-style hotels targeting travelers who are on the road for a few nights or longer. The Portfolio includes four Hilton branded hotels, including a Hilton Garden Inn, a Homewood Suites and two core brand Hilton hotels generally ranging in size from 80 to over 550 guest rooms.
- Radisson: Radisson Hotels & Resorts, one of the world's leading full-service hotel companies, operates, manages and franchises more than 400 hotels and resorts in 66 countries. The Radisson hotels owned by InnVest range in size from about 150 to just over 200 guest rooms.
- Fairmont: A leader in the global hospitality industry, the Fairmont Hotels & Resorts are an extraordinary collection of luxury hotels. Fairmont's portfolio includes over 55 distinctive hotels, with plans to develop over 20 new properties in the coming years.
- Sheraton: Sheraton is part of Starwood® Hotels & Resorts Worldwide and offers more than 400 full-service hotel choices in the most sought after destinations around the world.
- Staybridge Suites: With more than 140 locations, Staybridge Suites offers extended stay accommodations with kitchen facilities.

- Best Western: Best Western International is the world's largest hotel chain with approximately 4,000 hotels in 80 countries. The chain is a recognized hotel leader in the mid-price range.
- Independent: The Portfolio includes one independent hotels; Les Suites, located in Ottawa, Ontario.

### ***Choice Canada Franchising Business***

Upon completion of the REIT's initial public offering on July 26, 2002, in addition to the Portfolio, the REIT acquired a 50% indirect interest in Choice Canada. The remaining 50% of Choice Canada is owned by Choice International, one of the largest hotel franchise companies in the world with almost 7,000 hotels and resorts (open or under development) around the world under the Comfort Inn®, Comfort Suites®, Quality Inn®, Quality Hotel®, Quality Suites®, Clarion®, Sleep Inn®, Rodeway Inn®, Econo Lodge® and MainStay Suites® brand names. In addition to strong international brand recognition, Choice International has a centralized reservation system, sales and marketing programs and proprietary property management systems. Choice branded hotels are inspected regularly to ensure quality and consistency of service.

Choice Canada, the Canadian master franchisor of the Choice brands, enjoys a prominent position in the Canadian hospitality market. With almost 300 locations open or under development and almost 25,000 guest rooms, Choice Canada is the largest franchisor of hotels in Canada as measured by hotels under franchise. The Comfort and Quality brands are well known in the mid-scale sector.

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

With an increasing number of hotels being franchised under Choice flags, management of the REIT believes that the income stream from the REIT's 50% ownership interest in Choice Canada will continue to grow. During 2008, fifteen additional hotels were branded under the Choice flags in Canada. Additionally, through its ownership interest in Choice Canada, a subsidiary of the REIT participates in the approval of any new Choice branded hotels in Canada and in the removal of any defaulting franchisees.

## **Employees**

Approximately 8,200 full-time and part-time employees were employed by the Operator or subsidiaries of the Operator on December 31, 2008.

Approximately 3,500 employees at 55 of the hotels in the Portfolio are unionized, comprising approximately 43% of the total workforce. See “Risk Factors – Potential Labour Disruptions” for more information.

## **Competition**

The lodging industry is highly competitive. The Trust’s hotels compete against limited and full-service hotels in their local markets. Competitive factors in the lodging industry include room rates, quality of accommodations, name recognition, service levels and convenience of location. Demographic, geographic or other changes in the markets in which hotels owned by the Trust are located may affect the operations of these hotels. The Trust’s hotels are managed by experienced hotel management companies with extensive Canadian and international industry experience.

The Trust reserves 4% of its gross revenues (5% for three full service hotels) for maintenance capital expenditures, in order to maintain the quality of its hotels so that they continue to attract its customers.

The Westmont Restricted Parties have entered into non-competition agreements with the REIT to restrict certain of their acquisition activities in the limited service sector of the Canadian hotel market. These agreements prohibit the direct or indirect acquisition by the Westmont Restricted Parties of certain Canadian limited service hotel assets unless the opportunity to acquire such assets has first been offered to the REIT in accordance with the agreements.

## **Environmental Compliance**

An independent environmental consulting firm conducted Phase I and, where appropriate, Phase II environmental site assessments on the hotels in the Portfolio prior to their acquisition by the REIT. The Phase I environmental site assessments were conducted to identify actual or potential site contamination and non-compliance with environmental laws and regulations based on a review of available historical and current records, interviews with available site personnel and a visual inspection of each property. The completed Phase II environmental site assessments involved intrusive investigations, such as soil or water sampling and analysis. These assessments included, in some instances, asbestos sampling and preliminary site specific risk assessments. These assessments did not identify any substantial non-compliance with material environmental laws or regulations, and management of the REIT believes that the current estimated cost of remediation or capital expenditures with respect to actual or potential environmental conditions would not have a material adverse effect on the REIT’s results of operations, business prospects and financial condition.

## **Seasonality**

The Canadian hotel industry is seasonal in nature. Due to the seasonal nature of operations, financial results vary throughout the year. Revenues are typically higher in the second and third quarters due to leisure travel trends as compared to the first and fourth quarters. The seasonal revenue patterns are in contrast to fixed costs such as property taxes, insurance, interest, depreciation and amortization, and corporate and administrative expenses, which are not significantly impacted by seasonal or short-term variations.

## **DESCRIPTION OF SECURITIES AND DECLARATION OF TRUST**

### **Units**

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. The Manager and Westmont Hospitality Group Inc., which owns in the aggregate more than 5% of the outstanding Units, are currently each entitled to appoint one of the Trustees. See “Management of the REIT – Trustees and Officers”.

### ***Book-Based System***

The Units are represented in the form of fully registered global Unit certificates held by, or on behalf of, CDS Clearing and Depository Services Inc. (“CDS”) as custodian of the global certificates (for its participants) and registered in the name of CDS or its nominee. Except as described below, no purchaser of a Unit is entitled to a certificate or other instrument from the REIT or CDS evidencing the purchaser’s ownership of the Unit. Instead, Units are represented only in book-entry form. Beneficial interests in Units represented by the global certificates, constituting ownership of the Units, are represented through book-entry accounts of institutions acting on behalf of beneficial owners, as direct and indirect participants of CDS. CDS is responsible for establishing and maintaining book-entry accounts for its participants having interests in Units represented by the global certificates.

If CDS notifies the REIT that it is unwilling or unable to continue as custodian of the global certificates, or if at any time it ceases to be a clearing agency or otherwise ceases to be eligible to be the custodian of the global certificates and the REIT is unable to locate a qualified successor, or if the REIT elects to terminate the book-entry system, beneficial owners of Units represented by the global certificates will receive definitive Unit certificates.

### ***Issuance of Units***

The Declaration of Trust provides that Units or rights to acquire Units may be issued at times, to the persons, for the consideration and on the terms and conditions that the Trustees determine. Unitholders do not have any pre-emptive rights whereby additional Units proposed to be issued are first offered to existing Unitholders. New Units may be issued for cash through public offerings, through rights offerings to existing Unitholders (i.e., in which Unitholders receive rights to subscribe for new Units in proportion to their existing holdings of Units, which rights may be exercised or sold to other investors), through private placements (i.e., offerings to specific investors which are not made generally available to the public or existing Unitholders), or through the REIT's Distribution Reinvestment Plan described below under "– Distribution Reinvestment Plan". In certain instances, the REIT may also issue new Units as consideration for the acquisition of new properties or assets. The price or the value of the consideration for which Units may be issued will be determined by the Trustees. Issued and outstanding Units may be subdivided or consolidated from time to time by the Trustees without Unitholder approval. No certificates for fractional Units will be issued and fractional Units will not entitle the holders thereof to vote.

### ***Distribution Reinvestment Plan***

The REIT has established a Distribution Reinvestment Plan (the "DRIP") pursuant to which Unitholders resident in Canada and holding a minimum of 500 Units may elect to have all their distributions of income of the REIT automatically reinvested in additional Units at a price per Unit equal to the average of the trading price on the TSX for the five trading days ending on the second trading day immediately preceding the date of a monthly distribution (the "Average Market Price"). Until November 2008, a Unitholder who so elected would receive an additional bonus distribution of Units equal in value to 3% of each distribution that was reinvested. In November 2008, the Trust amended its DRIP to eliminate the 3% discount. No fractional Units will be issued under the DRIP; instead, a cash adjustment based upon the Average Market Price will be paid in lieu of any fractional Units otherwise issuable under the DRIP within 10 days after the distribution date. No brokerage commissions are payable in connection with the purchase of Units under the DRIP and all administrative costs are borne by the REIT.

As referenced above under "- Book-Based System", the only registered Unitholder will be CDS. As such, beneficial Unitholders (i.e., individuals or entities who hold Units through a broker or other intermediary participating in the CDS system) will only be entitled to enrol in the DRIP through a CDS participant (i.e., their broker or investment advisor). Statements detailing the number of additional Units acquired through the DRIP will only be provided to beneficial Unitholders through CDS participants.

Proceeds from the issuance of additional Units by the REIT pursuant to the DRIP will be added to the working capital of the REIT.

Additional information on the DRIP can be found at [www.innvestreit.com](http://www.innvestreit.com).

### ***Purchases of Units***

The REIT may from time to time purchase Units in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such purchases will constitute an “issuer bid” under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof. In November 2008, the REIT initiated a normal course issuer bid to repurchase up to 5,924,617 Units, representing approximately 10% of the REIT’s public float. As at March 4, 2009, the REIT has purchased 410,000 Units under its normal course issuer bid. All such Units were cancelled upon purchase.

### ***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 the REIT. The aggregate principal amounts of such Notes would equal the redemption price payable by the REIT. The term of such Notes would be 25 years, subject to earlier repayment at



the option of the REIT, and they would bear interest equal to the then current prime lending rate, as quoted by the provider of the REIT's operating loan 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.

### ***Unitholder Rights Plan***

In order to ensure, to the extent possible, that Unitholders are treated fairly in connection with any take-over bid made for the Units of the REIT and to ensure that the Board of Trustees is provided with sufficient time to evaluate unsolicited take-over bids and to explore and develop alternatives to maximize Unitholder value, the Board of Trustees determined on October 8, 2008 that it was advisable and in the best interests of the Trust to implement a unitholder rights plan (the "Original Rights Plan").

Unless it is amended, the Original Rights Plan will expire in accordance with its terms on April 8, 2009; however, the Board of Trustees has determined that it is in the best interests of Unitholders and the REIT that the Original Rights Plan be amended and restated in order to ensure that the benefits provided to Unitholders pursuant to the plan continue to accrue to Unitholders. Accordingly, the Board of Trustees has approved InnVest's execution, delivery and performance of its amended and restated unitholder rights plan agreement (the "Amended and Restated Rights Plan") between InnVest and Computershare Investor Services Inc. as rights agent. A copy of the Rights Plan will be available at [www.sedar.com](http://www.sedar.com).

At the annual and special meeting on April 14, 2009, Unitholders will be asked to vote on a resolution to approve, ratify and confirm the adoption of the Amended and Restated Rights Plan. The Amended and Restated Rights Plan resolution must be passed by a majority of the votes cast by Independent Unitholders (as defined in the Amended and Restated Rights Plan) who vote in respect thereof. If the Amended and Restated Rights Plan resolution is not approved at the annual and special meeting on April 14, 2009, the Amended and Restated Rights Plan and the rights issued pursuant to the Original Rights Plan will cease to be effective and the Trust will not have any form of unitholder rights plan. If the Amended and Restated Rights Plan is approved by Unitholders it will be submitted to the TSX for approval.

The Amended and Restated Rights Plan is designed to ensure the fair treatment of Unitholders in connection with any take-over bid and to ensure that the Board of Trustees is provided with sufficient time to evaluate unsolicited take-over bids and to explore and develop alternatives to maximize Unitholder value. The Amended and Restated Rights Plan is similar to rights plans adopted by many other Canadian public issuers. Until the occurrence of certain specific events, the rights issued pursuant to the plan will trade with the Units of the Trust and be represented by the global certificates representing the Units. The rights become exercisable only when a person, including any party related to it or certain persons acting jointly with it, acquires or announces its intention to acquire 20% or more of the outstanding Units of the Trust without complying with the "Permitted Bid" provisions of the Amended and Restated Rights Plan. Should a non-Permitted Bid be launched, each right would entitle each holder of Units (other than the acquiring person and persons related to it or acting jointly with it) to purchase additional Units of the Trust at a significant discount to the market price at the time. Under the Amended

and Restated Rights Plan a Permitted Bid is a bid made to all Unitholders on identical terms and conditions that is open for at least 60 days. If at the end of 60 days at least 50% of the outstanding Units, other than those owned by the offeror and certain related parties, have been tendered and not withdrawn, the offeror may take up and pay for the Units but must extend the bid for a further 10 days to allow all other Unitholders the opportunity to tender.

The Amended and Restated Rights Plan is not intended to and will not prevent a take-over of the Trust. The Amended and Restated Rights Plan does not reduce the duty of the Board of Trustees to act honestly and in good faith and in the best interests of the Trust, and to consider on that basis any offer made for the Units of the Trust, nor does the Amended and Restated Rights Plan alter the proxy mechanisms to change the Board of Trustees, create dilution on the initial issue of the rights or change the way in which Units of the Trust trade.

### **Declaration of Trust**

Although the Declaration of Trust confers upon a Unitholder all of the material protections, rights and remedies that an investor would have as a shareholder of a corporation governed by the *Canada Business Corporations Act* (the “CBCA”), certain differences do exist as described below.

The Declaration of Trust includes provisions intended to limit the liability of Unitholders for liabilities and other obligations of the Trust. No statutory provisions historically confirmed the limited liability status of Unitholders in a manner comparable to shareholders of a CBCA corporation until, in December 2004, the *Trust Beneficiaries’ Liability Act* (Ontario) was enacted. That Act provides that Unitholders of the Trust are not liable, as beneficiaries of a trust, for any act, default, obligation or liability of the Trust or the Trustees, arising after its enactment. That Act has not yet been judicially considered and it is possible that reliance on the Act by a Unitholder could be successfully challenged on jurisdictional or other grounds.

Many of the provisions of the CBCA respecting the governance and management of a corporation have been incorporated in the Declaration of Trust. For example, Unitholders are entitled to exercise voting rights in respect of their holdings of Units in a manner comparable to shareholders of a CBCA corporation and to elect Trustees and auditors; however, pursuant to the Declaration of Trust, Westmont has the right to appoint one Trustee of the REIT and, pursuant to the Master Hotel Management Agreement and the Declaration of Trust, the Manager also has the right to appoint one Trustee of the REIT, see “Management of the REIT – Trustees and Officers”. The Trustees appointed by each of Westmont and the Manager can not be removed, other than by the party which appointed them. In addition, Unitholders are not entitled to call for the amendment of the provision of the Declaration of Trust pursuant to which the Manager and Westmont are entitled to appoint Trustees.

The Declaration of Trust also includes provisions modeled after comparable provisions of the CBCA dealing with the calling and holding of meetings of Unitholders and Trustees, the quorum for and procedures at such meetings and the right of Unitholders to participate in the decision-making process where certain fundamental actions are proposed to be undertaken. The matters in respect of which approval by Unitholders is required under the Declaration of Trust, and in particular the requirement that certain “fundamental changes” be approved by “special

resolution” (both as defined in the CBCA) are generally less extensive than the rights conferred on the shareholders of a CBCA corporation. These approval rights are supplemented by provisions of applicable securities laws that are generally applicable to issuers (whether corporations, trusts or other entities) that are “reporting issuers” or the equivalent or are listed on the TSX. The Declaration of Trust includes provisions concerning trustee independence, the composition of board committees including the audit committee and conflicts of interest, as described under “Management of the REIT – Conflict of Interest Provisions”, which are based on provisions of the CBCA and are supplemented by applicable securities laws.

Unitholders do not have recourse to a dissent right under which shareholders of a CBCA corporation are entitled to receive the fair value of their shares where certain fundamental changes affecting the corporation are undertaken (such as an amalgamation, a continuance under the laws of another jurisdiction, the sale of all or substantially all of its property, a going private transaction or the addition, change or removal of provisions restricting (i) the business or businesses that the corporation can carry on, or (ii) the issue, transfer or ownership of shares). As an alternative, Unitholders seeking to terminate their investment in the REIT are entitled to receive, subject to certain conditions and limitations, a price per Unit determined in accordance with the Declaration of Trust, as described under “— Redemption Right”.

Unitholders similarly do not have recourse to the statutory oppression remedy that is available to shareholders of a CBCA corporation where the corporation undertakes actions that are oppressive, unfairly prejudicial or disregarding the interests of securityholders and certain other parties. Shareholders of a CBCA corporation may also apply to a court to order the liquidation and dissolution of the corporation in those circumstances, whereas Unitholders could rely only on the general provisions of the Declaration of Trust which permit the winding up of the REIT with the approval of two-thirds of the Unitholders. Shareholders of a CBCA corporation may also apply to a court for the appointment of an inspector to investigate the manner in which the business of the corporation and its affiliates is being carried on where there is reason to believe that fraudulent, dishonest or oppressive conduct has occurred. The Declaration of Trust does not contemplate the appointment of an inspector to investigate the management or operation of the Trust or its affiliates. The CBCA also permits shareholders to bring or intervene in derivative actions in the name of the corporation or any of its subsidiaries, with the leave of a court. The Declaration of Trust does not include a comparable right of the Unitholders to commence or participate in legal proceedings with respect to the REIT.

### **Meetings of Unitholders**

The Declaration of Trust provides that meetings of Unitholders must be called and held for the appointment or removal of Trustees (except for a nominee of the Manager or Westmont Group), the appointment or removal of the auditors of the REIT, the approval of amendments to the Declaration of Trust, except as described below under “Amendments to the Declaration of Trust”, the sale of the assets of the REIT as an entirety or substantially as an entirety (other than as part of an internal reorganization) and the liquidation or dissolution of the REIT. A resolution appointing or removing a Trustee (except for a nominee of the Manager or Westmont Group) or the auditors of the REIT must be passed by a simple majority of the votes cast by Unitholders. The balance of the foregoing matters must be passed by a Special Resolution of Unitholders. Meetings of Unitholders will be called and held annually for the election of the Trustees and the

appointment of auditors of the REIT. The REIT has called an annual and special meeting of Unitholders to be held on April 14, 2009.

A meeting of Unitholders may be convened at any time and for any purpose by the Trustees and must be convened if requisitioned by the holders of not less than 5% of the Units then outstanding by a written requisition. A requisition must state in reasonable detail the business proposed to be transacted at the meeting. Unitholders have the right to obtain a list of Unitholders to the same extent and upon the same conditions as those which apply to shareholders of a corporation governed by the CBCA.

Unitholders may attend and vote at all meetings of the Unitholders either in person or by proxy and a proxyholder need not be a Unitholder. Two persons present in person or represented by proxy and representing in the aggregate at least 10% of the votes attaching to all outstanding Units shall constitute a quorum for the transaction of business at all such meetings. If no quorum is present at any such meeting when called, the meeting, if called on the requisition of Unitholders, will be terminated and otherwise will be adjourned for not less than 10 days, and at the adjourned meeting, the Unitholders then present in person or represented by proxy will form the necessary quorum.

The Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders.

### **Convertible Debentures**

Subject to debt limitations as outlined in the Declaration of Trust, the REIT may issue an unlimited number of convertible debentures. The REIT currently has three series of convertible debentures outstanding: the 6.25% Series A Debentures, the 6.00% Series B Debentures and the 5.85% Series C Debentures.

A total of \$45.8 million of the 6.25% Series A Debentures remained outstanding at December 31, 2008. These debentures are convertible into Units at a strike price of \$12.50, bear interest at 6.25% per annum payable semi-annually on April 15 and October 15 of each year and are due April 15, 2011. The number of Units issuable upon conversion of the 6.25% Series A Debentures total 3,661,120.

A total of \$75 million of the 6.00% Series B Debentures remained outstanding at December 31, 2008. The 6.00% Series B Debentures are convertible into Units at a strike price of \$14.90, bear interest at 6.00% per annum payable semi-annually on May 31 and November 30 of each year and are due May 31, 2013. The number of Units issuable upon conversion of the 6.00% Series B Debentures total 5,033,557.

A total of \$70 million of the 5.85% Series C Debentures remained outstanding at December 31, 2008. The 5.85% Series C Debentures are convertible into Units at a strike price of \$14.70, bear interest at 5.85% per annum payable semi-annually on February 1 and August 1 of each year and are due August 1, 2014. The number of Units issuable upon conversion of the 5.85% Series C Debentures total 4,761,905.

The 6.25% Series A Debentures are not redeemable prior to April 15, 2008, except in the event of the satisfaction of certain conditions after the occurrence of a “Change in Control” (as defined in the Indenture). From April 15, 2008 to April 14, 2010, the 6.25% Series A Debentures will be redeemable, in whole or from time to time in part, at the option of the REIT, 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 of the 6.25% Series A Debentures. On or after April 15, 2010, the 6.25% Series A Debentures will be redeemable, in whole or from time to time in part, at the option of the REIT.

The 6.00% Series B Debentures are not redeemable prior to May 31, 2009, except in the event of the satisfaction of certain conditions after the occurrence of a “Change in Control” (as defined in the Indenture). From May 31, 2009 to May 31, 2011, the 6.00% Series B Debentures will be redeemable, in whole or from time to time in part, at the option of the REIT, 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 of the 6.00% Series B Debentures. On or after June 1, 2011, the 6.00% Series B Debentures will be redeemable, in whole or from time to time in part, at the option of the REIT.

The 5.85% Series C Debentures are not redeemable prior to August 1, 2010, except in the event of the satisfaction of certain conditions after the occurrence of a “Change in Control” (as defined in the Indenture). From August 1, 2010 to July 31, 2012, the 5.85% Series C Debentures will be redeemable, in whole or from time to time in part, at the option of the REIT, 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 of the 5.85% Series C Debentures. On or after August 1, 2012, the 5.85% Series C Debentures will be redeemable, in whole or from time to time in part, at the option of the REIT.

The 6.25% Series A Debentures, the 6.00% Series B Debentures and the 5.85% Series C Debentures rank *pari passu* with each other and are subordinated in right of payment to all other existing and future indebtedness of the REIT other than indebtedness expressed to be *pari passu* with or subordinate in right of payment to the 6.25% Series A Debentures or 6.00% Series B Debentures or 5.85% Series C Debentures, as applicable.

### **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 determine 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.

### **Amendments to the Declaration of Trust**

The Declaration of Trust may be amended or altered from time to time by Special Resolution of the Unitholders.

The Trustees may, without the approval of the Unitholders, make certain amendments to the Declaration of Trust from time to time including amendments:

1. for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Trustees or over the REIT, its status as a “mutual fund trust” under the Tax Act or the distribution of Units;
2. which, in the opinion of the Trustees, provide additional protection for the Unitholders;
3. which remove any conflicts or inconsistencies in the Declaration of Trust or make minor corrections which are, in the opinion of the Trustees, necessary or desirable and not prejudicial to the Unitholders;
4. which, in the opinion of the Trustees, are necessary or desirable as a result of changes in taxation laws; and
5. for any purpose (except one in respect of which a Unitholder vote is specifically otherwise required) if the Trustees are of the opinion that the amendment is not prejudicial to Unitholders and is necessary or desirable.

### **Term of the REIT and Sale of Substantially All Assets**

The REIT has been established for an indefinite term. Pursuant to the Declaration of Trust, termination of the REIT or the sale or transfer of the assets of the REIT as an entirety or substantially as an entirety (other than as part of an internal reorganization of the assets of the REIT approved by the Trustees) requires approval of the Unitholders by Special Resolution.

## **Takeover Bids**

The Declaration of Trust contains provisions to the effect that if a takeover bid is made for the Units (as defined in the *Securities Act* (Ontario)) (the “Securities Act”) and not less than 90% of the Units (other than Units held at the date of the takeover bid by or on behalf of the “offeror” or “associates” or “affiliates” of the offeror, as such terms are defined in the Securities Act) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders who did not accept the offer on the terms offered by the offeror or at the fair value of such Unitholders’ Units determined in accordance with the procedures set out in the Declaration of Trust.

## **Information and Reports**

The REIT will furnish to Unitholders such financial statements (including quarterly and annual consolidated financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders’ tax returns under the Tax Act and equivalent provincial legislation.

Prior to each meeting of Unitholders, the Trustees will provide the Unitholders (along with notice of such meeting) all such information as is required by applicable law to be provided to such holders.

## **INVESTMENT GUIDELINES AND OPERATING POLICIES**

### **Investment Guidelines**

The Declaration of Trust provides that the REIT’s assets may be invested only in accordance with the following guidelines:

- (a) the REIT will invest, directly or indirectly (including through corporations, limited partnerships, general partnerships (if permitted by changes in tax laws) or trusts), in interests in real property on which hotels are situated and the hotel businesses conducted thereon, primarily in Canada, and in entities whose activities consist primarily of franchising hotels;
- (b) notwithstanding any other provisions of the Declaration of Trust, the REIT shall not make any investment, take any action or omit to take any action that would result in: (i) the REIT not qualifying as a “unit trust” and a “mutual fund trust” for the purposes of the Tax Act; or (ii) the Units being disqualified for investment by Exempt Plans;
- (c) the REIT may invest in a joint venture arrangement with one or more third parties only if the assets owned by the joint venture and the activities of the joint venture otherwise comply with the investment guidelines and operating policies of the REIT, and:

- (i) the joint venture arrangement is one pursuant to which the REIT holds an interest in real property jointly or in common with others (“joint venturers”) either directly or through the ownership of securities of a corporation or other entity (a “joint venture entity”) as co-owner;
- (ii) the REIT’s interest in the joint venture arrangement is not subject to any restriction on transfer other than a right of first offer, if any, in favour of the joint venturers;
- (iii) the REIT has a right of first offer to buy the interests of the other joint venturers;
- (iv) the joint venture arrangement provides an appropriate buy-sell mechanism to enable a joint venturer to purchase the other joint venturer’s interests or to sell its interest;
- (v) the joint venture arrangement provides that the liability of the REIT to third parties is several and not joint and several, provided however that, subject to any remedies that each joint venturer may have against the other joint venturers, a joint venturer may be required to give up its interest in any particular property owned by the joint venture entity as a result of another joint venturer’s failure to honour its proportionate share of the obligations relating to such property; and
- (vi) the joint venture arrangement permits, but does not require, the REIT or its designee to participate fully in the management thereof;

provided, however, that the investment by the REIT in Choice Canada shall be specifically excluded from these requirements;

- (d) except for temporary investments held in cash, deposits with a Canadian chartered bank or trust company registered under the laws of a province of Canada, short-term government debt securities or in money market instruments of, or guaranteed by, a Schedule 1 Canadian bank maturing prior to one year from the date of purchase of such securities by the REIT or in short term commercial paper, notes, bonds or other debt securities of a Canadian corporation, trust or other entity maturing prior to one year from the date of issue and having a rating of at least R 1 (Mid) by Dominion Bond Rating Service or A 1 (Mid) by Standard & Poor’s Corporation, the REIT may not hold securities other than securities of a joint venture entity or an entity wholly owned by the REIT formed and operated solely for the purpose of holding a particular real property or real properties, holding and/or managing hotel operating assets or whose activities consist primarily of franchising hotels, and provided that, notwithstanding anything contained in the Declaration of Trust to the contrary, the REIT may acquire securities of other real estate investment trusts;



- (e) the REIT shall not invest in rights to or interests in mineral or other natural resources, including oil or gas, except as incidental to an investment in real property;
- (f) the REIT shall not invest in raw land for development (or improved land with a view to demolishing the improvements) except for existing properties with additional development potential or properties adjacent to existing properties owned by the REIT for the purpose of: (i) the renovation or expansion of existing facilities; or (ii) the development of new facilities that will be capital property of REIT;
- (g) the REIT may invest in mortgages and mortgage bonds (including, with the consent of a majority of the Trustees, a participating or convertible mortgage) where:
  - (i) the real property that is security therefore is income producing real property which otherwise meets the investment guidelines of the REIT;
  - (ii) the amount of the mortgage loan is not in excess of 75% of the market value of the property securing the mortgage and the mortgage has at least a 1.2 times debt service coverage level, which is obtained by dividing operating income for the particular property by the total principal and interest payments under all mortgages on such property;
  - (iii) the mortgage is a first mortgage registered on title to the real property which is security therefore; and
  - (iv) the aggregate value of the REIT's investments in these mortgages, after giving effect to the proposed investment, will not exceed 20% of Adjusted Unitholders' Equity (calculated by taking the aggregate of (i) the amount of Unitholders' equity and (ii) the amount of accumulated depreciation and amortization recorded in the books and records of the REIT in respect of its properties, in each case calculated in accordance with GAAP) calculated at the time of such investment;
- (h) notwithstanding paragraph (g), the REIT may invest in mortgages if the intention is to use the acquisition of the mortgages as a potential method of acquiring control of a real property or a portfolio of properties and the property or properties would otherwise meet the investment guidelines of the REIT and provided the aggregate value of the REIT's investments in these mortgages (including mortgage loans referred to in (i)), after giving effect to the proposed investment, will not exceed 20% of Adjusted Unitholders' Equity (as defined in the Declaration of Trust) calculated at the time of such investment;
- (i) notwithstanding paragraph (g), the REIT may also invest in mortgages where:

- (i) the mortgage is a “vendor take back” mortgage granted to the REIT in connection with the sale by it of existing real property and as a means of financing the purchaser’s acquisition of such property from the REIT;
  - (ii) the mortgage is interest bearing;
  - (iii) the mortgage is registered on title to the real property which is security therefore;
  - (iv) the mortgage has a maturity not exceeding five years;
  - (v) the amount of the mortgage loan is not in excess of 75% of the selling price of the property securing the mortgage; and
  - (vi) the aggregate value of these mortgages (including mortgages and mortgage bonds in which the REIT is permitted to invest by virtue of paragraphs (g) and (h)), after giving effect to the proposed investment, will not exceed 20% of the Adjusted Unitholders’ Equity calculated at the time of such investment;
- (j) all of the REIT’s hotel and other real property investments shall be leased to qualified operators (the Operator and its subsidiaries being qualified operators); and
  - (k) the REIT may invest an aggregate amount (which, in the case of an amount invested to acquire real property, shall be the purchase price less the amount of any indebtedness assumed or incurred by the REIT and secured by a mortgage on such property) of up to 15% of Adjusted Unitholders’ Equity in investments or transactions which do not comply with paragraphs (a), (c), (d), (f), (g), (h) or (i).

For the purposes of the foregoing guidelines, the assets, liabilities and transactions of a corporation or other entity wholly or partially owned by the REIT will be deemed to be those of the REIT on a proportionate consolidation basis. In addition, any references in the foregoing to an investment in real property will be deemed to include an investment in a joint venture arrangement that holds real property.

### **Operating Policies**

The Trustees shall conduct the operations and affairs of the REIT in accordance with the following policies and shall not permit any subsidiary of the REIT to conduct its operations and affairs other than in accordance with the following policies:

- (a) the REIT and its subsidiaries shall not purchase, sell, market or trade in currency or interest rate futures contracts other than for hedging purposes where, for the purposes hereof, the term “hedging” shall have the meaning ascribed thereto by National Instrument 81-102 adopted by the Canadian Securities Administrators, as amended from time to time;

- (b) (i) any written instrument creating an obligation which is, or includes the granting by the REIT of, a mortgage; and (ii) to the extent the Trustees determine to be practicable and consistent with their fiduciary duty to act in the best interests of the Unitholders, any written instrument which is, in the judgment of the Trustees, a material obligation, shall in each case contain a provision or be subject to an acknowledgement to the effect that the obligation being created is not personally binding upon, and that resort shall not be had to, nor shall recourse or satisfaction be sought from, the private property of any of the Trustees, Unitholders, annuitants under a plan of which a Unitholder acts as a trustee or carrier, or officers, employees or agents of the REIT, but that only property of the REIT or a specific portion thereof shall be bound; provided that the REIT is not required, but shall use reasonable efforts, to comply with this requirement in respect of obligations assumed by the REIT upon the acquisition of real property;
- (c) the REIT shall not lease or sublease to any person (except a wholly owned subsidiary), any real property, premises or space where that person and its affiliates would, after the contemplated lease or sublease, be leasing or subleasing real property, premises or space having a fair market value net of encumbrances in excess of 5% of Adjusted Unitholders' Equity;
- (d) except for renovation or expansion of existing facilities and the development of new facilities as permitted under paragraph (f) of "– Investment Guidelines" above, the REIT shall not engage in construction or development of real property except as necessary to maintain its real property in good repair or to enhance the income producing ability of properties in which the REIT has an interest;
- (e) title to each real property shall be held by and registered in the REIT's name, the Trustees or in the name of a corporation or other entity directly or indirectly wholly owned by the REIT or jointly owned by the REIT with joint venturers;
- (f) the REIT shall not incur or assume any indebtedness under a mortgage or other security where (i) in the case of an individual property, the amount borrowed exceeds 75% of the market value of such individual property, or (ii) in the case of more than one property or a pool or portfolio of properties, the amount borrowed exceeds 75% of the market value of such properties on an aggregate basis, in either case, calculated at the time of assuming such indebtedness;
- (g) the REIT shall not incur or assume any indebtedness (other than temporary indebtedness, if any, due to vendors of the initial Portfolio in connection with the initial acquisition transaction, non-interest bearing indebtedness and trade accounts payable) if, after giving effect to the incurrence or assumption of such indebtedness, the Financial Leverage Ratio would exceed 50% (60% including any convertible debentures of the REIT);
- (h) the REIT shall not directly or indirectly guarantee any indebtedness or liabilities of any kind of a third party except indebtedness assumed or incurred under a mortgage by a corporation or other entity wholly owned by the REIT or jointly by

the REIT with joint venturers and operated solely for the purpose of holding a particular property or properties where such mortgage, if granted by the REIT directly, would not cause the REIT to otherwise contravene the restrictions set out under “Investment Guidelines and Operating Policies”, and, where such mortgage is granted by a joint venture entity, subject to a joint venturer being required to give up its interest in a property owned by the joint venture entity as a result of another joint venturer’s failure to honour its proportionate share of the obligations relating to such property, the REIT’s liability is limited strictly to the proportion of the mortgage loan equal to the REIT’s proportionate ownership interest in the joint venture entity;

- (i) the REIT shall obtain an independent valuation of each property that it intends to acquire from or sell to a Related Party;
- (j) the REIT shall obtain and maintain at all times insurance coverage in respect of potential liabilities of the REIT and the accidental loss of value of the assets of the REIT from risks, in amounts, with such insurers, and on such terms as the Trustees consider appropriate, taking into account all relevant factors including the practices of owners of comparable properties;
- (k) the REIT shall obtain or cause the Operator to obtain such physical and environmental reports as the Trustees consider advisable for each future hotel property to be acquired by it; and
- (l) the REIT shall not issue additional Units (other than pursuant to the convertible debentures) unless the Trustees consider such issuances not to be dilutive to ensuing annual distributions of Distributable Income to existing Unitholders.

For the purpose of the foregoing policies, the assets, liabilities and transactions of a corporation or other entity wholly or partially owned by the REIT will be deemed to be those of the REIT on a proportionate consolidated basis. In addition, any references in the foregoing to an investment in real property include an investment in a joint venture that holds real property.

## **DISTRIBUTION POLICY**

The following summarizes the REIT’s distribution policy as contained in the Declaration of Trust. The distribution policy may be amended only with the approval of a majority of the votes cast at a meeting of Unitholders.

### **General**

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. This difficulty is due to the following factors:

1. the exposure of the Canadian hotel industry to the overall cyclical effects of the Canadian business environment;
2. the seasonal nature of the REIT's business;
3. the REIT's geographical diversity, as its hotels are located in numerous regions throughout Canada, with each region having its own unique characteristics;
4. changing customer attitudes to brands of hotels in the REIT's Portfolio;
5. changes in customer segmentation due to changing social, economic and political conditions; and
6. other macroeconomic, social and geopolitical factors which are beyond the control of the REIT.

All of these factors can have a material effect on the REIT's revenue and cost structure. A recent example was evidenced by the outbreak of SARS in 2003 which had a material negative impact on the Canadian hotel industry. The current uncertainty in the global economic environment may also result in a material negative impact on the Canadian hotel industry. As a result of the REIT's exposure to numerous factors which are beyond its control, it is difficult for the management of the REIT to make predictions concerning distribution levels for future quarters, and as a result, management asserts that it would not be prudent to provide investors or potential investors with forward-looking information regarding distribution levels.

Distributable Income is determined after deduction of a reserve for replacement of furniture, fixtures and equipment and capital improvements. Each year, InnVest sets aside 4% of total hotel revenue and certain amounts required for hotel acquisitions for replacing furniture, fixtures and equipment and capital improvements (5% of total hotel revenue for its three full service hotels).

Distributions may be adjusted for amounts paid in prior periods if the actual Distributable Income for the prior periods is greater than or less than the Trustees' estimates for the prior periods. Unitholders will also be entitled to receive a cash distribution each year, paid on or about January 15th of the following year (being payable as of the preceding December 31st), of any excess of the REIT's income (including taxable capital gains, if any) for the purposes of the Tax Act (plus the non taxable portion of capital gains, if any) for the year over distributions otherwise made for that year. The distributions for any month will be payable to the Unitholders of record at the close of business on the last business day of the month. Distributions shall be made in cash and may be reinvested in Units through the Plan described under "Description of Securities and Declaration of Trust – Units – Distribution Reinvestment Plan".

The Portfolio is subject to variations in revenues, with revenues during the second and third calendar quarters being generally higher than those in the first and fourth quarters. As a result, if necessary, the REIT may be required to draw down on its operating loan facility during the first and fourth quarters in order to augment otherwise lower cash distributions to a point where cash distributions are as even as possible throughout the calendar year.

In November 2008, the REIT adjusted its monthly distribution to \$0.0625 per Unit. The adjusted distribution represented a one-third reduction from monthly distributions of \$0.09375 which had been paid since the Trust's inception in mid-2002. The reduction was implemented in light of the uncertain economic conditions which existed at the time, and the Board of Trustee's desire to take a prudent approach to distributions in order to enhance InnVest's balance sheet and liquidity.

For the years ended December 31, 2006 and December 31, 2007, the REIT declared distributions totalling \$59.6 million and \$70.8 million, respectively, representing \$1.125 per Unit for each year. For the year ended December 31, 2008, the REIT declared distribution totalling \$78.5 million or \$1.0625 per Unit, reflecting the downward adjustment to monthly distributions which commenced in November of 2008.

### **Computation of Distributable Income for Distribution Purposes**

Distributable Income is defined as net income as set out in the Trust's consolidated financial statements determined in accordance with GAAP, subject to certain adjustments set out in the Declaration of Trust, including the addition of depreciation and amortization, amortization of fair value debt adjustment and future income tax expense, excluding any gains or losses on the disposition of real property, and future income tax recovery and deducting the amount calculated for the reserve for replacement of furniture, fixtures and equipment and capital improvements, the accretion on convertible debentures that is included in the computation of net income. Distributable Income so calculated may reflect any other adjustments determined by the Trustees in their discretion and may be estimated whenever the actual amount has not been fully determined. Such estimates will be adjusted as of the subsequent distribution date when the amount of Distributable Income has been finally determined.

### **Tax Deferral on Distributions**

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 Canada Revenue Agency for that year. For the calendar years 2006, 2007, and 2008 the non-taxable portion of distributions made to Unitholders was 40.5%, 40.0% and 44.0% respectively.

## SELECTED FINANCIAL INFORMATION

The following table sets out selected financial information as at, and for the years ended, December 31, 2008 and 2007 and should be read in conjunction with the consolidated financial statements of the REIT.

	<u>As at December 31, 2008</u>	<u>As at December 31, 2007</u>
<b>Balance Sheet Data</b>		
<i>(in thousands)</i>		
Total Assets .....	\$1,977,104	\$ 2,062,279
Total Long-term Debt (includes current portion of long-term debt).....	\$ 951,276	\$ 711,617
	<u>Year Ended December 31, 2008</u>	<u>Year Ended December 31, 2007</u>
<b>Revenue and Earnings Data</b>		
<i>(in thousands, except per unit amounts)</i>		
Hotel Revenues.....	\$ 678,722	\$ 495,955
Hotel Operating Income .....	\$ 181,173	\$ 138,808
Net Income (Loss) .....	\$ (3,377)	\$ 41,222
Net Income (Loss) Per Unit – basic and diluted .....	(0.046)	\$ 0.657
<b>Other Data</b>		
Average Daily Rate (“ADR”).....	\$ 120.34	\$ 106.68
Occupancy .....	63.4%	63.9%
Revenue per Available Room (“RevPAR”).....	\$ 76.27	\$ 68.15
Distributions Per Unit .....	\$ 1.0625	\$ 1.1250

## MATERIAL DEBT OBLIGATIONS

At December 31, 2008, InnVest had mortgages payable in the aggregate amount of \$958.3 million with a weighted average term of 3.7 years and a weighted average effective interest rate of 5.8% (ranging from 3.8% to 8.0%). Approximately 9.6% of the Trust’s mortgage debt is at a floating rate.

InnVest has no significant mortgage maturities until 2010. Approximately \$189.1 million in mortgage debt with an average interest rate of 5.8% matures in 2010, the majority of this debt represents one maturity with a large Canadian institutional lender. Forty limited service hotels serve as collateral on this debt. Approximately \$318.8 million in mortgage debt with an average interest rate of 5.5% matures in 2011, primarily made up of two separate maturities of approximately \$268.0 million and \$50.8 million, both with a large Canadian institutional lender. The \$268.0 million mortgage debt maturing in 2011 is subject to two one-year extensions, at the REIT’s option, subject to certain minimum thresholds at the time of maturity. In aggregate, nine full service hotels serve as collateral on the mortgages maturing in 2011. As at December 31, 2008, these 2010 and 2011 maturities are supported by strong debt service coverage ratios. The

REIT also has approximately \$85.6 million of mortgages payable secured by conduit financing with maturity dates in 2014 and beyond.

InnVest also has three series of unsecured fixed-rate convertible debentures which mature between 2011 and 2014. At December 31, 2008, InnVest has an aggregate of \$190.8 million in convertible debentures outstanding, see “Description of Securities and Declaration of Trust - Convertible Debentures”.

InnVest’s debt obligations do not provide for any contractual limitations on cash distributions to its Unitholders.

### **MARKET FOR SECURITIES**

The Units are listed for trading on the TSX and under the symbol “INN.UN”. The following table sets out the monthly reported high and low trading prices and trading volumes of the Units for the most recently completed financial year:

#### **TSX Trading Summary for the Units** **(2008)**

<b>Month</b>	<b>High (\$)</b>	<b>Low (\$)</b>	<b>Volume Traded</b>
January	10.71	7.82	4,220,927
February	9.69	8.82	3,789,554
March	10.13	8.90	3,111,026
April	10.35	9.51	3,006,738
May	10.22	9.35	2,284,518
June	10.03	9.45	1,975,241
July	9.70	8.80	2,983,081
August	9.95	9.19	5,088,450
September	9.82	8.39	2,764,836
October	8.99	4.61	9,566,914
November	5.71	2.43	4,896,960
December	3.98	2.55	4,179,281



The 6.25% Series A Debentures are listed for trading on the TSX under the symbol “INN.DB.A”. The following table sets out the monthly reported high and low prices and trading volumes of the 6.25% Series A Debentures for the most recently completed financial year.

**TSX Trading Summary for the 6.25% Series A Debentures**  
(2008)

<b>Month</b>	<b>High (\$)</b>	<b>Low (\$)</b>	<b>Volume Traded</b>
January	99.99	94.00	4,110
February	98.99	95.00	3,370
March	99.90	91.46	5,270
April	99.99	97.00	3,120
May	99.99	97.00	4,710
June	100.09	97.50	4,770
July	99.90	95.99	5,560
August	100.00	97.75	8,680
September	101.00	98.00	6,900
October	99.00	75.00	2,400
November	80.00	45.00	2,500
December	65.00	50.00	11,240

The 6.00% Series B Debentures are listed for trading on the TSX under the symbol “INN.DB.B”. The following table sets out the monthly reported high and low prices and trading volumes of the 6.00% Series B Debentures for the most recently completed financial year.

**TSX Trading Summary for the 6.00% Series B Debentures**  
(2008)

<b>Month</b>	<b>High (\$)</b>	<b>Low (\$)</b>	<b>Volume Traded</b>
January	96.50	85.02	8,900
February	95.70	90.05	10,820
March	94.00	86.55	8,480
April	94.00	91.05	7,170
May	94.90	89.00	8,260
June	94.90	91.05	7,670
July	94.50	84.15	6,310
August	96.95	92.55	5,840
September	94.00	85.55	4,950
October	86.00	60.00	5,660
November	75.00	45.00	3,690
December	65.00	40.00	15,580

The 5.85% Series C Debentures are listed for trading on the TSX under the symbol “INN.DB.C”. The following table sets out the monthly reported high and low prices and trading volumes of the 5.85% Series C Debentures for the most recently completed financial year.

**TSX Trading Summary for the 5.85% Series C Debentures**  
**(2008)**

<b>Month</b>	<b>High (\$)</b>	<b>Low (\$)</b>	<b>Volume Traded</b>
January	90.00	79.00	18,290
February	90.00	83.00	28,020
March	89.00	85.00	8,750
April	90.00	80.00	11,210
May	88.00	81.50	17,200
June	88.45	83.80	10,810
July	88.85	83.05	10,460
August	92.00	84.50	8,400
September	89.00	82.55	7,220
October	85.00	55.00	6,090
November	67.00	35.00	7,680
December	55.00	35.00	23,710

**REGISTRAR AND TRANSFER AGENT**

The REIT’s registrar and transfer agent for the Units, the 6.25% Series A Debentures, the 6.00% Series B Debentures, and the 5.85% Series C Debentures is Computershare Investor Services Inc., 100 University Avenue, 9th Floor, North Tower, Toronto, Ontario M5J 2Y1.

## MATERIAL CONTRACTS

The following table sets out the particulars of every contract, other than a contract entered into in the ordinary course of business, that is material to the REIT and that was entered into within the most recently completed financial year, or before the most recently completed financial year but is still in effect.

Material Contract	Description of Particulars
Master Hotel Management Agreement dated July 26, 2002 between the Operator, WXI/WWH Real Estate Limited Partnership, Innvest Management Inc., the listed Operator Subsidiaries, Westmont Hospitality Canada Limited and the REIT and Administrative Services Agreements dated July 26, 2002 between the REIT, the Operator and the Manager	See “Management of the REIT – Master Hotel Management Agreement” and “Management of the REIT – Administrative Services Agreements”
Second Amended and Restated Declaration of Trust dated as of January 1, 2007	See “Description of Securities and Declaration of Trust”
Trust Indenture dated July 26, 2002 between the REIT and Computershare, as supplemented by the First Supplemental Indenture dated April 2, 2004 between the REIT and Computershare, as further supplemented by the Second Supplemental Indenture dated May 16, 2006 between the REIT and Computershare and as further supplemented by the third supplemental indenture dated August 3, 2007 between the REIT and Computershare (collectively, the “Indenture”)	The Indenture provides for the issuance of an unlimited number of debentures of the REIT, and specifically authorizes the issuance of an aggregate principal amount of \$75,000,000 of the 9.75% Debentures, an aggregate principal amount of \$57,500,000 of the 6.25% Debentures, an aggregate principal amount of \$75,000,000 of the 6.00% Debentures and an aggregate principal amount of \$70,000,000 of the 5.85% extendible convertible unsecured subordinated debentures of the REIT. A description of the terms of the Indenture is set out at “Vendor Convertible Debentures” in the REIT’s prospectus dated July 18, 2002, “Description of the Series A Debentures” in the REIT’s short form prospectus dated March 23, 2004, “Description of the Series B Debentures” in the REIT’s short form prospectus dated May 9, 2006 and “Description of the Debentures” in the REIT’s short form prospectus dated July 26, 2007, each of which is incorporated herein by reference
Non-Competition Agreement dated July 26, 2002 between Westmont and the REIT	See “Description of the Business – Competition”
Original Rights Plan dated October 8, 2008, between Computershare and the REIT, to be replaced by the Amended and Restated Unitholder Rights Plan if approved by Unitholders	See “Description of Securities and the Declaration of Trust – Units – Unitholder Rights Plan”

## MANAGEMENT OF THE REIT

### Trustees and Officers

The name, province or state and country of residence, office held with the REIT and principal occupation of each Trustee and officer of the REIT are as follows:

<b>Name and Municipality of Residence</b>	<b>Office with the REIT</b>	<b>Principal Occupation</b>
Majid Mangalji <sup>(1)(3)</sup> Wimbledon, England	Trustee, Chair of the Board of Trustees	Founder and President, Westmont Group
Frank Anderson, FCA <sup>(2)(3)(4)(5)</sup> Ontario, Canada	Trustee	Senior Advisor, Corporate and a member of the Board, DundeeWealth Inc.
Morton Gross, Q.C. <sup>(2)(3)(4)(5)</sup> Ontario, Canada	Trustee	Senior partner, Borden Ladner Gervais LLP (law firm)
Michael P. Kitt <sup>(2)(3)(4)(5)</sup> Ontario, Canada	Trustee	Executive Vice President, Global Head, Development, Oxford Properties Group
Minhas N. Mohamed <sup>(2)(3)(4)(5)</sup> Ontario, Canada	Trustee	President, Chief Executive Officer and Co-Founder, MMV Financial (venture capital)
Fereed Mangalji <sup>(1)(3)</sup> Miami, U.S.A.	Trustee	Executive Director, Westmont Group
Kenneth D. Gibson Ontario, Canada	President and Chief Executive Officer	President and Chief Executive Officer, InnVest and Chief Operating Officer, Westmont Group and the Manager
Tamara L. Lawson Ontario, Canada	Chief Financial Officer and Corporate Secretary	Chief Financial Officer and Corporate Secretary, InnVest and Chief Financial Officer, Westmont Group and the Manager

- (1) Westmont Group Nominee
- (2) Independent Trustee
- (3) Member of the Investment Committee
- (4) Member of the Audit Committee
- (5) Member of the Compensation and Corporate Governance Committee

Each of the Trustees, with the exception of Fereed Mangalji, who has been a trustee since April 18, 2006, has been a trustee of the REIT since June 5, 2002, the date of formation of the REIT. The Trustees were last appointed on May 22, 2008 and will continue to serve until the next annual meeting of the REIT, scheduled for April 14, 2009 or until his or her successor is elected or appointed.

Pursuant to the Declaration of Trust, Westmont has the right to appoint one Trustee, as it owns, in the aggregate, at least 5% of the outstanding Units. The Manager also has the right to appoint one Trustee, provided that the Master Hotel Management Agreement remains in effect and that the appointment would not result in a majority of the Trustees not being Independent Trustees. The remaining Trustees are to be elected by a plurality of the votes cast at the next

annual meeting. The Westmont Group is entitled to vote its Units for the election of the remaining Trustees. All of the Independent Trustees are standing for re-election at the REIT's April 14, 2009 annual and special meeting.

As at March 4, 2009, as a group, the Trustees and officers of the REIT beneficially own, directly or indirectly, or exercise control or direction over, a total of 6,436,116 Units, which represents 8.6% of the outstanding Units.

The nature and extent of the experience of the Trustees and officers of the REIT in the real estate industry and their principal occupations are as follows:

**Majid Mangalji** is Founder and President of the Westmont Group, which started its hospitality business approximately 30 years ago. Mr. Mangalji has been involved in all aspects of the development of the Westmont Group. During this period, it has grown from a single hotel to become one of the largest private hotel owner/operators in the world with a significant presence in North America, Europe, and Asia. As the head of this global hotel group, Mr. Mangalji has developed an extensive knowledge of international hospitality markets, investing and operating in these markets and has created strong relationships with major international hotel brands, leading financial institutions, and investment funds. Mr. Mangalji sits on the boards of the principal hospitality companies in which the Westmont Group invests. He is the Chairman of Innvest REIT and has a seat on the board of IREFAC (Industry Real Estate Financing Advisory Council). Mr. Mangalji holds a business degree with a double major in accounting and marketing from the University of Bradford, England.

**Frank Anderson, FCA** is currently Senior Advisor, Corporate and a member of the Board of Directors of DundeeWealth Inc. and was a senior partner in a major accounting firm until his retirement in 1999. Mr. Anderson specialized in the retail, consumer products, real estate and advertising industries. Mr. Anderson was Executive Vice-President of Hy & Zel's, a discount drug store chain, from July 2002 until January 2003 and, until February 2007, the President of LIN Solutions Inc., a consulting company. Mr. Anderson is a member of the Boards of Directors of Bridgepoint Health Foundation, the Canadian Centre for Diversity and the University of Toronto Press and is the Founding Chairman of Cornerstone 52 Foundation, a charitable organization dedicated to funding children's charities. He is a Past Chair of the Heart and Stroke Foundation of Ontario. Mr. Anderson also serves as a member of the Board of IPICO Inc., of which he was Executive Chairman from March 2006 until December 2006, and was previously a member of the Boards and Chair of the Audit Committees of O. & Y. REIT and Counsel Corporation. Mr. Anderson obtained an undergraduate degree in Economics from the University of Glasgow, his C.A. designation from the Institute of Chartered Accountants of Scotland and was elected a Fellow of the Institute of Chartered Accountants of Ontario in 1997.

**Morton Gross, Q.C.** is a senior partner in the Toronto office of the law firm of Borden Ladner Gervais LLP, where he practises in the areas of commercial and real estate law, including in the area of hotels and hospitality. Mr. Gross is the Chair of his firm's National Public-Private Partnership Committee and former Chair of the National Real Estate Professional Group. Mr. Gross was Director and Chair of Corporate Governance and Human Resources Committee of Cadillac Fairview Corporation from 1996 to 2002. Mr. Gross holds a Bachelor of Laws degree from the University of Toronto and was called to the Ontario Bar in 1967.

**Michael P. Kitt** is employed by Oxford Properties Group, a wholly owned subsidiary of the Ontario Municipal Employees Retirement System. Mr. Kitt holds the position of Executive Vice President, Global Head, Development, and is responsible for the strategy and execution of Oxford's global development program. Prior to joining Oxford, Mr. Kitt was the Executive Vice President, Development for a major commercial real estate company and was responsible for their office and retail development programs. Mr. Kitt holds an undergraduate degree from the University of Manitoba and is a Chartered Financial Analyst.

**Minhas N. Mohamed** is President, Chief Executive Officer and Co-Founder of MMV Financial Inc. and was the Managing Partner of MM Venture Partners (predecessor firm). As President & CEO, Mr. Mohamed has overall management and strategic responsibility for MMV Financial. He has over 20 years of experience in the financing of technology and emerging growth companies, both in Canada and internationally. Prior to founding MM Venture Partners in August 1998, Mr. Mohamed spent 11 years as a senior partner and shareholder of Quorum Funding Corporation, one of Canada's leading dedicated emerging technology funds. He has been a director of many public companies, including Promis Systems and Quorum Funding Corporation. Mr. Mohamed is a founding member and former Chairman of the Toronto Venture Group. He is also a member of the Association of Venture Capital Corporations. Mr. Mohamed is a graduate of the University of Western Ontario and is a Chartered Accountant and a Chartered Financial Analyst.

**Fereed Mangalji** has been with Westmont Hospitality Group for over 15 years. Mr. Mangalji is a graduate of Harvard University in Cambridge, Massachusetts. Mr. Mangalji's primary focus is Westmont's US and Canadian portfolios. With his extensive knowledge and experience in both the real estate and hospitality industries, Mr. Mangalji is responsible for North American investments as well as structuring the group's major transactions. Mr. Mangalji is a member of investment committees for all Westmont entities responsible for acquisitions in North America, and was previously Managing Director for the former Legacy Real Estate Investment Trust, an entity owning Canada's landmark and iconic hotels in major city centers, as well as in the US. Mr. Mangalji is a founding member of the Westbridge Investment Group. He is also a member of the Young Presidents Organization. Prior to joining the Westmont team, Mr. Mangalji worked with Bankers Trust in New York in the real estate services group.

**Kenneth D. Gibson** is the President and Chief Executive Officer of InnVest and the Chief Operating Officer of each of the Westmont Group and the Manager. He leads the Canadian operations for the Westmont Group and has worked in the Canadian hotel marketplace with the Westmont Group since 1994. Prior to joining the Westmont Group in 1990, Mr. Gibson held the position of Vice-President of Operations for Texas based Southwest Inns, a hotel development and management company. Mr. Gibson is also the Chairman of the Board of Choice Canada.

**Tamara L. Lawson** is the Chief Financial Officer and Corporate Secretary of InnVest and the Chief Financial Officer of the Westmont Group and the Manager, positions she has held since 2001. Ms. Lawson has over 20 years of financial management and capital market experience. Prior to joining the Westmont Group in 2001, she held several senior executive positions at major Canadian companies, including Executive Vice President, Chief Financial Officer and Secretary of Chapters Inc. and Treasurer of Sears Canada Inc. Ms. Lawson is also

currently a director of Choice Canada. Ms. Lawson holds a Master of Business Administration degree from York University and is a Chartered Accountant.

### **Conflict of Interest Restrictions and Provisions**

The Declaration of Trust contains “conflict of interest” provisions that are intended to provide certain protections to Unitholders without creating undue limitations on the REIT. Given that the Trustees are engaged in a wide range of activities, the Declaration of Trust contains provisions, similar to those contained in the CBCA, that require each Trustee or officer to disclose to the REIT any interest in a material contract or transaction or proposed material contract or transaction with the REIT (including a contract or transaction involving the making or disposition of any investment in real property or a joint venture arrangement) or the fact that such person is a director or officer of or otherwise has a material interest in any person who is a party to a material contract or transaction or proposed material contract or transaction with the REIT. Such disclosure is required to be made at the first meeting at which a proposed contract or transaction is considered. In the event that a material contract or transaction or proposed material contract or transaction is one that in the ordinary course would not require approval by the Trustees, a Trustee or an officer of the REIT is required to disclose in writing to the REIT, or request to have entered into the minutes of meetings of Trustees, the nature and extent of his or her interest forthwith after the Trustee or officer becomes aware of the contract or transaction or proposed contract or transaction. In any case, a Trustee or officer who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction is one relating primarily to his or her remuneration as a Trustee, officer, employee or agent of the REIT or one for indemnity under the provisions of the Declaration of Trust or liability insurance.

The Declaration of Trust contains provisions to address potential conflicts of interest arising between the REIT and any Related Party. Among other things, the REIT must obtain a valuation in respect of any property that it intends to purchase from or sell to a Related Party by a valuator engaged by, and prepared under the supervision of, a committee of two or more Independent Trustees who have no interest in such transaction. In addition, each transaction between the REIT and a Related Party must be on commercially reasonable terms and requires the approval of at least 66 2/3% of Independent Trustees who have no interest in such transaction.

### **Independent Trustee Matters**

In addition to requiring the approval of a majority of the Trustees, approval of not less than 66 2/3% of the Independent Trustees who have no interest in the matter is required with respect to any decision:

- (a) to make a material change to the Master Hotel Management Agreement or administrative services agreements (described below), change the fees payable to the Manager, renew the Master Hotel Management Agreement or the administrative services agreements at the end of their respective terms or appoint

- a substitute for the Manager after the end of the term of the Master Hotel Management Agreement;
- (b) to enter into any agreement or transaction in which any Related Party has a material interest or make a material change to any such agreement or transaction;
  - (c) relating to a claim by or against any Related Party;
  - (d) relating to a claim in which the interests of a person referred to in paragraph (c) above differ from the interests of the REIT;
  - (e) to increase the number of Trustees by no more than one-third in accordance with the Declaration of Trust and to appoint Trustees to fill the vacancies so created
  - (f) to recommend to the Unitholders that the number of Trustees be increased, where a vote of Unitholders thereon is required, and to nominate individuals as Trustees to fill the vacancies so created;
  - (g) to acquire any real or other property in which a Related Party has an interest or to sell any interest in any real or other property to a Related Party;
  - (h) to make any changes in compensation of an employee who is also an employee of a Related Party;
  - (i) to grant options to purchase Units under any Unit option plan approved by the Trustees or to award any right to acquire or other right or interest in Units or securities convertible into or exchangeable for Units under any plan approved by the Trustees; and
  - (j) to approve or enforce any agreement entered into by the REIT with a Trustee who is not an Independent Trustee or an associate thereof, with a Related Party, or with the Manager or any successor as hotel manager under the Master Hotel Management Agreement.

### **Interest Of Management And Others In Material Transactions**

Each of Majid Mangalji and Fereed Mangalji is an officer of the Westmont Group, as described above at “Management of the REIT – Trustees and Officers”, and each of Tamara Lawson’s and Kenneth Gibson’s employment is split between Westmont and InnVest.

An affiliate of InnVest has entered into the Master Hotel Management Agreement with the Manager, an affiliate of Westmont, providing for the management of the Hotel Businesses. See “– Master Hotel Management Agreement”. The REIT and the Manager are also parties to certain arrangements for the provision of certain administrative services and asset supervisory management services. See “– Administrative Services Agreements” and “– Other Agreements”. As a result of their involvement with Westmont, each of Messrs. Fereed and Majid Mangalji may have, and as a result of its being an affiliate of the Manager, Westmont has, an indirect interest in each of the foregoing agreements.



## **Master Hotel Management Agreement**

The Operator has entered into the Master Hotel Management Agreement with the Manager, under which the Manager is responsible for the management of each of the Hotel Businesses. The Manager manages the Hotel Businesses and provides customary hotel management services, including preparation of annual operating and capital budgets and marketing plans, accounting and financial reporting, supervision of sales and marketing, human resource management, purchasing, management and supervision of construction and technical services, information technology, franchise relations and evaluations, supervision of property repairs and maintenance, supervision of compliance with material contracts relating to the Hotel Properties, leasing, yield management and quality control.

The obligations of the Manager under the Master Hotel Management Agreement are guaranteed by Westmont Hospitality Management Limited. The Manager and the guarantor are both part of the Westmont Group. The obligations of the Operator are guaranteed by the REIT.

The Master Hotel Management Agreement has been effective since July 26, 2002 and has an initial term of 10 years. Thereafter, the agreement is subject to two successive five-year renewal terms, subject to the consent of the Manager and approval by the Operator. In 2008, InnVest exercised the first five-year extension term on the Master Hotel Management Agreement with Westmont, extending the expiration to July 25, 2017. If the REIT acquires any additional hotels, which are not otherwise managed, during the term of the Master Hotel Management Agreement, the Manager will manage such additional hotels in accordance with the Master Hotel Management Agreement for the balance of the term of the agreement.

The Master Hotel Management Agreement provides for the payment of an annual management fee to the Manager during the term of the agreement, including renewal periods, in an amount equal to 3.375% of gross revenues from the Portfolio, calculated and payable monthly. In addition, the Manager is entitled to an annual incentive fee. The incentive fee is equal to the sum of: (i) 15% of the amount by which 90% of Distributable Income in any year exceeds the First Incentive Fee Hurdle (as defined in the Master Hotel Management Agreement) but is less than or equal to the Second Incentive Fee Hurdle, plus (ii) 20% of the amount by which 90% of Distributable Income exceeds the Second Incentive Fee Hurdle (as defined in the Master Hotel Management Agreement) but is less than or equal to the Third Incentive Fee Hurdle (as defined in the Master Hotel Management Agreement), plus (iii) 25% of the amount by which 90% of Distributable Income exceeds the Third Incentive Fee Hurdle. For this purpose, the First Incentive Fee Hurdle is an amount equal to the product of \$1.125 per Unit multiplied by the weighted average number of Units outstanding during the relevant period. The Second Incentive Fee Hurdle is an amount equal to the product of \$1.275 per Unit multiplied by the weighted average number of Units outstanding during the relevant period. The Third Incentive Fee Hurdle is an amount equal to the product of \$1.425 per Unit multiplied by the weighted average number of Units outstanding during the relevant period. The incentive fee hurdle calculations are subject to customary anti-dilution provisions, primarily to protect the Manager, in the event of certain events including, without limitation, Unit splits, Unit consolidations and distributions to Unitholders other than in the ordinary course of business resulting from, among other things, refinancings or asset sales. For example, such a distribution would lead to a

proportional reduction in the incentive fee hurdles and, conversely, a Unit consolidation would lead to a proportional increase in the incentive fee hurdles.

In addition to the base management fee and incentive fee, the Manager is entitled to: (i) reasonable fees based on a percentage of the cost of purchasing certain goods and supplies for the Hotel Businesses and of certain construction costs and certain capital expenditures, and (ii) fees for accounting services. The Manager is also entitled to be reimbursed for all reasonable out-of-pocket costs and expenses (other than general and administrative expenses or overhead costs except as otherwise provided in the administrative services agreements discussed below under “– Administrative Services Agreements”) incurred by the Manager in the performance of its duties under the Agreement, provided that such costs have been identified in a budget approved by the Operator or otherwise are approved in writing by the Operator prior to being incurred by the Manager.

Internalization of the management of the Hotel Businesses on the basis of payment to the Manager of a fee in excess of the sum of the base management fee and incentive fee payable during the 12 months preceding such internalization is subject to the approval of not less than 66 K% of the votes cast by Unitholders (excluding Units beneficially owned by or on behalf of the Westmont Group) at a meeting called for such purpose.

The Operator has the right to terminate the Master Hotel Management Agreement if, in two consecutive years: (i) certain performance tests relating to the achievement of 80% of the annual budgeted net operating cash flow for the Portfolio are not met, and (ii) a market test relating to the achievement of 90% of the average achieved RevPAR relative to a competitive set of limited service hotels is not satisfied. The termination right will not be triggered if the failure to achieve the performance test is a result of force majeure or specified acts or defaults by the Operator. Unless it is otherwise in default under the Master Hotel Management Agreement, the Manager has the right once during the first five years of the initial term and once during the second five years of the initial term to cure any performance test failure by making a payment to the Operator of the deficiency in net operating cash flow below the performance test criteria. Such payment may, at the Manager’s option, be made by set-off against management fees. If the Operator terminates the Master Hotel Management Agreement pursuant to its termination right, no compensation is payable to the Manager other than accrued fees and reimbursable costs.

The Manager may not terminate the Master Hotel Management Agreement during the first five years of the initial term but thereafter may terminate the agreement without compensation on six months’ prior written notice provided that, upon request of the Operator, the Manager shall delay the effective date of such termination for a further six months. If control of the REIT passes to a person of ill-repute or a competitor of the Manager, the Manager is entitled to terminate the Master Hotel Management Agreement and to receive compensation equal to the base management fee and incentive fee paid in the preceding 12 months. In addition, the Operator and the Manager have termination rights after customary events of default, including bankruptcy or insolvency proceedings or similar events, subject to customary notice and cure rights.

The Master Hotel Management Agreement provides that the Operator will make a termination payment to the Manager if the REIT sells a hotel or hotels to an unrelated third party

during the term of the agreement and the Manager is not continued as manager of the hotel or hotels that are sold. If the hotel or hotels being sold in any 12 month period represent 10% or less of the Gross Book Value of the Portfolio, such termination payment will be equal to the sum of base management fee and incentive fee reasonably allocable to that hotel or hotels over the 12 months immediately preceding the sale. If the hotel or hotels being sold in any 12 month period represent more than 10% of the Gross Book Value of the Portfolio, such termination payment will be the amount that is equal to the base management fee and incentive fee over the 36 months immediately preceding the sale reasonably allocable to the hotel or hotels being sold that represent in excess of 10% of the Gross Book Value of the Portfolio.

The Manager has agreed that it will not sell or assign the Master Hotel Management Agreement during the first two years of the initial term without the consent of the Operator which may be withheld in its sole discretion. Thereafter, any sale or assignment of the agreement or change of control of the Manager is subject to the approval of the Operator, which approval shall not be unreasonably withheld if the person acquiring the agreement or control of the Manager is a hotel management company having comparable experience and operating and service standards equal to or better than those of the Manager and if all consents, approvals or waivers required under applicable franchise agreements, mortgages, agreements with Choice Canada and Choice International and land leases which contain restrictions relating to a sale or assignment of the Master Hotel Management Agreement or a change of control of the Manager have been obtained without material adverse consequence or material cost to the REIT.

Certain significant decisions or consents by the Operator, such as renewal terms and extensions, consents to assignment of the Master Hotel Management Agreement or change of control of the Manager are subject to ratification by the Independent Trustees on behalf of the REIT and the approval of annual budgets and other reimbursements to the Manager are subject to the approval of the Trustees on behalf of the REIT, in each case as the sole shareholder of the general partner of the Operator. In consideration for services rendered in 2007 and 2008, the Manager was paid approximately \$13.0 million and \$13.4 million respectively in management fees and approximately \$3.7 million and \$6.1 million respectively for other services.

### **Other Management Agreements**

The REIT entered into management agreements with Hilton Canada Co. (“Hilton”) to manage the two Hilton hotels acquired in 2006. The agreements provide for the payment of an annual management fee to Hilton in an amount equal to 2% of gross revenues during the term of the agreements. The agreements mature on December 31, 2026. For the year ended December 31, 2008, total management fees paid to Hilton were \$1.2 million (2007 - \$1.1 million).

The REIT assumed the hotel management agreements with Delta Hotels Limited (“Delta”), dated January 1, 2003 for two Delta hotels which were purchased in 2006. The agreements provide for the payment of an annual management fee to Delta in an amount equal to 3% of total revenues from the hotel, plus 0.5% of total revenues from the hotel if the hotel’s annual gross operating profit is greater-than the forecasted gross operating profit. The agreements mature on December 31, 2015, with two ten-year extension options. For the year

ended December 31, 2008, total management fees paid to Delta were \$508,000 (2007 - \$633,000).

Following the acquisition of the Legacy Portfolio in 2007, InnVest assumed the existing hotel management agreements with Fairmont Hotel and Resorts (“Fairmont”) or Delta for each of the Legacy Portfolio hotels. The agreements provide for the payment of a base management fee and an incentive management fee to either Fairmont or Delta, as applicable. Legacy was also subject to a portfolio incentive fee on 11 of its 25 hotels, of which six are now owned or leased by InnVest. The base management fee is equal to 3% of total revenues from the hotel for nine of the hotels and 2% of total revenues for the remaining two hotels. The agreements mature from December 31, 2010 to December 31, 2047. The incentive fees are calculated based on net operating income from hotel operations plus amortization less the capital replacement reserve, in excess of a threshold. For the year ended December 31, 2008, total management fees paid for the Legacy Portfolio were \$10.1 million (2007 - \$3.3 million).

### **Administrative Services Agreements**

The Manager provides to both the REIT and the Operator certain administrative and support services, including the provision of: (i) office space and office equipment; (ii) communications and computer systems; and (iii) such administrative and secretarial support services as reasonably required from time to time to support the ongoing administration and operation of the REIT and the Operator. Such services will be provided on a cost recovery basis pursuant to a budget to be agreed and approved annually by 66 2/3% of the Independent Trustees.

The administrative services agreements have the same term as the Master Hotel Management Agreement. Each of the REIT and the Operator may terminate its respective administrative services agreement if the Master Hotel Management Agreement is terminated. The aggregate fee paid to the Manager for the provision of the services under the administrative services agreements for the year ended December 31, 2008 was \$452,000 (2007 - \$440,000). This amount is included in the total amount paid under the Master Hotel Management Agreement as noted in the previous section.

### **Other Agreements**

For certain hotels owned by InnVest and not managed by Westmont, the Manager is entitled to an asset management fee based on a fixed percentage of the purchase price of the hotel or a fixed percentage of hotel operating income, subject to an annual minimum fee.

In 2007, the REIT paid the Manager an acquisition fee of \$6.5 million as part of the acquisition of the Legacy Portfolio.

## AUDIT COMMITTEE

The Audit Committee of the REIT consists of Frank Anderson (Chairman), Michael P. Kitt, Minhas N. Mohamed and Morton G. Gross, each of whom is an independent trustee who is financially literate. The following table describes the education and experience of each audit committee member that is relevant to the performance of his responsibilities as an audit committee member.

<b>Name of Audit Committee Member</b>	<b>Relevant Education and Experience</b>
Frank Anderson	<ul style="list-style-type: none"><li>• Senior partner in the Toronto office of a major accounting firm until his retirement in 1999</li><li>• Undergraduate degree in Economics</li><li>• C.A. designation from the Institute of Chartered Accountants of Scotland</li></ul>
Michael P. Kitt	<ul style="list-style-type: none"><li>• Fellow of the Institute of Chartered Accountants of Ontario</li><li>• Executive Vice President, Global Head, Development of Oxford Properties Group, an owner, developer, investor and manager of real estate</li><li>• From 1996 to October 31, 2006 was the Executive Vice-President, Development for a major commercial real estate company, which invests in, owns and manages commercial real estate</li><li>• Prior to 1996, was Portfolio Manager, Real Estate for the Ontario Teachers' Pension Plan Board</li></ul>
Minhas N. Mohamed	<ul style="list-style-type: none"><li>• Chartered Financial Analyst</li><li>• President, C.E.O. and Co-Founder of MMV Financial Inc. and has over 20 years of experience in the financing of technology and emerging growth companies</li><li>• Chartered Accountant</li><li>• Chartered Financial Analyst</li></ul>
Morton Gross	<ul style="list-style-type: none"><li>• Senior Partner in the Toronto office of the law firm of Borden Ladner Gervais LLP, where he practises in the areas of commercial and real estate law, including the area of hotels and hospitality</li><li>• Chair of Borden Ladner Gervais LLP's National Real Estate Professional Group</li></ul>

The audit committee charter of the REIT is attached to this Annual Information Form as Appendix B. The REIT's policies and procedures for the engagement of the external auditor for non-audit services are set forth in section 8.2 of the REIT's audit committee charter, which is attached to this Annual Information Form as Appendix B.

## Fees Paid to Deloitte & Touche

The table below summarizes the fees paid by the REIT and its subsidiaries to Deloitte & Touche during 2007 and 2008.

	2008	2007
Audit Fees <sup>1</sup>	\$475,000	\$475,000
Audit-Related Fees <sup>2</sup>	172,000	359,335
Tax Fees <sup>3</sup>	4,050	49,540
Other Fees <sup>4</sup>	5,000	32,000
	\$656,050	\$915,875

Notes:

- 1 – Audit services related to the REIT's audited annual financial statements.
- 2 – Assurance and related services that were reasonably related to the performance of the audit or review of the REIT's financial statements (or those of its subsidiaries) and are not reported under Audit Fees. The services comprising such fees were related to the quarterly reviews of the REIT's financial statements and management discussion and analysis.
- 3 – Professional services rendered for tax compliance, tax advice and property tax services provided to the REIT and its subsidiaries.
- 4 – The services comprising such fees were related to professional services rendered for compliance reports.

## RISK FACTORS

### Real Estate Investment Risks

As the REIT owns hotel properties, its investments are subject to risks generally incident to the ownership of real property. One of the factors contributing to the underlying value of the REIT's real estate investments and its income and ability to make distributions to its Unitholders is the ability of the Operator and its subsidiary partnerships under the supervision of the Manager, to operate the hotels in the Portfolio and any subsequently acquired hotels in a manner sufficient to maintain or increase revenues and to generate sufficient income in excess of operating expenses. Income from the hotels may be adversely affected by changes in national economic conditions, changes in local market conditions due to changes in general or local economic conditions and neighbourhood characteristics, changes in interest rates and in the availability, cost and terms of mortgage funds, the impact of present or future environmental legislation and compliance with environmental laws, the ongoing need for capital improvements, particularly in older structures, changes in real estate assessed values and taxes payable on such values (including as a result of possible increased assessments as a result of the acquisition of the Portfolio by the REIT) and other operating expenses, changes in governmental laws, regulations, rules and fiscal policies, changes in zoning laws, civil unrest, acts of God, including earthquakes and other natural disasters and acts of terrorism or war (which may result in uninsured losses). When interest rates increase, the cost of acquiring, developing, expanding or renovating real property increases and real property values may decrease as the number of potential buyers decreases. Similarly, as financing becomes less available, it becomes more difficult to both acquire and to sell real property, and also impacts the REIT's ability to refinance properties on reasonable terms. Finally, governments can, under eminent domain laws, expropriate or take real

property for less compensation than an owner believes the property is worth. Almost all of these factors are beyond the control of the REIT and the Manager.

Real estate investments are relatively illiquid. There can be no assurance that the REIT will be able to dispose of an investment when it finds disposition advantageous or necessary or that the sale price of any disposition will recoup or exceed the amount of the REIT's investment. The ability of the REIT to vary its real estate portfolio in response to changes in economic and other conditions will be limited. If the REIT were required to liquidate its real property investments, the proceeds to it might be significantly less than the aggregate carrying value of its properties.

### **Hotel Industry Risks**

The REIT directly or indirectly owns, and the Operator (directly or through its subsidiary partnerships) operates, hotels. As a result, the REIT is subject to the operating risks inherent in the Canadian hotel industry. In addition to the specific conditions discussed in more detail below, these risks include:

- cyclical downturns arising from changes in general and local economic conditions;
- changes in the level of business and commercial travel and tourism;
- increases in the supply of accommodations in local markets which may adversely affect the results of operations;
- competition from other hotels;
- the recurring need for renovation, refurbishment and improvement of hotel properties;
- changes in wages, prices, energy costs and construction and maintenance costs that may result from inflation, government regulations, changes in interest rates or currency fluctuations;
- seasonal fluctuations in hotel operating income produced throughout the year;
- availability of financing for operating or capital requirements;
- increases in operating costs due to inflation which may not necessarily be offset by increased room rates;
- increases in expenses of travel, particularly automotive travel; and
- other factors, including medical concerns related to travelling to Canada, acts of terrorism, natural disasters, extreme weather conditions and labour shortages, work stoppages or disputes.

In addition to the foregoing, there are economic trends and factors that may be beyond InnVest's control which affect its operations and business. Such trends and factors include adverse changes in the conditions in the hotel industry, including those described above, and the conditions in the domestic or global economy generally. Such trends and factors could result in geographical disparities among regions. Although InnVest's performance is affected by the

general condition of the economy, not all of its service areas are affected equally. It is not possible for management to accurately predict economic fluctuations and the impact of such fluctuations on the REIT's performance.

### **Competition**

The Canadian hotel industry is highly competitive. Each of the hotels in the Portfolio is located in an area that includes other hotels owned or operated by third parties. The REIT competes locally and regionally with existing hotels and will compete with hotels that may be developed in the future. Some of the competitors of hotels in the Portfolio may have substantially greater marketing and financial resources than the REIT. The number of competitive hotel properties in a particular area could have a material adverse effect on the occupancy rates and ADR of the hotels in the Portfolio.

The Westmont Group continues to own hotels and, subject to the non-competition arrangement relating to the acquisition of limited service hotels in Canada competing in the budget or economy sector of the hotel market, may, in certain circumstances, acquire additional hotels, including limited service hotels that compete with properties of the REIT. An affiliate of the Manager also currently manages approximately 27 hotels in Canada that are not included in the Portfolio, and the Westmont Group may manage additional hotels not owned by the REIT, including limited service hotels. These managed properties may also compete with properties owned by the REIT.

### **Availability of Cash Flow**

Distributable Income accruing to Unitholders may exceed actual cash available to the REIT from time to time because of items such as principal repayments, capital expenditures, seasonal fluctuations in operating results and redemption of Units, if any. The REIT may be required to borrow funds or reduce distributions in order to accommodate such items. The REIT anticipates temporarily funding such items, if necessary, through its operating loan facility, to the extent that it is available.

### **Cash Distributions Are Not Guaranteed and May Fluctuate with the REIT's Performance**

Cash distributions are not guaranteed and may fluctuate with the REIT's performance. The REIT depends on revenue generated from the Portfolio to make such distributions. There can be no assurance regarding the amount of revenue generated by the Portfolio. The amount of Distributable Income will depend upon numerous factors, including the profitability of the Portfolio, fluctuations in working capital, interest rates, capital expenditures, and other factors which may be beyond the control of the REIT. If the Trustees determine that it would be in the best interests of the REIT, they may reduce for any period the percentage of Distributable Income to be distributed to the Unitholders. In November 2008, the REIT reduced its monthly distribution. The reduction was implemented in light of the uncertain economic conditions which existed at the time, and the Board of Trustee's desire to take a prudent approach to distributions in order to enhance InnVest's balance sheet and liquidity.



## **Borrowing Risks**

As at December 31, 2008, the REIT had approximately \$970.1 million of indebtedness excluding the convertible debentures, representing a Financial Leverage Ratio of approximately 47.2% and approximately \$1.2 billion of indebtedness including the convertible debentures, representing a Financial Leverage Ratio of approximately 56.5%.

The REIT is subject to the risks associated with debt financing, including the risks that cash flow from operations will be insufficient to meet required payments of principal and interest, the risk that existing debt will not be able to be refinanced or that the terms of such refinancings will not be as favourable to the REIT. In such circumstances, if the REIT were in need of capital to repay indebtedness in accordance with its terms or otherwise, it could be required to liquidate one or more investments in hotel properties at times which may not permit realization of the maximum return on such investments or could be required to agree to additional financing on unfavourable terms.

In addition, the REIT is subject to the risk that its interest expense may increase on the refinancing of existing indebtedness or on any portion of its indebtedness that bears interest at floating rates if interest rates increase, which could have a material adverse effect on the results of operations of the REIT and its ability to make distributions. The REIT's financing arrangements contain covenants, including a covenant that the lender under an existing credit facility shall have the right to approve any change of the hotel manager for the relevant Hotel Properties, covenants restricting transfers of the relevant Hotel Properties, including transfers from the REIT's subsidiaries to the REIT, and covenants restricting the REIT's ability to sell the Operator and covenants to provide cash reserves for major capital expenditures from time to time. Future financing agreements may contain similar, or more restrictive, provisions and covenants. If the REIT fails to comply with the restrictions in current or future financing arrangements, its lenders may be able to accelerate related debt as well as any other debt to which a cross default or cross acceleration provision applies. A default could also allow creditors to foreclose, sell or realize on the property securing such debt or exercise other remedies against the REIT. Credit facilities typically require repayment of funds or cash flow sweeps when certain coverage ratios are not met.

The REIT and the Operator have granted security interests over substantially all of their assets to secure indebtedness owing under mortgages and credit facilities. If the REIT is not able to meet its debt service obligations, it risks the loss of some or all of its assets to foreclosure or sale.

## **Availability of Additional Capital**

The REIT utilizes cash flow from operations and credit facilities to support operating requirements, to fund capital expenditures, to make acquisitions and to pay distributions to Unitholders. Each year, the REIT sets aside 4% (5% for three of its full service hotels) of revenues for the replacement of its furniture, fixture and equipment reserve and capital improvements ("FF&E reserve"). For the year ended December 31, 2008, InnVest invested \$42.9 million in capital expenditures within the Portfolio. This compares to the REIT's FF&E reserve of \$28.4 million for the year.

Where the cost of capital improvements exceeds the FF&E reserve, or the cost of certain capital improvements reduces the reserve to significantly lower levels, the REIT will be required to fund these activities principally by issuing additional Units or incurring additional indebtedness. Access to capital markets for additional Unit financings and the availability of additional borrowing will depend on prevailing market conditions and the acceptability of the terms offered. In addition, the Declaration of Trust prohibits the REIT from incurring or assuming any indebtedness if it would result in the Financial Leverage Ratio exceeding 50% (60% including convertible debentures).

There can be no assurance that the REIT will be able to complete additional Unit financings or borrow additional funds on terms acceptable to it, or at all. If the REIT were unable to secure additional funding for acquisitions or required improvements, it would be required to curtail these activities, which could have a material adverse effect on its results of operations and financial condition.

### **Lender Concentration**

At December 31, 2008, the REIT has outstanding indebtedness with eight lenders including Canadian banks, institutional lenders, life companies, credit unions and commercial mortgage backed securities lenders. Approximately 75% of the REIT's outstanding indebtedness (excluding convertible debentures) is with one lender. There is a limited pool of lenders able to finance debt of significant size in the Canadian market, particularly for borrowers in the hospitality industry. The REIT is subject to the risk that its lenders, particularly its largest lender, may tighten borrowing conditions and be unable to renew financing on terms acceptable to the REIT, or at all. If currently outstanding debt of the REIT is refinanced on less favourable terms or can not be refinanced on terms acceptable to the REIT this may negatively impact the Distributable Income of the REIT.

### **Acquisition Strategy Risks**

In addition to seeking operational efficiencies in the operation of the Portfolio, the REIT will seek to increase cash flow and enhance Unit value by acquiring additional hotel properties that meet its investment criteria and by applying its operating strategy to improve the financial performance of the subsequently acquired hotels. Acquisitions entail risks that investments will fail to perform in accordance with expectations and that judgments with respect to the costs of improvements to bring an acquired property up to appropriate standards will prove inaccurate, as well as general investment risks associated with any new real estate investment.

### **Franchised Hotels**

With the exception of one hotel, each of the hotels in the Portfolio is subject to a franchise agreement, and hotels the REIT invests in after the date of this Annual Information Form may also be operated under franchise agreements. The continuation of the franchises is subject to specified operating standards and other terms and conditions. Such standards are often subject to change over time, in some cases at the discretion of the franchisor, and may restrict a franchisee's ability to make improvements or modifications to a hotel property without the consent of the franchisor. Franchisors typically periodically inspect licensed properties to

confirm adherence to operating standards. The failure of a hotel in the Portfolio to conform to such standards or the failure of the REIT or of Operator to maintain such standards or adhere to such other terms and conditions could result in the loss or cancellation of the franchise agreement and potential liquidated damages. In a large portfolio, it is typical that, each year, several hotels will fail to pass such inspections. From time to time, hotels in the Portfolio have not passed an inspection but have subsequently passed inspections upon correction of noted deficiencies. It is possible that a franchisor could condition the continuation of a franchise agreement on the completion of capital improvements which the Trustees determine are too expensive or otherwise unwarranted in light of general economic conditions or the operating results or prospects of the affected hotel. In that event, the Trustees may elect to allow the franchise agreement to lapse. If a franchise were terminated, the REIT and the Operator would generally seek to obtain a suitable replacement franchise. However, there can be no assurance that the REIT and the Operator would be able to obtain a suitable replacement franchise on acceptable terms, or at all. The loss of a franchise agreement could have a material adverse effect upon the operations or the underlying value of the hotel covered by the franchise because of the loss of associated name recognition, marketing support and centralized reservation systems provided by the franchisor.

Ninety-six of the hotels in the Portfolio are operated under Choice Canada franchises. Despite its 50% ownership of Choice Canada, under Choice Canada's master franchise agreement with Choice International, the Choice branded hotels in the Portfolio are required to operate to standards determined by Choice Canada, and representatives of Choice Canada must approve any hotel to be re-flagged under a Choice flag. The REIT is subject to risks related to the concentration in the Portfolio of hotels operating under the Choice flags, including the risk of a reduction in hotel revenue following any adverse publicity related to the Choice flags, which could have a material adverse effect on the REIT's results of operations and financial condition.

The shareholders' agreement for Choice Canada prohibits affiliates (within the meaning of the *Business Corporations Act* (Ontario)) of the REIT's subsidiary that is the shareholder in Choice Canada from operating a number of hotels under flags that compete with the Choice flags exceeding 20% of the total number of hotels operating under franchise with Choice Canada from time to time (this 20% limit is currently equivalent to approximately 58 hotels), until the fifteenth anniversary of such agreement. The REIT believes, based on the advice of counsel to the REIT, that this restriction in the Choice Canada shareholders' agreement does not apply to the Operator as it does not constitute an affiliate under that definition. If the restriction were determined to apply, it could restrict the REIT's ability to acquire additional hotels under competing flags in excess of the specified limit. In addition, the termination of the Choice Canada shareholders' agreement would have a material adverse effect on the REIT.

### **Reliance on Franchisees by Choice Canada**

The growth of Choice Canada's business is, in part, dependent on its ability to attract and retain qualified franchisees in Canada and on the ability of Choice Canada's franchisees to maximize penetration of their designated markets and operate their hotels successfully. Although Choice Canada has established criteria to evaluate prospective franchisees, there can be no assurance that its existing or future franchisees will have the business abilities or access to financial resources necessary to open the required number of hotels or that they will successfully

develop or operate these hotels in their franchise areas in a manner consistent with Choice Canada's standards. There can be no assurance that Choice Canada will be able to attract qualified franchisees.

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

The Units of the REIT will not necessarily trade at values determined by reference to the underlying value of the REIT's business. The prices at which the Units will trade cannot be predicted. The market price of the Units could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. The annual yield on the Units as compared to the annual yield on other financial instruments may also influence the price of Units in the public trading markets.

The global securities market, including the Canadian REIT market, experienced significant declines during 2008 and early 2009. The Securities market may experience further volatility which may adversely affect the market price of the Units. These declines can be unrelated or disproportionate to the operating performance, underlying asset values or prospects of particular issuers.

### **Future Sales of Securities of the REIT**

As at March 4, 2009, 74,434,344 Units were outstanding (87,890,926 Units after giving effect to the conversion of all convertible debentures). The REIT has a number of Unitholders who own significant numbers of Units including Royal Host and the Westmont Group which own 14.0% and 8.6% of the Units, respectively. All of the currently outstanding Units are eligible for sale in the public market, subject to any applicable restrictions under securities laws. Royal Host and the Westmont Group may at any time sell any or all of the securities of the REIT that they own.

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

### **Potential Labour Disruptions**

A significant number of the employees employed at the hotels in the Portfolio are unionized and governed by collective agreements. The bargaining rights of the unions at these hotels are site specific to the employees at each particular hotel. Individual hotels have experienced, and may in the future experience, labour disruptions or difficulties which could affect the short term operating performance of particular hotels. Relations with employees could deteriorate due to disputes related to, among other things, wage or benefit levels or the REIT's response to changes in government regulation of workers in the workplace. Hotel operations rely heavily on employees. Any labour shortage or stoppage caused by disagreements with employees, including unionized employees, could adversely affect the ability of the REIT's hotels to operate, occupancy and room revenue or damage the REIT's reputation. Any such

labour difficulties could have a material adverse effect on the REIT's results of operations, business, prospects and financial condition.

### **Environmental Risks**

Under various environmental laws and regulations, a current or previous owner or operator of real property may be liable for the costs of remediation of contamination or hazardous or toxic substances on, under or in a property. Environmental laws and regulations often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such contamination or hazardous or toxic substances. In addition, the presence of contamination or hazardous or toxic substances, or the failure to remediate contamination properly, may adversely affect the owner's ability to borrow using a property as collateral. In connection with the ownership of the Portfolio, the REIT may be potentially liable for any such remediation costs.

In connection with the REIT's acquisition of the Portfolio, Phase I environmental site assessments and, where appropriate, Phase II environmental site assessments were completed in respect of each of the Hotel Properties. Based on the results of these assessments, the REIT believes that the Hotel Properties are operated in substantial compliance with all material environmental laws and regulations and that the current estimated cost of remediation or capital expenditures with respect to actual or potential environmental conditions will not have a material adverse effect on the REIT's results of operations, business, prospects and financial condition. There can be no assurance that such assessments have identified all material environmental contamination or hazardous or toxic substances or violations of environmental laws or regulations. Further, the costs involved for remediation of the contaminated property can be difficult to estimate and could exceed current estimated amounts.

The Operator, directly or through its subsidiary partnerships, intends to make the necessary capital and operating expenditures to comply with environmental laws and regulations. Although there can be no assurances, the REIT does not believe that costs relating to environmental matters will have a material adverse effect on its results of operations, business, prospects and financial condition. However, environmental laws and regulations may change and the REIT or its subsidiaries may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations may have a material adverse effect on the REIT's results of operations, business, prospects and financial condition. Environmental laws and regulations may also limit future development or expansion of the Hotel Properties.

### **Unexpected Costs or Liabilities Related to Acquisitions**

The Portfolio is subject to risks relating to acquisitions. The REIT holds a number of the hotels within the Portfolio indirectly through its ownership of subsidiary entities. It is possible that these subsidiaries may be subject to unknown or undisclosed liabilities that could have a material adverse impact on the results of operations and financial condition of the REIT. For example, following any such acquisition, the REIT may discover that it has acquired substantial undisclosed liabilities and, in the case of its acquisition of the Legacy Portfolio, the REIT will not be able to make any claim for indemnification in respect of any such liabilities.

Representations and warranties obtained by the REIT in connection with acquisitions may not adequately protect against unknown or undisclosed liabilities relating to the acquired properties or recourse against the sellers may be limited by the financial capacity of the sellers. The existence of any such undisclosed liabilities and the restrictions on the REIT's ability to claim indemnification in respect of acquired properties, including the Legacy Portfolio, could have a material adverse effect on the REIT. The REIT is also responsible for its share of any claims against Legacy that are not specific to the Legacy Portfolio or the hotels acquired by Cadbridge pursuant to the post-Bid reorganization. As a result, the REIT may discover undisclosed liabilities that could be material.

### **Fairmont Arrangements**

Prior to the completion of LGY Acquisition LP's bid for Legacy (the "Bid") in September 2007, Legacy was a party to a number of agreements with Fairmont which applied to Legacy, its entire portfolio or specific hotels. InnVest has been in discussions with Fairmont with respect to such agreements in light of the completion of the Bid and the separation of Legacy's assets between the REIT and Cadbridge. Although the REIT believes that such agreements do not apply to the Legacy Portfolio as a result of the reorganization of such portfolio following the completion of the Bid, 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, it is possible that the REIT may be required to assume obligations under these agreements that could have a material adverse effect on the REIT and its ability to carry on its activities as currently conducted.

### **Uninsured and Underinsured Losses**

The Declaration of Trust requires that the REIT obtain and maintain at all times insurance coverage in respect of its potential liabilities and the accidental loss of value of its assets from risks, in amounts, with such insurers, and on such terms as the Trustees consider appropriate, taking into account all relevant factors including the practices of owners of comparable properties. Management of the REIT believes that the insurance coverage to be maintained is of the type and amount customarily obtained for or by an owner of real property assets. However, there are certain types of losses, generally resulting from catastrophic events, such as earthquakes and floods or acts of terrorism that may be uninsurable or not economically insurable. The Trustees will use their discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance coverage on the REIT's investments at a reasonable cost and on suitable terms. This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of the REIT's lost investment. Certain factors, including inflation, changes in building codes and ordinances and environmental considerations, also might make it unattractive to use insurance proceeds to replace the property after such property has been damaged or destroyed. Under such circumstances, the insurance proceeds received by the REIT might not be adequate to restore its economic position with respect to such property.

### **Reliance on Key Personnel**

The REIT and the Manager depend on the services of certain key personnel. The loss of the services of any of these key personnel could have a material adverse effect on the REIT. In addition, such personnel are generally required to devote only 50% of business hours to managing the affairs of the REIT. Furthermore, the employment agreements of these key employees will be terminated upon termination of the Master Hotel Management Agreement and may be terminated by the REIT upon the expiry and non-renewal of the term of the Master Hotel Management Agreement.

### **Dependence on and Relationship with the Manager**

The Manager provides hotel management services to the Operator and its subsidiary partnerships. The REIT is dependent on the Manager with respect to the management and the operation of the hotels in the Portfolio. Under the Master Hotel Management Agreement, the Westmont Group may sell the Manager or sell or assign the Master Hotel Management Agreement subject, in each case, to the approval of not less than 66 2/3% of the Independent Trustees, which shall not be unreasonably withheld if the person acquiring the agreement or control of the Manager is a hotel management company having comparable experience and operating and service standards equal to or better than those of the Manager and if all necessary third party consents and other approvals have been obtained without adverse consequence to the REIT. The Manager currently has the right to terminate the agreement, generally on six months' notice. There is no assurance that the strategic relationships between the REIT and the Manager will be maintained in the future. There can be no assurance that if the Manager were to terminate the Master Hotel Management Agreement a suitable replacement would be found.

### **Termination Rights under Master Hotel Management Agreement**

The Master Hotel Management Agreement has been effective since July 26, 2002 and the initial term is 10 years with two five year renewal rights subject to the consent of the Manager and approval of the Independent Trustees. In 2008, the REIT exercised the first five-year extension term on the Master Hotel Management Agreement, extending the expiry to July 25, 2017.

During the initial 10 year term, there is no express right of termination by the REIT absent customary events of default, including bankruptcy or insolvency proceedings or similar events, or underperformance over two consecutive years relative both to budget and to average RevPAR of a competitive set of limited service hotels. In the event that hotels representing less than 10% of the Gross Book Value of the Portfolio are sold in any 12 month period and the Manager is not continued as manager of the hotels, the REIT has the ability to terminate the agreement in respect of the hotels sold upon the payment of an amount equal to the base and incentive fee allocable to the hotels during the preceding twelve months. In the event that hotels representing more than 10% of the value of the initial Portfolio are sold in any 12 month period and the Manager is not continued as manager of the hotels, then the termination fee will be based on the base and incentive fees during the preceding 36 months allocable to the hotels being sold that represent in excess of 10% of the Gross Book Value of the Portfolio.

## **Potential Conflicts of Interest**

The REIT was established to purchase, directly and indirectly, the original portfolio of 114 hotel properties. The Independent Trustees have not received independent advice pertaining to the agreements that were entered into by the REIT, the Manager and the REIT's promoters in connection with the purchase of this portfolio and the REIT's initial public offering.

In addition, the REIT may be subject to various conflicts of interest because of the fact that the Manager and its respective directors, officers and associates, as well as the Trustees, are engaged in a wide range of business activities, including hotel management, acquisition and ownership. Additionally, certain Trustees and officers of the REIT are officers and directors of entities that are a part of the Westmont Group, which could give rise to conflicts of interest. The REIT may become involved in transactions which conflict with the interests of the foregoing. The Trustees, the officers of the REIT and associates or affiliates of the Manager may from time to time deal with persons, firms, institutions or corporations with which the REIT may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of the REIT. In addition, from time to time, these persons may be competing with the REIT for available investment opportunities. The Declaration of Trust contains provisions to address these potential conflicts of interest. See "Management of the REIT – Conflict of Interest Restrictions and Provisions" and "Management of the REIT – Independent Trustee Matters".

## **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. Furthermore, many of the hotels that are retained by the REIT will 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 and assessing practices of the Canada Revenue Agency 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 Exempt Plans. The REIT will endeavour to ensure that the Units continue to be qualified investments for Exempt 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.

InnVest currently qualifies as a Mutual Fund Trust for income tax purposes. As required by its Declaration of Trust, InnVest intends to distribute all taxable income to its unitholders and to deduct these distributions for income tax purposes.



In June 2007, a Bill was enacted for the taxation of publicly traded trusts, including income trusts (the “Bill”). The Bill applies to publicly traded trusts which existed prior to November 1, 2006 starting with taxation years ending in 2011, except for those existing trusts that qualify for the real estate investment trust (“Qualifying REIT”) exception included in the legislation. An existing trust may lose its relief from taxation in the interim periods to 2011 where it undergoes “undue expansion”. Based on these guidelines, InnVest can issue, on a cumulative basis, a total of approximately \$143 million in equity annually in each of 2008 through 2010 and maintain its relief from taxation to the end of 2010. The REIT issued \$13.5 million in equity during 2008 through its distribution reinvestment and executive incentive plans and as part of the compensation paid to trustees.

The Bill contemplates that a REIT which carries on Canadian hotel operations (including through subsidiaries) will not be a Qualifying REIT. As a result, InnVest will be subject to tax starting January 1, 2011. In 2007, the REIT recognized a future income tax liability of \$122.6 million mainly resulting from temporary differences on hotel properties and licence contracts which are expected to reverse subsequent to January 1, 2011.

As well, the Bill may adversely affect the level of cash distribution to unitholders commencing in 2011 if InnVest does not become a Qualifying REIT by then. Management is reviewing whether it is feasible to reorganize InnVest so that non-qualifying operations and assets are transferred under a plan of arrangement to a taxable entity that is held by InnVest unitholders, and the InnVest hotels, which continue to be owned by it, are leased by it to the taxable entity. However, at this juncture, no assurance can be provided that any such reorganization or a similar reorganization can or will be implemented before 2011, or that any such reorganization, if implemented, would not result in material costs or other adverse consequences to InnVest and its unitholders.

In addition, there can be no assurance that a future review of the tax treatment of flow-through entities will not be undertaken or that Canadian federal income tax law respecting flow-through entities will not be changed in a manner which will adversely affect the REIT and the holders of Units.

### **Deterrents to Acquisition of the REIT**

Holders of convertible debentures issued by the REIT may redeem debentures at a redemption price of 101% in the event of a change of control of the REIT. Further, the Manager has a right, in certain circumstances, to terminate the Master Hotel Management Agreement in the event of a change of control, in which circumstances it would receive a fee equal to the base fee and incentive fee under such agreement for the preceding 12 months. In addition, at the annual and special meeting on April 14, 2009, Unitholders will be asked to vote on a resolution to approve the adoption of an amended and restated unitholder rights plan (see “Description of Securities and Declaration of Trust – Units – Unitholder Rights Plan”). The existence of these provisions may make the REIT less attractive as an acquisition candidate.

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

The Declaration of Trust imposes restrictions on non-resident Unitholders who are prohibited from beneficially owning more than 49% of the Units. This restriction may limit the rights of certain Unitholders, including non-residents of Canada, to acquire Units, to exercise their rights as Unitholders and to initiate and complete take-over bids in respect of the Units. In addition, at the annual and special meeting on April 14, 2009, Unitholders will be asked to vote on a resolution to approve the adoption of an amended and restated unitholder rights plan (see “Description of Securities and Declaration of Trust – Units – Unitholder Rights Plan”). If implemented, this restriction may deter certain Unitholders from acquiring additional Units in excess of 20% of the outstanding Units of the Trust. 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.

### **Conversion to International Financial Reporting Standards**

In early 2008, the Canadian Accounting Standards Board (“CASB”) confirmed January 1, 2011 as the date International Financial Reporting Standards (“IFRS”) will replace Canadian GAAP for publicly accountable enterprises. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the REIT for the year ending December 31, 2010. The REIT will convert to preparing its financial statements in accordance with these new financial reporting standards on the timetable currently proposed by the CASB.

InnVest has established an implementation team comprised of members of senior management to facilitate the conversion to IFRS. This implementation team is developing a comprehensive conversion plan to convert its consolidated financial statements to IFRS as required. InnVest has identified IFRS versus Canadian GAAP differences and various policy choices available under IFRS, but continues to assess the implications of such differences and policy choices to its financial reporting. To date, the main differences identified between IFRS and Canadian GAAP which will impact the financial statements of the REIT relate to the accounting for the Trust’s hotel properties, the impairment testing thereof, and accounting for joint ventures and business combinations. As appropriate, the Trust’s internal controls and system requirements will be adapted based on any changes in policies implemented.

While not expected to impact the determination of cash flow from operations, changing from current Canadian GAAP to IFRS may materially affect InnVest’s reported financial position and results of operations.

### **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 \$1.2 billion. Neither the REIT nor any of its subsidiaries will be limited in its ability to incur additional secured or unsecured indebtedness.

## **Redemption Right**

It is anticipated that the redemption right attaching to Units will not be the primary mechanism for holders of Units to liquidate their investments. Cash redemptions are subject to limitations as described under “Description of Securities and Declaration of Trust – Redemption Right”. Notes which may be distributed *in specie* to Unitholders in connection with a redemption will not be listed on any stock exchange and no established market is expected to develop in such notes and they may be subject to resale restrictions under applicable securities laws.

## **Nature of Units**

Securities such as the Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. As holders of Units, Unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring “oppression” or “derivative” actions.

## **Possibility of 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.

## **LEGAL PROCEEDINGS**

The Trust is not involved in any legal proceedings which would have a material effect on the Trust.

## **INTEREST OF EXPERTS**

Deloitte & Touche has prepared an auditor's report on the annual financial statements of the REIT for the years ended December 31, 2008 and December 31, 2007. Deloitte & Touche has advised that they are independent with respect to the REIT within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

## **ADDITIONAL INFORMATION**

Additional information relating to the REIT may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including trustees' and officers' remuneration and indebtedness, principal holders of the REIT's securities and securities authorized for issuance under equity compensation plans, if applicable, is contained in the REIT's information circular for its most recent annual meeting of Unitholders that involves the election of Trustees.

Additional financial information is provided in the REIT's financial statements and MD&A for its most recently completed financial year which are also available at [www.sedar.com](http://www.sedar.com) and on the REIT's website, [www.investreit.com](http://www.investreit.com).

## APPENDIX A

### GLOSSARY OF TERMS

The following terms used in this Annual Information Form have the meanings set out below.

“**ADR**” means the average daily room rate, determined by dividing gross room revenue by the number of occupied room nights in the applicable period.

“**affiliate**” means, with respect to any person or limited partnership, any other person or limited partnership directly or indirectly controlling, controlled by or under direct or indirect control with, such person.

“**associate**” has the meaning ascribed thereto in the *Securities Act* (Ontario).

“**Cadbridge**” means Cadbridge Investors Ltd.

“**CBCA**” *Canada Business Corporations Act*

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

“**Choice International**” means Choice Hotels International, Inc.

“**Computershare**” means Computershare Investor Services Inc., the transfer agent of the REIT.

“**Deloitte & Touche**” means Deloitte & Touche LLP, the external auditors of the REIT.

“**Distributable Income**” has the meaning ascribed thereto under “Distributable Income” on page 1 hereof.

“**Exempt Plans**” means trusts governed by registered retirement savings plans, registered retirement income funds, registered disability savings plans, deferred profit sharing plans and registered education savings plans.

“**Existing Management Agreements**” means the hotel management agreements between an affiliate of the Manager, InnVest and certain subsidiaries of the REIT, as assigned to the Manager and amended on completion of the REIT’s initial public offering, in respect of the day-to-day management of the Hotel Businesses.

“**Financial Leverage Ratio**” means, at any time, the ratio of total consolidated indebtedness of the REIT, as shown on its then most recent publicly issued balance sheet (calculated in accordance with GAAP but excluding temporary indebtedness, if any, due to the vendors of the Portfolio in connection with the initial acquisition transaction, non-interest bearing indebtedness, trade accounts payable and, for greater certainty, future income tax liability) to Gross Book Value.

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

“**Gross Book Value**” means, at any time, the book value of the assets of the REIT, as shown on its then most recent publicly issued balance sheet, plus the amount of accumulated depreciation and amortization shown thereon, less the amount of future income tax liability arising out of the indirect acquisition of the Portfolio.

“**Hotel Businesses**” means, collectively, the hotel businesses currently carried on at the Hotel Properties consisting of all of the assets involved in the operation of such properties, other than the Hotel Properties themselves, but including all furniture, moveable equipment, licences, contracts, inventory and goodwill in connection therewith, and, where the context requires, includes hotel businesses associated with any additional Hotel Properties acquired by the REIT.

“**Hotel Properties**” means, collectively, the real property, buildings, fixtures (including attached equipment) and leasehold interests, if any, in the 147 hotel properties (excluding the Hotel Businesses) in the Portfolio and, where the context requires, includes any additional hotel properties acquired by the REIT.

“**Indenture**” means collectively, the Trust Indenture dated July 26, 2002 between the REIT and Computershare, as supplemented by the First Supplemental Indenture dated April 2, 2004 between the REIT and Computershare, as further supplemented by the Second Supplemental Indenture dated May 16, 2006 between the REIT and Computershare and as further supplemented by the third supplemental indenture dated August 3, 2007 between the REIT and Computershare.

“**Independent Trustee**” means a Trustee who is “unrelated” as defined in section 474 of The TSX Company Manual. A person serving as a nominee of the Westmont Group pursuant to a right to appoint such person under the Declaration of Trust is deemed not to be an Independent Trustee.

“**Legacy**” means Legacy Hotels Real Estate Investment Trust.

“**Legacy Portfolio**” means eleven hotels (the Fairmont Palliser, Calgary, the Fairmont Hotel Macdonald, Edmonton, Sheraton Suites Calgary Eau Claire, Calgary, Delta Calgary Airport, Calgary, Delta Winnipeg, Winnipeg, Delta Ottawa Hotel and Suites, Ottawa, Delta Centre-Ville, Montreal, Delta Beauséjour, Moncton, Delta Prince Edward, Charlottetown, Delta Barrington, Halifax, and Delta Halifax, Halifax) acquired in 2007.

“**Manager**” means Westmont Hospitality Canada Limited and its successors or permitted assigns under the Master Hotel Management Agreement.

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

“**Master Hotel Management Agreement**” means the master hotel management agreement dated as of July 26, 2002 between the Operator, the Manager and others and including, except where the context otherwise indicates, the Existing Management Agreements and any other hotel management agreements executed from time to time with the Manager with respect to individual hotels in the Portfolio.

“**Notes**” means notes of InnVest issued from time to time and held by InnVest.

“**Operator**” means InnVest Hotels Limited Partnership, a limited partnership established under the laws of the Province of Manitoba, and includes, unless otherwise indicated or the context otherwise requires, wholly owned subsidiary partnerships of the Operator.

“**Portfolio**” means, collectively, the Hotel Properties and the Hotel Businesses.

“**Related Party**” means, with respect to any person, a person who is a “related party”, as that term is defined in Ontario Securities Commission Rule 61-501, as amended from time to time (including any successor rule or policy thereto), and, with respect to the REIT, shall include the Westmont Group and its affiliates and associates as long as the Westmont Group continues to have the right, pursuant to the Declaration of Trust, (which has not been renounced) to appoint one or more nominees to the Board of Trustees or to act as hotel manager for the Portfolio.

“**RevPAR**” means revenue per available room, determined by dividing gross room revenues by the number of available room nights in the applicable period.

“**Royal Host**” means Royal Host Real Estate Investment Trust.

“**Special Resolution**” means a resolution passed by not less than 66 $\frac{2}{3}$ % of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of approving such resolution, or approved in writing by the holders of not less than 66 $\frac{2}{3}$ % of the Units entitled to be voted on such resolution.

“**subsidiary**” means, with respect to any person or limited partnership, any other person or limited partnership directly or indirectly controlled by such person.

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

“**Trustees**” means the trustees of the REIT from time to time.

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

“**Unitholders**” means the holders of Units from time to time.

“**Units**” means the trust units of the REIT.

“**Westmont Group**” means the group of entities under common control commonly referred to as the Westmont Hospitality Group, including Westmont Hospitality Group, Inc., Westmont Hospitality Management Limited, the Manager, Maple Leaf, Westmont Holdings and other related companies.

“**Westmont Holdings**” means, collectively, Maple Leaf Investments, L.P., Maple Leaf Investments, Inc., Charter Hospitality L.P. and certain of their affiliates.

**“Westmont Restricted Parties”** means, collectively, the Westmont Group, certain of the Westmont Group principals and other entities managed or controlled by those principals. No other person will be considered a “Westmont Restricted Party” even if it is a Related Party of one of the Westmont Restricted Parties.

**“6.25% Series A Debentures”** means the convertible unsecured subordinated debentures of the REIT due April 15, 2011 with a coupon of 6.25%.

**“6.00% Series B Debentures”** means the convertible unsecured subordinated debentures of the REIT due May 31, 2013 with a coupon of 6.00%.

**“5.85% Series C Debentures”** means the extendible convertible unsecured subordinated debentures of the REIT due August 1, 2014 with a coupon of 5.85%.



## APPENDIX B

### AUDIT COMMITTEE MANDATE

#### 1. ESTABLISHMENT OF COMMITTEE

1.1 Establishment of the Audit Committee Confirmed – The establishment of the audit committee of the board of trustees of InnVest Real Estate Investment Trust (“InnVest”) is hereby confirmed with the purpose, constitutions and responsibilities herein set forth.

1.2 Certain Definitions – In this mandate:

- (a) “Board” means the board of Trustees of InnVest;
- (b) “Chair” means the chair of the Committee;
- (c) “Committee” means the audit committee of the Board;
- (d) “Trustee” means a member of the Board;
- (e) “External Auditor” means the person occupying the office of auditor of InnVest in accordance with the *Business Corporations Act* (Ontario);
- (f) “Internal Auditor” means the person responsible for the internal audit function of the Manager; and
- (g) “Mandate” means this written mandate of the Committee and any such mandate for the Committee which the Board resolves from time to time shall be the mandate of the Committee;
- (h) “Manager” means Westmont Hospitality Canada Limited.

#### 2. PURPOSE

2.1 The Committee’s purpose is to:

- (a) assist Board oversight of:
  - (i) the integrity of InnVest’s financial statements;
  - (ii) InnVest’s compliance with legal and regulatory requirements;
  - (iii) the External Auditor’s qualifications and independence; and
  - (iv) InnVest’s systems of internal controls; and
- (b) prepare any report required to be included in InnVest’s annual proxy statement relating to the Committee.

### 3. COMMITTEE MEMBERSHIP

- 3.1 Number of Members – The Committee shall consist of not fewer than three Trustees.
- 3.2 Independence of Members – Each member of the Committee shall be:
- (a) a Trustee who is not an officer or employee of InnVest or any of its affiliates; and
  - (b) independent for the purposes of the Ontario Securities Commission Multilateral Instrument 52-110 – *Audit Committees* (“Schedules B and C”).
- 3.3 Financial Literacy –
- (a) Requirement – Each member of the Committee shall be financially literate or must become financially literate within a reasonable period of time after his or her appointment to the Committee.
  - (b) Definition – “Financially literate” shall mean that the Trustee is able to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to those that can reasonably be expected to be raised by InnVest’s financial statements.
- 3.4 Accounting or Related Financial Experience – One member of the Committee shall at all times have accounting or related financial experience, meaning that such Trustee has, through education and experience:
- (a) an understanding of financial statements and the accounting principles used by InnVest to prepare its financial statements;
  - (b) the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves;
  - (c) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by InnVest’s financial statements, or experience actively supervising one or more persons engaged in such activities; and
  - (d) an understanding of internal controls and procedures for financial reporting.
- 3.5 Annual Appointment of Members – The appointment of members of the Committee shall take place annually at the first meeting of the Board after a

meeting of the members at which Trustees are elected, provided that if the appointment of members of the Committee is not so made, the Trustees who are then serving as members of the Committee shall continue as members of the Committee until their successors are appointed.

- 3.6 Vacancy –The Board may appoint a member to fill a vacancy which occurs in the Committee between annual elections of Trustees.

#### **4. COMMITTEE CHAIR**

- 4.1 Board to Appoint Chair – The Board shall appoint the Chair from the members of the Committee (or if it fails to do so, the members of the Committee shall appoint the Chair from among its members).
- 4.2 Chair to be Appointed Annually – The designation of its Chair shall take place annually at the first meeting of the Board after a meeting of the members at which Trustees are elected, provided that if the designation of Chair is not so made, the Trustee who is then serving as Chair shall continue as Chair until his or her successor is appointed.

#### **5. COMMITTEE MEETINGS**

- 5.1 Quorum - A quorum of the Committee shall be a majority of its members and no business shall be transacted by the Committee except at a meeting at which a quorum of the Committee is present.
- 5.2 Secretary - The Chair shall designate from time to time a person who may, but need not, be a member of the Committee, to be Secretary of the Committee.
- 5.3 Time and Place of Meetings - The time and place of the meetings of the Committee and the calling of meetings and the procedure in all things at such meetings shall be determined by the Committee; provided, however, the Committee shall meet at least quarterly.
- 5.4 Right to Vote - Each member of the Committee shall have the right to vote on matters that come before the Committee.
- 5.5 Invitees - The Committee may invite Trustees, officers and employees of InnVest or any other person to attend meetings of the Committee to assist in the discussion and examination of the matters under consideration by the Committee.
- 5.6 In Camera Meetings - As part of each meeting of the Committee at which the Committee recommends that the Board approve the annual audited financial statements or at which the Committee reviews the quarterly financial statements, the Committee shall meet separately with each of:
- (a) management;

- (b) the external auditors; and
- (c) the internal auditor.

## **6. OUTSIDE ADVISORS**

- 6.1 Retaining and Compensating Advisors – The Committee may retain such outside legal, accounting or other advisors as it may consider appropriate and shall not be required to obtain the approval of the Chair of the Board in order to retain or compensate such advisors.

## **7. REMUNERATION OF COMMITTEE MEMBERS**

- 7.1 Trustee Fees Only - No member of the Committee may earn fees from InnVest or any of its subsidiaries other than Trustee's fees (which fees may include cash and/or units or other in-kind consideration ordinarily available to Trustees, as well as all of the regular benefits that other Trustees receive). For greater certainty, no member of the Committee shall accept any consulting, advisory or other compensatory fee from InnVest.

## **8. DUTIES AND RESPONSIBILITIES OF THE COMMITTEE**

### **8.1 Financial and Related Information -**

- (a) Annual Financial Statements - The Committee shall review and discuss with management and the External Auditor, InnVest's annual financial statements and related MD&A and report thereon to the Board before the Board approves those statements.
- (b) Interim Financial Statements – The Committee shall review and discuss with management and the External Auditor, InnVest's interim financial statements and related MD&A and report thereon to the Board before they are released.
- (c) Accounting Principles - The Committee shall review and discuss with management and the External Auditor:
  - (i) major issues regarding accounting principles and financial statement presentation, including any significant changes in InnVest's selection or application of accounting principles;
  - (ii) analyses prepared by management and/or the External Auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analysis of the effects of alternatives in applying Canadian generally accepted accounting principles to the financial statements;

- (iii) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures on the financial statements of InnVest.
- (d) Management Certification – The Committee shall review and discuss with management and the External Auditor any certification filed with securities regulators in connection with the interim and annual filings as required by applicable securities laws in Canada or otherwise.
- (e) Disclosure of Other Financial Information – The Committee shall discuss with management and the External Auditor, if applicable:
  - (i) the types of information to be disclosed and the type of presentation to be made in connection with earnings press releases;
  - (ii) the type of financial information and earnings guidance (if any) provided to analysts and rating agencies; and
  - (iii) press releases containing financial information (paying particular attention to any use of “pro forma” or “adjusted” non-GAAP, information) and shall review all earnings press releases before such information is publicly disclosed.
- (f) Related Party Transactions – The Committee shall review all related party transactions disclosed in the financial statements of InnVest.
- (g) Procedures for Review – The Committee shall be satisfied that adequate procedures are in place for the review of InnVest’s disclosure of financial information extracted or derived from InnVest’s financial statements (other than financial statements, MD&A and earnings press releases, which are dealt with elsewhere in this Mandate) and shall periodically assess the adequacy of those procedures.

## 8.2 External Auditor -

- (a) The Committee shall require the External Auditor to confirm in its engagement letter each year that the External Auditor is accountable to the Board and the Committee as representatives of unitholders. The External Auditor shall report directly to the Committee and the Committee shall have direct communication channels with the External Auditor to discuss and review specific issues as appropriate.
- (b) Authority with Respect to External Auditor - As representative of InnVest’s unitholders, the Committee shall be directly responsible for the appointment, compensation and oversight of the work of the External Auditor (including resolution of disagreements between management and the External Auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for InnVest. In this capacity, the Committee shall have sole

responsibility for recommending to the Board the person to be proposed to InnVest's unitholders for appointment as external auditor, the compensation of the external auditor and whether at any time the incumbent external auditor should be removed from office.

- (c) Competency of External Auditor - Once each year (and otherwise as the Chair may consider appropriate) the Committee shall review a report by the external auditor indicating:
  - (i) that they are a member in good standing with the Canadian Public Accounting Board ("CPAB"); and
  - (ii) any sanctions or restrictions imposed by the CPAB.
- (d) Review of Audit Problems - The Committee shall review with the External Auditor any problems or difficulties encountered during the audit, and management's response.
- (e) Independence - The Committee shall satisfy itself as to the independence of the External Auditor. As part of this process:
  - (i) The Committee shall require the External Auditor to submit on a periodic basis to the audit committee, a formal written statement delineating all relationships between the External Auditor and InnVest. The Committee is responsible for reviewing any disclosed relationships or services that may impact the objectivity and independence of the External Auditor and for recommending that the Board take appropriate action in response to the External Auditor's statement to satisfy itself of the External Auditor's independence.
  - (ii) The Committee shall approve any non-audit services to be provided by the External Auditor to InnVest or any subsidiary entity prior to the commencement of any work.
  - (iii) The Committee shall approve any proposal by InnVest to hire employees and former employees of InnVest's External Auditor or former external auditor.

8.3 Internal Controls -

- (a) Regular Reporting - The Internal Auditor of the Manager shall report regularly to the Committee and the Committee shall have direct communication channels with the Internal Auditor to discuss and review specific issues as appropriate.
- (b) Management Letter – The Committee shall review and discuss with management and the External Auditor the management letter prepared by the External Auditors in conjunction with the annual audit of InnVest.
- (c) Control Deficiencies – The Committee shall review and discuss with management and the External Auditor major issues as to the adequacy of InnVest’s internal controls and any special audit steps adopted in light of material control deficiencies.
- (d) Oversight of Internal Controls - The Committee shall oversee management reporting on InnVest’s internal controls over financial reporting.

8.4 Risk Assessment and Risk Management - The Committee shall discuss InnVest’s major financial risk exposures and the steps management has taken to monitor and control such exposures.

**9. WHISTLE BLOWING**

9.1 Procedure – The Committee shall put in place procedures for:

- (a) the receipt, retention and treatment of complaints received by InnVest regarding accounting, internal accounting controls or auditing matters; and
- (b) the confidential, anonymous submission by employees of InnVest of concerns regarding questionable accounting or auditing matters.

**10. REPORTING TO THE BOARD**

10.1 Regular Reporting - The Committee shall report to the Board following each meeting of the Committee and at such other times as the Chair may determine to be appropriate.

**11. EVALUATION OF COMMITTEE PERFORMANCE**

11.1 Establish Process - The Committee shall follow the process established by the Board’s corporate governance committee for assessing the performance of the Committee.

11.2 Amendments to Mandate

- (a) Review by Audit Committee - The Committee shall recommend to the Board on an annual basis, any amendments it considers desirable to the Mandate.
- (b) Review by Board – The Board will review and reassess the adequacy of the Mandate on an annual basis and at such other times as it considers appropriate.

**12. LEGISLATIVE AND REGULATORY CHANGES**

12.1 Compliance – It is the Board’s intention that the Mandate shall reflect at all times all legislative and regulatory requirements applicable to the Committee as well as any best practice guidelines recommended by regulators or stock exchanges with whom InnVest has a reporting relationship. Accordingly, this Mandate shall be deemed to have been updated to reflect any amendments to such legislative and regulatory requirements and such best practice guidelines and shall be formally amended at least annually to reflect such amendments.